MARYLAND ENVIRONMENTAL SERVICE

BOARD OF DIRECTORS

RESOLUTION NO. 95-6-1R

A RESOLUTION AUTHORIZING

the issuance, sale and delivery by the Maryland Environmental Service (the "Service") of its Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project) Series 1995 (the "Series 1995 Bonds") in an aggregate principal amount not to exceed $6,000,000 for the purpose of paying all or a part of the cost of a project of the Service consisting generally of the acquisition, design, construction, equipping and operation of a regional yard debris composting facility (the "Project"); approving the execution and delivery of an Indenture of Trust between the Service and a corporate trustee to be designated, relating to the Series 1995 Bonds; providing for the Series 1995 Bonds to be obligations of the Service payable from amounts received pursuant to Intergovernmental Agreements (the "Intergovernmental Agreements") between the Service and Baltimore County, Maryland, Howard County, Maryland and Anne Arundel County, Maryland (the "Baltimore Regional Counties"), from such other revenues as may be received by the Service in connection with the operation of the Project, and from the proceeds of future bonds, notes or other obligations of the Service; Approving the execution and delivery of the Intergovernmental Agreements; providing for the sale of the Series 1995 Bonds by competitive (sealed) bidding; authorizing the Director and other officers of the Service to award the sale of the Series 1995 Bonds to the successful bidder; authorizing the Director and other officers of the Service to execute the Indenture of Trust and such other documents or certificates as may be necessary in connection with the issuance of the Series 1995 Bonds; and providing generally for other matters necessary for the issuance, sale and delivery of the Series 1995 Bonds.

RECITALS

The Service was created by, exists under, and exercises the powers contained in Sections 3-101 through 3-130 of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume, 1994 Cumulative Supplement) as amended to date (the "Act"), including (among others) the powers (i) to borrow money and issue bonds or notes for the purpose of paying all or any

part of the cost of any one or more projects and to provide for the security of such bonds or notes and the rights of the holders thereof; and (ii) to enter into contracts with the Federal or any State government, or any unit, instrumentality or subdivision thereof, or with any municipality or person within or without the State of Maryland, providing for or relating to the furnishing of services to the facilities of any project of the Service.

On December 1, 1993, the Service and the Baltimore Regional Counties executed a Memorandum of Understanding (the "MOU") whereby the Service agreed to assist the Baltimore Regional Counties in developing the Project. Additionally, Howard County agreed that it would make a parcel of real property available to the Service and the Baltimore Regional Counties for implementation of the Project (the "Project Site"). The Service has proceeded to design the Project and has conducted procurements for acquisition of a construction contractor and a facility operator.

Each of the Baltimore Regional Counties has approved an Intergovernmental Agreement (each, an "Intergovernmental Agreement") between the Service and each County. Pursuant to the Intergovernmental Agreements, the Baltimore Regional Counties shall deliver to the Project the Guaranteed Annual Tonnage of Yard Debris (as defined in the Intergovernmental Agreement). The Baltimore Regional Counties shall pay to the Service a Processing Fee (as defined in the Intergovernmental Agreement) for each ton of acceptable Yard Debris that is delivered to the Project and will also pay a Supplemental Fee (as defined in the Service Agreement) in the event that the Total Costs (as defined in the Intergovernmental Agreement) associated with the Project exceed the Composting Facility Revenues (as defined in the Intergovernmental Agreement). The term of the Intergovernmental Agreements is the later of the twentieth anniversary of the date the Project commences operations, or the date on which the Series 1995 Bonds and any other Indebtedness (as defined in the Intergovernmental Agreement) has been paid in full.

The Service has determined to issue its Series 1995 Bonds in order to finance a portion of the cost of the Project, including the cost of acquiring the Project Site from Howard County. The Series 1995 Bonds will be issued pursuant to an Indenture of Trust (the "Indenture") between the Service and the Trustee (as set forth herein) and will be payable from the revenues received under the Intergovernmental Agreements and from the operation of the Project, and from the proceeds of future bonds, notes or other obligations of the Service.

The Service considers the financing, acquisition, construction and operation of the Project to be in furtherance of the public purposes of the Act and the Service.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE MARYLAND ENVIRONMENTAL SERVICE, that:

1. Capitalized terms used and not defined herein shall have the meanings set forth in the title and the Recitals to this Resolution.

2. The issuance, sale and delivery of the Series 1995 Bonds in a principal amount not to exceed $6,000,000, to be designated Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project), Series 1995 shall be, and hereby are, authorized and directed pursuant to the provisions of the Act to provide funds for the payment of all or any part of the cost of the Project, as provided in the Act and the Indenture.

3. The Series 1995 Bonds shall be sold to the successful bidder submitting a bid in response to the Official Notice of Sale (the "Notice of Sale") on the terms and conditions set forth in the Notice of Sale included in the draft Preliminary Official Statement (the "Preliminary Official Statement") presented to this meeting. Such form of the Notice of Sale shall be, and hereby is directed to be, filed among the permanent records of the Service.

The total principal amount of the Series 1995 Bonds shall not exceed $6,000,000. The true interest cost for the Series 1995 Bonds calculated as provided in the Notice of Sale shall not exceed 6.00 percent. The final maturity date of the Series 1995 Bonds shall not be more than twenty-one years from the date of the issuance of the Series 1995 Bonds. The Director shall, subject to the limitations set forth in this paragraph, award the sale of the Series 1995 Bonds to the successful bidder therefor, fix the principal amount of the Series 1995 Bonds, the interest rate or rates for the Series 1995 Bonds, and the principal payment schedule for the Series 1995 Bonds, and the Director shall include such items in the Series 1995 Bonds.

4. The Series 1995 Bonds shall be issued under, secured in accordance with, and have the terms set forth in the Indenture substantially in the form of the Indenture presented to this meeting. Such form of the Indenture shall be, and hereby is directed to be, filed among the permanent records of the Service. The Series 1995 Bonds shall be, and hereby are directed to be, executed and delivered to the Trustee substantially in the form of the Series 1995 Bonds appended to the form of the Indenture presented to this meeting with such changes, omissions, insertions and revisions as shall be deemed desirable by the Director; provided, however, that such changes, omissions, insertions and revisions shall not alter the substance of the transaction authorized and approved by this resolution. Upon delivery of the Series 1995 Bonds, the Trustee shall authenticate such Series 1995 Bonds and deliver the same to the purchaser thereof.

5. The Indenture (including, without limitation, the form of the Series 1995 Bonds appended thereto as Appendix B) shall be, and hereby is, adopted and approved, and the Director of the Service shall be, and hereby is, authorized to execute and deliver such Indenture substantially in the form approved hereby with such changes, omissions, insertions, and revisions as shall be deemed advisable by the Director; provided, however, that such changes, omissions, insertions and revisions shall not alter the substance of the transaction authorized and approved by this Resolution.

6. The Preliminary Official Statement in substantially the form presented to this meeting is hereby approved with such changes, omissions, insertions, and revisions as the Director or the Treasurer may deem desirable in connection with the issuance and sale of the Series 1995 Bonds. The Director is hereby authorized to obtain proposals from bond insurance companies for insurance for the Series 1995 Bonds and to enter into any bond insurance or other agreements with such bond insurance companies.

7. The Intergovernmental Agreements in substantially the form presented to this meeting are hereby approved, and the Director of the Service shall be, and hereby is, authorized to execute and deliver such Intergovernmental Agreements substantially in the form approved hereby with such changes,omissions, insertions, and revisions as shall be deemed advisable by the Director, provided, however, that such changes, omission, insertions and revisions shall not alter the substance of the transaction authorized and approved by this Resolution.

8. It is hereby authorized that the total purchase price for the Series 1995 Bonds shall be paid to the Director or the Treasurer, as agent of the Service for the purpose of receiving the purchase price and delivering the Series 1995 Bonds to the successful purchaser. Immediately upon receipt thereof, the purchase price shall be deposited with the Trustee in the proper accounts as provided in the Indenture.

9. The Director, the Treasurer and the other officers of the Service shall be, and hereby are, authorized to take such other steps and to execute and deliver such other documents and certificates as the Director shall deem desirable to effect the completion of the issuance, sale, and delivery of the Series 1995 Bonds and the other matters contemplated by this Resolution and the Indenture.

10. The Director is hereby authorized to appoint, upon terms and conditions the Director deems desirable, the Trustee for the Series 1995 Bonds under the Indenture.

11. The execution by the Director or other officers of the Service of any document authorized herein to be executed by the Director or other officers shall constitute conclusive evidence of

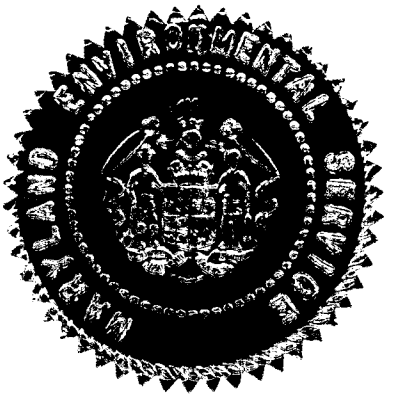
approval of such document, and any and all changes thereto from the form presented to the Service herewith, by the Service.

12. This Resolution shall take effect immediately upon its adoption.

ADOPTED THIS 16th DAY OF JUNE, 1995

MARYLAND ENVIRONMENTAL SERVICE

SEAL



James W. Peck
Director _____

Annette Anselmi
Treasurer _____

Carolyn D. Davis
Secretary _____

Edwin G. Richards
Member _____

Lawrence D. Shubnell
Member ABSTAINED

William B.C. Addison, Jr.
Member _____

Daniel F. McMullen, III
Member _____

Joseph F. Snee, Jr.
Member ABSENT

Attest: _____
Carolyn D. Davis, Secretary

YARD DEBRIS COMPOSTING INTERGOVERNMENTAL AGREEMENT

THIS YARD DEBRIS COMPOSTING INTERGOVERNMENTAL AGREEMENT, is made and entered into as of **the** _____ **day of** _____, **1995**, by and between Anne Arundel County, Maryland (the "County"), a body politic and corporate and a political subdivision of the State of Maryland, and Maryland Environmental Service (the "Service"), an instrumentality of the State of Maryland constituted as a body politic and corporate.

R E C I T A L S

A. The County desires to establish a system of solid waste disposal in cooperation with the Service that provides a long-term solution to the County's solid waste disposal needs.

B. Yard Debris are a major component of the County's solid waste stream. The County has determined that a portion of the Yard Debris generated within the boundaries of the County should be separated from the County's solid waste stream and composted.

C. The Service is empowered to assist the County in providing solid waste disposal services. The Service has agreed to provide the planning, design, permit acquisition, financing, construction, and operation of a new Yard Debris Composting Facility (the "Composting Facility") to be located in Howard County, Maryland. The County has determined that it is in the public interest to make a binding, long-term commitment to the Service for the delivery and composting of Yard Debris generated within the boundaries of the County.

D. The Composting Facility is to be designed to have sufficient capacity to provide for the composting of some or all of the Yard Debris collected in the County and is intended to be the site to which Yard Debris are delivered initially under this Intergovernmental Agreement.

E. In connection with this Intergovernmental Agreement, it is anticipated that the Service will acquire from Howard County, in fee simple, the Composting Facility site. The Service will develop on the property the Composting Facility, and will use the Composting Facility to provide Yard Debris composting services to the County.

F. It is anticipated that the Service will issue its bonds, notes or other obligations ("Indebtedness") in order to finance the acquisition of the Composting Facility Site, and that this Indebtedness will be paid from revenues received by the Service from the County under this Intergovernmental Agreement.

G. In connection with the issuance of the Indebtedness, and in the spirit of regional cooperation, Anne Arundel County Baltimore County, and Howard County, Maryland (together, the

"Baltimore Regional Counties") will enter into Yard Debris Composting Intergovernmental Agreements with the Service for the delivery and composting of some or all of the Yard Debris generated within the boundaries of such counties (together with this Intergovernmental Agreement, the "Yard Debris Composting Intergovernmental Agreements").

H. Further in connection with the issuance of the Indebtedness, the Service will enter into a Trust Indenture (as defined in Article I of this Agreement) with a Trustee (as defined in Article I of this Agreement), whereby the Service will pledge and assign to the Trustee the Composting Facility Revenues (as defined in Article I of this Agreement) for the benefit, protection and security of the Holders ("Holders") of the Indebtedness. The amounts held by the Trustee may include a debt service reserve fund as additional security for the Indebtedness. The Trustee shall, at least annually, pay to the Holders the amount of principal and interest then due on the Indebtedness. The Trustee may protect and enforce its rights and the rights of the Holders by such suits, actions or special proceedings in equity or at law as the Trustee shall deem most effectual to protect and enforce such rights.

I. The Service intends to provide the Composting Facility by designing and constructing the Compost Facility and by and entering into a subcontract with the firm of _____ to operate the Compost Facility. The County approves of the Service designing and constructing the Compost Facility and also approves of the selection of _____ as Subcontractor.

J. The County desires to enter into the arrangements provided for in this Intergovernmental Agreement for the composting by the Service of Yard Debris generated within the County and delivered under this Intergovernmental Agreement, and has determined that it is willing to bear all of the costs incurred by the Service in disposing of the County's Yard Debris so delivered.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

END OF RECITALS

Regional Yard Debris Composting Facility
Intergovernmental Agreement with Maryland Environmental Service

ARTICLE I

DEFINITIONS

SECTION 1.1 Definitions.

The following are definitions of certain terms used in this Intergovernmental Agreement.

"Alternative Facility" means any composting or solid waste disposal facility, other than the Composting Facility, located a commercially reasonable distance from the Composting Facility and designated by the Service, in consultation with the Baltimore Regional Counties, to receive all or a portion of the Yard Debris required to be accepted by the Service under this Intergovernmental Agreement.

"Applicable Law" means any law, regulation, requirement or order of any federal, state or local agency, court or other governmental body applicable from time to time to the acquisition, design, construction, equipping, financing, ownership, possession or operation of the Composting Facility or Alternative Facility or the performance of any obligations under this Intergovernmental Agreement or any other agreement entered into in connection therewith.

"Approved County Disposal Facility" means for Anne Arundel County the Millersville Landfill, for Baltimore County the Eastern Landfill, and for Howard County the Alpha Ridge Landfill.

"Baltimore Regional Counties" has the meaning given in Recital Clause "G".

"Business Day" means any day other than (i) a Saturday, (ii) a Sunday or (iii) a day on which either State or national banks in Maryland are not open for the conduct of normal banking business.

"Composting Facility" means the Yard Debris composting facility which the Service anticipates developing on an approximately 56 acre parcel of land located in Howard County, Maryland, in the vicinity of U.S. Route 1 and the proposed Dorsey Run Road, and which is intended to receive Yard Debris from the County under the Yard Debris Composting Intergovernmental Agreement. The Composting Facility shall include a compost pad, a scale and scale house, internal access roads and such other ancillary Yard Debris composting facilities the Service, after first consulting with the Baltimore Regional Counties, deems necessary.

"**Composting Facility Revenues**" means, for any Fiscal Year, the aggregate amount of any revenues, fees and income received by the Service in connection with the operation of the Composting Facility and the provision of Yard Debris composting services to the County under the Yard Debris Composting Intergovernmental Agreement, including (without limitation) **(a)** revenues from the Processing Fee and any other tipping fees charged to users of the Composting Facility; **(b)** other operating revenues of the Composting Facility, including (but not limited to) charges for services or use of property or equipment, or proceeds from the sale of composted Yard Debris collected by the Service; **(c)** the proceeds from any award of damages or settlement given to the Service in connection with a condemnation of all or a portion of the Composting Facility; **(d)** the proceeds from any award of damages or settlement given to the Service in connection with any claim, suit or proceeding brought by the Service against any subcontractor hired pursuant to Section 2.2 of this Intergovernmental Agreement, against any other person hired by the Service to provide services or materials in furtherance of the Service's obligations under this Intergovernmental Agreement, or against any person who may cause the Service to incur costs under this Intergovernmental Agreement; and **(e)** interest earnings on money held by the Service in the Special Purpose Fund, but not including interest earnings on any accounts or reserves created under Section 3.8 of this Intergovernmental Agreement; provided, however, that Composting Facility Revenues do not include the Supplemental Fee, and provided further that Composting Facilit Revenues do not include **(x)** gifts, grants, bequests, contributions or donations to the Service which constitute non-operating revenue of the Service or **(y)** any balance in the Special Purpose Fund on the first day of a Fiscal Year carried over from any previous Fiscal Year.

"**Concluding Payment**" means an amount equal to the product of the fair market value of the Composting Facility (as determined **(a)** utilizing one or more generally accepted appraisal approaches approved by the American Institute of Real Estate Appraisers, or **(b)** from the purchase price in an arm's length sale of the Composting Facility) multiplied by the Total Proportionate Share.

"**County**" means Baltimore County, Maryland and its successors and permitted assigns.

"**Debt Service**" means an amount equal to **(a)** the amount of the principal of and premium, if any, and interest on the Indebtedness or any other financing by or on behalf of the Service to finance costs related to the Composting Facility or the provision of services under this Intergovernmental Agreement plus **(b)** fees and expenses (including fees and expenses of counsel to the Service) of the Service, the Trustee, and any remarketing agent, letter of

credit bank or other credit facility provider, and tender agent, if any, for the Indebtedness and administrative fees and expenses of the Service under the Trust Indenture or any other financing documents relating to the Indebtedness, including (without limitation) the amount necessary to eliminate deficiencies in any debt service reserve fund relating to the Indebtedness, and any other amount payable by the Service under any Trust Indenture for any Indebtedness.

"**Designated Hauler**" means a Hauler designated by the County to deliver yard Debris to the Composting Facility for the account of the County.

"**Event of Default**" has the respective meanings specified in Sections 4.2 and 4.3.

"**Fiscal Year**" means the year commencing on July 1 of any calendar year and ending on June 30 of the succeeding calendar year.

"**Fiscal Year Quarter**" means the three month period that begins, as the case may be, on either July 1, October 1, January 1, or April 1 of each year.

"**Guaranteed Annual Payment**" means an amount equal to the product of the Processing Fee then applicable under Section 3.2 multiplied by the then applicable Guaranteed Annual Tonnage.

"**Guaranteed Annual Tonnage**" means, unless modified pursuant to Section 2.1 of this Intergovernmental Agreement, fifteen thousand (15,000) tons per year for Anne Arundel County, seven thousand (7,000) tons per year for Baltimore County, and eight thousand (8,000) tons per year for Howard County.

"**Hauler**" means any Person other than a Designated Hauler or a Baltimore Regional County who provides Yard Debris hauling or disposal services and who has received permission from the Baltimore Regional Counties to deliver Yard Debris to the Composting Facility, and whose name and address has been provided to the Service in writing by the County.

"**Hazardous Waste**" has the meaning set forth in COMAR 26.13.01.03B, as amended from time to time.

"**Holiday**" means any day that the Service and the Baltimore Regional Counties designate in writing as a Holiday.

"**Indebtedness**" means any bonds, notes, commercial paper or other obligations issued by the Service from time to time for borrowed money relating to the Composting Facility or the provision of Yard

Debris composting services under this Intergovernmental Agreement. Indebtedness may include and be issued for any Cost, as such term is defined in the Maryland Environmental Service Act, being codified in §§3-101 through 3-130 of the Natural Resources Article of the Annotated Code of Maryland (1989 Repl.Vol., 1994 Cum.Sup.), as amended from time to time.

"**Independent Engineer**" means any firm of engineers of recognized standing designated by the Service, with the approval of the County.

"**Independent Public Accountants**" means any independent certified public accountant or firm of independent certified public accountants of recognized standing designated by the Service.

"**Intergovernmental Agreement**" means this Yard Debris Composting Intergovernmental Agreement between the Service and the County, as the same may from time to time be amended, modified or supplemented in accordance with the terms hereof.

"**Minimum Monthly Payment**" has the meaning given in Section 3.4(a) of this Intergovernmental Agreement.

"**Operations Commencement Date**" means the date on which the Composting Facility is capable of receiving Yard Debris in accordance with Applicable Law; provided, however, that the Operations Commencement Date shall be no later than October 1, 1995, irrespective of whether the Composting Facility is capable at such time of receiving Yard Debris. The Service shall provide the County no less than fourteen (14) days' prior written notice of the Operations Commencement Date.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company or unincorporated organization, or any government unit or agency or political subdivision.

"**Permissible Bypassed Yard Debris**" means Yard Debris that the Service is not required to process, but is required to accept, under this Intergovernmental Agreement.

"**Permissible Diverted Yard Debris**" means Yard Debris that the Service is not required to accept under this Intergovernmental Agreement.

"**Processing Fee**" means the per ton fee payable by the County for Yard Debris composting services pursuant to Section 3.2 of this Intergovernmental Agreement.

"**Project Waste**" means Qualified Residue and waste materials generated at the Composting Facility by the provision of composting services hereunder.

"**Proportionate Share**" of a Baltimore Regional County means, respectively, for Anne Arundel County, fifty percent (50%), for Baltimore County, twenty-three and 33/100's percent (23.33%) and for Howard County twenty-six and 67/100's percent (26.67%), unless otherwise adjusted pursuant to Section 2.1(c) of this Agreement.

"**Qualified Residue**" means residue that meets the quality and quantity standards specified in Schedule 3 of the Service Agreement.

"**Receiving Hours**" has the meaning specified in Section 2.3.

"**Reloading Fee**" has the meaning given in Section 4.1 of the Service Agreement.

"**Service**" means Maryland Environmental Service, an instrumentality of the State of Maryland constituted as a body politic and corporate.

"**Service Agreement**" means the Service Agreement between the Service and the firm of _____, dated as of _____ _____, 1995.

"**Special Purpose Fund**" means the Composting Facility Services Fund established on the books of the Service for the purpose of maintaining discrete financial accounting records of transactions undertaken pursuant to this Intergovernmental Agreement and described in Section 3.8.

"**Subcontractor**" means the firm of _____.

"**Supplemental Fee**" means the fee payable by the Baltimore Regional Counties to the Service for Yard Debris composting services under the Yard Debris Composting Intergovernmental Agreements and described in Section 3.4.

"**Surcharge**" has the meaning given in Section 4.1 of the Service Agreement.

"**Tipping Fee**" means the per ton fee paid by a Hauler to dispose of Yard Debris at the Composting Facility.

"**Ton**" means a "short ton" of two thousand (2,000) pounds.

"**Total Costs**" means, with regard to any Fiscal Year, all costs or expenses of the Service, or amounts payable by the Service, in connection with the operation of the Composting Facility, or the performance by the Service of its obligations under this Intergovernmental Agreement, including (without limitation) the sum of:

(a) Debt Service for the Fiscal Year; and

(b) an amount equal to the aggregate costs of operation, maintenance, repair, equipping and management of the Composting Facility and the provision of Yard Debris composting services under this Agreement for the Fiscal Year, including (but not limited to) **(i)** the reasonable costs of any services provided under operating contracts, service charges or rentals or tipping fees paid to owners or operators of Alternative Facilities, **(ii)** the costs of disposal of Unacceptable Material, **(iii)** the reasonable costs of direct labor (including, without limitation, labor and services provided by the Service to supervise and manage the Subcontractor), supervision, on-site clerical support, fringe benefits, insurance, taxes, materials, supplies, transportation, utilities, tools, equipment, rentals, and lease payments, **(iv)** the cost of providing and operating monitoring wells with respect to the Composting Facility, **(v)** all costs, liabilities and penalties under the Comprehensi Environmental Response Compensation and Liability Act (42 U.S.C. 9601 et seq.), the Solid Waste Disposal Act (42 U.S.C. 6901 et seq.) and the Maryland Hazardous Substances Spill Response Law (Maryland Annotated Code, Environment Article, §§7-201, et seq.) or comparable local, State or federal law, **(vi)** all indirect costs to the Service for administrative, financial, engineering and other oversight and support services (including fees and expenses of counsel to the Service) **(vii)** any amounts paid to the Subcontractor in accordance with the Service Agreement, and all costs of the Service incurred in conjunction with the sale of the Composting Facility in accordance with Section 4.9 of this Agreement.

"**Total Guaranteed Annual Payment**" means, for a Fiscal Year, the aggregate of Guaranteed Annual Payments of the Baltimore Regional Counties.

"**Total Proportionate Share**" of a Baltimore Regional County means, at any time of calculation, the fraction the numerator of which is the total amount of Yard Debris delivered by the County to the Composting Facility during the entire term of this Intergovernmental Agreement, and the denominator of which is

aggregate amount of Yard Debris delivered by or on behalf of the Baltimore Regional Counties to the Composting Facility during the same entire term.

"Trust Indenture" means any trust indenture, bond resolution or comparable instrument under which Indebtedness is issued by the Service in connection with the financing or refinancing of the Composting Facility or otherwise in connection with the provision of services under this Intergovernmental Agreement, or any modifications thereof or additions thereto, which Indebtedness is, in whole or in part, payable from the revenues credited to the Special Purpose Fund.

"Trustee" means the trustee under the Trust Indenture.

"Unacceptable Material" means:

(a) Hazardous Waste; and

(b) any materials which are not Yard Debris.

"Waste Allowance" means, five percent (5%), by weight, of the total monthly amount of accepted Yard Debris.

"Yard Debris" means leaves, grass clippings, brush and tree trimmings less than four (4) inches in diameter, and Christmas trees.

END OF ARTICLE I

ARTICLE II

OBLIGATIONS RELATING TO DELIVERY AND ACCEPTANCE OF YARD DEBRIS; GUARANTEED ANNUAL TONNAGE; OPERATING PROCEDURES

SECTION 2.1 Delivery and Acceptance of Yard Debris.

(a) Prior to Operations Commencement Date

No Yard Debris shall be delivered or caused to be delivered to the Service prior to the Operations Commencement Date, unless otherwise authorized in writing by the Service and agreed to by the County.

(b) After Operations Commencement Date

Beginning on the Operations Commencement Date and throughout the term of this Intergovernmental Agreement, but subject to the provisions of this Section 2.1(b) and of Sections 2.11, 2.12 and 2.13, the County shall deliver or cause to be delivered to the Service an amount of Yard Debris equal to the Guaranteed Annual Tonnage, in accordance with the provisions of this Intergovernmental Agreement and without cost to the Servic provided, however, that so long as the County pays its Minim Monthly Payment and its Proportionate Share of the Supplemental Fee the failure to deliver such Yard Debris to the Service shall not constitute or give rise to a breach of this Intergovernmental Agreement or an Event of Default under this Intergovernmental Agreement by the County. The Service shall accept the specified amount of Yard Debris from the County, subject to the provisions of Section 2.13.

All deliveries shall be made to the Composting Facility unless the Service notifies the County that the Composting Facility is not capable of accepting deliveries of Yard Debris; in which event the Service, after first consulting with the County, shall direct that the Yard Debris be delivered to an Alternative Facility designated by the Service. In designating an Alternative Facility the Service shall first consider and give reasonable preference to an alternative composting facility over other types of solid waste disposal facilities. In no event will use by the Service of an Alternative Facility constitute or give rise to a breach of this Intergovernmental Agreement or an Event of Default under this Intergovernmental Agreement by the Service.

(c) Guaranteed Annual Tonnage

During the month of January of each Fiscal Year, the Service shall notify the County as to whether the Composting Facility has

the capacity to accept an amount of Yard Debris that is greater than the aggregate of the then Guaranteed Annual Tonnage of the Baltimore Regional Counties. The County, in its sole discretion, may, within sixty (60) day's receipt of such notice, notify, in writing to the Service with copies to the other Baltimore Regional Counties, that it intends to utilize a portion of such excess capacity, not to exceed an amount equal to the County's then Proportionate Share of the existing capacity. If the County notifies the Service that it intends to utilize an amount of the excess capacity that is less than its Proportionate Share of the total amount of such excess capacity, then for the Fiscal Year following receipt of the County's notice provided hereunder, the Service may make the unutilized portion of the excess capacity available first to the other Baltimore Regional Counties and then to Haulers in accordance with Section 2.15 of this Agreement, and for the next Fiscal Year thereafter shall make such unutilized portion of excess capacity available to the Baltimore Regional Counties as provided in this Section. The County's Guaranteed Annual Tonnage shall be increased by the amount of any excess capacity that it utilizes in accordance with this Section, up to the amount equal to the County's Proportionate Share of the excess capacity made available to it.

The County, with the prior written consent of the Service and the Baltimore Regional Counties (which consent may not be unreasonably withheld), may assign all or a portion of its Guaranteed Annual Tonnage to another Baltimore Regional County, if the other Baltimore Regional County assumes, in a writing given to the Service and the other Baltimore Regional Counties, all of the County's obligations with respect to such assigned Guaranteed Annual Tonnage.

Upon any adjustment in the Guaranteed Annual Tonnage pursuant to this Section 2.1, or pursuant to Section 4.4, such Tonnage shall be deemed adjusted for all purposes of this Intergovernmental Agreement.

SECTION 2.2. <u>Commencement of Operations; Subcontracting.</u>

(a) The Service's current estimate (which is non-binding) of the approximate Operations Commencement Date is October 1 , 1995. The Service shall notify the County at any time it reasonably anticipates any change in such estimate of the Operations Commencement Date which results in a cumulative deviation of more than 30 days from the estimate most recently given to the County. The Service shall give the County at least fourteen days' prior notice of the date expected to be the actual Operations Commencement Date.

(b) The County acknowledges that the Service intends to provide the Composting Facility by designing and constructing the Composting Facility and by subcontracting with the firm of _____

_____ to operate it. The County hereby approves the selection of _____ as the Subcontractor. The Service shall not enter into an agreement with any other Subcontractor to operate the Composting Facility without the prior express written consent of the County. Except as provided in Section 7.1, the failure or inability of the Subcontractor to perform its obligations shall not relieve or excuse the Service from otherwise providing the Composting Facility.

SECTION 2.3. Receiving Hours.

The Service shall keep the Composting Facility open (or use reasonable efforts to cause any Alternative Facility to be kept open) for the receiving of Yard Debris from 7:00 a.m. until 5:00 p.m. Monday through Saturday, except Holidays (as defined in Section 1.1). The estimate to be given to the County pursuant to Section 3.7 of this Intergovernmental Agreement shall be accompanied by a statement indicating the days of the week on which the Service will observe any Holidays during the next calendar year.

SECTION 2.4. Emergency Operation.

In the event that, due to a natural disaster or other emergency condition, there is delivered to the Service Yard Debris in quantities substantially in excess of those normally delivered during such season, the Service shall use reasonable efforts to accommodate the additional service demands; provided, however, that the Service's determination as to its methods of operation and its ability to provide all such Yard Debris composting services as demanded on a timely basis shall be final. Additional charges for deliveries under this Section 2.4 of Yard Debris at hours other than the Receiving Hours shall be payable by the County as provided in Section 3.5.

SECTION 2.5. Additional Hours of Operation.

The Service, at its discretion, may keep the Composting Facility open until 6:00 p.m., Monday through Saturday, or such other hours as shall be permitted by the Baltimore Regional Counties, and upon the reasonable request of the Baltimore Regional Counties, shall receive Yard Debris at hours other than the Receiving Hours to the extent permitted by Applicable Law. The Service shall receive Yard Debris at hours other than the Receiving Hours to the extent permitted by Applicable Law if the County shall have given the Service three (3) days' prior written notice of the delivery thereof. Additional charges for operations outside of Receiving Hours pursuant to this Section 2.5 shall be payable by the County as provided in Section 3.5.

SECTION 2.6. Repairs and Maintenance.

Except as otherwise provided in Sections 2.4, 2.11, 2.12 and 7.1 of this Intergovernmental Agreement, the Service shall maintain the Composting Facility in good condition, including necessary repairs and replacement, consistent with normal and accepted Yard Debris handling practices. The Service shall maintain the safety of the Composting Facility at a level consistent with Applicable Law. The Service shall maintain all of the facilities, buildings, grounds, equipment, and systems used to provide Yard Debris composting services under this Intergovernmental Agreement, in good repair and in a neat and orderly condition to protect them against deterioration and to maintain the aesthetic quality of the Composting Facility site.

The Service shall require and enforce similar standards with regard to repair, replacement, safety, maintenance, and appearance, in its arrangements with any operators or agents under subcontract.

SECTION 2.7. Access and Security.

The County shall have the right to visit or inspect the Composting Facility at any reasonable time upon giving the Service reasonable notice. Any such visits shall be conducted in a manner so as to cause minimum interference with Yard Debris composting operations. In connection with such visits and inspections, the County and any agent or representative of the County shall comply with all reasonable rules and regulations adopted by the Service. Such rules and regulations may include a requirement that each Person, including any agent or representative of the County, visiting the Composting Facility, shall sign a statement **(a)** assuming the risk of the visit to the facility, **(b)** stating that such Person shall not, except as may be required by law, intentionally disclose or use any confidential information of the Service other than for the purpose for which it was furnished and that no such information shall be duplicated or disclosed to others or used in whole or part for any other purpose, except that portions of it may be furnished to other Persons who **(i)** have agreed in writing to restrict the use thereof as herein provided and **(ii)** have been retained by the County to comment upon or evaluate such information.

SECTION 2.8. Regulatory Requirements.

The Service shall operate (or cause to be operated) the Composting Facility in a manner which will not violate any Applicable Law. The Service shall not be deemed to have breached its obligations under the preceding sentence in respect of any period during which it may in good faith be contesting the validity or application of any such law or regulation or be diligently attempting to comply therewith, in each case to the extent that

Applicable Law permits continued operation pending resolution of said dispute.

Except as otherwise provided in Section 7.1 of this Intergovernmental Agreement, the Service shall use its best efforts to obtain and maintain all governmental permits required for the Composting Facility, and shall submit all reports required by the permits. In the event this Intergovernmental Agreement is terminated pursuant to Article IV, the Service, to the extent permitted by law, shall transfer any permits obtained in its name to the Baltimore Regional Counties or their designee. Unless this Intergovernmental Agreement shall be terminated pursuant to Article IV, or unless otherwise required by law, the Service shall neither apply for nor acquire any permits for the Composting Facility that name the County as permittee.

SECTION 2.9. Weighing Records.

The Service shall operate and maintain motor truck scales, calibrated to the accuracy required by Maryland law, to weigh all vehicles delivering Yard Debris to the Service for composting, or for removing Project Waste or composted or other Yard Debris. The Service shall weigh each loaded vehicle and complete a weight record with regard thereto. The weight record shall contain gross weight, tare weight, date and time, description of material in the road vehicle, vehicle identification, and identification of the origin of material.

The Service shall maintain daily records of the total tonnage of Yard Debris delivered to the Service, the tonnage of Yard Debris accepted by the Service, and the tonnages of Project Waste, Permissible Diverted Yard Debris, Permissible Bypassed Yard Debris and, after the Operations Commencement Date, Composted Yard Debris that is removed from the Composting Facility. The Service shall furnish to the County each month such information as may be reasonably required by the County within ten days after the end of such month. Copies of all weigh tickets will be maintained by the Service for a period of at least five years, filed separately for each Baltimore Regional County.

SECTION 2.10. Ownership of Yard Debris.

Nothing in this Intergovernmental Agreement shall impose upon the County or the Service title to any Yard Debris or any other material delivered to the Composting Facility. The parties acknowledge that ownership of Yard Debris shall transfer to the Subcontractor upon delivery of the Yard Debris to the Composting Facility, except for Permissible Diverted Yard Debris.

SECTION 2.11. Unacceptable Material.

In the event that the County or any of the County's Designated Haulers deliver any load which is determined by the Service to contain more than five percent (5%)(by weight) of Unacceptable Material, the Service shall promptly notify the County, and either (a) remove and dispose of such material at the cost and expense of the County, or (b) permit the County to remove and dispose of such material by the closing time of the Composting Facility on the next Business Day after the material's delivery to the Composting Facility. Any invoice submitted in respect of costs and expenses to be borne by the County under this Section 2.11 shall be payable by the County within 30 days of the date thereof.

The Service shall maintain cost records with respect to **(i)** the removal and disposal of Unacceptable Material that the Service elects to remove and dispose of under clause (a) of this Section 2.11, **(ii)** the cost of correcting damage and cleaning up spillage for which the County is responsible pursuant to Section 2.12, and **(iii)** any Surcharge or Reloading Fee paid to the Subcontractor as provided in Section 4.1 of the Service Agreement, all in accordance with generally accepted accounting principles. Such cost records shall be made available for inspection by the County at such times during normal business hours as the County may reasonably request.

SECTION 2.12. Manner of Deliveries.

The County shall provide the Service with the following information about each County vehicle and Designated Hauler delivering Yard Debris to the Service for the account of the County: name and address; make, body type and motor vehicle registration number of each vehicle used; area of collection; and status as County vehicle operator or contract hauler.

The County shall use its best efforts to deliver only loads of Yard Debris that contain less than five percent (5%)(by weight) of Unacceptable Material, and not to bring any vehicle onto the Composting Facility or an Alternative Facility which is carrying refuse which may leak, spill or allow Yard Debris to be blown or scattered before unloading, all in accordance with the Service's operating rules or regulations. The County shall be responsible for the cost of correcting any damage or cleaning up any spillage caused by its employees or the employees of its Designated Haulers, if the Service is unsuccessful, after reasonable effort, in obtaining reimbursement for such costs from the Designated Hauler, and the County shall reimburse the Service on demand for all such costs.

SECTION 2.13. Refusal of Deliveries.

(a) Extent of Refusal Rights

Notwithstanding Section 2.1, the Service may refuse delivery of:

(i) any Yard Debris in excess of the daily maximum amounts that the Service is required to accept hereunder;

(ii) any Yard Debris delivered at hours other than Receiving Hours or such other hours as may be established under Section 2.4 or 2.5;

(iii) any Yard Debris which the Service is not obligated to accept under Section 2.1 or 2.13(b); and

(iv) any Unacceptable Material.

Yard Debris not accepted by the Service under this Section 2.13 shall constitute Permissible Diverted Yard Debris.

(b) Inspection of Delivered Yard Debris

The Service shall have the right but not the obligation to inspect all vehicles delivering Yard Debris to the Composting Facility hereunder, and shall have the right to require that the County, a Designated Hauler, or a Hauler, as the case may be, remove from any such vehicle before it is unloaded, (i) any Hazardous Waste and (ii) any amount of Unacceptable Material that exceeds _____%, by weight, of the vehicle load. If the Service determines that it is impractical to separate Yard Debris from Unacceptable Material in any such vehicle, or the County, Designated Hauler, or Hauler, as the case may be, delivering such material is unwilling to make such separation, then the Service may reject the entire vehicle.

SECTION 2.14. Deliveries.

Deliveries of Yard Debris hereunder shall be substantially in accordance with schedules reasonably determined by the Service after consultation with the County and incorporated in the rules and regulations adopted by the Service with respect thereto. Such scheduling shall not unreasonably impede the ability of the County to deliver efficiently normal amounts of Yard Debris generated within the County and delivered to the Service. The County and the Service shall cooperate together in the development and implementation of such scheduling procedures.

SECTION 2.15. Other Contracts for Yard Debris Delivery.

The County acknowledges and agrees that the Service may accept Yard Debris from Haulers other than the County or its Designated Haulers; provided, however, that **(i)** tipping fees are charged and collected from such other Haulers to the extent tipping fees are charged as provided in Section 3.3 and **(ii)** acceptance of such Yard Debris does not impair the ability of the Service to perform its obligations under the first paragraph of Section 2.1(b). Anything in this Intergovernmental Agreement to the contrary notwithstanding, the Service shall not accept any Yard Debris generated or collected outside of the Baltimore Regional Counties or delivered by a Hauler **(i)** without the prior written consent of the Baltimore Regional Counties or **(ii)** unless the County is in default under this Intergovernmental Agreement.

SECTION 2.16. Approved County Disposal Facility.

The County shall permit the Service and its subcontractors hereunder to dispose of the County's Proportionate Share of Project Waste at the Approved County Disposal Facility, subject to the rules and regulations of the County's Approved County Disposal Facility. The County may refuse to accept any amount of Project Waste that exceeds the County's Proportionate Share of Project Waste. The County shall not charge or collect any fee for the disposal of the County's Proportionate Share of the Waste Allowance segment of the Project Waste. The County may charge and collect a fee for the disposal of any amount of Project Waste that exceeds the County's Proportionate Share of the Waste Allowance, except that the fee charged by the County may not exceed the fee charged to any other Hauler for comparable waste.

If, for any reason other than failure to comply with the County's rules and regulations, the County does not permit the Service or its subcontractors to dispose of Project Waste at the Approved County Disposal Facility, the County shall first make another Disposal Facility available for the disposal of Project Waste. The increased costs of transfer and disposal of Project Waste at a facility other than the Approved County Disposal Facility shall be included in the Total Costs of the Composting Facility.

SECTION 2.17 Composting Activities.

(a) The Service shall compost all Yard Debris accepted at the Compost Facility, subject to the Service's rights under Sections 2.13(a)(i) and 2.17(b) of this Intergovernmental Agreement.

(b) The Service may refuse to compost Yard Debris that it is required to accept under this Intergovernmental Agreement if the Service cannot compost the Yard Debris as a result of an

Uncontrollable Circumstance. Such Yard Debris constitutes Permissible Bypassed Yard Debris.

END OF ARTICLE II

ARTICLE III

ESTIMATED COSTS AND REVENUES; PAYMENTS

SECTION 3.1. Estimated Costs and Revenue.

The initial (non-binding) estimates of Total Costs and Composting Facility Revenues are set forth in Schedule A hereto.

SECTION 3.2. Processing Fee.

(a) Processing Fee for Delivered Yard Debris.

The County shall pay to the Service as provided in Section 3.3 a Processing Fee for each ton of Yard Debris that it delivers to the Service and is accepted hereunder. The Processing Fee may be adjusted from time to time as determined in good faith by the Service, upon advice and recommendation of the Baltimore Regional Counties, provided, however, that any such advice or recommendation shall not be binding upon the Service or a condition to the fixing or adjustment of the Processing Fee by the Service. The Processing Fee fixed by the Service shall be the same for all of the Baltimore Regional Counties; however, the Service may fix a Processing Fee for Yard Debris delivered in bags (other than kraft paper bags) that is different than the Processing Fee fixed for Yard Debris delivered unbagged (which Processing Fee will also be applied to Yard Debris delivered in kraft paper bags). In the Fiscal Year in which the Operations Commencement Date occurs, and in each Fiscal Year thereafter, the Service shall fix, charge, and collect the Processing Fee which together with other Composting Facility Revenue plus the Supplemental Fee for each such Fiscal Year shall be at least equal to Total Costs for each such partial or full Fiscal Year.

Unless the Service is not required to accept Yard Debris in accordance with Section 2.13 of this Agreement, the County shall not be obligated to make payment of the Processing Fee under this Section 3.2 for any Yard Debris it delivers to the Service and the Service fails to accept at the Composting Facility, or fails to cause to be accepted at an Alternative Facility.

(b) Delivery of Yard Debris.

The County acknowledges that it is obligated at all times during the term hereof to use reasonable efforts to deliver or cause to be delivered, through its Yard Debris collection program, its Guaranteed Annual Tonnage of Yard Debris for composting by the Service; provided, however, that the obligations of the County under this Intergovernmental Agreement shall not interfere with the obligations of the County under Applicable Law.

(c) Yard Debris Delivered by Other Haulers.

Yard Debris delivered by any Hauler other than the County or its Designated Haulers shall be accepted by the Service at a tipping fee which is no less than the Processing Fee established under Section 3.2(a).

SECTION 3.3 Processing Fee Payments.

All amounts payable under Section 3.2(a) or 3.4 with respect to any month shall be invoiced to the County by the Service no earlier than the seventh day of the following month, and shall be paid by the County within 30 days of the date of such invoice.

Amounts charged to any Hauler other than the County under Section 3.2(c) shall be collected by the Service at the time of delivery or invoiced monthly to such Hauler in accordance with normal Service practices.

SECTION 3.4 Minimum Monthly Payment; Supplemental Fee; Quarterly Estimated Payments.

(a) Minimum Monthly Payment.

Notwithstanding any other provision of this Intergovernment Agreement, each month after the month in which the Operations Commencement Date occurs the County shall pay to the Service the greater of (i) the aggregate amount due under Section 3.2(a) of this Agreement for the amount of Yard Debris accepted by the Service from the County during such month, or (ii) the Minimum Monthly Payment. The Minimum Monthly Payment shall be an amount equal to the product of the Processing Fee then applicable under Section 3.2 multiplied by one-twelfth (1/12) of the then applicable Guaranteed Annual Tonnage.

To the extent the Minimum Monthly Payment for any month under this Section 3.4(a) exceeds the amounts otherwise due from the County for such month under Section 3.2(a), the County shall receive a credit in the amount of such excess, which credit shall be applicable to amounts thereafter payable by the County for the following month under Section 3.2(a).

(b) Supplemental Fee.

In addition to the provisions of this Intergovernmental Agreement related to the Minimum Monthly Payment, the County shall in the Fiscal Year in which the Operations Commencement Date occurs and in each Fiscal Year thereafter pay to the Service its Proportionate Share of the Supplemental Fee. The Supplemental Fee shall be an amount equal to the amount, if any, by which Total Costs exceed the sum of (i) Composting Facility Revenues plus (ii)

any unpaid portion of the Total Guaranteed Annual Payment. The Service and the County have determined that the Processing Fee and the Supplemental Fee as established and adjusted as provided in this Intergovernmental Agreement represent reasonable terms for the payment by the County of the cost of accepting and composting Yard Debris hereunder.

(c) Quarterly Estimated Payments.

The County's proportionate Share of the Supplemental Fee shall be payable in four estimated quarterly payments calculated as provided in this paragraph. Beginning with the Fiscal Year Quarter in which the Operations Commencement Date occurs, the quarterly amount billed to the County for the Supplemental Fee shall be computed by multiplying the County's Proportionate Share by an amount equal to:

(A) the sum of (i) estimated Total Costs for such Fiscal Year Quarter and (ii) the excess of actual Total Costs over estimated Total Costs for the Fiscal Year Quarter immediately preceding the Fiscal Year Quarter in which the invoice is prepared, minus the sum of

(B) (i) Composting Facility Revenue received in the Fiscal Year Quarter immediately preceding the Fiscal Year Quarter in which the invoice is prepared and (ii) the unpaid portion of the Total Guaranteed Annual Payment due from the other Baltimore Regional Counties.

Prior to the Operations Commencement Date the County shall pay to the Service, and the Service shall maintain at all times, an amount not less than one quarter of the County's Proportionate Share of the estimated Total Costs for the a full Fiscal Year of operation of the Composting Facility.

SECTION 3.5. Payment for Out-of-Hours Deliveries.

The Service shall establish and make available to the County a schedule of charges for deliveries of Yard Debris outside of Receiving Hours pursuant to Section 2.4 or 2.5, which charges shall be in addition to the Processing Fee and any other fees payable under this Agreement in respect of such deliveries. Such schedule may be amended from time to time by the Service on at least 30 days' prior notice to the County. Such charges shall reimburse the Service for actual additional costs incurred in accepting deliveries outside of Receiving Hours. The Service shall furnish the County on request reasonably detailed justification for such charges. Any amounts payable by the County hereunder on account of deliveries outside of Receiving Hours may be included in the monthly invoice delivered to the County under Section 3.3 or separately invoiced to the County from time to time, as the Service may elect.

SECTION 3.6 **No Set-Off.**

The obligation of the County to pay the amounts to be paid by it from time to time hereunder shall not be subject to diminution by reason of any set-off, abatement, counterclaim, existence of a dispute or any other reason, known or unknown, foreseeable or unforeseeable, which might otherwise constitute a legal or equitable defense or discharge of the liabilities of the County hereunder or limit recourse against the County.

If any dispute concerning the payments of amounts by the County in respect of Debt Service is referred to a court of competent jurisdiction for resolution, then the amount in dispute (as well as any undisputed amount) shall be paid by the County when due under this Intergovernmental Agreement and before pursuing dispute resolution with respect to such amount. The disputed amount shall be repaid to the County, with interest if ordered by the court, if the dispute is resolved in favor of the County. This Section shall not otherwise affect the rights of the County under Article IV of this Intergovernmental Agreement.

SECTION 3.7. **Estimates of Processing Fee and Supplemental Fee; County Budgeting Obligations.**

The Service shall, on or before November 1 of each year, provide the County with the information as to Holidays referred in Section 2.3, along with a proposed budget of **(a)** estimated Total Costs for the next Fiscal Year beginning July 1, including a detailed line item budget of estimated Service management costs, **(b)** estimated Composting Facility Revenues for the next Fiscal Year, **(c)** estimated total tonnage of Yard Debris to be generated within the County and delivered to the Service for composting in the next Fiscal Year, based on data provided to the Service by the County, **(d)** the Processing Fee established pursuant to Section 3.2(a) of this Intergovernmental Agreement, and **(e)** the estimated amount, if any, of the County's Proportionate Share of the Supplemental Fee for the next Fiscal Year. Throughout the Fiscal Year the Service shall notify the County of extraordinary Compost Facility costs or if Service management costs are projected to exceed ten percent (10%) of the Service's estimated budget. At any time during a Fiscal Year, but not later than February 1 of each Fiscal Year, the Service shall analyze the Composting Facility Revenues received during the preceding months of the Fiscal Year. If sufficient Composting Facility Revenues have been received, and are estimated to be received during the remainder of the Fiscal Year, the Service shall reduce the Processing Fee for Yard Debris delivered during the remainder of the Fiscal Year by the County.

In order to assure the timely payment of amounts required to be paid by the County under this Intergovernmental Agreement, the County shall include in its annual budget for such next Fiscal Year an amount or amounts sufficient to meet all of its obligations

under this Intergovernmental Agreement or take such other appropriate action as may be necessary to ensure the availability of funds sufficient to meet all such obligations. Notwithstanding the preceding sentence, no failure or inability of the County to include in its budget or take appropriate action to assure the availability of amounts sufficient to enable the County to meet all of its obligations under this Intergovernmental Agreement shall excuse, limit, impair or extend the time of performance or payment of any of its obligations hereunder, whether or not any estimates of Total Costs, Composting Facility Revenues, the Processing Fee or the County's Proportionate Share of the Supplemental Fee or other amounts payable hereunder prove to be inaccurate.

SECTION 3.8. <u>Service's Yard Debris Disposal Service Fund, Reserves, Accounts, and Reports.</u>

The Service shall establish and maintain within its own books and records the Special Purpose Fund as a discrete fund for the purpose of recording all of the financial transactions relating to the provision of Yard Debris composting services to the County under the Yard Debris Composting Intergovernmental Agreement. All receipts of moneys owing to or derived from the development and operations of facilities (including, but not limited to, borrowed proceeds, grants or gifts, Composting Facility Revenues and the Supplemental Fee) shall be credited to the Special Purpose Fund; and all costs of development and operations shall be disbursed from the Special Purpose Fund.

Moneys credited to the account of the Special Purpose Fund may, for the purpose of investing such moneys, be commingled with moneys of other funds and accounts belonging to the Service, provided that any earnings or losses from such commingled assets are credited monthly and on a pro-rata basis to the Special Purpose Fund.

The Service may also establish and maintain such other discrete accounts and reserves as it may in good faith deem necessary (1) to provide security for Indebtedness issued for the purposes of this Intergovernmental Agreement; (2) If required by Applicable Law, to ensure a regular annual income to pay for maintenance and monitoring of the Composting Facility and any Alternative Facility after close-down of operations of the respective facilities; (3) to pay the required costs of any settlements, litigation or awards, or suits for damages attributed to the Composting Facility or any Alternative Facility, or (4) for any other necessary purpose. Except for accounts and reserves the Service is required to establish by the terms of the Trust Indenture or in accordance with applicable law, the Service shall not establish any other accounts or reserves without the approval of the County.

The Service shall provide regular quarterly reports to the County as to the financial conditions and changes in all funds, accounts and reserves relating to provision of Yard Debris composting services under this Intergovernmental Agreement.

SECTION 3.9. Audit; Year-End Adjustment.

(a) Audit Scope.

The Service shall provide to the County within 120 days after the last day of each Fiscal Year of the Service, a financial statement of the results of operation of the Special Purpose Fund and any other accounts or reserves established under Section 3.8. of this Intergovernmental Agreement, prepared in accordance with generally accepted accounting principles, and audited by the Independent Public Accountants in accordance with generally accepted auditing standards. Such financial statements shall include a statement of the Total Costs and Composting Facility Revenues for each such Fiscal Year. To assist the County with preparation of the County's financial statements, the Service shall, upon request, provide the County with such financial and other information as the County may reasonably require.

(b) Adjustments for Deficiency or Excess of Composting Facility Revenues.

In the event that Total Costs exceed Composting Facility Revenues during a Fiscal Year, the County shall pay to the Service the County's Proportionate Share of the Supplemental Fee as provided in Section 3.4. In the event that Composting Facility Revenues exceed Total Costs during a Fiscal Year, the Service shall within 30 days of receipt of the financial statements provided in Section 3.9(a) either (a) pay the County its Proportionate Share of the amount of such excess up to the amount, if any, of the Supplemental Fee which the County had paid the Service during such Fiscal Year, but only to the extent that at such time there are funds available in the Special Purpose Fund which are not obligated or restricted for other purposes and the Service at such time has made all payments on any Indebtedness or with respect to Total Costs then due and payable, or (b) at the express direction of the County, retain in the Special Purpose Fund some or all of the excess revenues for the purpose of offsetting Total Costs incurred in subsequent Fiscal Years. Any excess of Composting Facility Revenues over Total Costs in a Fiscal Year shall not be credited against any Supplemental Fee paid or to be paid in any other Fiscal Year unless agreed in writing by the Service and the County.

END OF ARTICLE III

ARTICLE IV

DEFAULT AND TERMINATION

SECTION 4.1. Remedies for Default.

In the event of the breach by any party of an obligation under this Intergovernmental Agreement, the right to recover damages or to be reimbursed will ordinarily constitute an adequate remedy. Therefore, no party shall have the right to terminate this Intergovernmental Agreement for cause for any breach unless an Event of Default (as defined in Sections 4.2 and 4.3) on the part of the other party shall have occurred and be continuing.

SECTION 4.2. Events of Default by the Service.

The persistent or repeated failure or refusal by the Service substantially to fulfill any of its material obligations in accordance with this Intergovernmental Agreement shall constitute an Event of Default on the part of the Service, provided, however, that no such failure or refusal shall constitute an Event of Default unless and until:

(a) the Baltimore Regional Counties shall have given prior written notice to the Service stating that in their opinion a particular default or defaults (to be described in reasonable detail in such notice) exist which will, unless corrected, constitute a material breach of the Intergovernmental Agreements on the part of the Service and which will, in their opinion, give the Baltimore Regional Counties a right to terminate their respective Intergovernmental Agreements for cause under this Section unless such default is corrected within a reasonable period of time, and

(b) the Service shall have neither corrected such default nor initiated reasonable steps to correct the same within a reasonable period of time (which shall in any event be not less than 120 days from the date of the notice given pursuant to clause (a) of this Section 4.2), provided that if the Service shall have commenced to take reasonable steps to correct such default within such reasonable period of time, the same shall not constitute an Event of Default for as long as the Service is continuing to take reasonable steps to correct such default. Notwithstanding the provisions of this Section 4.2(b), the Service shall present to the County, within 60 days from the date of the notice given pursuant to clause (a) of this Section 4.2, a plan for correcting the default.

A material breach shall be deemed to have been corrected for purposes of this Section 4.2, if it has been alleviated to the degree that its existence no longer makes damages an inadequate remedy. A breach of the Service Agreement by the Subcontractor shall not constitute an event of default under this Agreement unless the breach is caused by the failure or refusal of the Service to fulfill its material obligations under this Agreement or under the Service Agreement.

SECTION 4.3. <u>Events of Default by the County</u>.

Each of the following shall constitute an Event of Default on the part of the County:

(a) The failure on the part of the County to pay any amount required to be paid to the Service under this Intergovernmental Agreement when such amount becomes due and payable if the Service has made written demand therefor accompanied by notice that unless such amount is paid within 15 days after such demand the default will constitute an Event of Default, and such amount is not so paid.

(b) The persistent or repeated failure or refusal by the County substantially to fulfill any of its material obligations in accordance with this Intergovernmental Agreement other than those described in paragraph (a) of this Section, provided that no such failure or refusal shall constitute an Event of Default unless and until **(i)** the Service shall have given prior written notice to the County stating that in its opinion a particular default or defaults (to be described in reasonable detail in such notice) exist which will, unless corrected, constitute a material breach of this Intergovernmental Agreement on the part of the County and which will, in its opinion, give the Service a right to terminate this Intergovernmental Agreement for cause under this Section 4.3(b) unless such default is corrected within a reasonable period of time, and **(ii)** the County shall have neither corrected such default nor initiated reasonable steps to correct the same within a reasonable period of time (which shall in any event be not less than thirty (30) days from the date of the notice given pursuant to clause (i) of this Section 4.3(b)), provided that if the County shall have commenced to take appropriate steps to correct such default within such reasonable period of time, the same shall not constitute an Event of Default for as long as the County is continuing to take reasonable steps to correct such default.

A material breach shall be deemed to have been corrected for purposes of this Section 4.3, if it has been alleviated to the degree that its existence no longer makes damages an inadequate remedy.

SECTION 4.4. Termination on Default.

If any party shall have a right of termination for cause in accordance with the second sentence of Section 4.1, the same may be exercised only by written notice of termination given to the party in default. The proper exercise of such right of termination shall be in addition to and not in substitution for such other remedies, whether damages or otherwise, as the party exercising the right of termination may have.

(a) If the Service exercises it right of termination under this section 4.4, it shall send copies of the notice of such termination to the other Baltimore Regional Counties at the same time it sends notice of termination to the County. The other Baltimore Regional Counties may, at their option, and by providing notice to the Service within 15 day's receipt of the notice of termination, request that all or a portion of the County's Guaranteed Annual Tonnage be transferred to them. Unless the other Baltimore Regional Counties agree otherwise, neither may assume more than half of the County's Guaranteed Annual Tonnage. If the other Baltimore Regional Counties notify the Service that they intend to assume, in the aggregate, less than all of the County's Guaranteed Annual Tonnage, then the Service may, accordance with Section 2.15 of this Intergovernmental Agreement, accept Yard Debris in an amount less than or equal to the amount of the County's Guaranteed Annual Tonnage not assumed by the other Baltimore Regional Counties.

(b) If the County exercises its right of termination under this section 4.4, the Service shall be liable to the County for the reasonable increased costs of management services incurred by the County for the remainder of the Fiscal Year in which such termination occurs.

SECTION 4.5. Survival of Certain Rights and Obligations.

The rights and obligations of the parties under Section 2.7 with respect to the non-disclosure of confidential information and Article VII shall survive any termination of this Intergovernmental Agreement. No termination of this Intergovernmental Agreement under Section 4.4 or otherwise hereunder shall limit or otherwise affect the respective rights and obligations of either party accrued prior to the date of such termination.

SECTION 4.6. Option to Terminate at Any Time.

(a) Termination By All The Baltimore Regional Counties. The County shall have, and is hereby granted, the option to terminate this Intergovernmental Agreement at any time **(i)** by obtaining agreement of the other Baltimore Regional Counties as to the termination of this Intergovernmental Agreement and upon termination of the other Baltimore Regional Counties of the Yard

Debris Composting Intergovernmental Agreement to which they are parties, **(ii)** by paying to the Service the amount set forth in Section 4.7 hereof, **(iii)** by giving the Service not less than thirty day's advance written notice of such termination, and **(iv)** by executing an agreement between the Service, on the one hand, and the Baltimore Regional Counties, on the other hand pursuant to which the Baltimore Regional Counties shall take title to and liability for the Composting Facility site.

(b) **Termination By County.** The County shall have, and is hereby granted, the option to terminate this Intergovernmental Agreement at any time **(i)** by obtaining agreement of the other Baltimore Regional Counties as to the termination of this Intergovernmental Agreement, **(ii)** by executing an agreement with the other Baltimore Regional Counties and the Service that the other Baltimore Regional Counties will collectively assume the County's Proportionate Share of the County's obligations under this Intergovernmental Agreement, and (iii) by giving the Service and the Baltimore Regional Counties not less than thirty day's advance written notice of such termination.

SECTION 4.7 **Amounts Due Upon Termination of Agreement.**

In the event the County exercises its options under Section 4.6 to terminate this Intergovernmental Agreement, the County shall pay to the Service or (as appropriate) to the trustee or trustees for any outstanding Indebtedness the County's Total Proportiona Share of:

(a) The greater of **(i)** the fair market value of the Service's interest in the Composting Facility as determined utilizing one or more generally accepted appraisal approaches approve by the American Institute of Real Estate Appraisers or **(ii)** the amounts of money necessary to defease or retire and redeem any outstanding Indebtedness issued for the purposes of the Composting Facility, including without limitation all principal amounts, premiums if any, interest to the date of final redemption, legal and trustee expenses, and any such other amounts as may be required by the trustee of such Indebtedness, or by any remarketing agent, bank, credit facility provider, or tender agent, pursuant to the resolution or indenture establishing the Service's obligations as to that Indebtedness, or pursuant to any other financing document with respect thereto;

(b) An amount sufficient, when combined with any moneys held by the Service in the Special Purpose Fund other than restricted or obligated moneys, to satisfy all current obligations normally paid from the Special Purpose Fund, including without limitation any amounts owed for salaries, services, materials, supplies, utilities, insurance, installment purchase agreements, or working capital loans;

(c) An amount sufficient to compensate the Service for any of the reasonable costs of terminating this Intergovernmental Agreement and closing down its direct operation and support activities under this Intergovernmental Agreement; and

(d) An amount specified by the Service sufficient to provide for any other obligations relating to this Intergovernmental Agreement, the Indebtedness or the Composting Facility or otherwise incurred by the Service for the purpose of providing Yard Debris composting services under this Intergovernmental Agreement.

SECTION 4.8 **Transfer of Property Upon Termination.**

The parties agree that upon the exercise of the option to terminate under Section 4.6(a) and satisfaction of the requirements under Section 4.7, the Service shall immediately convey to the Baltimore Regional Counties, as tenants in common, and the Baltimore Regional Counties shall accept, all right, title and interest in the Composting Facility, all appurtenant real and personal property, and in the remaining assets of the Special Purpose Fund and any other reserves and accounts held by the Service under this Intergovernmental Agreement. The initial ownership interest of each of the Baltimore Regional Counties in the Composting Facility and all the other property conveyed hereunder shall equal each County's Total Proportionate Share.

SECTION 4.9 **Concluding Payment**

Unless otherwise agreed by the Service and the Baltimore Regional Counties, upon termination of this Intergovernmental Agreement pursuant to Article V, Howard County shall either (a) pay to the Service an amount equal to the Concluding Payment for each of the other Baltimore Regional Counties, or (b) direct the Service to sell the Composting Facility for a price not less than the fair market value of the Composting Facility.

If Howard County pays the Concluding Payment amounts described in (a) above, then within thirty (30) day's receipt of the Concluding Payment the Service shall remit to each of the other Baltimore Regional Counties an amount equal to the Concluding Payment due each of the other respective Baltimore Regional Counties. Upon receipt of the Concluding Payment the Service shall immediately convey to Howard County, and Howard County shall accept, all right, title and interest in the Composting Facility, and all appurtenant real and personal property.

If the Composting Facility is sold in accordance with (b) above, then the Service shall, within thirty (30) day's receipt by the Service of the balance of the purchase price paid for the Composting Facility, pay to each of the Baltimore Regional Counties an amount equal to the Concluding Payment due each of them.

By way of example, and without limitation, if at the end of the term of this Agreement the fair market value of the Composting Facility is determined to be $5 million, and the Total Proportionate Share is 20% for Anne Arundel County and 35% for Baltimore County, then the Concluding Payment due to Anne Arundel County would be $1 million (.20 x $5 million) and the Concluding Payment due to Baltimore County would be $1.75 million (.35 x $5 million).

END OF ARTICLE IV

ARTICLE V

TERM

SECTION 5.1. Term.

This Intergovernmental Agreement shall first be effective on the date hereof and, unless sooner terminated in accordance with the terms hereof, shall continue in effect until the later of **(i)** the twentieth anniversary of the Operations Commencement Date or **(ii)** the date on which the Indebtedness has been paid in full.

END OF ARTICLE V

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

SECTION 6.1. Representations and Warranties of the County.

The County hereby makes the following representations, warranties and agreements to and for the benefit of the Service.

(a) The County is a political subdivision of the State of Maryland and a body politic and corporate, duly organized and validly existing under the constitution and laws of the State of Maryland, with full legal right, power and authority to enter into and perform its obligations under this Intergovernmental Agreement.

(b) The County has duly authorized the execution and delivery of this Intergovernmental Agreement and this Intergovernmental Agreement has been duly executed and delivered by the County and constitutes a legal, valid and binding obligation of the County, enforceable against the County in accordance with its term.

(c) Neither the execution or delivery by the County of this Intergovernmental Agreement, nor the performance by the County of its obligations in connection with the transactions contemplated hereby or the fulfillment by the County of the terms or conditions hereof **(i)** conflicts with, violates or results in a breach of any constitution, law or governmental regulation applicable to the County, **(ii)** conflicts with, violates or results in a breach of any term or condition of any judgment or decree, or any agreement or instrument, to which the County is a party or by which the County or any of its properties or assets are bound, or constitutes a default thereunder or **(iii)** will result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the County.

(d) No approval, authorization, order or consent of, or declaration, registration or filing with, any governmental authority is required for the valid execution and delivery of this Intergovernmental Agreement by the County, except such as have been duly obtained or made.

(e) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or, to the best of the County's knowledge, threatened, against the County, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by the County of its obligations hereunder or in connection with the other transactions contemplated hereby or which, in any way, would adversely affect the validity or enforceability of this Intergovernmental Agreement or any agreement or instrument entered into by the County in connection with the transactions contemplated hereby.

(f) It is the intention of the parties hereto that the interest on the Indebtedness issued to finance the Composting Facility be and remain excludable from gross income for federal tax purposes and the County agrees to take or refrain from taking any and all action necessary to maintain the excludability from gross income for federal tax purposes of the interest on such Indebtedness; provided, however, that the County shall have no obligation under this paragraph to take or refrain from taking any action unless advised in writing by the Service. Without limiting the foregoing, the County agrees not to enter into any contract or arrangement, or supplement or maintain any licensing or permitting regime, which would create, or have the practical effect of creating, a right on the part of any hauler or other person to the exclusive or preferential use of the Composting Facility (or any part of the capacity thereto) without the prior written consent of the Service. The County currently is not a party to any such contract or arrangement.

SECTION 6.2. <u>Representations and Warranties of the Service</u>.

The Service hereby makes the following representations and warranties to and for the benefit of the County:

(a) The Service is a body politic and corporate and a public instrumentality of the State of Maryland, duly organized and validly existing under the constitution and laws of the State of Maryland, with full legal right, power and authority to enter into and perform its obligations under this Intergovernmental Agreement.

(b) The Service has duly authorized the execution and delivery of this Intergovernmental Agreement and the Yard Debris Composting Intergovernmental Agreements have been duly executed and delivered by the Service and constitute legal, valid and binding obligations of the Service, enforceable against the Service in accordance with their respective terms.

(c) Neither the execution or delivery by the Service of this Intergovernmental Agreement, nor the performance by the Service of its obligations in connection with the transactions contemplated by this Intergovernmental Agreement, or the fulfillment by the Service of the respective terms or conditions hereof **(i)** conflicts with, violates or results in a breach of any constitution, law or governmental regulation applicable to the Service, or **(ii)** conflicts with, violates or results in a breach of any term or condition of any judgment or decree, or any agreement or instrument, to which the Service is a party or by which the Service or any of its properties or assets are bound, or constitutes a default thereunder.

(d) No approval, authorization, order or consent of, or declaration, registration or filing with, any governmental authority is required for the valid execution and delivery of this

Intergovernmental Agreement by the Service, except such as have been duly obtained or made.

(e) There is no action, suit or proceeding, at law or in equity, before or by any court or governmental authority, pending or, to the best of the Service's knowledge, threatened, against the Service, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance by the Service of its obligations hereunder or in connection with the transactions contemplated hereof, or which, in any way, would adversely affect the validity or enforceability of this Intergovernmental Agreement, or any other agreement or instrument entered into by the Service in connection with the transactions contemplated hereby.

END OF ARTICLE VI

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. Uncontrollable Circumstance.

Each party hereto shall be excused for its failure to perform in accordance with this Intergovernmental Agreement any obligation required to be performed by it hereunder, to the extent that such failure results from an Uncontrollable Circumstance (as defined herein), provided, that in no event shall any Uncontrollable Circumstance excuse **(i)** the County from making any payment hereunder in accordance with the terms hereof or **(ii)** the Service from accepting Yard Debris as provided hereunder. Each party shall seek diligently and in good faith to overcome or remove such Uncontrollable Circumstance, provided, however, that the settlement of strikes, lockouts, and other industrial disturbances or of any legal actions or administrative proceedings shall be entirely in the discretion of the party suffering the same, and it shall not be required to make settlement of strikes, lockouts, and other industrial disturbances or of legal actions or administrative proceedings when such settlement would be unfavorable, in the judgment of the party suffering the strike, labor dispute or other industrial disturbance or legal action or administrative proceedings. A party claiming the benefit of this Section 7.1 shall give prompt notice thereof to the other party.

As used in this Section "Uncontrollable Circumstance" means any event or condition, whether affecting the Composting Facility, any Alternative Facility, the County, the Service or any other Person, having, or which may reasonably be expected to have, a material adverse effect on the Composting Facility or any Alternative Facility or the acquisition, design, construction, equipping, start-up, operation, ownership or possession of the Composting Facility or any Alternative Facility, including, without limitation, breach of the Service Agreement by the Subcontractor, if such event or condition is beyond the reasonable control and not the result of willful or negligent action or a lack of reasonable diligence, of the party relying thereon as justification for not performing any obligation or complying with any condition required of such party hereunder.

SECTION 7.2 Insurance; Sovereign Immunity.

The Service shall obtain and keep in force, during the term of this Intergovernmental Agreement, insurance as it deems prudent, to the extent it is available and can be obtained for an amount which is reasonable, and which shall not be less than the maximum self-insurance provided by the Treasurer of Maryland pursuant to the State Finance and Procurement Article, Sections 9-105(a) and (c),

Annotated Code of Maryland. The Service may provide any such insurance through a self-insurance Program of the Service or of the State of Maryland. The Service shall also require the Subcontractor to provide and maintain the insurance coverages specified in the Service Agreement.

The County recognizes that the Service, as an instrumentality of the State of Maryland, possesses sovereign immunity to the extent it has not been waived by statute. Nothing in this Intergovernmental Agreement shall be deemed a waiver of any immunity possessed by the Service which has not been waived by statute.

SECTION 7.3. Assignment.

This Intergovernmental Agreement may not be assigned by either party without the prior written consent of the other party hereto, except that the Service may, without the consent of the County, assign its interest and obligations hereunder to a trustee or trustees as collateral for or otherwise in connection with arrangements for the financing or refinancing of all or part of the Composting Facility or any modifications thereof or additions thereto. In the event of an assignment by the Service under this Section 7.3, the County shall be notified thereof in writing and shall make payments due hereunder to such Person as may be designated by such assignee in such notice or otherwise.

SECTION 7.4. Relationship of the Parties.

No party to this Intergovernmental Agreement shall have any responsibility whatsoever with respect to services provided or contractual obligations assumed by the other party and nothing in this Intergovernmental Agreement shall be deemed to constitute either party a partner, agent, or local representative of the other party or to create any fiduciary relationship between the parties.

SECTION 7.5. Notices.

All notices, consents, invoices and other communications required, permitted or otherwise delivered under this Intergovernmental Agreement shall (except as permitted under Section 2.1(b)) be in writing and may be telexed, cabled, sent by facsimile, delivered by hand or mailed by first class registered or certified mail, return receipt requested, postage prepaid, and in any case shall be addressed as follows:

If to the County:

Anne Arundel County Department of Public Works
2662 Riva Road
Annapolis, Maryland 21401
Attention: Director of Public Works

If to the Service:

Maryland Environmental Service
2011 Commerce Park Drive
Annapolis, Maryland 21401-2911
Attention: Director

Changes in the respective addresses to which such notices, consents, invoices or other communications may be directed and may be made from time to time by either party by notice to the other party. Notices and consents given by mail in accordance with this Section 7.5 shall be deemed to have been given five Business Days after the date of dispatch; notices and consents given by any other means shall be deemed to have been given when received.

SECTION 7.6. Entire and Complete Agreement.

This Intergovernmental Agreement (including all Schedules to this Intergovernmental Agreement) constitutes the entire and complete agreement of the parties with respect to its subject matter and supersedes all prior or contemporaneous understandings, arrangements, commitments and representations, all of which, whether oral or written, are merged into this Intergovernmental Agreement. The Schedules to this Intergovernmental Agreement are an integral part hereof and must be afforded full force and effect as though incorporated in their entirety in the Articles hereof. In the event of a conflict between this Intergovernmental Agreement and the Service Agreement, the terms of this Intergovernmental Agreement shall prevail.

SECTION 7.7. Binding Effect.

This Intergovernmental Agreement shall bind and inure to the benefit of the parties to this Intergovernmental Agreement and any successor or assignee acquiring an interest hereunder.

SECTION 7.8. Other Documents.

Each party promises and agrees to execute and deliver any instruments and to perform any acts which may be necessary or reasonably requested by the other party in order to give full effect to this Intergovernmental Agreement.

SECTION 7.9. Applicable Law.

The law of the State of Maryland shall govern the validity, interpretation, construction and performance of this Intergovernmental Agreement.

SECTION 7.10. Headings.

Captions and headings in this Intergovernmental Agreement are for ease of reference only and do not constitute a part of this Intergovernmental Agreement.

SECTION 7.11. Counterparts.

This Intergovernmental Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which when executed and delivered shall together constitute one and the same instrument.

SECTION 7.12. Amendment or Waiver, Etc.

Neither this Intergovernmental Agreement nor any provision hereof may be changed, modified, amended or waived except by a written instrument signed by the party against whom enforcement of such change, modification, amendment or waiver is sought.

SECTION 7.13. Waiver of Sovereign Immunity.

The County, to the extent expressly provided by Md. Code Annotated Article 25A, §1A, hereby waives sovereign immunity (or similar rights and defenses) the County may have under Applicable Law with respect to, and agrees not to raise sovereign immunity (any similar defense) as a defense to, any claim, suit or proceeding (of whatever nature), based on or arising out of this Intergovernmental Agreement, or the transactions contemplated hereby, or any breach hereof, against the County, asserted or brought by or on behalf of the Service, or any member, officer, director, employee or agent thereof.

SECTION 7.14. Conditions Precedent.

The obligations and liabilities of the Service and the County under this Intergovernmental Agreement are subject to the satisfaction of each of the following conditions precedent or the waiver thereof by the Service:

(1) The governing body of the County and of each of the other Baltimore Regional Counties shall have approved their respective Yard Debris Composting Intergovernmental Agreements.

(2) All County and other governmental approvals, permits, licenses and authorizations required in connection with this Intergovernmental Agreement and the construction and operation of the Composting Facility shall have been given or obtained to the satisfaction of the Service;

(3) The financing of the Composting Facility by the Service shall have been completed and the Service shall have received all

opinions and other matters reasonably required by the Service in connection therewith; and

(4) All representations set forth herein shall be true and correct as of such date and no action, suit or proceeding shall have been threatened, announced, or commenced challenging the validity of such financing, this or related Yard Debris Composting Intergovernmental Agreement or the Composting Facility project.

SECTION 7.15. Limitation of Liability.

The obligations of the Service under this Intergovernmental Agreement are limited obligations payable solely from such amounts as may be received by the Service in connection with its operation of the Composting Facility and the provision of Yard Debris composting services to the Baltimore Regional Counties under the Yard Debris Composting Intergovernmental Agreement. The obligations of the Service hereunder shall not be payable from the general funds of the Service and the incurrence or non-performance of such obligations shall not constitute or create a legal or equitable pledge of, or lien or encumbrance upon, or claim against, any of the assets or property of the Service or upon any of its income, receipts or revenues, except the amounts described in the immediately preceding sentence.

The execution and delivery of this Intergovernmental Agreement by the County and the Service shall not impose any personal liability on the members, officers, officials, employees or agents of the County or the Service. No recourse shall be had for any claims based on this Intergovernmental Agreement against any member, officer, official, employee or other agent of the County and the Service in his individual capacity, all such liability, if any, being expressly waived by the County and the Service by the execution of this Intergovernmental Agreement.

The Service and the County agree that unless specifically permitted pursuant to the provisions of this Intergovernmental Agreement with respect to the occurrence of an Uncontrollable Circumstance, neither shall assert as a defense for failure to perform their respective obligations under this Intergovernmental Agreement **(i)** impossibility or impracticability of performance, **(ii)** existence, nonexistence, occurrence or nonoccurrence of any foreseen or unforeseen fact or event in contingency that may be a basic assumption of the non-performing party, **(iii)** commercial frustration of purpose, or **(iv)** contract of adhesion.

SECTION 7.16. Severability.

In the event that any provision of this Intergovernmental Agreement shall, for any reason, be determined to be invalid, illegal or unenforceable in any respect, the parties hereto shall negotiate in good faith and agree as to such amendments,

modifications or supplements of or to this Intergovernmental Agreement or such other appropriate actions as shall, to the maximum extent practicable in light of such determination, implement and give effect to the intentions of the parties as reflected herein, and the other provisions of this Intergovernmental Agreement shall, as so amended, modified or supplemented, or otherwise affected by such action, remain in full force and effect.

IN WITNESS WHEREOF, the Service and the County have executed and sealed this Intergovernmental Agreement.

[SEAL]

ANNE ARUNDEL COUNTY, MARYLAND

Attest:

By: _____

By: _____
JOHN G. GARY
County Executive

Approved as to form and legal sufficiency this _____ day of _____, 1995.

_____
Philip F. Scheibe
County Attorney

Approved for sufficiency of funds and encumbrance of same.

_____
John Hammond

[SEAL]

MARYLAND ENVIRONMENTAL SERVICE

Attest:

By: _____

By: _____

Director

SCHEDULE A

REGIONAL YARD DEBRIS COMPOSTING FACILITY

1996 Total Cost And Revenue Estimate

Original Budget (annual basis)/30,000 tons

COST CATEGORY	COST/TON	TOTAL
Management Fee	$ 2.87/ton	$ 86,100 [1]
Debt Service	$15.75/ton	$ 472,500 [2]
Bagged Processing Fee	$17.75/ton (22,000 tons)	$ 390,500
Bulk Processing Fee	$12.75/ton (8,000 tons)	$ 102,000
		$ 1,051,100

Revenues

At 30,000 ton capacity all tip fee revenues are derived from County put/pay obligations.

TONNAGE		TIP FEE		REVENUE
$ 22,000	x	$ 36.37/ton	=	$ 800,140
$ 8,000	X	$ 31.37/ton	=	$ 250,960
				$ 1,051,100

TOTAL $ 30,000

[1] See cost breakdown, PG. 2

[2] See cost breakdown, PG. 3

SCHEDULE A (Attachment 1)

REGIONAL YARD DEBRIS COMPOSTING FACILITY

MANAGEMENT FEE ASSUMPTIONS

	TOTAL	HRS/WK	# WEEKS	RATE
ADMINISTRATION				
Annette Anselmi	$1,750	1	50	35
Lee Zeni	$868	0.5	50	34.70
Bill Chicca	$1,535	1	50	30.70
Accounting	$4,000	4	50	20.00
PROJECT MANAGEMENT				
Larry Walsh	$2,460	2	50	24.60
Rich Diemer	$6,702	6	50	22.34
FIELD				
Scale Operator	$21,720	40	50	10.86
Sub – Total	$39,035			
FRINGE	$18,737			
OVHD	$25,708			
Sub – Total	$83,479			

DIRECT COSTS

		# Miles	# Events	# Trips	Rate
Mileage	$1,260	90	1/wk	50	0.28
Other direct costs					
EDP supplies	$1,000				
Office supplies	$500				
Sub – Total	$2,760				

TOTAL COST $86,239

COST/TON $2.87

SERVICE DETAILS

- Scale operation
- Management of scale operation
- Management of vendor
  - Periodic meetings
  - Operations oversight
    - Procedures, Noise
    - Odors, Dust
    - Traffic, Trash
    - Site maintenence
    - Rejected load/residue verification
  - Adherence to the Service Agreement
  - Verification of invoices
- Management of permit compliance
  - NPDES
  - Wood Waste Processing Permit
- Liason to the Counties
  - Intermediary between Counties and vendor
  - Verification of invoices
  - Adherence to the Service Agreements
  - Periodic meetings
  - Conduct site tours
- Report preparation
  - Counties (monthly)
  - MDE (annual)

SCHEDULE A (Attachment 2)

REGIONAL YARD DEBRIS COMPOSTING FACILITY

Debt Service based on 20 yr. bonds at 6% interest rate

Principal (loan amount) as follows:

a. Land	$3.66M
b. Site Development	$1.8
c. Transaction Cost	$.22
d. Debt Service Reserve	$.58
e. Total	$5.94 M
f. Less $500,000 state grant	
g. Total --	$5.4M ($500,000 Grant reduces SD Costs)

paragraph of Yard Debris at hours other than the Receiving Hours shall be payable by the Baltimore Regional Counties as provided in the Intergovernmental Agreement.

Additional Hours of Operation (Section 2.5)

The Service, at its discretion, may keep the Composting Facility open until 6:00 p.m., Monday through Saturday, or such other hours as shall be permitted by the Baltimore Regional Counties, and upon the reasonable request of the Baltimore Regional Counties, shall receive Yard Debris at hours other than the Receiving Hours to the extent permitted by Applicable Law. The Service shall receive Yard Debris at hours other than the Receiving Hours to the extent permitted by Applicable Law if a Baltimore Regional County shall have given the Service three (3) days' prior written notice of the delivery thereof. Additional charges for operations outside of the Receiving Hours pursuant to this paragraph shall be payable as provided by the Intergovernmental Agreement.

Repairs and Maintenance (Section 2.6)

Except as otherwise provided in the Intergovernmental Agreement, the Service shall maintain the Composting Facility in good condition, including necessary repairs and replacement, consistent with normal and accepted Yard Debris handling practices and shall maintain the safety of the Composting Facility at a level consistent with Applicable Law. The Service shall maintain all of the facilities, buildings, grounds, equipment, and systems used to provide Yard Debris composting services under the Intergovernmental Agreement, in good repair and in a neat and orderly condition to protect them against deterioration and to maintain the aesthetic quality of the Composting Facility site.

The Service shall require and enforce similar standards with regard to repair, replacement, safety, maintenance, and appearance, in its arrangements with any operators under subcontract.

Access and Security (Section 2.7)

The Baltimore Regional Counties shall have the right to visit or inspect the Composting Facility at any reasonable time upon giving the Service reasonable notice. Any such visits shall be conducted in a manner so as to cause minimum interference with Yard Debris composting operations. In connection with such visits and inspections, the Baltimore Regional Counties and any agent or representative of the County shall comply with all reasonable rules and regulations adopted by the Service and as set forth in the Intergovernmental Agreement.

Regulatory Requirements (Section 2.8)

The Service shall operate (or cause to be operated) the Composting Facility in a manner which will not violate any Applicable Law. The Service shall not be deemed to have breached its obligations under the preceding sentence in respect of any period during which it may in good faith be contesting the validity or application of any such law or regulation or be diligently attempting to comply therewith, in each case to the extent that Applicable Law permits continued operation pending resolution of said dispute.

Except as otherwise provided in the Intergovernmental Agreement, the Service shall use its best efforts to obtain and maintain all governmental permits required for the Composting Facility, and shall submit all reports required by the permits. In the event the Intergovernmental Agreement is terminated as provided for in the Intergovernmental Agreement, the Service, to the extent permitted by law, shall transfer any permits obtained in its name to the Baltimore Regional Counties or their designee. Unless the Intergovernmental Agreement shall be terminated pursuant Article IV of the Intergovernmental Agreement, the Service shall neither apply for nor acquire any permits for the Composting Facility that name the Baltimore Regional Counties as permitee.

Weighing Records (Section 2.9)

The Service shall operate and maintain motor truck scales, calibrated to the accuracy required by Maryland law, to weigh all vehicles delivering Yard Debris to the Service for composting, or for removing Project Waste or composted or other Yard Debris. The Service shall weigh each loaded vehicle and complete a weight record with regard thereto. The weight record shall contain gross weight, tare weight, date and time, description of material in the road vehicle, vehicle identification, and identification of the origin of material.

The Service shall maintain daily records of the total tonnage of Yard Debris delivered to the Service, the tonnage of Yard Debris accepted by the Service, and the tonnages of Project Waste, Permissible Diverted Yard Debris, Permissible Bypassed Yard Debris, and, after the Operations Commencement Date, Composted Yard Debris that is removed from the Composting Facility. The Service shall furnish to the County each month such information as may be reasonably required by the County within ten days after the end of such month. Copies of all weigh tickets will be maintained by the Service for a period of at least five years, filed separately for each Baltimore Regional County.

Ownership of Waste (Section 2.10)

Nothing in the Intergovernmental Agreement shall impose upon the Baltimore Regional Counties or the Service title to any Yard Debris or any other material delivered to the Composting Facility. The Baltimore Regional Counties and the Service acknowledge that ownership of the Yard Debris shall transfer to the Company upon delivery of the Yard Debris to the Composting Facility, except for Permissible Diverted Yard Debris.

Unacceptable Waste (Section 2.11)

In the event that the Baltimore Regional Counties or any of their Designated Haulers deliver any load which is determined by the Service to contain more than five percent (5%) (by weight) of Unacceptable Material, the Service shall promptly notify the proper Baltimore Regional County, and either (a) remove and dispose of such material at the cost and expense of the proper Baltimore Regional County, or (b) permit the proper Baltimore Regional County to remove and dispose of such material by the closing time of the Composting Facility on the next Business Day after the material's delivery to the Composting Facility. Any invoice submitted in respect of costs and expenses to be borne by a Baltimore Regional County under this paragraph Agreement shall be payable by that Baltimore Regional County within 30 days of the date thereof.

The Service shall maintain cost records with respect to (i) the removal and disposal of Unacceptable Material that the Service elects to remove and dispose of under the above paragraph, and (ii) the cost of correcting damage and cleaning up spillage for which a Baltimore Regional County is responsible under its Intergovernmental Agreement, and (iii) any Surcharge or Reloading Fee paid to the Company as provided in the Service Agreement, all in accordance with generally accepted accounting principles. Such cost records shall be made available for inspection by the Baltimore Regional Counties at such times during normal business hours as the Baltimore Regional Counties may reasonably request.

Manner of Deliveries (Section 2.12)

Each Baltimore Regional County shall provide the Service with the following information about each Baltimore Regional County vehicle and Designated Hauler delivering Yard Debris to the Service for the account of a Baltimore Regional County including, among other things: name and address; make, body type and motor vehicle registration number of each vehicle used; area of collection; and status as Baltimore Regional County vehicle operator or contract hauler.

Each Baltimore Regional County shall use its best efforts to deliver only loads of Yard Debris that contain less than five percent (5%) (by weight) of Unacceptable Material, and not to bring any vehicle into the Composting Facility or an Alternative Facility which is carrying refuse which may leak, spill, allow Yard Debris to be blown or scattered before

unloading, all in accordance with the Service's regulations. Each Baltimore Regional County shall be responsible for the cost of correcting any damage or cleaning up any spillage caused by its employees or the employees of its Designated Haulers, if the Service is unsuccessful, after reasonable effort, in obtaining reimbursement for such costs from the Designated Hauler, and shall reimburse the Service on demand for all such costs.

Refusal of Deliveries (Section 2.13)

(a) Extent of Refusal Rights

Notwithstanding any other provision of the Intergovernmental Agreement to the contrary, the Service may refuse delivery of:

(i) any Yard Debris in excess of the daily maximum amounts that the Service is required to accept under the Intergovernmental Agreement;

(ii) any Yard Waste delivered at hours other than Receiving Hours or such other hours as otherwise may be established under the Intergovernmental Agreement;

(iii) any Yard Debris which the Service is not obligated to accept under the Intergovernmental Agreement; and

(iv) any Unacceptable Material.

(b) Inspection of Delivered Waste

The Service shall have the right but not the obligation to inspect all vehicles delivering Yard Debris to the Composting Facility under the Intergovernmental Agreement, and shall have the right to require that a Baltimore Regional County, a Designated Hauler or a Hauler remove from any such vehicle before it is unloaded, (i) any Hazardous Waste and (ii) any amount of Unacceptable Material that exceeds _____%, by weight, of the vehicle load. If the Service determines that it is impractical to separate Yard Debris from Unacceptable Material in any such vehicle, or the Baltimore Regional County, Designated Hauler, or Hauler, as the case may be, delivering such material is unwilling to make such separation, then the Service may reject the entire vehicle.

Other Contracts for Yard Debris Delivery (Section 2.15)

The Baltimore Regional Counties acknowledge and agree that the Service may accept Yard Debris from Haulers other than the Baltimore Regional Counties; provided, however, that (i) tipping fees are charged and collected from other Haulers in accordance with the Intergovernmental Agreement and (ii) acceptance of such Yard Debris does not impair the ability of the Service to perform its obligations under the Intergovernmental Agreement. Anything in the Intergovernmental Agreement to the contrary notwithstanding, the Service shall not accept any Yard Debris generated or collected outside of the Baltimore Regional Counties or delivered by a Hauler (i) without the prior written consent of the Baltimore Regional Counties or (ii) unless one or more of the Baltimore Regional Counties is in default under the Intergovernmental Agreement.

Processing Fee (Section 3.2)

The Baltimore Regional Counties shall pay to the Service as provided in the Intergovernmental Agreement a Processing Fee for each ton of Yard Debris that they deliver to the Service and is accepted under the Intergovernmental Agreement. The Processing Fee may be adjusted from time to time as determined in good faith by the Service, upon advice and recommendation of the Baltimore Regional Counties, provided, however, that any such advice or recommendation shall not be binding upon the Service or a condition to the fixing or adjustment of the Processing Fee by the Service. The Processing Fee fixed by the Service shall be the same for all of the Baltimore Regional Counties; however, the Processing Fee may otherwise vary as permitted by the Intergovernmental Agreement. In each Fiscal Year, the Service shall fix, charge, and collect the Processing Fee which together with other Composting Facility Revenue plus the Supplemental Fee for each such Fiscal Year shall be at least equal to Total Costs for each such partial or full Fiscal Year.

The Baltimore Regional Counties acknowledge that they are obligated at all times during the term of the Intergovernmental Agreement to use reasonable efforts to deliver or cause to be delivered, through their respective Yard Debris collection program, their respective Guaranteed Annual Tonnage of Yard Debris for composting by the Service; provided, however, that the obligations of the Baltimore Regional Counties under the Intergovernmental Agreement shall not interfere with the obligations of the Baltimore Regional Counties under Applicable Law.

Yard Debris delivered by any Hauler other than the Baltimore Regional Counties or their Designated Haulers shall be accepted by the Service at a tipping fee which is no less than the Processing Fee established under the Intergovernmental Agreement.

Processing Fee Payments (Section 3.3)

All amounts payable in respect of the Processing Fee, the Minimum Monthly Fee and the Supplemental Fee with respect to any month shall be invoiced to each of the Baltimore Regional Counties by the Service no earlier than the seventh day of the following month, and shall be paid by each of the Baltimore Regional Counties within 30 days of the date of such invoice.

Amounts charged to any Hauler other than the Baltimore Regional Counties under the Intergovernmental Agreement shall be collected by the Service at the time of delivery or invoiced monthly to such Hauler in accordance with normal Service practices.

Minimum Monthly Payment, Supplemental Fee and Quarterly Estimated Payments (Section 3.4)

Notwithstanding any other provision of the Intergovernmental Agreement, each month after the month in which the Operations Commencement Date occurs each Baltimore Regional County shall pay to the Service the greater of (i) the aggregate Processing Fee due under the Intergovernmental Agreement for the amount of Yard Debris accepted by the Service from such Baltimore Regional County during such month, or (ii) the Minimum Monthly Payment. The Minimum Monthly Payment shall be an amount equal to the product of the Processing Fee then applicable under the Intergovernmental Agreement multiplied by one-twelfth (1/12) of the then applicable Guaranteed Annual Tonnage.

To the extent that the Minimum Monthly Payment for any month under the preceding paragraph exceeds the amounts otherwise due from a Baltimore Regional County for such month under the Intergovernmental Agreement, such Baltimore Regional County shall receive a credit in the amount of such excess, which credit shall be applicable to amounts thereafter payable by such Baltimore Regional County for the following month under the Intergovernmental Agreement.

In addition to the provisions of the Intergovernmental Agreement related to the Minimum Monthly Payment, each Baltimore Regional County shall in each Fiscal Year pay to the Service its Proportionate Share of the Supplemental Fee. The Supplemental Fee shall be an amount equal to the amount, if any, by which Total Costs exceed the sum of (i) Composting Facility Revenues plus (ii) any unpaid portion of the Total Guaranteed Annual Payment. The Service and the Baltimore Regional Counties have determined that the Processing Fee and the Supplemental Fee as established and adjusted as provided in the Intergovernmental Agreement represent reasonable terms for the payment by the Baltimore Regional Counties of the cost of accepting and composting Yard Debris.

Each Baltimore Regional County's Proportionate Share of the Supplemental Fee shall be payable in four estimated quarterly payments. Beginning with the Fiscal year Quarter in which the Operations Commencement Date occurs, the quarterly amount billed to each

Baltimore Regional County for the Supplemental Fee shall be computed by multiplying each Baltimore Regional County's Proportionate Share by an amount equal to (A) the sum of (i) estimated Total Costs for such Fiscal Year Quarter and (ii) the excess of actual Total Costs over estimated Total Costs for the Fiscal Year Quarter immediately preceding the Fiscal Year Quarter in which the invoice is prepared, minus (B) the sum of (i) Composting Facility Revenue received in the Fiscal Year Quarter immediately preceding the Fiscal Year Quarter in which the invoice is prepared and (ii) the unpaid portion of the Total Guaranteed Annual Payment due from the other Baltimore Regional Counties.

Prior to the Operations Commencement Date, each Baltimore Regional County shall pay to the Service, and the Service shall maintain at all times, an amount not less than one quarter of such Baltimore Regional County's Proportionate Share of the estimated Total Costs for a full Fiscal year of operation of the Composting Facility.

Payment for Out-of-Hours Deliveries (Section 3.5)

The Service shall establish and make available to the Baltimore Regional Counties a schedule of charges for deliveries of Yard Debris outside of Receiving Hours, which charges shall be in addition to the Processing Fee and any other fees payable under the Intergovernmental Agreement in respect of such deliveries. Such schedule may be amended from time to time by the Service on at least 30 days' prior notice to the Baltimore Regional Counties. Such charges shall reimburse the Service for actual additional costs incurred in accepting deliveries outside of Receiving Hours. The Service shall furnish the Baltimore Regional Counties on request reasonably detailed justification for such charges.

No Set-Off (Section 3.6)

The obligation of the Baltimore Regional Counties to pay the amounts to be paid by them from time to time under the Intergovernmental Agreement shall not be subject to diminution by reason of any set-off, abatement, counterclaim, existence of a dispute or any other reason, known or unknown, foreseeable or unforeseeable, which might otherwise constitute a legal or equitable defense or discharge of the liabilities of the Baltimore Regional Counties under the Intergovernmental Agreement or limit recourse against the Baltimore Regional Counties.

If any dispute concerning the payments of amounts by a Baltimore Regional County in respect of Debt Service is referred to a court of competent jurisdiction for resolution, then the amount in dispute (as well as any undisputed amount) shall be paid by such Baltimore Regional County when due under the Intergovernmental Agreement and before pursuing dispute resolution with respect to such amount. The disputed amount shall be repaid to such Baltimore Regional County, with interest if ordered by the court, if the dispute is resolved in favor of such

Baltimore Regional County. This paragraph shall not otherwise affect the rights of the Baltimore Regional Counties under other provisions of the Intergovernmental Agreement.

Estimates of Processing Fee and Supplemental Fee; County Budgeting Obligations (Section 3.7)

The Service shall, on or before November 1 of each year, provide the Baltimore Regional Counties with the information as to Holidays referred to and defined in the Intergovernmental Agreement, along with a proposed budget of (a) estimated Total Costs for the next Fiscal Year beginning July 1, (b) estimated Composting Facility Revenues for the next Fiscal Year, (c) estimated total tonnage of Yard Debris to be generated within the Baltimore Regional Counties and delivered to the Service for composting in the next Fiscal Year, (d) the Processing Fee established under the Intergovernmental Agreement, and (e) estimated amount, if any, of each Baltimore Regional County's Proportionate Share of the Supplemental Fee for the next Fiscal Year. Throughout the Fiscal Year the Service shall notify the Baltimore Regional Counties of extraordinary Compost Facility costs or if Service management costs are projected to exceed ten percent (10%) of the Service's estimated budget. At any time during a Fiscal Year, but not later than February 1 of each Fiscal Year, the Service shall analyze the Composting Facility Revenues received during the preceding months of the Fiscal Year. If sufficient Composting Facility Revenues have been received, and are estimated to be received during the remainder of the Fiscal Year, the Service shall reduce the Processing Fee for Yard Debris delivered during the remainder of the Fiscal Year by the Baltimore Regional Counties.

In order to assure the timely payment of amounts required to be paid by the Baltimore Regional Counties under the Intergovernmental Agreement, each Baltimore Regional County shall include in its annual budget for such next Fiscal Year an amount or amounts sufficient to meet all of its obligations under the Intergovernmental Agreement or take such other appropriate action as may be necessary to ensure the availability of funds sufficient to meet all such obligations. Notwithstanding the preceding sentence, no failure or inability of a Baltimore Regional County to include in its budget or take appropriate action to assure the availability of amounts sufficient to enable such Baltimore Regional County to meet all of its obligations under the Intergovernmental Agreement shall excuse, limit, impair or extend the time of performance or payment of any of its obligations thereunder, whether or not any estimates of Total Costs, Composting Facility Revenues, the Processing Fee or such Baltimore Regional County's Proportionate Share of the Supplemental Fee or other amounts payable thereunder prove to be inaccurate.

Service's Yard Debris Disposal Service Fund, Reserves, Accounts, and Reports (Section 3.8)

The Service shall establish and maintain within its own books and records the Special Purpose Fund as a discrete fund for the purpose of recording all of the financial transactions relating to the provision of Yard Debris composting services to the Baltimore Regional Counties under the Intergovernmental Agreement. All receipts of moneys owing to or derived from the development and operations of facilities (including, but not limited to, borrowed proceeds, grants or gifts, Composting Facility Revenues and the Supplemental Fee) shall be credited to the Special Purpose Fund; and all costs of development and operations shall be disbursed from the Special Purpose Fund.

Moneys credited to the account of the Special Purpose Fund may, for the purpose of investing such moneys, be commingled with moneys of other funds and accounts belonging to the Service, provided that any earnings or losses from such commingled assets are credited monthly and on a pro-rata basis to the Special Purpose Fund.

The Service may also establish and maintain such other discrete accounts and reserves as it may in good faith deem necessary (1) to provide security for Indebtedness issued for the purposes of the Intergovernmental Agreement; (2) to ensure a regular annual income to pay for maintenance and monitoring of the Composting Facility and any Alternative Facility after close-down of operations of the respective facilities; (3) to pay the required costs of any settlements, litigation or awards, or suits for damages attributed to the Composting Facility or any Alternative Facility, or (4) for any other necessary purpose.

The Service shall provide regular quarterly reports to the County as to the financial conditions and changes in all funds, accounts and reserves relating to provision of Yard Debris composting services under the Intergovernmental Agreement.

Year-End Adjustment (Section 3.9)

In the event that Total Costs exceed Composting Facility Revenues during a Fiscal Year, each Baltimore Regional County shall pay to the Service such Baltimore Regional County's Proportionate Share of the Supplemental Fee as provided in the Intergovernmental Agreement. In the event that Composting Facility Revenues exceed Total Costs during a Fiscal Year, the Service shall within 30 days of receipt of the financial statements provided in accordance with the Intergovernmental Agreement either (a) pay each Baltimore Regional County its Proportionate Share of the amount of such excess up to the amount, if any, of the Supplemental Fee which such Baltimore Regional County had paid the Service during such Fiscal Year, but only to the extent that at such time there are funds available in the Special Purpose Fund which are not obligated or restricted for other purposes and the Service at such time has made all payments on any Indebtedness or with respect to Total Costs then due and payable, or (b) at the express direction of a Baltimore Regional County, retain in the Special Purpose Fund some or all of the excess revenues for the purpose of offsetting Total Costs incurred in subsequent Fiscal Years. Any excess of Composting Facility Revenues over Total

Costs in a Fiscal Year shall not be credited against the Supplemental Fee paid or to be paid in any other Fiscal Year unless agreed in writing by the Service and a Baltimore Regional County.

Insurance (Section 7.2)

The Service shall obtain and keep in force, during the term of the Intergovernmental Agreement, insurance as it deems prudent, to the extent it is available and can be obtained for an amount which is reasonable and which shall not be less than the maximum self-insurance provided by the Treasurer of Maryland pursuant to the State Finance and Procurement Article, Sections 9-105(a) and (c), Annotated Code of Maryland. The Service may provide any such insurance through a self-insurance program of the Service or of the State of Maryland. The Service shall also require the Company to provide and maintain the insurance coverages specified in the Service Agreement.

The Baltimore Regional Counties recognize that the Service, as an instrumentality of the State of Maryland, possesses sovereign immunity to the extent it has not been waived by statute. Nothing in the Intergovernmental Agreement shall be deemed a waiver of any immunity possessed by the Service which has not been waived by statute.

Remedies for Default (Section 4.1)

In the event of the breach by any party of an obligation under the Intergovernmental Agreement, the right to recover damages or to be reimbursed will ordinarily constitute an adequate remedy. Therefore, no party shall have the right to terminate the Intergovernmental Agreement for cause for any breach unless an Event of Default, as defined in the Intergovernmental Agreement, on the part of the other party shall have occurred and be continuing.

Events of Default by the Service (Section 4.2)

The persistent or repeated failure or refusal by the Service substantially to fulfill any of its material obligations in accordance with the Intergovernmental Agreement shall constitute an Event of Default on the part of the Service, provided, however, that no such failure or refusal shall constitute an Event of Default unless and until:

(a) the Baltimore Regional Counties shall have given prior written notice to the Service stating that in their opinion a particular default or defaults (to be described in reasonable detail in such notice) exist which will, unless corrected, constitute a material breach of the Intergovernmental Agreements on the part of the Service and which will, in their opinion, give the Baltimore Regional Counties a right to terminate their respective Intergovernmental

Agreements for cause under this paragraph unless such default is corrected within a reasonable period of time, and

(b) the Service shall have neither corrected such default nor initiated reasonable steps to correct the same within a reasonable period of time (which shall in any event be not less than 120 days from the date of the notice given pursuant to clause (a) of this paragraph), provided that if the Service shall have commenced to take reasonable steps to correct such default within such reasonable period of time, the same shall not constitute an Event of Default for as long as the Service is continuing to take reasonable steps to correct such default.

A material breach shall be deemed to have been corrected for purposes of the Intergovernmental Agreement, if it has been alleviated to the degree that its existence no longer makes damages an inadequate remedy. A breach of the Service Agreement by the Company shall not constitute an event of default under the Intergovernmental Agreement unless the breach is caused by the failure or refusal of the Service to fulfill its material obligations under the Intergovernmental Agreement or the Service Agreement.

Events of Default by a Baltimore Regional County (Section 4.3)

Each of the following shall constitute an Event of Default on the part of a Baltimore Regional County:

(a) The failure on the part of a Baltimore Regional County to pay any amount required to be paid to the Service under the Intergovernmental Agreement when such amount becomes due and payable if the Service has made written demand therefor accompanied by notice that unless such amount is paid within 15 days after such demand the default will constitute an Event of Default, and such amount is not so paid.

(b) The persistent or repeated failure or refusal by a Baltimore Regional County substantially to fulfill any of its material obligations in accordance with the Intergovernmental Agreement other than those described in paragraph (a) above, provided that no such failure or refusal shall constitute an Event of Default unless and until (i) the Service shall have given prior written notice to such Baltimore Regional County stating that in its opinion a particular default or defaults (to be described in reasonable detail in such notice) exist which will, unless corrected, constitute a material breach of the Intergovernmental Agreement on the part of such Baltimore Regional County and which will, in its opinion, give the Service a right to terminate the Intergovernmental Agreement for cause under this paragraph unless such default is corrected within a reasonable period of time, and (ii) such Baltimore Regional County shall have neither corrected such default nor initiated reasonable steps to correct the same within a reasonable period of time (which shall in any event be not less than thirty (30) days from the date of the notice given pursuant to clause (i) of this paragraph), provided that if such Baltimore Regional County shall have commenced to take appropriate steps to correct such default within such

reasonable period of time, the same shall not constitute an Event of Default for as long as such Baltimore Regional County is continuing to take reasonable steps to correct such default.

A material breach shall be deemed to have been corrected under a Intergovernmental Agreement, if it has been alleviated to the degree that its existence no longer makes damages an inadequate remedy.

Termination on Default (Section 4.4)

If any party shall have a right of termination for cause in accordance with the Intergovernmental Agreement, the same may be exercised only by written notice of termination given to the party in default. The proper exercise of such right of termination shall be in addition to and not in substitution for such other remedies, whether damages or otherwise, as the party exercising the right of termination may have.

If the Service exercises its right of termination under the Intergovernmental Agreement with respect to any Baltimore Regional County, it shall send copies of the notice of such termination to the other Baltimore Regional Counties at the same time it sends notice of termination to such Baltimore Regional County. The other Baltimore Regional Counties may, at their option, and by providing notice to the Service within 15 days' receipt of the notice of termination, request that all or a portion of the terminated Baltimore Regional County's Guaranteed Annual Tonnage be transferred to them. Unless the other Baltimore Regional Counties agree otherwise, neither may assume more than half of the terminated Baltimore Regional County's Guaranteed Annual Tonnage. If the other Baltimore regional Counties notify the Service that they intend to assume, in the aggregate, less than all of the terminated Baltimore Regional County's Guaranteed Annual Tonnage, then the Service may, in accordance with the Intergovernmental Agreement, accept Yard Debris in an amount less than or equal to the amount of the terminated Baltimore Regional County's Guaranteed Annual Tonnage not assumed by the other Baltimore Regional Counties.

If a Baltimore Regional County exercises its right of termination under the Intergovernmental Agreement, the Service shall be liable to such Baltimore Regional County for the reasonable increased costs of management services incurred by such Baltimore Regional County for the remainder of the Fiscal Year in which such termination occurs.

Option to Terminate at any Time (Section 4.6)

Each Baltimore Regional County shall have, and is hereby granted, the option to terminate the Intergovernmental Agreement at any time (a) by obtaining the agreement of the other Baltimore Regional Counties as to the termination of the Intergovernmental Agreement and upon termination by the other Baltimore Regional Counties of the Intergovernmental

Agreements to which they are parties, (b) by paying to the Service certain amounts set forth in the Intergovernmental Agreement, (c) by giving the Service not less than thirty days' advance written notice of such termination, and (d) by executing an agreement between the Service and the Baltimore Regional Counties pursuant to which the Baltimore Regional Counties shall take title to and liability for the Composting Facility.

Each Baltimore Regional County shall have, and is hereby granted, the option to terminate its Intergovernmental Agreement at any time (a) by obtaining agreement of the other Baltimore Regional Counties as to the termination of its Intergovernmental Agreement, (b) by executing an agreement with the other Baltimore Regional Counties and the Service that the other Baltimore Regional Counties will collectively assume such Baltimore Regional County's Proportionate Share of such Baltimore Regional County's obligations under the Intergovernmental Agreement, and (c) by giving the Service and the other Baltimore Regional Counties not less than thirty days' advance written notice of such termination.

Amounts Due Upon Termination of Agreement (Section 4.7)

In the event any Baltimore Regional County exercises its options to terminate the Intergovernmental Agreement, such Baltimore Regional County shall pay to the Service or (as appropriate) to the trustee or trustees for any outstanding Indebtedness such Baltimore Regional County's Total Proportionate Share of:

(a) The greater of (i) the fair market value of the Service's Composting Facility as determined utilizing one or more generally accepted appraisal approaches approved by the American Institute of Real Estate Appraisers or (ii) the amounts of money necessary to defease or retire and redeem any outstanding Indebtedness issued for the purposes of the Composting Facility, including without limitation all principal amounts, premiums if any, interest to the date of final redemption, legal and trustee expenses, and any such other amounts as may be required by the trustee of such Indebtedness or by any remarketing agent, bank, credit facility provider, or tender agent, pursuant to the resolution or indenture establishing the Service's obligations as to that Indebtedness, or pursuant to any other financing document with respect thereto;

(b) An amount sufficient, when combined with any moneys held by the Service in the Special Purpose Fund other than restricted or obligated moneys, to satisfy all current obligations normally paid from the Special Purpose Fund, including without limitation any amounts owed for salaries, services, materials, supplies, utilities, insurance, installment purchase agreements, or working capital loans;

(c) An amount sufficient to compensate the Service for any of the reasonable costs of terminating the Intergovernmental Agreement and closing down its direct operations and support activities under the Intergovernmental Agreement; and

(d) An amount specified by the Service sufficient to provide for any other obligations relating to the Intergovernmental Agreement, the Indebtedness or the Composting Facility or otherwise incurred by the Service for the purpose of providing Yard Debris composting services under the Intergovernmental Agreement.

Transfer of Property Upon Termination (Section 4.8)

The parties agree that upon the exercise of the option to terminate under the Intergovernmental Agreement and satisfaction of the requirements thereunder, Service shall immediately convey to the Baltimore Regional Counties, as tenants in common, and the Baltimore Regional Counties shall accept, all right, title and interest in the Composting Facility, all appurtenant real and personal property, and in the remaining assets of the Special Purpose Fund and any other reserves and accounts held by the Service under the Intergovernmental Agreement. The initial ownership interest of each of the Baltimore Regional Counties in the Composting Facility and all the other property conveyed under the Intergovernmental Agreement shall equal each Baltimore Regional County's Total Proportionate Share.

Concluding Payment (Section 4.9)

Unless otherwise agreed by the Service and the Baltimore Regional Counties, upon termination of the Intergovernmental Agreement pursuant to its terms as defined in the following paragraph, Howard County shall either (a) pay to the Service an amount equal to the Concluding Payment for each of the other Baltimore Regional Counties, or (b) direct the Service to sell the Composting Facility for a price not less than the fair market value of the Composting Facility.

If Howard County pays the Concluding Payment amounts described in (a) of the preceding paragraph, then within thirty (30) days' receipt of the Concluding Payment the Service shall remit to each of the other Baltimore Regional Counties an amount equal to the Concluding Payment due each of the other respective Baltimore Regional Counties. Upon receipt of the Concluding Payment the Service shall immediately convey to Howard County, and Howard County shall accept, all right, title and interest in the Composting Facility, and all appurtenant real and personal property.

If the Composting Facility is sold in accordance with (b) as set forth above, then the Service shall, within thirty (30) days' receipt by the Service of the balance of the purchase price paid for the Composting Facility, pay to each of the Baltimore Regional Counties an amount equal to the Concluding Payment due each of them.

Term (Section 5.1)

The Intergovernmental Agreement shall first be effective on the date of execution and, unless sooner terminated in accordance with the terms thereof, shall continue in effect until the later of (i) the twentieth anniversary of the Operations Commencement Date, or (ii) the date on which the Indebtedness has been paid in full.

Uncontrollable Circumstance (Section 7.1)

Each party to an Intergovernmental Agreement shall be excused for its failure to perform in accordance with such Intergovernmental Agreement any obligation required to be performed by it thereunder, to the extent that such failure results from an Uncontrollable Circumstance, provided, that in no event shall any Uncontrollable Circumstance excuse (i) any Baltimore Regional County from making any payment thereunder in accordance with the terms of the Intergovernmental Agreement or (ii) the Service from accepting Yard Debris as provided thereunder. Each party shall seek diligently and in good faith to overcome or remove such Uncontrollable Circumstance, provided, however, that among other things the settlement of strikes, lockouts, and other industrial disturbances or of any legal actions or administrative proceedings shall be entirely in the discretion of the party suffering the same, and it shall be not required to make settlement of strikes, lockouts, and other industrial disturbances or of legal actions or administrative proceedings when such settlement would be unfavorable, in the judgment of the party suffering the strike, labor dispute or other industrial disturbance or legal action or administrative proceedings. A party claiming the benefit of this paragraph shall give prompt notice thereof to the other party.

As used in this Section, "Uncontrollable Circumstance" means any event or condition, whether affecting the Composting Facility, any Alternative Facility, a Baltimore Regional County, the Service or any other Person, having, or which may reasonably be expected to have, a material adverse effect on the Composting Facility or any Alternative Facility or the acquisition, design, construction, equipping, start-up, operation, ownership or possession of the Composting Facility or any Alternative Facility, including, without limitation, breach of the Service Agreement by the Company, if such event or condition is beyond the reasonable control and not the result of willful or negligent action or lack of reasonable diligence, of the party relying thereon as justification for not performing any obligation or complying with any condition required of such party hereunder.

Assignment (Section 7.3)

The Intergovernmental Agreement may not be assigned by either party without the prior written consent of the other party hereto, except that the Service may, without the consent of the Baltimore Regional Counties, assign its interest and obligations thereunder to a trustee or trustees as collateral for or otherwise in connection with arrangements for the financing or

refinancing of all or part of the Composting Facility or any modifications thereof or additions thereto. In the event of an assignment by the Service under this paragraph, the Baltimore Regional Counties shall be notified in writing and shall make payments due thereunder to such Person as may be designated by such assignee in such notice or otherwise.

Binding Effect (Section 7.7)

The Intergovernmental Agreement shall bind and inure to the benefit of the parties thereto and any successor or assignee acquiring an interest thereunder.

Applicable Law (Section 7.9)

The law of the State of Maryland shall govern the validity, interpretation, construction and performance of the Intergovernmental Agreement.

Amendment or Waiver, Etc. (Section 7.12)

Neither the Intergovernmental Agreement nor any provision thereof may be changed, modified, amended or waived except by a written instrument signed by the party against whom enforcement of such change, modification, amendment or waiver is sought.

Waiver of Sovereign Immunity (Section 7.13)

The Baltimore Regional Counties, to the maximum extent permitted by Maryland Code Annotated Article 25A, § 1A, hereby waives sovereign immunity (or similar rights and defenses) that the Baltimore Regional Counties may have under Applicable Law with respect to, and agree not to raise sovereign immunity (or any similar defense) as a defense to, any claim, suit or proceeding (of whatever nature), based on or arising out of the Intergovernmental Agreement, or the transactions contemplated hereby, or any breach hereof, against the Baltimore Regional Counties, asserted or brought by or on behalf of the Service, or any member, officer, director, employee or agent of any thereof.

Limitation of Liability (Section 7.15)

The obligations of the Service under the Intergovernmental Agreement are limited obligations payable solely from such amounts as may be received by the Service in connection with its operation of the Composting Facility and the provision of Yard Debris composting services to the Baltimore Regional Counties under the Intergovernmental Agreement. The

obligations of the Service thereunder shall not be payable from the general funds of the Service and the incurrence or non-performance of such obligations shall not constitute or create a legal or equitable pledge of, or lien or encumbrance upon, or claim against, any of the assets or property of the Service or upon any of its income, receipts or revenues, except the amounts described in the immediately preceding sentence.

The execution and delivery of the Intergovernmental Agreement by the Baltimore Regional Counties and the Service shall not impose any personal liability on the members, officers, officials, employees or agents of the Baltimore Regional Counties or the Service. No recourse shall be had for any claims based on the Intergovernmental Agreement against any member, officer, official, employee or other agent of the Baltimore Regional Counties and the Service in his individual capacity, all such liability, if any, being expressly waived by the Baltimore Regional Counties and the Service by the execution of the Intergovernmental Agreement.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[PROPOSED FORM OF OPINION OF BOND COUNSEL]

[CLOSING DATE]

Maryland Environmental Service
2011 Commerce Park Drive
Annapolis, Maryland 21401

Ladies and Gentlemen:

In connection with the issuance of $_____ Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project), Series 1995, dated as of July 1, 1995 (the "Bonds"), as special obligations of the Maryland Environmental Service (the "Service"), we have examined:

(i) Sections 3-101 through 3-130, inclusive, of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume and 1994 Cumulative Supplement) (the "Act");

(ii) the Indenture of Trust dated as of _____, 1995, between the Service and _____, as Trustee (the "Trustee"), (the "Indenture");

(iii) an executed and authenticated Bond;

(iv) relevant provisions of the Constitution and laws of the State of Maryland;

(v) relevant provisions of the Internal Revenue Code of 1986, as amended (the "Code");

(vi) Municipal Bond Insurance Policy No. _____ (the "Bond Insurance Policy") issued by AMBAC Indemnity Corporation (the "Bond Insurer"); and

(vii) other proofs submitted to us relative to the issuance and sale of the Bonds.

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

In rendering our opinion, we have assumed (i) the corporate power and authority of the Trustee to authorize, execute and deliver the Indenture and to perform its obligations thereunder and (ii) the due authorization, execution and delivery by the Trustee of the Indenture.

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

Based upon the foregoing, it is our opinion that:

(a) The Service is a validly created and existing body politic and corporate and public instrumentality of the State of Maryland.

(b) The Indenture has been duly authorized, executed and delivered by the Service and constitutes the valid and binding obligation of the Service.

(c) The Service is duly authorized and entitled to issue the Bonds. Bonds executed and authenticated as provided in the Indenture have been duly and validly issued and constitute valid and binding special obligations of the Service, payable solely from Revenues (as defined in the Indenture) and other amounts pledged to such payment under the Indenture.

(d) The Indenture and the Bonds are subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights and to general principles of equity.

(e) By the terms of the Act, the Bonds do not constitute a debt or a pledge of the faith and credit of the State of Maryland or of any political subdivision thereof. Neither the State of Maryland nor any political subdivision thereof, nor the Service shall be obligated to pay the Bonds or the interest thereon, except from the Revenues and other amounts pledged to the payment of the Bonds under the Indenture. Neither the faith and credit nor the taxing power of the State of Maryland or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds.

(f) By the terms of the Act, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit realized in the sale or exchange thereof, at all times shall be exempt from taxation of every kind and nature whatsoever by the State of Maryland or by any of its political subdivisions, municipal corporations, or public units of any kind; no opinion is expressed as to estate or inheritance taxes or the Maryland tax on financial institutions measured by income or any other taxes not levied or assessed directly on the Bonds, their transfer or the income therefrom.

(g) Interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions. 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, including restrictions that must be complied with throughout the term of the Bonds. These include (without limitation) a requirement that certain investment earnings received from the investment of the proceeds of the Bonds be rebated to the United States of America under some circumstances (or that certain payments in lieu of rebate be made) and other requirements applicable to the investment of the proceeds of the Bonds. 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 Service has covenanted to regulate the investment of the proceeds of the Bonds and to make such rebate payments (or payments in lieu of rebate) as may be required to maintain the excludability from gross income for federal income tax purposes of interest on the Bonds.

(h) Interest on the Bonds is not included in 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 from the Bonds will be includable in the applicable taxable base for the purposes of determining the environmental tax imposed by the Code on corporations for taxable years beginning before 1996, and 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.

Very truly yours,

APPENDIX F

OFFICIAL NOTICE OF SALE

AND

FORM OF PROPOSAL FOR BONDS

MARYLAND ENVIRONMENTAL SERVICE

NOTICE OF SALE OF

$_____*

MARYLAND ENVIRONMENTAL SERVICE

REVENUE BONDS

(REGIONAL YARD DEBRIS COMPOSTING PROJECT)

SERIES 1995

Dated July 1, 1995

Sealed proposals will be received until 11:00 A.M., local Baltimore, Maryland time on June 29, 1995 by the Treasurer of the Maryland Environmental Service (the "Service"), at the offices of Piper & Marbury L.L.P., Conference Room 2B, Second Floor, 36 South Charles Street, Baltimore, Maryland 21201, for the purchase of the above-described bonds of the Maryland Environmental Service (the "Bonds") aggregating $_____,* to be issued pursuant to an Indenture of Trust dated as of June 1, 1995 (the "Indenture") between the Service and _____, _____, Maryland, as Trustee (the "Trustee"), all dated June 1, 1995, and maturing, subject to prior redemption, as herein stated, on the first day of September as follows:

Years of Maturity	Annual Amounts Maturing*	Years of Maturity	Annual Amounts Maturing*
1996		2006	
1997		2007	
1998		2008	
1999		2009	
2000		2000	
2001		2011	
2002		2012	
2003		2013	
2004		2014	
2005		2015	

* Estimated, subject to change.

The Service will not consider and will reject any proposal for the purchase of less than all of the Bonds for which a proposal is made. No bid for less than ninety-nine percent (99%) of the aggregate principal amount of the Bonds or for more than one hundred two percent (102%) of the aggregate principal amount of the Bonds will be considered. As promptly as reasonably possible after the bids are opened, the Service will notify the bidder to whom the Bonds will be awarded, if and when such award is made, and such bidder, upon such notice, shall advise the Service of the initial reoffering prices to the public of each maturity of the Bonds (the "Initial Reoffering Prices"). The successful bidder shall make a bona fide public offering of the Bonds at the Initial Reoffering Prices and shall provide the related certification described herein.

The Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Bonds will be made so long as Cede & Co. is the registered owner of the Bonds. Individual purchases of the Bonds will be made only in book-entry form, in denominations of $5,000 and integral multiples thereof. Individual purchasers ("Beneficial Owners") of the Bonds will not receive physical delivery of bond certificates. One bond certificate for each maturity will be issued to Cede & Co., the nominee of DTC, and immobilized in its custody.

Interest on the Bonds from July 1, 1995, is payable on March 1, 1996 and semiannually thereafter on September 1 and March 1. So long as DTC or its nominee is the registered owner of the Bonds, disbursements of such payments to DTC is the responsibility of the Trustee. Disbursements of such payments to participants of DTC ("DTC Participants") is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants or indirect participants of DTC.

The Bonds which mature on or after September 1, 2006, are subject to redemption at the option of the Service beginning September 1, 2005, as a whole at any time or in part on any interest payment date, in any order of maturities, at the following prices, expressed as a percentage of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date set for redemption:

Period During Which Redeemed (both dates inclusive)	Redemption Price
September 1, 2005 through August 31, 2006	102%
September 1, 2006 through August 31, 2007	101%
September 1, 2007 and thereafter	100%

The Bonds shall also be subject to redemption prior to maturity as described under "THE SERIES 1995 BONDS -- Redemption Provisions -- Optional Redemption -- Series 1995 Bonds" in the Preliminary Official Statement with respect to the Bonds dated June 13, 1995.

If fewer than all of the Bonds shall be redeemed, the particular maturities of the Bonds shall be selected by the Service. So long as the Bonds are maintained under a book-entry system, the selection of individual ownership interests in the Bonds to be credited with any partial redemption shall be made as described in the Preliminary Official Statement under "Book-Entry Only System." If fewer than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds to be redeemed shall be selected by lot or in such manner as the Trustee in its discretion may deem proper.

NOTE: The Service may change the Date of Sale of the Bonds or may otherwise revise this Notice of Sale by publishing notice of any revisions on Munifacts News Service ("Munifacts") no less than twenty-one (21) hours before the time for submission of bids. Any bid submitted shall be in accordance with, and incorporate by reference, this Notice of Sale including any revisions made pursuant to this paragraph.

The preliminary aggregate principal amount of the Bonds and the preliminary principal amount of each maturity of the Bonds as set forth in this Notice of Sale (collectively, the "Preliminary Amounts") may be revised before the receipt and opening of sealed bids for their purchase. The revised aggregate principal amount of the Bonds and the revised principal amount of each maturity (collectively, the "Revised Amounts") will be published on Munifacts not later than 2:00 p.m., local Baltimore, Maryland time on the day before the date of sale. In the event that no revisions are made or that such revisions are not published on Munifacts before 2:00 p.m., local Baltimore, Maryland time on the day before the date of sale, the Preliminary Amounts will constitute the Revised Amounts. BIDDERS SHALL SUBMIT BIDS BASED ON THE REVISED AMOUNTS, AND THE REVISED AMOUNTS WILL BE USED TO COMPARE BIDS AND SELECT A WINNING BIDDER.

Each bidder shall submit one bid on an "all-or-none" basis. Bidders shall state in their proposals the rate or rates of interest to be paid on the Bonds in multiples of one-eighth (1/8) or one-twentieth (1/20) of one percent (1%), and each proposal shall be based and submitted on the rate or rates stated therein. Bidders may specify more than one rate of interest to be borne by the Bonds, but the difference between the highest and lowest rates named may not be greater than two percent (2%). Bidders may not specify more than one interest rate for the Bonds of any single maturity. A zero rate may not be named for any maturity. Each rate of interest specified for Bonds of any maturity shall not be less than the rate of interest specified for any earlier maturity. Bidders may designate in their proposal two or more consecutive serial maturities beginning no earlier than September 1, 2006 and in any year thereafter as a term bond which matures on the maturity date of the last serial maturity of the sequence. The stated maturity date for any term bond so designated may not be earlier than September 1, 2007. More than one such sequence of serial maturities may be designated as a term bond. Any term bond so designated shall be subject to mandatory redemption in each year on the principal payment date and in the entire amount of each serial maturity designated for inclusion in such term bond.

The Bonds will be awarded to the bidder naming the lowest true interest cost for all the Bonds in any legally acceptable proposal and offering to pay not less than ninety-nine percent

(99%) of the aggregate principal amount of the Bonds plus accrued interest. The lowest interest rate will be determined in accordance with the true interest cost ("TIC") method by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the date of the Bonds and to the amount bid, not including interest accrued to the date of delivery. Where the proposals of two or more bidders result in the same lowest true interest cost, the Bonds may be apportioned by the Service between such bidders in such manner as it determines, but if this shall not be acceptable, the Service shall have the right to award all of the Bonds to one bidder. The right is reserved to the Service to reject any or all proposals and to waive any irregularity or informality in any proposal. The Treasurer's judgment shall be final and binding upon all bidders with respect to the form and adequacy of any proposal received and as to its conformity to the terms of this Notice of Sale.

Each proposal must be submitted on the form accompanying the Preliminary Official Statement and must be enclosed in a sealed envelope addressed to the Treasurer of the Maryland Environmental Service c/o Piper & Marbury L.L.P., Conference Room 2B, Second Floor, 36 South Charles Street, Baltimore, Maryland 21201, and marked on the outside "Bid for Bonds".

A certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution in the amount of $_____ and made payable to the order of "Maryland Environmental Service" or a financial surety bond (a "Surety Bond"), must accompany each proposal as security for compliance with said proposal (the "Deposit"). If a Financial Surety Bond is used, it must be from an insurance company acceptable to the Service and licensed to issue such a bond in the State of Maryland, and such Financial Surety Bond must be submitted to the Service prior to the opening of the bids and in the form and substance acceptable to the Service. In addition, the proposed form of any Financial Surety Bond, including the identity of the insurance company, must be provided to the Treasurer of the Service at the address indicated below not later than 5:00 p.m. on the day before the date of sale. The Financial Surety Bond must identify the bidder whose Deposit is guaranteed by such Financial Surety Bond. If the Bonds are awarded to a bidder utilizing a Financial Surety Bond, then such successful bidder is required to submit its Deposit to the Service in the form of a wire transfer not later than 12:00 p.m. Baltimore time on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the Service to satisfy the Deposit requirement. The Deposit of the successful bidder will be collected and the proceeds thereof retained by the Service to be applied in part payment for the Bonds. No interest will be allowed on any such Deposit. In the event the successful bidder shall fail to comply with the terms of his bid, the proceeds of such Deposit will be retained as and for full liquidated damages. Deposits of unsuccessful bidders will be returned promptly after the Bonds are awarded.

The Bonds are authorized by Sections 3-101 through 3-130, inclusive, of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume and 1994 Cumulative Supplement) and by the Indenture.

The proceeds of the Bonds for which proposals are solicited herein will be used to provide financing for the acquisition, design, construction and equipping of a regional yard debris composting facility consisting of a compost pad, a scale and scale house, internal access roads and other ancillary yard debris composting facilities located in Howard County, Maryland (the "Composting Facility"). The Service has entered into separate Yard Debris Composting Intergovernmental Agreements (the "Intergovernmental Agreements") with Howard County, Maryland, Anne Arundel County, Maryland and Baltimore County, Maryland (the "Counties"), pursuant to which the Counties will deliver their Yard Debris (as defined in the Intergovernmental Agreements) to the Service for disposal and will pay the Service certain fees related to the costs of operating the Composting Facility.

The Bonds constitute special obligations of the Service payable solely from (i) Revenues (as defined in the Indenture) from the Composting Facility and (ii) to the extent provided in the Indenture, the proceeds of the Bonds. Neither the full faith and credit nor the taxing power of the State of Maryland or any political subdivision thereof or of the Service is pledged to the payment of principal of or interest on the Bonds.

The issuance of the Bonds will be subject to legal approval by Piper & Marbury L.L.P., Baltimore, Maryland, whose opinion shall be substantially in the form set forth as an exhibit to the Preliminary Official Statement concerning the Bonds. The opinion will be delivered upon request, without charge to the successful bidder for the Bonds.

When delivered, the Bonds shall be duly executed and authenticated and registered in the name of Cede & Co., the nominee of DTC with one Bond representing each maturity of the Bonds, in principal amount equal to the aggregate principal amount of the Bonds of such respective maturity.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print any such number on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale.

If so requested by the purchaser or purchasers at or before the close of business on the date of the sale, the Service will include in the Official Statement such pricing and other information with respect to the terms of the reoffering of the Bonds by the successful bidder therefor ("Reoffering Information"), if any, as may be specified and furnished in writing by such bidder. If no Reoffering Information is specified and furnished by the successful bidder, the Official Statement will include the interest rates on the Bonds resulting from the bid of the successful bidder and the other statements with respect to reoffering contained in the Preliminary Official Statement. The successful bidder shall be responsible to the Service and its officials for the Reoffering Information furnished by such bidder and for all decisions made by such bidder with respect to the use or omission of the Reoffering Information in any reoffering of the Bonds including the presentation or exclusion of any Reoffering Information in any documents, including the final Official Statement. The successful bidder will also be furnished, without cost,

within seven (7) business days of the date of sale with up to 200 copies of the Official Statement (and any amendments or supplements thereto).

SIMULTANEOUSLY WITH OR BEFORE DELIVERY OF THE BONDS THE SUCCESSFUL BIDDER SHALL FURNISH TO THE SERVICE A CERTIFICATE ACCEPTABLE TO BOND COUNSEL STATING (i) THE REOFFERING PRICES, EXPRESSED AS A PERCENTAGE OF PAR, TO THE PUBLIC OF EACH MATURITY OF THE BONDS (THE "INITIAL REOFFERING PRICES"); (ii) THAT THE SUCCESSFUL BIDDER HAS MADE A BONA FIDE PUBLIC OFFERING OF THE BONDS AT (OR BELOW) THE INITIAL REOFFERING PRICES; AND (iii) THAT A SUBSTANTIAL AMOUNT OF THE BONDS WAS SOLD TO THE PUBLIC (EXCLUDING BOND HOUSES, BROKERS AND OTHER INTERMEDIARIES) AT SUCH INITIAL REOFFERING PRICES. Bond counsel advises that (i) such certificate must be made on the best knowledge, information and belief of the successful bidder, (ii) the sale to the public of 10% or more in par amount of the Bonds of each maturity at (or below) the Reoffering Prices would be sufficient to certify as to the sale of a substantial amount of the Bonds, and (iii) reliance on other facts as a basis for such certification would require evaluation by Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the Bonds.

The Bonds shall be delivered on or about July __, 1995, at the expense of the Service, at such place in Baltimore, Maryland, or New York, New York, as shall be mutually agreed upon by the Service and the successful bidder, or at such other date or place as shall be mutually agreed upon by the Service and the successful bidder (provided that delivery other than in Baltimore, Maryland, or New York, New York, shall be at the expense of the successful bidder), upon payment of the aggregate principal amount of the Bonds plus the premium or less the discount, if any, set forth in the Proposal for Bonds, plus accrued interest from July 1, 1995 to the date of delivery, less the amount of the good faith deposit. Such payment shall be made in Federal funds.

AMBAC Indemnity Corporation ("AMBAC Indemnity") has issued a commitment for municipal bond insurance relating to the Bonds. All bids may be conditioned upon the issue effective as of the date on which the Bonds are issued, of a policy of insurance by AMBAC Indemnity, insuring the payment when due of principal of and interest on the Bonds. Each Bond will bear a legend referring to the insurance. The purchaser, holder or owner is not authorized to make any statements concerning the insurance beyond those set out here and in the bond legend without the approval of AMBAC Indemnity.

The Bonds will be accompanied by the customary closing documents, including a no-litigation certificate, effective as of the date of delivery, stating that there is no litigation pending affecting the validity of the Bonds.

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that simultaneously with or before delivery and payment for the Bonds such successful bidder shall be furnished a certificate of the appropriate Service officials to the effect

that to the best of their knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Information, as to which no view will be expressed) as of the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that between the date of sale and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the Service, except as reflected or contemplated in the Official Statement.

Copies of the Preliminary Official Statement, which is in a form "deemed final" as of its date by the Service for purposes of SEC Rule 15c2-12(b)(1) but is subject to revision, amendment and completion in the Official Statement, together with this Notice of Sale and the required form of proposal may be obtained from the office of Maryland Environmental Service (410-974-7281), 2011 Commerce Park Drive, Annapolis, Maryland, 21401, or from Public Financial Management (404-876-1919), 600 Peachtree Street, N.E., Suite 3850, Atlanta, Georgia 30308.

By order of
MARYLAND ENVIRONMENTAL SERVICE

PROPOSAL FOR BONDS

_____, 1995

Treasurer, Maryland Environmental Service
c/o Piper & Marbury L.L.P.
Second Floor
Conference Room 2B
36 South Charles Street
Baltimore, Maryland 21201

Dear Madam:

Subject to the provisions and in accordance with the terms of the annexed Notice of Sale which is incorporated by reference herein and made a part of this Proposal for Bonds, we offer to purchase from the Maryland Environmental Service the aggregate principal amount (based on the Revised Amounts) of Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project), Series 1995 (the "Bonds"), such Bonds to be dated July 1, 1995, to mature (subject to prior redemption as provided in such Notice of Sale) on September 1 in the several years shown in the table below and to bear interest at the rates per annum set opposite such years, respectively.

Years of Maturity	Interest Rates Per Annum	Years of Maturity	Interest Rates Per Annum
1996	%	2006	%
1997		2007	
1998		2008	
1999		2009	
2000		2010	
2001		2011	
2002		2012	
2003		2013	
2004		2013	
2005		2015	

We hereby designate that the following Bonds be aggregated into Term Bonds maturing on September 1 of the following years (leave blank if no Term Bonds are specified):

Years Aggregated	Maturity Year
_____ through _____	_____
_____ through _____	_____
_____ through _____	_____
_____ through _____	_____

1. par value of the Bonds (based on the Revised Amounts)..... $_____

2. plus a premium bid *(not to exceed 2.00% of the aggregate Revised Amount of the Bonds)* in the amount of..... +$_____

3. less a discount bid *(not to exceed 1.00% of the aggregate Revised Amount of the Bonds)* in the amount of..... -$_____

making a total sum of..... $_____

In addition, we will pay accrued interest on the Bonds from July 1, 1995 to the date of delivery and will accept delivery in accordance with the Notice of Sale.

We submit the following form of good faith deposit (check one):

_____ We enclose herewith a certified check, bank cashier's, treasurer's or official check drawn upon or certified by a responsible banking institution, payable to the order of Maryland Environmental Service in the amount of $_____ which check is to be returned to us if this proposal is not accepted.

_____ We enclose herewith a surety bond with the amount of $_____ in accordance with the Official Notice of Sale.

If this proposal is accepted, said good faith deposit is to be held as security for the performance of this Proposal for Bonds, and is to be applied to the purchase price of the Bonds when the Bonds are delivered and paid for under the terms of this proposal, or is to be retained as and for full liquidated damages in case we fail so to take up and pay for the Bonds.

WE UNDERSTAND THAT (A) WE ARE TO PROVIDE A CERTIFICATION REGARDING THE PUBLIC SALE OF THE BONDS AS DESCRIBED IN THE NOTICE OF SALE ON OR PRIOR TO THE CLOSING DATE AND (B) IF NOTIFIED THAT WE ARE THE SUCCESSFUL BIDDER, WE WILL BE REQUIRED TO ADVISE THE SERVICE OF THE INITIAL REOFFERING PRICES (AS DESCRIBED IN THE NOTICE OF SALE) FOR EACH MATURITY OF THE BONDS AT THE TIME OF SUCH NOTIFICATION. In this regard, you may contact and rely on the information provided by _____, whose telephone number is _____.

For your information you will find attached a list of underwriters associated with us in this proposal.

_____

_____

_____

and Associates (See List Attached)

NOTE: NOT PART OF THIS BID

The following is for information only and is not part of this proposal:

Aggregate amount of interest from date of Bonds to final maturity	$_____
True Interest Cost	_____%

EXHIBIT G

SPECIMEN FORM OF
MUNICIPAL BOND INSURANCE POLICY

AMBAC Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
44 East Mifflin St., Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, NY 10004
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AMBAC will make such payments to the Insurance Trustee within one (1) business day following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholders' rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of AMBAC, nor against any risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the countersignature of its duly authorized representative.

President

AMBAC INDEMNITY CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer

Form # S66-0003 (8/92)

SPECIMEN

MARYLAND ENVIRONMENTAL SERVICE

and

_____, as Trustee

INDENTURE OF TRUST

Dated as of June 1, 1995

$_____
Maryland Environmental Service
Revenue Bonds
(Regional Yard Debris Composting Project)
Series 1995

(and any Additional Bonds issued on a parity therewith)

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST, dated as of June 1, 1995, is by and between Maryland Environmental Service, a body politic and corporate constituting an instrumentality of the State of Maryland (the "Service"), and _____, a _____ trust company, as trustee (the "Trustee").

RECITALS

Chapter 240 of the Laws of Maryland of 1970, as amended from time to time by acts of the General Assembly of the State, including Chapter 815 of the Laws of Maryland of 1989, codified at Sections 3-101 to 3-129, inclusive, of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume and 1994 Cumulative Supplement) (the "Act"), authorizes the Service to issue bonds and notes for the purpose of financing and refinancing the cost of acquiring, constructing, reconstructing, improving or extending any solid waste disposal project, as defined in the Act.

On June __, 1995, the Service adopted a resolution authorizing the issuance, sale and delivery of $_____ aggregate principal amount of its Revenue Bonds (Regional Yard Debris Composting Project), Series 1995 (the "Series 1995 Bonds"), in order to finance a portion of the cost of the acquisition and construction of a yard debris composting facility (the "Project," as defined herein) in Howard County, Maryland.

The Service will construct and own the Project, and has entered into a Yard Debris Composting Intergovernmental Agreement dated as of _____, 1995 (each, an "Intergovernmental Agreement") with Howard County, Maryland, Baltimore County, Maryland and Anne Arundel County, Maryland (collectively, the "Baltimore Regional Counties"), providing for the delivery to the Service for disposal of Yard Debris (defined herein) generated within the boundaries of the Baltimore Regional Counties.

The Series 1995 Bonds and any Additional Bonds (defined herein) issued from time to time under this Indenture (collectively, the "Bonds") will be equally and ratably secured to the extent provided herein by a pledge and assignment of the Trust Estate (defined herein).

The Series 1995 Bonds and the Certificate of Authentication to be endorsed thereon are to be substantially in the forms set forth in Appendix B, attached hereto and made a part hereof, with appropriate insertions, omissions and variations as permitted hereby.

All things necessary to make the Bonds, when authenticated by the Trustee and issued as in this Indenture provided, the valid and binding limited obligations of the Service according to the import thereof, and to constitute this Indenture a valid assignment and pledge of the Trust Estate, have been done and performed, and the creation, execution and delivery of this Indenture,

and the creation, execution and issuance of the Series 1995 Bonds, subject to the terms hereof, have in all respects been duly authorized.

GRANTING CLAUSES

The Service, in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Bonds by the owners thereof and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, in order to secure the payment of the principal or Redemption Price (defined herein) of and interest on, the Bonds according to their tenor and effect and to secure the performance and observance by the Service of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell, convey, assign and pledge, and grant a security interest in, the following to the Trustee, for the equal and ratable benefit of the Bondholders (defined herein), and their respective successors and assigns, forever, subject only to the provisions of this Indenture permitting the application thereof on the terms and conditions set forth in this Indenture:

GRANTING CLAUSE FIRST

All of the right, title and interest of the Service in and to the proceeds of the Series 1995 Bonds;

GRANTING CLAUSE SECOND

All Revenues (defined herein) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred, as and for additional security hereunder by the Service or by anyone on its behalf, or with its written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof; and

GRANTING CLAUSE THIRD

All of the right, title and interest of the Service in and to the Intergovernmental Agreement; provided, however, that so long as the Service is not in default hereunder the Service shall be entitled to exercise all of its rights and obligations thereunder and shall be entitled to receipt of all payments or other obligations thereunder from or by the Baltimore Regional Counties;

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its successors in trust and assigns forever upon the terms and trusts herein set forth for the equal and ratable benefit, security and protection of all present and future owners of the Bonds from time to time issued under and secured by this Indenture,

without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any other Bonds, except as otherwise expressly provided herein;

PROVIDED, HOWEVER, that if the Service shall well and truly pay, or cause to be paid, the principal or Redemption Price of and interest on, and the purchase price of, the Bonds, according to the true intent and meaning thereof, or shall provide for the payment thereof as permitted by Article IX hereof, and shall perform and observe all the covenants and conditions of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then, upon compliance with Article IX, the lien of this Indenture shall be discharged and satisfied; otherwise this Indenture to be and remain in full force and effect.

All Bonds issued and secured hereunder are to be issued, authenticated and delivered and all such property, rights and interests, including (without limitation) the amounts hereby assigned and pledged, are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Service has agreed and covenanted, and does hereby agree and covenant with the Trustee and with the respective owners of the Bonds as follows (subject, however, to the provisions of Section 5.01 hereof):

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. Terms used in this Indenture shall have the meanings set forth in Appendix A, unless a different meaning clearly appears from the context.

Section 1.02. Rules of Construction. Unless the context clearly indicates to the contrary, the following rules shall apply to the construction of this Indenture:

(a) Words importing the singular number include the plural number and words importing the plural number include the singular number.

(b) Words of the masculine gender include correlative words of the feminine and neuter genders.

(c) The headings and the table of contents set forth in this Indenture are solely for convenience of reference and shall not constitute a part of this Indenture, nor shall they affect its meaning, construction or effect.

(d) Words importing persons include any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or agency or political subdivision thereof.

(e) Any reference to a particular percentage or proportion of the holders of Bonds shall mean the holders at the particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then Outstanding under this Indenture, except Bonds held by or for the account of the Service, whether or not pledged to or by the Service to secure any indebtedness; provided, however, that Bonds so pledged may be regarded as Outstanding for the purposes of this paragraph if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds. Any reference herein to Bonds the consent or direction of a specified proportion of the holders of which is required or permitted prior to the taking of any action hereunder shall mean the holders of such proportion of Outstanding Bonds as shall be affected thereby.

(f) Any reference to the Revenue Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Fund Account, the Debt Service Reserve Fund, the Redemption Fund, the Rebate Fund, the Insurance and Condemnation Award Fund or the Construction Fund shall be to the fund or account so designated that is created under Section 4.01.

(g) Any reference to a particular Article or Section shall be to such Article or Section of this Indenture unless the context shall otherwise require.

ARTICLE II

AUTHORIZATION AND DETAILS OF THE SERIES 1995 BONDS; ADDITIONAL BONDS

Section 2.01. Series 1995 Bonds Authorized. There is hereby authorized the issuance under this Indenture of a Series of Bonds in the aggregate principal amount of _____ _____ Dollars ($_____), which shall be designated "Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project) Series 1995," for the purpose of financing the Cost of the Project.

Section 2.02. Details of Bonds; Form of Bonds and Certificate of Authentication. The Series 1995 Bonds shall be issued as fully registered bonds without coupons. The Series 1995 Bonds shall bear interest at the rate or rates of interest per annum (calculated on the basis of a 360-day year consisting of twelve 30-day months) set forth below and shall mature on September 1 in each of the years and in amounts as follows:

Serial Bonds

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
199_	$_____	___%	____	$_____	___%
199_	_____	___	200_	_____	___
199_	_____	___	200_	_____	___
199_	_____	___	200_	_____	___
____	_____	___	200_	_____	___

Term Bonds

Year	Principal Amount	Interest Rate
____	$_____	____%

The Series 1995 Bonds shall be subject to mandatory and optional redemption prior to maturity, and shall otherwise have the terms, tenor, denominations, details and specifications as set forth in the form of Series 1995 Bond attached hereto as Appendix B.

The Service shall cause to be deposited in the Sinking Fund Account in accordance with Section 4.05 of this Indenture an amount sufficient to pay Sinking Fund Installments for the Series 1995 Bonds, and the Trustee shall purchase or redeem from the Sinking Fund Account the principal amount of Series 1995 Bonds in the manner provided in Section 4.06 of this Indenture on each September 1 as follows:

$_____ Series 1995 Term Bonds Due September 1, ____

Year	Sinking Fund Installment	Year	Sinking Fund Installment
____	$_____	____	$_____
____	_____	____	_____
____	_____	____	_____
____	_____	____	_____
____	_____	____	_____

The Bonds of any Series of Additional Bonds shall bear interest, mature, be subject to mandatory and optional redemption prior to maturity, and shall have the terms, tenor, denominations, details and specifications as set forth in the Supplemental Indenture authorizing the issuance of such Additional Bonds.

The Series 1995 Bonds issued under this Indenture shall be substantially in the form set forth in Appendix B attached hereto and made a part hereof with such insertions, omissions and variations as may be deemed necessary or appropriate by the Authorized Officer of the Service executing the same and as shall be permitted by the Act. The Service hereby adopts the form of Series 1995 Bond set forth in Appendix B hereto, and all of the covenants and conditions set forth therein, as and for a form of obligation to be incurred by the Service under this Indenture. The covenants and conditions set forth in the form of Series 1995 Bond are incorporated into this Indenture by reference and shall be binding upon the Service as though set forth in full herein.

The Bonds may contain, or have endorsed thereon, any notations, legends or endorsements not inconsistent with the provisions of this Indenture or of any Supplemental Indenture authorizing the same as may be necessary or desirable and as may be determined by an Authorized Officer of the Service prior to the authentication and delivery of such Bonds. The execution and delivery of the Bonds by the Service in accordance with this Indenture shall be conclusive evidence of the approval of the form of the Bonds by the Service, including any insertions, omissions, variations, notations, legends or endorsements authorized by this Indenture.

The Bonds shall be numbered in the manner determined by the Trustee. Before authenticating and delivering any Bond, the Trustee, as Registrar, shall complete the form of such Bond to show the registered owner, principal amount, interest rate, maturity date, number and authentication date of such Bond. Additional Bonds may bear such identifying designation as may be provided in the Supplemental Indenture authorizing such Additional Bonds and the Trustee may reflect such identifying designation in the numbering of such Additional Bonds.

The Bonds of a Series may have printed on the reverse side thereof the opinion of Bond Counsel for such Bonds. The printing of CUSIP numbers on the Bonds shall have no legal effect and shall not affect the enforceability of any Bond.

Section 2.03. Conditions Precedent to Delivery of Series 1995 Bonds. The Series 1995 Bonds shall be executed by the Service and delivered to the Trustee, whereupon the Trustee shall authenticate the Series 1995 Bonds and, upon payment of the purchase price of the Series 1995 Bonds, shall deliver the Series 1995 Bonds upon the order of the Service, but only upon delivery to the Trustee of:

(a) a counterpart of this Indenture executed by the parties hereto;

(b) the written order of the Service directing the authentication and delivery of the Series 1995 Bonds, signed by an Authorized Officer of the Service, describing the Series 1995 Bonds to be authenticated and delivered, designating the purchasers to whom the Series 1995 Bonds are to be delivered, stating the purchase price of the Series 1995 Bonds and stating that all items required by this Section are therewith delivered to the Trustee in form and substance satisfactory to the Service;

(c) an opinion of Bond Counsel (who may rely upon the opinion of other counsel, who may be counsel to the Trustee) to the effect that (i) this Indenture has been duly authorized, executed and delivered by the Service and the Trustee, and constitutes the valid and binding obligation of the Service and the Trustee, and (ii) the Service is duly authorized and entitled to issue the Series 1995 Bonds, and Series 1995 Bonds executed, authenticated and delivered as provided in this Indenture have been duly and validly issued and constitute valid and binding special obligations of the Service;

(d) a counterpart of each of the Intergovernmental Agreement executed by the Service and the applicable Baltimore Regional County;

Section 2.04. Refunding Bonds. In accordance with Section 3-115 of the Act, the Service may issue refunding bonds (which may be Bonds issued under this Indenture) to refund any Outstanding Bonds. Refunding bonds shall be issued pursuant to and in accordance with the provisions of this Indenture or any other indenture entered into by the Service authorizing such refunding bonds, which may provide (without limitation) for the refunding of Outstanding Bonds in advance of the earliest redemption date for such Outstanding Bonds.

Section 2.05. Authorization of Additional Bonds: Conditions Precedent to Delivery of Additional Bonds. In addition to the Series 1995 Bonds, the Service may issue from time to time Additional Bonds under and secured by this Indenture, subject to the conditions hereinafter provided in this Section, for any one or more of the following purposes:

(i) refunding or advance refunding any Outstanding Bonds;

(ii) obtaining funds to pay the Cost of Additional Facilities required in order to restore, maintain, improve or increase the disposal capacity of the Project or otherwise to permit the Service to meet its Yard Debris composting obligations under the Intergovernmental Agreement; or

(iii) obtaining funds to pay the Cost of completing the Project or any Additional Facilities.

Additional Bonds may be issued to pay the costs incurred in connection with the issuance and sale of any Bonds, to establish reserves and to pay interest on any Bonds prior to and during acquisition and construction and (if deemed advisable by the Service) for a limited period after the completion of the Project or any Additional Facilities, as the case may be. The issuance of Additional Bonds shall be authorized by a Supplemental Indenture, which shall specify all matters required to be provided in this Section.

Each series of Additional Bonds shall be on a parity with, and shall be entitled to the same benefit and security of this Indenture (including, without limitation, the pledge of the Revenues) as, the Series 1995 Bonds and any other series of Additional Bonds that may be issued from time to time as provided in this Section.

The Supplemental Indenture authorizing the issuance of any series of Additional Bonds shall specify the maturities and redemption provisions of such Additional Bonds, the form, denominations, registration provisions and provisions for the exchange of such Additional Bonds and other details of such Additional Bonds. Any Supplemental Indenture authorizing the issuance of Additional Bonds may provide for the creation of a separate Debt Service Fund, Construction Fund, Debt Service Reserve Fund and Redemption Fund for each series of Bonds.

The Supplemental Indenture authorizing the issuance of any series of Additional Bonds may provide that funds on deposit in any debt service reserve fund or proceeds realized under any Credit Facility securing the payment of such Additional Bonds shall not be available to pay the principal or Redemption Price of or interest on, or the purchase price of, the Series 1995 Bonds or any other series of Additional Bonds.

Any Supplemental Indenture authorizing the issuance of Additional Bonds may provide that (i) such Series of Bonds shall be secured by the Debt Service Reserve Fund maintained for the Series 1995 Bonds, (ii) such Series of Additional Bonds shall not be secured by a Debt Service Reserve Fund, or (iii) such Additional Bonds shall be secured by a separate Debt Service Reserve Fund.

Any Supplemental Indenture authorizing the issuance of Additional Bonds shall state the amount (if any) of the proceeds of such Additional Bonds or other moneys required to be deposited in the Debt Service Reserve Fund to make the amount on deposit therein equal the Debt Service Reserve Fund Requirement upon the issuance of such Additional Bonds and may

provide that the amount of any increase in the Debt Service Reserve Fund Requirement resulting from the issuance of such Additional Bonds shall be applied to the final payments of the principal or Redemption Price of such Additional Bonds.

If the Supplemental Indenture authorizing the issuance of any Additional Bonds provides that such Series of Additional Bonds shall be secured by a separate Debt Service Reserve Fund, such Supplemental Indenture shall (i) establish the amount of the Debt Service Reserve Fund Requirement for such Debt Service Reserve Fund, (ii) provide the period during which any deficiency shall be cured, which shall be a period of not less than 12 months except in the case of any deficiency resulting from a decline in the value of the assets of such Debt Service Reserve Fund, (iii) contain provisions with respect to the issuance of any other Additional Bonds secured by such Debt Service Reserve Fund and (iv) provide such terms with respect to the valuation of such Debt Service Reserve Fund, the application of any earnings on or surpluses in such Debt Service Reserve Fund (which may be different from those described herein) and any Credit Facilities held to the credit of such Debt Service Reserve Fund as the Service shall deem appropriate, any other provision of this Indenture to the contrary notwithstanding. If a separate Debt Service Reserve Fund is created for any series of Bonds, the Debt Service Reserve Fund Requirement shall be calculated separately for each series of Bonds for which a separate Debt Service Reserve Fund is maintained.

The Bonds of each series of Additional Bonds shall be executed by the Service and delivered to the Trustee, whereupon the Trustee shall authenticate such Additional Bonds and, upon payment of the purchase price of such Additional Bonds, deliver such Additional Bonds to or upon the order of the Service, but only upon receipt by the Trustee of:

(a) a counterpart of the applicable Supplemental Indenture authorizing the issuance of such Additional Bonds executed by the parties hereto;

(b) an opinion of Bond Counsel to the effect that (i) the Supplemental Indenture of the Service authorizing the issuance of such Additional Bonds has been duly authorized, executed and delivered by the Service and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes the valid and binding obligation of the Service; (ii) the Service is duly authorized and entitled to issue such Additional Bonds, and Bonds executed, authenticated and delivered as provided in such Supplemental Indenture have been duly and validly issued and constitute valid and binding limited obligations of the Service; and (iii) the issuance of such Additional Bonds will not adversely affect the excludability from gross income, for federal income tax purposes, of interest paid on any Tax-Exempt Bonds theretofore issued;

(c) a certificate of an Authorized Officer of the Service to the effect that on the date of the authentication and delivery of such Additional Bonds, (i) the Service is not in default in the performance or observance of any of the covenants, conditions, agreements or provisions of this Indenture, and (ii) neither the Service nor any of the Baltimore Regional Counties is in default in the performance or observance of any of the covenants, conditions, agreements or provisions of

the Intergovernmental Agreement; provided, however, that the Trustee shall not be required to have received the certificate described in this paragraph (c) in connection with the issuance of any Bonds issued for the purpose of refunding or advance refunding any Outstanding Bonds;

(d) a written order of the Service directing the authentication and delivery of such Additional Bonds, describing the Additional Bonds to be authenticated and delivered, designating the purchasers to whom such Additional Bonds are to be delivered, stating the purchase price of such Additional Bonds and stating that all items required by this Section are therewith delivered to the Trustee in form and substance satisfactory to the Service;

(e) the amount, if any, required to be paid to the Debt Service Reserve Fund to make the amount on deposit in the Debt Service Reserve Fund equal the Debt Service Reserve Fund Requirement upon the issuance of such Additional Bonds;

(f) a certificate of an Authorized Officer of the Service to the effect that the Coverage Ratio for the most recent Fiscal Year of the Service for which audited financial statements are available is not less than 1.00; and

(g) the written consent of the Baltimore Regional Counties to the issuance of such Additional Bonds.

Notwithstanding the foregoing, the Trustee shall not be required to have received the items required under paragraphs (f) and (g) above in connection with the issuance of any Additional Bonds issued for the purpose of (i) refunding or advance refunding any Outstanding Bonds if the Trustee shall have received a certificate of an Authorized Officer of the Service to the effect that, after giving effect to the proposed refunding or advance refunding, Maximum Annual Debt Service on all Outstanding Bonds will not be increased by more than five percent or (ii) financing or refinancing the cost of completion of any portion of the Composting Facility.

Additional Bonds may be authenticated, delivered and paid for in installments of less than the total authorized principal amount of a series of Bonds from time to time as the Service may direct in its written requests.

Section 2.06. Execution and Authentication. The Bonds shall be executed in the name and on behalf of the Service by the manual or facsimile signature of its Director or Deputy Director, and sealed with its corporate seal (or a facsimile thereof), attested by the manual or facsimile signature of its Secretary or Deputy Director. In case any officer whose manual or facsimile signature appears on the Bonds shall cease to be such officer before delivery of such Bonds, such signature, nevertheless, shall be valid and sufficient for all purposes as if such officer had remained in office until such delivery, and the Service may adopt and use for the execution of Bonds the manual or the facsimile signature of any person who shall have been at the time the proper officer to execute such Bonds, notwithstanding the fact that such person may

not have been an officer on the date of such Bonds or that such person may have ceased to be an officer at the time when such Bonds shall be actually authenticated and delivered.

No Bond shall be valid or obligatory for any purpose or entitled to any right or benefit hereunder unless there shall be endorsed on such Bond a certificate of authentication substantially in the form set forth in Appendix B attached to this Indenture or in the Supplemental Indenture authorizing the issuance of such Bond (as the case may be), duly executed by the Trustee, and such certificate of the Trustee upon any Bond executed on behalf of the Service shall be conclusive evidence and the only evidence required that the Bond so authenticated has been duly issued hereunder and that the Holder thereof is entitled to the benefits of this Indenture. The certificate of the Trustee may be executed by any authorized signatory of the Trustee.

Section 2.07. Registration and Exchange of Bonds. The Bonds shall be negotiable instruments for all purposes and shall be transferable by delivery, subject only to the provisions for registration and registration of transfer endorsed on the Bonds.

The Service shall cause books for registration and the registration of transfer of Bonds to be prepared. The registration books shall be kept by the Registrar.

If any Bond is surrendered to the Trustee at its principal corporate trust office for transfer or exchange in accordance with the provisions of such Bond, the Service shall execute and the Trustee shall authenticate and deliver in exchange for such Bond a new Bond or Bonds of the same series, in any authorized denominations, bearing interest at the same rate and having the same stated maturity date, in aggregate principal amount equal to the principal amount of the Bond so surrendered, upon reimbursement to the Service or the Trustee of an amount equal to any tax or other governmental charge required to be paid with respect to such exchange.

Neither the Service nor the Trustee shall be required to register the transfer of any Bond or make any such exchange of any Bond after such Bond or any portion thereof has been selected for redemption.

Section 2.08. Bonds Mutilated, Destroyed, Lost or Stolen. If any temporary or definitive Bond shall become mutilated or be destroyed, lost or stolen, the Service in its discretion may execute, and upon its request the Trustee shall authenticate and deliver, a new Bond in exchange for the mutilated Bond, or in lieu of and substitution for the Bond so destroyed, lost or stolen. In every case of exchange or substitution, the applicant shall furnish to the Service and to the Trustee (i) evidence to their satisfaction of the mutilation, destruction, loss or theft of the applicant's Bond and of the ownership thereof and (ii) in the case of any destroyed, lost or stolen Bond, such security or indemnity as may be required by them to save each of them harmless from all risks, however remote. The Trustee may authenticate any Bond issued upon such exchange or substitution and deliver such Bond upon the written request or authorization of an Authorized Officer of the Service. Upon the issuance of any Bond upon such exchange or

substitution, the Service may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses, including counsel fees, of the Service or the Trustee.

If any Bond that has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, instead of issuing a Bond in exchange or substitution therefor, the Service may pay or authorize the payment of such Bond (without surrender thereof except in the case of a mutilated Bond) if the applicant for such payment shall furnish to the Service and to the Trustee evidence to the satisfaction of the Service and to the Trustee of the mutilation, destruction, loss or theft of such Bond and of the ownership thereof and, in the case of any destroyed, lost or stolen Bond, such security or indemnity as they may require to save them harmless.

Every Bond issued pursuant to the provisions of this Section in exchange or substitution for any Bond that is mutilated, destroyed, lost or stolen shall constitute an additional contractual obligation of the Service, whether or not the destroyed, lost or stolen Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits hereof equally and proportionately with any and all other Bonds duly issued under this Indenture. All Bonds shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds, and shall preclude any and all other rights or remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

Section 2.09. Cancellation and Disposition of Bonds. All mutilated Bonds, all Bonds surrendered for exchange or transfer, all Bonds that have been paid at maturity or upon prior redemption and all Bonds surrendered to the Trustee by the Service for cancellation or purchased by the Trustee with amounts on deposit in the Sinking Fund Account shall be canceled by the Trustee and cremated or destroyed by other means. The Trustee shall deliver to the Service a certificate of any such cremation or other destruction of any Bond, identifying the Bond so canceled and cremated or otherwise destroyed.

Section 2.10. Book Entry of Series 1995 Bonds. The provisions of this Section shall apply to the Series 1995 Bonds so long as all of the Series 1995 Bonds shall be maintained under a book-entry system with The Depository Trust Company, a corporation organized and existing under the laws of the State of New York, and any other securities depository for the Series 1995 Bonds appointed pursuant to this Section, or their successors (a "Securities Depository"), any other provisions of this Indenture to the contrary notwithstanding.

(a) The principal or Redemption Price of and interest on the Series 1995 Bonds shall be payable to the Securities Depository, or registered assigns, as the registered owner of the Series 1995 Bonds, in next day funds on each date on which the principal or Redemption Price of or interest on the Series 1995 Bonds becomes due. Such payments shall be made to the offices of

the Securities Depository specified by the Securities Depository to the Service and the Trustee in writing. Without notice to or the consent of the beneficial owners of the Series 1995 Bonds, the Service and the Securities Depository may agree in writing to make payments of principal and interest in a manner different from that set out herein. In such event, the Service shall give the Trustee notice thereof, and the Trustee shall make payments with respect to the Series 1995 Bonds in the manner specified in such notice as if set forth herein. Neither the Service nor the Trustee shall have any obligation with respect to the transfer or crediting of the appropriate principal and interest payments to any participant of any Securities Depository (a "Participant") or the beneficial owners of the Series 1995 Bonds or their nominees.

(b) In the event that part but not all of any outstanding Series 1995 Bond is to be retired (by redemption, acceleration, or otherwise), the Securities Depository, in its discretion (i) may request the Trustee to authenticate and deliver a new Series 1995 Bond in accordance with Section 2.07 of the Indenture upon presentation and surrender of such Series 1995 Bond to the Trustee or (ii) shall make appropriate notation on the Series 1995 Bond certificate indicating the date and amount of each principal payment, provided that payment of the final principal amount of any Series 1995 Bond shall be made only upon presentation and surrender of such Series 1995 Bond to the Trustee.

(c) So long as the Securities Depository or its nominee is the registered owner of the Series 1995 Bonds, the Service and the Trustee will recognize the Securities Depository or its nominee, respectively, as the holder of all of the Series 1995 Bonds for all purposes, including (without limitation) the payment of the principal or Redemption Price of, and interest on, the Series 1995 Bonds, the giving of notices and any consent or direction required or permitted to be given to, or on behalf of, the holders of the Series 1995 Bonds under this Indenture.

(d) The Service, in its discretion, at any time may replace any Securities Depository as the depository for the Series 1995 Bonds with another qualified securities depository or discontinue the maintenance of the Series 1995 Bonds under a book-entry system upon 30 days' notice to the Securities Depository (or such fewer number of days as shall be acceptable to such Securities Depository). A copy of any such notice shall be delivered promptly to the Trustee.

(e) If the Service discontinues the maintenance of the Series 1995 Bonds under a book-entry system, the Service will issue Series 1995 Bonds directly to the Participants or, to the extent requested by any Participant, to the beneficial owners of Series 1995 Bonds as further described in this Section. The Service shall make provisions to notify Participants and the beneficial owners of the Series 1995 Bonds, by mailing an appropriate notice to the Securities Depository, or by other means deemed appropriate by the Service in its discretion, that it will issue Series 1995 Bonds directly to the Participants or, to the extent requested by any Participant, to beneficial owners of Series 1995 Bonds as of a date set forth in such notice, which shall be a date at least 10 days after the date of mailing of such notice (or such fewer number of days as shall be acceptable to the Securities Depository).

In the event that Series 1995 Bonds are to be issued to Participants or to beneficial owners of the Series 1995 Bonds, the Service shall promptly have prepared Series 1995 Bonds in certificated form registered in the names of the Participants as shown on the records of the Securities Depository provided to the Registrar or, to the extent requested by any Participant, in the names of the beneficial owners of Series 1995 Bonds shown on the records of such Participant provided to the Registrar, as of the date set forth in the notice delivered in accordance with this subsection. Series 1995 Bonds issued to Participants or to beneficial owners shall be in fully registered form substantially in the forms set forth in Appendix B.

(f) If the Service replaces any Securities Depository as the depository for the Series 1995 Bonds with another qualified Securities Depository, the Service will issue to the replacement Securities Depository Series 1995 Bonds substantially in the forms set forth in Appendix B, registered in the name of such replacement Securities Depository.

(g) Each Securities Depository and the Participants and the beneficial owners of the Series 1995 Bonds, by their acceptance of the Series 1995 Bonds, agree that the Service and the Trustee shall have no liability for the failure of any Securities Depository to perform its obligations to any Participant or any beneficial owner of any Series 1995 Bonds, nor shall the Service or the Trustee be liable for the failure of any Participant or other nominee of any beneficial owner of any Series 1992 Bonds to perform any obligation that such Participant or other nominee may incur to any beneficial owner of the Series 1995 Bonds.

Section 2.11. Subordinate Obligations Authorized. In addition to any Additional Bonds issued in accordance with Section 2.05, the Service may issue from time to time other Indebtedness for any purpose for which Additional Bonds may be issued hereunder. Each Subordinate Obligation shall be issued pursuant to a Supplemental Indenture, which shall specify the interest rate or rates, maturity, redemption provisions, form, registration provisions and all other details of such Subordinate Obligation. Prior to the issuance of any Subordinate Obligations, there shall be delivered to the Trustee each of the items described in clauses (a), (b), (c), (d), and (f) of Section 2.05 as if such Subordinate Obligations were Bonds. The Service may pledge the Revenues to the payment of any Subordinate Obligations, but such pledge shall be junior and subordinate to the pledge of the Revenues to secure Bonds.

So long as no Event of Default under this Indenture shall have occurred and be continuing, the Service may pay or prepay, or authorize the payment or prepayment of, the principal of and interest on any Subordinate Obligation and no recourse shall be had by the holder of any Bond against the person to whom any such payment shall have been made unless such person shall have had, at the time of receipt of such payment, actual knowledge of the insolvency of the Service. During the continuance of any Event of Default under this Indenture, no payments shall be made with respect to the principal of or interest on any Subordinate Obligation.

ARTICLE III

REDEMPTION OF SERIES 1995 BONDS

Section 3.01. Selection of Series 1995 Bonds to Be Redeemed. If fewer than all of the Series 1995 Bonds of any one maturity shall be called for redemption, the Trustee shall select the particular Series 1995 Bonds or portions of Series 1995 Bonds to be redeemed from such maturity by lot or in such other manner as the Trustee in its discretion may deem proper; provided, however, that the portion of any Series 1995 Bond to be redeemed shall be in the principal amount of $5,000 or an integral multiple thereof, and that, in selecting Series 1995 Bonds for redemption, the Trustee shall treat each Series 1995 Bond as representing that number of Series 1995 Bonds which is obtained by dividing the principal amount of such Bond by $5,000.

So long as all of the Series 1995 Bonds shall be maintained in book-entry form with the Securities Depository, the Trustee shall notify the Securities Depository of the maturities and principal amounts of the Series 1995 Bonds to be redeemed, and such notification is hereby deemed to be in a proper manner of selection of the Series 1995 Bonds to be redeemed.

Section 3.02. Notice of Redemption. (a) The Service shall give written notice to the Trustee of its election to redeem Series 1995 Bonds pursuant to Section 5(a), 5(b) or 5(c) of the Series 1995 Bonds at least 60 days prior to the redemption date of such Bonds, or such fewer number of days as shall be acceptable to the Trustee. Upon receipt of such notice, pursuant to Section 5(e) of the Series 1995 Bonds, the Trustee shall give notice in the name of the Service of the Service's election to redeem such Bonds pursuant to Section 5(a), 5(b) or 5(c) of the Series 1995 Bonds, as the case may be.

(b) Each notice of redemption of Series 1995 Bonds shall be given in accordance with the terms of the Series 1995 Bonds at least 30 days before the redemption date and shall set forth (i) the maturities of the Series 1995 Bonds to be redeemed, (ii) the date fixed for redemption, (iii) the Redemption Price to be paid, (iv) that such Series 1995 Bonds will be redeemed at the corporate trust office of the Trustee in [Baltimore, Maryland], (v) if fewer than all of the Series 1995 Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters, if any, of the Series 1995 Bonds to be redeemed, (vi) in the case of Series 1995 Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and (vii) that on the redemption date there shall become due and payable upon all Series 1995 Bonds to be redeemed the Redemption Price thereof, together with interest accrued to the redemption date, and that, from and after such date, interest thereon shall cease to accrue if moneys for the payment of the Redemption Price and accrued interest are held by the Trustee on the redemption date. If any Series 1995 Bond is to be redeemed in part only, the notice of redemption that relates to such Series 1995 Bond shall state also that on or after the redemption date, upon surrender of such Series 1995 Bond to the Trustee at its corporate trust office, a new Bond or Bonds of the same Series of Bonds and maturity, bearing interest at the same rate, and of

any denomination authorized by this Indenture, will be issued in aggregate principal amount equal to the unredeemed portion of such Series 1995 Bond. Each notice of redemption with respect to any Series 1995 Bond shall comply with any regulation or release of the Securities Exchange Commission, the Municipal Securities Rulemaking Board or other governmental board or body from time to time applicable to such Bond.

(c) If notice of redemption shall have been given as provided in this Section, then on or prior to the redemption date the Service shall pay to the Trustee from the Revenues an amount in cash that, in addition to other moneys, if any, available therefor held by the Trustee, shall be sufficient to redeem at the Redemption Price thereof, plus accrued interest to the redemption date, all of the Series 1995 Bonds the Service has so elected to redeem.

(d) Notwithstanding the foregoing provisions of this Section to the contrary, so long as all of the Series 1995 Bonds are maintained in book-entry form with the Securities Depository, (i) the Service shall give the Securities Depository written notice of its election to redeem Bonds in paragraph (a) of this Section no less than 45 days nor more than 60 days before the date fixed for redemption and (ii) any notice of redemption of any Series 1995 Bond or portion thereof to be given by the Trustee as herein provided shall also be given to the Securities Depository, by legible facsimile transmission, registered or certified mail or overnight express delivery, no later than two Business Days prior to the date notice of such redemption is published pursuant to Section 5(e) of the Series 1995 Bonds. Such notice by the Trustee to the Securities Depository, in addition to the matters set forth in paragraph (b) of this Section shall state (i) the maturity date and the CUSIP number of the Series 1995 Bond or portion thereof to be redeemed and (ii) the date on which the notice of redemption with respect to such Series 1995 Bond or portion thereof is to be published.

Section 3.03. Redemption of Portion of Bond. In case part but not all of an Outstanding Series 1995 Bond shall be selected for redemption, upon the presentation and surrender of such Bond to the Trustee for payment of the principal amount thereof so called for redemption in accordance with such Bond, the Service shall execute and the Trustee shall authenticate and deliver to or upon the order of the registered owner of such Bond or the owner's attorney or legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Bond so surrendered, a Bond or Bonds of the same Series of Bonds and maturity, bearing interest at the same rate and of any denomination authorized by this Indenture, in aggregate principal amount equal to the unredeemed portion of such Bond.

ARTICLE IV

REVENUES AND FUNDS

Section 4.01. Creation of Funds and Accounts. The following funds and separate accounts within funds are hereby created for the benefit of the holders of all Bonds Outstanding under this Indenture:

Revenue Fund;
Construction Fund;
Debt Service Fund:
  Interest Account,
  Principal Account, and
  Sinking Fund Account;
Debt Service Reserve Fund;
Redemption Fund;
Insurance and Condemnation Award Fund; and
Rebate Fund.

For the purposes of internal accounting, the funds and accounts created pursuant to this Section may contain one or more accounts or subaccounts, as the Service shall direct.

Each such fund or account shall be held by the Trustee hereunder. Pending the application of amounts on deposit therein as provided in this Indenture, such amounts are hereby pledged to the payment of the principal of and interest on all Outstanding Bonds.

The Rebate Fund is not pledged to the payment of any Bonds.

Section 4.02. Application of Proceeds of Series 1995 Bonds. In accordance with Section 3-119 of the Act, the proceeds of the Series 1995 Bonds shall be received by the Trustee on behalf of the Service in trust for the benefit of the holders from time to time of the Bonds, subject to and in accordance with the terms of this Indenture. Upon receipt of such proceeds, the Trustee shall make payments from such proceeds as follows: (i) any accrued interest on the Series 1995 Bonds shall be deposited in the Interest Account; (ii) $_____, an amount equal to the Debt Service Reserve Fund Requirement, shall be deposited in the Debt Service Reserve Fund; and (iii) the balance of such proceeds shall be deposited in the Construction Fund.

Section 4.03. Construction Fund: Application of Moneys. (a) Moneys deposited in the Construction Fund shall be used only to finance or refinance the Costs of or relating to the Project and any Additional Facilities.

(b) Payments from the Construction Fund shall be made in accordance with requisitions signed by an Authorized Officer of the Service, stating the names of the payees, the purpose of

each payment in terms sufficient for identification and the respective amounts of each such payment.

(c) Upon receipt of a certificate certifying the completion of the Project or any Additional Facilities in accordance with Section 4.04, the Trustee shall pay the balance of moneys then remaining in the Construction Fund, less any amounts to be retained in the Construction Fund to pay any unpaid Costs of the Project or such Additional Facilities (as the case may be), as follows and in the following order of priority:

> FIRST: to the Debt Service Reserve Fund, such amount as shall be necessary to make the amount credited to the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement; and
>
> SECOND: to the Redemption Fund, any balance on deposit in the Construction Fund after making the payment required above.

Section 4.04. Completion of the Project and Additional Facilities. Completion of the Project and any Additional Facilities shall be determined by a certificate signed by an Authorized Officer of the Service and delivered to the Trustee. Such certificate shall state that the Project or such Additional Facilities (as the case may be) is complete, describe it in terms sufficient for identification and specify the date of completion. Such certificate shall also state the amount of all unpaid costs of the Project or the Additional Facilities (as the case may be), if any.

Section 4.05. Deposit of Revenues. (a) On the tenth day of each month, the Service shall pay to the Trustee from the Revenues an amount sufficient to make the deposits required by paragraph (b) for such month. The Revenues and any other moneys paid to the Trustee shall be promptly deposited by the Trustee to the credit of the Revenue Fund.

(b) Except as otherwise expressly provided in this Indenture, the Trustee shall transfer moneys in the Revenue Fund upon deposit thereof as follows and in the following order of priority:

> FIRST: to the Interest Account, the amount, if any, necessary to make the amount on deposit therein equal to the amount of accrued and unpaid interest on the Bonds Outstanding as of the first day of the immediately succeeding month (in the case of any Outstanding Bonds that constitute Variable Rate Indebtedness, calculated on the basis of the actual interest rates borne by such Bonds through the date of such transfer and assuming such Bonds bear interest during any period after the date of such transfer at an annual rate equal to

110% of the interest rate borne by such Bonds on the date of such transfer);

SECOND: (i) to the Principal Account, the lesser of (A) one-twelfth (1/12) of the amount of any principal of the Bonds Outstanding becoming due on the immediately succeeding September 1 and (B) the amount required to make the amount on deposit in the Principal Account equal to the principal amount, if any, due on the Bonds Outstanding on the immediately succeeding September 1; provided that transfers with respect to the principal of Bonds the first principal installment of which matures less than one year from the date of initial authentication and delivery of such Bonds shall commence in the first month after the delivery of such Bonds and, prior to the immediately succeeding September 1, the amount provided in clause (A) above with respect to such Bonds shall be equal to the quotient obtained by dividing the amount of such first principal installment by the number of calendar months between the date of authentication and delivery of such Bonds and the immediately succeeding September 1; and

(ii) to the Sinking Fund Account, the lesser of (A) one-twelfth (1/12) of the amount of any Sinking Fund Installment for the Bonds Outstanding becoming due on the immediately succeeding September 1 and (B) the amount required to make the amount credited to the Sinking Fund Account equal to the Sinking Fund Installment, if any, becoming due on the Bonds on the immediately succeeding September 1; provided that transfers with respect to Bonds the first payment of a Sinking Fund Installment for which is due less than one year from the date of initial authentication and delivery of such Bonds shall commence in the month after the delivery of such Bonds and, prior to the immediately succeeding September 1, the amount provided in clause (A) above with respect to such Bonds shall be equal to the quotient obtained by dividing the amount of such first Sinking Fund Installment by the number of calendar months between the date of authentication and delivery of such Bonds and the immediately succeeding September 1; and

THIRD: to the Debt Service Reserve Fund, beginning in the month immediately succeeding any month in which the Service receives notice of any deficiency in the Debt Service Reserve Fund pursuant to Section 4.07, one twelfth (1/12) of the amount of such

deficiency until the amount credited to the Debt Service Reserve Fund equals the Debt Service Reserve Fund Requirement.

After making the payments required above, the Trustee shall pay the balance remaining in the Revenue Fund in the last day of any month to the Service unless such amount constitutes the proceeds of Bonds or the investment earnings thereon, in which case such amount shall be transferred to such funds and accounts as the Service, upon the advice of Bond Counsel, shall direct.

(c) The Service shall pay over to the Trustee and the Trustee shall immediately deposit in the Insurance and Condemnation Award Fund upon receipt thereof (i) all proceeds received under any title insurance policy relative to all or any portion of the Project or any Additional Facilities, (ii) the proceeds of all or any portion of the Project or any Additional Facilities taken in the exercise of the power of eminent domain, condemnation or through the exercise of any right or any obligation on the part of any public authority to purchase the same, or as a result of any agreement between the Service and any such public authority, and (iii) any insurance proceeds payable in connection with the loss, damage or destruction of all or any portion of the Project or any Additional Facilities.

The Service shall pay over to the Trustee and the Trustee shall immediately deposit the proceeds of any use and occupancy insurance policy (A) to the Interest Account, to the extent of the amount of such proceeds that represents interest accruing on the Bonds for the period covered by such payment, and (B) to the Principal Account and the Sinking Fund Account, to the extent of the amount of such proceeds that represents the amount, if any, payable by the Service during the period covered by such payment in respect of the principal of or Sinking Fund Installment for the Bonds.

(d) Moneys paid at any time by the Service to the Trustee for deposit in the Revenue Fund as the result of voluntary payments made by the Service in connection with the optional redemption of the Series 1995 Bonds pursuant to Section 5(a) or 5(c) thereof or the optional redemption of Additional Bonds as provided in any Supplemental Indenture shall be paid to the Redemption Fund immediately upon deposit thereof.

Section 4.06. Debt Service Fund: Application of Moneys. On each interest payment date, the Trustee shall pay or cause to be paid from the Interest Account the interest due on the Outstanding Bonds. The Trustee also shall pay from the Interest Account any amounts required for the payment of accrued interest upon any purchase or redemption of Outstanding Term Bonds.

On each September 1, the Trustee shall pay or cause to be paid from the Principal Account the principal amount due, if any, on the Outstanding Bonds, upon presentation and surrender of the requisite Bonds.

The Trustee shall take all reasonable action necessary and required by Article III to effect the timely redemption of Outstanding Term Bonds from the Sinking Fund Account in accordance with the Sinking Fund Installments as herein set forth. Moneys in the Sinking Fund Account shall be applied to the purchase or redemption of Term Bonds as follows:

(a) Subject to the provisions of paragraph (b) of this Section, prior to each September 1 on which Outstanding Bonds are subject to redemption from any Sinking Fund Installment, the Trustee shall call for redemption from moneys in the Sinking Fund Account such principal amount of Outstanding Term Bonds subject to redemption on such September 1 as, at a price of the principal amount thereof (accrued interest on such Term Bonds being payable from the Interest Account), is equal to the Sinking Fund Installment due on such September 1, less the amount previously credited against such Sinking Fund Installment in accordance with paragraph (c) of this Section. On such September 1, the Trustee shall pay or cause to be paid out of the Sinking Fund Account the principal amount of Term Bonds so called for redemption as provided in this paragraph upon the presentation and surrender of the requisite Bonds.

(b) At the direction of the Service, the Trustee shall endeavor to purchase Outstanding Term Bonds subject to redemption from the Sinking Fund Installment due on the immediately succeeding September 1 at the most advantageous price then obtainable with reasonable diligence. The Trustee shall pay the interest accrued on such Term Bonds from the Interest Account and the purchase price from the Sinking Fund Account, but no such purchase shall be made by the Trustee (i) within a period of 45 days immediately preceding any September 1 on which Term Bonds are subject to redemption from any Sinking Fund Installment, or (ii) at a price, including any brokerage and other charges, greater than the principal amount thereof and accrued interest thereon. The aggregate of the purchase prices of the Term Bonds of each Series so purchased in any year shall not exceed the amount deposited in the Sinking Fund Account on account of the Sinking Fund Installment for Term Bonds of such Series due on the immediately succeeding September 1; provided, however, that if in any year the amount credited against the Sinking Fund Installment for Term Bonds of any Series in accordance with paragraph (c) of this Section equals or exceeds the Sinking Fund Installment for such Term Bonds due on the immediately succeeding September 1, any excess amount on deposit in the Sinking Fund Account shall be applied by the Trustee to the purchase of any Term Bonds then Outstanding as shall be directed by the Service.

(c) If (i) the Trustee purchases Term Bonds during any year as provided in paragraph (b) above, (ii) the Service delivers to the Trustee for cancellation on or before the 45th day next preceding any September 1 Term Bonds subject to redemption from the Sinking Installment due on such September 1 (provided that the price paid by the Service to purchase any such Bonds, including any brokerage and other charges, shall not exceed the principal amount of such Bonds and accrued interest thereon), or (iii) Term Bonds subject to redemption from the Sinking Fund Installment due on the immediately succeeding September 1 are otherwise redeemed during such year, then an amount equal to 100% of the aggregate principal amount of any such Term Bonds

so purchased and delivered to the Trustee for cancellation or redeemed (as the case may be) shall be credited against such Sinking Fund Installment.

(d) If the aggregate principal amount of Term Bonds of any Series purchased or redeemed in any year is in excess of the Sinking Fund Installment due on such Term Bonds on the immediately succeeding September 1, the Trustee shall credit the excess against such subsequent Sinking Fund Installments for the Term Bonds as directed by an Authorized Officer of the Service.

(e) If the Service shall determine to provide for the payment of any Bonds as provided in Section 9.01, on the date on which such Bonds are deemed to be paid in accordance with such Section, amounts on deposit in the Debt Service Fund for the payment of the principal or Redemption Price of or interest on such Bonds shall be paid to the escrow deposit agent for such Bonds upon the written direction of an Authorized Officer of the Service.

Section 4.07. Debt Service Reserve Fund: Application of Moneys; Deficiencies and Surpluses. If on any interest payment date the amount in the Interest Account shall be less than the amount of interest then due on the Outstanding Bonds, or if on any September 1 the amount credited to the Principal Account or the Sinking Fund Account shall be less than the amount of the principal or the Sinking Fund Installment then due on the Bonds, the Trustee forthwith shall transfer moneys from the Debt Service Reserve Fund, first, to the Interest Account, and second, to the Principal Account and the Sinking Fund Account, to the extent necessary to make good any deficiency.

Interest earned and profits realized by reason of the investment of amounts on deposit in the Debt Service Reserve Fund shall be applied as provided in Section 4.11.

For the purposes of this Indenture, in the case of the Debt Service Reserve Fund:

(i) a "deficiency" shall mean that the value of the assets of the Debt Service Reserve Fund, determined in accordance with Section 4.11, is less than the Debt Service Reserve Fund Requirement; and

(ii) a "surplus" shall mean that the value of the assets of the Debt Service Reserve Fund, determined in accordance with Section 4.11, is in excess of the Debt Service Reserve Fund Requirement; provided, however, that interest earned and profits realized by reason of the investment of amounts on deposit in the Debt Service Reserve Fund and required to be transferred to the Debt Service Fund under Section 4.11 shall not create a surplus within the meaning of this Section even though such amounts shall not have

been transferred from the Debt Service Reserve Fund as provided in Section 4.11.

The Trustee shall determine the value of the assets of the Debt Service Reserve Fund in the manner provided by Section 4.10 as of the close of business (i) on September 1 and March 1 in each year during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and between the date of delivery of any Series of Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds, (ii) on September 1 in each year during any other period, (iii) on the date of any withdrawal from the Debt Service Reserve Fund and on the last Business Day of each month thereafter until such determination discloses that a deficiency no longer exists in the Debt Service Reserve Fund, (iv) on any date on which the Trustee obtains actual knowledge that any Debt Service Reserve Fund Credit Facility is no longer entitled to be credited against the Debt Service Reserve Fund Requirement, and (v) on any other date which the Service shall direct.

As promptly as practicable after making such determination, the Trustee shall notify the Service of the result of such determination and of the amount of any deficiency or surplus determined to exist in the Debt Service Reserve Fund.

The Trustee shall transfer the amount of any surplus that exists in the Debt Service Reserve Fund from time to time upon the direction of the Service as follows:

FIRST: to the Construction Fund during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and, unless the Supplemental Indenture authorizing the issuance of any Additional Bonds shall otherwise provide, during the period between the date of delivery of such Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds; and

SECOND: to the Redemption Fund.

Section 4.08. Redemption Fund: Application of Moneys. (a) On any date on which a determination of the value of the assets of the Debt Service Reserve Fund discloses a deficiency therein, the Trustee shall transfer to the Debt Service Reserve Fund from the Redemption Fund any amount on deposit in the Redemption Fund (other than moneys set aside to pay the Redemption Price of any Bonds theretofore called for redemption and moneys required for the purchase of Bonds theretofore contracted to be purchased) to the extent of such deficiency. The Trustee shall notify the Service of such transfer and the amount thereof.

(b) Subject to the provisions of paragraphs (a), (c) and (d) of this Section, moneys in the Redemption Fund shall be applied by the Trustee to the purchase or redemption of Bonds of such Series and maturities as the Service shall direct. At the direction of the Service, the Trustee shall

endeavor to purchase such Bonds at the most advantageous price obtainable with reasonable diligence, but no such purchase shall be made by the Trustee (i) within the period of 45 days immediately preceding any interest payment date on which such Bonds are subject to call for redemption under the provisions of this Indenture or (ii) at a price, including any brokerage or other charges, greater than the sum of the Redemption Price of such Bonds on the next interest payment date on which such Bonds are subject to redemption and accrued interest to the date of purchase of such Bonds.

(c) Notwithstanding the foregoing provisions of this Section, to the extent provided in any Supplemental Indenture authorizing the issuance of any Series of Additional Bonds (i) moneys available for the redemption or purchase of Bonds on any date shall be allocated among all Series of Bonds in proportion (as nearly as practicable) to the aggregate principal amount of Bonds of each such Series subject to redemption from such amounts on such date and (ii) the Bonds of such Series of Additional Bonds to be purchased or redeemed on any date shall be selected in accordance with the provisions of such Supplemental Indenture.

(d) Upon the direction of the Service, the Trustee may set aside any amount on deposit in the Redemption Fund for the redemption of particular Bonds by the delivery of irrevocable written instructions to the Trustee directing the Trustee to set aside such amount for such purpose, in which event all of the provisions of Sections 9.01 and 10.04 shall be applicable to such Bonds and the amounts set aside for the payment of such Bonds. Amounts set aside for the redemption of Bonds and investment earnings on such amounts shall be applied to the payment of the interest due on such Bonds on or prior to the redemption date of such Bonds to the extent provided in such instructions.

Section 4.09. Insurance and Condemnation Award Fund: Application of Moneys. (a) The Service may elect within six months of any loss, damage, destruction or taking of the Project or any Additional Facilities to apply the proceeds resulting therefrom on deposit in the Insurance and Condemnation Award Fund to the repair or replacement of the lost, damaged, destroyed or taken property, if:

(i) the Service delivers to the Trustee a certificate of an Authorized Officer of the Service in form and substance satisfactory to the Trustee, setting forth the Authorized Officer's estimate of the cost of repairing or replacing the lost, damaged, destroyed or taken property to be repaired or replaced and the time required therefor; and

(ii) the Service delivers to the Trustee a certificate of an Authorized Officer of the Service, in form and substance satisfactory to the Trustee, that (1) the amount of such proceeds, together with any other moneys deposited or available for deposit in the Insurance and Condemnation Award Fund (which may

include, without limitation, amounts available to be drawn under a letter of credit, guaranty or other instrument in form and substance satisfactory to the Trustee delivered to the Trustee for the credit of the Insurance and Condemnation Award Fund) will be sufficient to pay the costs of repairing or replacing the lost, damaged, destroyed or taken property to be repaired or replaced, (2) the Coverage Ratio for each of the two Fiscal Years following restoration of the Project or any Additional Facilities (taking into account proceeds of insurance available to the Service for each Fiscal Year during the period of restoration) is projected to be at least 1.00 and (3) neither the Service nor any of the Baltimore Regional Counties is in default in the performance or observance of any of the covenants, conditions, agreements or provisions of the Intergovernmental Agreement, and the Intergovernmental Agreement is in full force and effect.

(b) The Service may elect within six months of any loss, damage, destruction or taking of the Project or any Additional Facilities to apply any proceeds resulting therefrom on deposit in the Insurance and Condemnation Award Fund to the redemption of Outstanding Bonds if:

(i) the Service either delivers to the Trustee a certificate of an Authorized Officer of the Service, in form and substance satisfactory to the Trustee, to the effect that (after giving effect to the redemption of such Bonds) the Coverage Ratio for each Fiscal Year during the period covered by projections contained in such certificate, which shall be a period of at least two full Fiscal Years or such longer period as shall be deemed advisable by the Service, is projected to be at least 1.00; or

(ii) the Service shall pay to the Trustee for deposit in the Insurance and Condemnation Award Fund an amount of money that, together with any other moneys held to the credit of the funds and accounts created by this Indenture, shall be sufficient to provide for the redemption of all Outstanding Bonds in the manner provided by this Indenture.

(c) The Service may elect to apply a portion of such proceeds to the repair or replacement of the lost, damaged, destroyed or taken property and to apply the remaining proceeds to the redemption of Outstanding Bonds so long as the Service shall satisfy the requirements of paragraph (a) above.

(d) The Service shall elect to apply such proceeds in accordance with paragraph (a), (b) or (c) above within six months of such loss, damage, destruction or taking. If the Service does

not make such election or is not entitled to apply such proceeds in accordance with paragraph (a), (b) or (c) above, the Trustee shall employ an Independent Consultant at the expense of the Service, within six months of such loss, damage, destruction or taking, to submit a written report and recommendations as to the use of such proceeds that would result in the maximum feasible Coverage Ratio. Such report shall include a financial projection for a period extending at least through the second full Fiscal Year after the date of completion of any repairs or replacements recommended by such Independent Consultant. Such proceeds shall be applied in accordance with the recommendations of such Independent Consultant.

(e) If any portion of the Project or any Additional Facilities shall be lost, damaged or destroyed as a result of a casualty as to which insurance has not been maintained as required under the terms of this Indenture, and if the amount of such loss, damage or destruction is in excess of $100,000 multiplied by the Inflation Factor, the Service shall elect, promptly after such loss, damage or destruction, either to expend for repairs, restoration or replacement of the property lost, damaged or destroyed such sum as may be required therefor, or to pay such sum to the Trustee; provided, however, that if in any single Fiscal Year such loss, damage or destruction is in an aggregate amount equal to or in excess of $200,000 multiplied by the Inflation Factor, and the Service shall not have elected to repair or replace the lost, damaged or destroyed property within six months of such loss, damage or destruction, then the Service shall either (i) deliver to the Trustee a certificate of an Authorized Officer of the Service, in form and substance satisfactory to the Trustee, to the effect that the Coverage Ratio for each Fiscal Year during the period covered by projections contained in such certificate, which shall be a period of at least two full Fiscal Years or such longer period as shall be deemed advisable by the Service, is projected to be at least 1.00, or (ii) forthwith pay to the Trustee for deposit in the Insurance and Condemnation Award Fund the amount that, together with any other moneys in the funds and accounts established by this Indenture, shall be sufficient to provide for the redemption of all Outstanding Bonds. Notwithstanding any other provision of this paragraph, the Service may elect within such six-month period to repair or replace some of the lost, damaged or destroyed property and to pay the remaining sum (and any additional moneys) to the Trustee to be applied to the redemption of Outstanding Bonds if the Service's certificate delivered to the Trustee pursuant to clause (i) above indicates that the Coverage Ratio for each Fiscal Year during the period extending through the second full Fiscal Year after the date of completion of such repairs or replacements is projected to be at least 1.00.

(f) As used in this Section, the terms "repair' and "replace" include (without limitation) the construction or acquisition of replacement or substitute property, structures, machinery, equipment or other improvements having a fair market value (but not necessarily the same function) at least equal to the fair market value, immediately prior to loss, damage, destruction or taking, of the property lost, damages, destroyed or taken. The election of the Service to repair or replace any lost, damaged, destroyed or taken property shall be made by a written certification of an Authorized Officer of the Service to the effect that the Service has entered into substantial, binding commitments for such repair or replacement.

(g) The Service shall adjust losses under property and business interruption insurance policies related to the Project or any Additional Facilities as promptly as practicable and with due regard to the interests of the Trustee and the holders of Bonds. Any adjustment of any loss, damage or destruction in an amount in excess of $20,000 under any policy of casualty insurance and any settlement or payment of indemnity in an amount in excess of $20,000 under any such policy shall be evidenced by an appropriate certificate, filed with the Trustee, signed by an Authorized Officer of the Service.

(h) If any public authority or other entity, in the exercise of its power of eminent domain or condemnation power or through the exercise of any right or obligation on the part of such entity, or as a result of any agreement between the Service and such entity made in lieu of condemnation proceedings, takes or damages the Project or any Additional Facilities, or any part thereof, the Service shall take prompt and appropriate measures to protect and enforce its rights and interests and those of the Trustee in connection with any condemnation proceeding. Prompt written notice of any taking, loss, damage or destruction of any part of the Project or any Additional Facilities or of any official notice thereof or of the institution of any proceeding therefor by any public instrumentality, body, agency or officer shall be given to the Trustee.

(i) If moneys on deposit in the Insurance and Condemnation Award Fund are to be used to pay the costs of repair or replacement of lost, damaged, destroyed or taken property, such moneys shall be disbursed by the Trustee from time to time to or at the direction of the Service in accordance with requisitions meeting the requirements of Section 4.03.

If moneys on deposit in the Insurance and Condemnation Award Funds are to be applied to the redemption of Bonds, such moneys shall be transferred by the Trustee to the Redemption Fund to be applied to the extraordinary redemption of Bonds on the earliest practicable redemption date.

Section 4.10. Investment of Moneys; Application of Earnings on Debt Service Reserve Fund. Subject to the provisions of Section 4.12, moneys in any of the funds and accounts established by this Indenture shall be invested by the Trustee, as shall be directed in writing by an Authorized Officer of the Service, but only in Investment Obligations maturing in such amounts and on such dates as may be necessary to provide moneys to meet the payments from such funds and accounts. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund shall be invested only in Investment Obligations maturing or redeemable at the option of the holder not later than ten years following the date of their purchase.

Subject to the provisions of Section 4.12 and the further provisions of this Section, interest earned, profits realized and losses suffered by reason of any investment of the funds and accounts created by this Indenture shall be credited or charged, as the case may be, to the fund or account for which such investment shall have been made; provided, however, that during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and, unless the Supplemental Indenture authorizing the issuance of any Additional Bonds

shall otherwise provide, during the period between the date of delivery of any Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds, the Trustee shall pay to the Construction Fund from the Interest Account an amount equal to the interest earned from the investment of money in the Interest Account which, together with other money on deposit in the Interest Account is in excess of the amount required to pay interest on the Bonds on each interest payment date prior to the Completion Date.

Interest earned, profits realized and losses suffered by reason of any investment of the Debt Service Reserve Fund shall be calculated by the Trustee on each date on which the Trustee is required to determine the value of the assets of the Debt Service Reserve Fund in accordance with Section 4.07. If the net investment result for the Debt Service Reserve Fund for any such period is a gain (by virtue of either interest earned or profits realized), the amount of such investment gain shall be credited to the Debt Service Reserve Fund to the extent that there exists a deficiency therein, and the balance of such investment gain, if any, shall be paid by the Trustee from time to time upon the direction of the Service as follows: (i) to the Construction Fund during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and, unless the Supplemental Indenture authorizing the issuance of any Additional Bonds shall otherwise provide, during the period between the date of delivery of any Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds; and (ii) in any other case, to the Debt Service Fund for deposit in such accounts as the Service shall direct in writing.

The Trustee may sell or redeem any obligations in which moneys shall have been invested as in this Section provided to the extent necessary to provide cash in the respective funds or accounts to make any payments required to be made therefrom or to facilitate the transfers of moneys between various funds and accounts as may be required or permitted from time to time pursuant to the provisions of this Indenture. The proceeds from the sale of any investment shall be paid into the fund or account for which the sale thereof was made.

In determining the value of the assets of the funds and accounts created by this Indenture (i) investments and accrued interest thereon shall be deemed a part thereof, and (ii) investments shall be valued at amortized cost or current market value, whichever is the lower, or at the redemption price thereof, if then redeemable at the option of the holder (in any case net of the cost of liquidating such investments).

In addition, in determining the value of the assets of the Debt Service Reserve Fund, there shall be credited to the Debt Service Reserve Fund the amount that can be realized by the Trustee under any Debt Service Reserve Fund Credit Facility if each of the following conditions is met: (i) on the date of delivery of such Debt Service Reserve Fund Credit Facility to the Trustee and throughout the period during which such Debt Service Reserve Fund Credit Facility is credited to the Debt Service Reserve Fund, the unsecured long-term indebtedness or the claims-paying ability of the issuer of such Debt Service Reserve Fund Credit Facility or its parent holding company or other controlling entity is rated by each Rating Agency which maintains a rating on

the Bonds secured thereby in a rating category not lower than the rating category in which such Bonds are then rated; (ii) such Debt Service Reserve Fund Credit Facility permits the Trustee to realize amounts thereunder (A) at such times as the Trustee is required to transfer any amount (other than any surplus) from the Debt Service Reserve Fund in accordance with this Indenture and (B) immediately prior to the expiration date of such Debt Service Reserve Fund Credit Facility unless all Bonds secured thereby shall have been paid within the meaning of Article IX prior to such date or there shall have been deposited in the Debt Service Reserve Fund money or securities authorized for investment of the Debt Service Reserve Fund (including, without limitation, any substitute Debt Service Reserve Fund Credit Facility meeting the requirements of this paragraph) equal to the Debt Service Reserve Fund Requirement; (iii) in connection with the delivery of such Debt Service Reserve Fund Credit Facility, the Trustee shall have agreed to make the drawings permitted by clause (ii) above; and (iv) if amounts realized under such Debt Service Reserve Fund Credit Facility are, under any circumstances, payable from the Revenues, such amounts shall be payable in no fewer than 12 equal monthly installments.

The Trustee shall not be liable for any depreciation in the value of any obligations in which moneys of the funds or accounts created by this Indenture shall be invested, as set forth above, or for any loss arising from any investment permitted herein. The investments authorized by this Section shall at all times be subject to the provisions of applicable law, as amended from time to time.

Section 4.11. Application of Moneys in Certain Funds for Retirement of Bonds. Notwithstanding any other provision of this Indenture, if at any time the Service shall determine to provide for the payment of all Outstanding Bonds in accordance with Article IX, upon the written request of the Service, the Trustee shall apply any moneys on deposit in the funds and accounts created by this Indenture available for the payment of the principal or Redemption Price of and interest on the Bonds to the payment or redemption of such Bonds in the manner provided by Article IX.

Section 4.12. Bonds Not to Be Arbitrage Bonds; Rebate Fund. The Director and the Treasurer of the Service shall be the officials of the Service responsible for issuing the Bonds (the "Section 148 Certifying Officials"). The Section 148 Certifying Officials shall execute and deliver (on the date of each issuance of Tax-Exempt Bonds) a certificate of the Service (each such certificate, as it may be amended and supplemented from time to time in accordance with this Section, being referred to herein as a "Tax and Section 148 Certificate") that complies with the requirements of Section 148 of the Code or any successor to such Section in effect on the date of issuance of any Tax-Exempt Bonds ("Section 148").

The Service shall set forth in such Tax and Section 148 Certificate its reasonable expectations as to relevant facts, estimates and circumstances relating to the use of the proceeds of such Tax-Exempt Bonds, or of any moneys, securities or other obligations that may be deemed to be proceeds of such Tax-Exempt Bonds within the meaning of Section 148 (collectively, "Bond Proceeds").

The Service covenants that (i) the facts, estimates and circumstances set forth in each Tax and Section 148 Certificate will be based on the Service's reasonable expectations on the date of delivery of such certificate and will be, to the best of the Section 148 Certifying Officials' knowledge, true, correct and complete as of that date, and (ii) the Section 148 Certifying Officials will make reasonable inquiries to ensure such truth, correctness and completeness.

The Service further covenants that it will not make, or (to the extent it exercises control or direction) permit the Baltimore Regional Counties to make, any use of the Bond Proceeds that would cause any Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148.

The Service further covenants that it will comply with those provisions of Section 148 that are applicable to any Tax-Exempt Bonds on the date of issuance of such Bonds and with those provisions of Section 148 that may subsequently be lawfully made applicable to such Bonds. To the extent that provisions of Section 148 apply only to a portion of any Tax-Exempt Bonds, it is intended that the covenants of the Service contained in this Section be construed so as to require the Service to comply with Section 148 only to the extent of such applicability.

The Service further covenants that it will comply with all covenants contained in each Tax and Section 148 Certificate with respect to any Tax-Exempt Bonds which are continuing covenants of the Service; provided, however, that such compliance will not be required upon delivery to the Trustee of an opinion of Bond Counsel to the effect that such non-compliance will not adversely affect the excludability from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds theretofore issued.

The Service shall (i) hold and invest Bond Proceeds within its control (if such proceeds are invested), (ii) direct the Trustee to transfer amounts on deposit in any fund or account created by this Indenture to the Rebate Fund and (iii) deposit funds with the Trustee for deposit to the Rebate Fund or otherwise make funds available for the payment of rebates to the United States of America, all in accordance with the expectations of the Service set forth in the Tax and Section 148 Certificate.

The Service shall make timely payment, but only from the Revenues, of any rebate amount (or installment thereof) required to be paid to the United States of America in order to preserve the excludability from gross income, for federal income tax purposes, of interest paid on the Tax-Exempt Bonds and shall include with any such payment such other documents, certificates or statements as shall be required to be included therewith under then-applicable law and regulations.

Upon receipt of written notice from an Authorized Officer of the Service directing the transfer of amounts on deposit in any fund or account created by this Indenture to the Rebate Fund, the Trustee shall make the transfer referred to therein, any other provision of this Indenture to the contrary notwithstanding. Amounts on deposit in the Rebate Fund from time to time required to be rebated to the United States of America pursuant to Section 148 shall be made

available by the Trustee to the Service for the payment of such rebates upon the written direction of an Authorized Officer of the Service and shall not be pledged to the payment of the principal or Redemption Price of or interest on any Bonds.

Notwithstanding any provision of this Indenture to the contrary, the Trustee shall not be liable or responsible for any calculation or determination which may be required in connection with, or for the purpose of complying with, Section 148 of the Code including, without limitation, the calculation of amounts required to be paid to the United States under the provisions of such Section 148 of the Code, the maximum amount which may be invested in "nonpurpose obligations" as defined in the Code, and the fair market value of any investments made hereunder; and the sole obligation of the Trustee with respect to investments of funds hereunder shall be to invest the moneys received by the Trustee as provided herein pursuant to the written instructions of the Service.

Upon receipt of written notice from an Authorized Officer of the Service directing the transfer of amounts on deposit in the Rebate Fund to any fund or account created by this Indenture, the Trustee shall make the transfer referred to therein; provided, however, that the amount transferred shall not exceed the excess of the amount on deposit in the Rebate Fund over the rebate liability as of the date of calculation by the Service, less amounts theretofore paid to the United States as rebate with respect to the Bonds.

The Section 148 Certifying Officials may execute an amendment or supplement to any Tax and Section 148 Certificate upon delivery to the Trustee of an opinion of Bond Counsel to the effect that actions taken by the Service in accordance with such amendment or supplement will not adversely affect the excludability from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds theretofore issued.

Neither the Service nor the Trustee shall incur any liability in connection with any action as contemplated herein so long as the Service and the Trustee act in good faith.

As used in this Section, "rebate" means the required rebate payable to the United States of America and any penalty in lieu of rebate pursuant to Section 148(f) of the Code.

ARTICLE V

PARTICULAR COVENANTS

Section 5.01. Payment of Principal and Interest. The Service shall pay or cause to be paid the principal or Redemption Price of and interest on every Bond on the date, at the place and in the manner provided herein and in the Bonds according to the true intent and meaning thereof; provided, however, that the Bonds are limited obligations of the Service the principal or Redemption Price of and interest on which are payable solely from the Revenues.

The Bonds shall not be payable from the general funds of the Service and shall not constitute a legal or equitable pledge of, or lien or encumbrance upon, any of the assets or property of the Service or upon any of its income, receipts or revenues, except as provided in this Indenture. The Bonds do not constitute a debt or liability of the State of Maryland, of any political subdivision thereof (including the Baltimore Regional Counties) or of the Service. Neither the State of Maryland nor any political subdivision thereof (including the Baltimore Regional Counties) nor the Service shall be obligated to pay the principal or Redemption Price of or interest on, or the purchase price of, the Bonds except from the Revenues. Neither the faith and credit nor the taxing power of the State of Maryland, of any political subdivision thereof (including the Baltimore Regional Counties) or of the Service is pledged to the payment of the Bonds. The issuance of the Bonds is not directly or indirectly or contingently an obligation, moral or other, of the State of Maryland, of any political subdivision thereof (including the Baltimore Regional Counties) or of the Service to levy any tax or make any appropriation for their payment. The Service has no taxing power.

Section 5.02. Performance of Covenants, Undertakings and Agreements; Representations as to Authorization and Validity of Bonds. The Service shall faithfully perform at all times all of its covenants, undertakings and agreements contained in the Intergovernmental Agreement and any Bond executed, authenticated and delivered under this Indenture or in any proceedings of the Service pertaining thereto. The Service shall take all legally available action to cause the Baltimore Regional Counties to perform fully all duties and acts and comply fully with the covenants of the Baltimore Regional Counties contained in the Intergovernmental Agreement.

The Service represents and covenants that: (i) it is duly authorized under the Constitution and laws of the State of Maryland, particularly the Act, to issue the Bonds and to enter into the Intergovernmental Agreement and to pledge the Trust Estate in the manner and to the extent set forth in this Indenture; (ii) all action on its part for the issuance of the Series 1995 Bonds has been duly and effectively taken; and (iii) the Series 1995 Bonds are and will be valid and binding limited obligations of the Service according to their terms.

Section 5.03. Liens, Encumbrances and Charges. The Service shall not create and shall not suffer to remain any lien, encumbrance or charge upon its interest in the Revenues, except for the pledge created for the security of the Bonds and, to the extent provided herein, any

Additional Bonds and Subordinate Obligations and Permitted Encumbrances. The Service will cause to be discharged, or will make adequate provisions to satisfy and discharge, within 60 days after the same shall accrue, all lawful claims and demands that, if unpaid, might by law become a lien upon its interest in the Revenues; provided, however, that nothing contained in this Section shall require the Service to pay or cause to be discharged, or make provision for, any such lien, encumbrance or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings. Except for Subordinate Obligations, so long as any Bonds or Additional Bonds shall be Outstanding, the Service shall not issue any bonds, notes or other evidences of indebtedness other than the Bonds, secured by any pledge of or other lien or charge on the Revenues under this Indenture. The Service shall not create or cause to be created any lien or charge on the Revenues, other than the lien on and pledge of the Revenues authorized by this Indenture to secure the Bonds, Additional Bonds and any Subordinate Obligations. Anything in this Section to the contrary notwithstanding, the Service may dispose of Revenues at any time unless it is in default under this Indenture.

Section 5.04. Accounts and Audits. The Service shall keep proper books of records and accounts (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Bonds, the Project, any Additional Facilities and the funds and accounts created by this Indenture, which books and accounts (at reasonable hours and subject to the reasonable rules and regulations of the Service) shall be subject to the inspection of the Trustee or any Bondholder or representative of such Bondholder duly authorized in writing. The Service shall cause such books and accounts to be audited annually within 120 days after the end of its fiscal year by a nationally recognized independent certified public accountant selected by the Service. Annually within 30 days after the receipt by the Service of the report of such audit, a signed copy of such report shall be furnished to the Trustee. Such report shall include at least: (i) a statement of all funds and accounts (including investments thereof) held by the Trustee and the Service pursuant to the provisions of this Indenture; (ii) a statement of the Revenues collected by the Service and the Trustee during such fiscal year; (iii) a statement as to whether the balance in the Debt Service Reserve Fund meets the requirements of this Indenture; and (iv) a statement as to whether the rate covenant set forth in Section 5.07 has been satisfied during the immediately preceding fiscal year. A copy of such report shall also be furnished by the Service to each of the Rating Agencies.

Section 5.05. Amendment of the Project and Additional Facilities. The Service shall not consent to any amendment of the Project or any Additional Facilities which shall: (i) increase the cost of the Project or such Additional Facilities to an amount in excess of the amount of moneys available or reasonably expected to become available for the payment of such costs, or (ii) decrease the scope of the Project or such Additional Facilities so that the Project or such Additional Facilities, as decreased in scope, would cease to be an economically feasible or functional facility.

Nothing contained in this Section shall be construed to prohibit the Service from exercising its judgment and discretion in reducing the scope of the Project or any Additional

Facilities in the event that (i) unforeseen circumstances would result in inadequate money to complete the Project or such Additional Facilities and (ii) such inadequacy could not reasonably be remedied by the issuance of Bonds or otherwise.

Section 5.06. Filing of Financing Statements. The Service covenants that, in order further to evidence the grant and perfection of the interest of the Trustee in the Trust Estate to the extent possible by such filing, appropriate financing statements, naming the Trustee as assignee of the Trust Estate, will be executed by the Service at the direction of the Trustee and delivered to the Trustee for filing in the appropriate State and city or county offices as required by the Maryland Uniform Commercial Code. The Trustee will file such necessary continuation statements from time to time as may be required pursuant to the provisions of the Maryland Uniform Commercial Code to protect the interests of the Trustee and the Bondholders in the Trust Estate.

Section 5.07. Rate Covenant. (a) The Service shall fix, charge and collect the Processing Fee in each Fiscal Year which, together with other Composting Facility Revenues for such Fiscal Year, shall be at least equal to Total Costs for such Fiscal Year.

(b) If the Processing Fee, together with other Composting Facility Revenues imposed and collected by the Service, shall be less than the amount required under paragraph (a) of this Section in any Fiscal Year, the Service shall immediately employ an Independent Consultant to submit a written report and recommendations with respect to such Processing Fee and Composting Facility Revenues, and with respect to improvements or changes in the operations of or the services rendered by Service under the Intergovernmental Agreement. The Service shall require any Independent Consultant employed hereunder to file its report and recommendations within 150 days from the end of any such Fiscal Year with the Service and the Trustee.

(c) Any Independent Consultant retained by the Service pursuant to this Section may recommend with respect to the Processing Fee or other charges imposed and collected by the Service and with respect to improvements or changes in the operations of or the services rendered by the Service under the Intergovernmental Agreement that the Service either (A) make no change or (B) make some change, even though such recommendation is not calculated to result in compliance with the requirements of paragraph (a) of this Section, if the Independent Consultant includes in its written report and recommendations a statement to the effect that compliance with such recommendations should result in compliance with such requirements to the maximum extent feasible.

(d) To the extent permitted by Applicable Law, the Service promptly shall revise its Processing Fee and other charges in conformity with any reasonable recommendation of the Independent Consultant retained by the Service pursuant to this Section and shall otherwise follow the reasonable recommendations of such Independent Consultant. If the Service shall revise such Processing Fee and other charges in conformity with the reasonable recommendations of the Independent Consultant and otherwise follow the reasonable

recommendations of the Independent Consultant, then the failure of the Service to meet the requirements of paragraph (a) of this Section for such Fiscal Year shall not constitute an Event of Default under this Indenture.

(e) Nothing set forth in this Section shall be construed to excuse the Service from the payment in timely manner of all amounts due under this Indenture or the performance of any other obligation of the Service under this Indenture.

Section 5.08. Insurance. (a) The Service shall maintain, or cause to be maintained, insurance of the types and in the amounts ordinarily and customarily maintained on facilities such as the Project.

(b) The Service may satisfy the requirements of paragraph (a) of this Section by (i) causing to be maintained by any operator of the Composting Facility insurance in amounts and for such purposes as the Service determines to be necessary or appropriate (ii) establishing and maintaining a self-insurance plan that protects the Service against the risks required to be insured against by paragraph (a) of this Section; or (iii) participating in any self-insurance plan that protects the Service against the risks required to be insured against by paragraph (a) of this Section and that is established and maintained by the State of Maryland.

ARTICLE VI

CONCERNING THE TRUSTEE

Section 6.01. Appointment of the Trustee; Registrar; Acceptance of Trustee. _____, a trust company duly organized and existing under the laws of the _____, is hereby appointed Trustee for the Bonds. Except as otherwise provided in any Supplemental Indenture authorizing the issuance of Additional Bonds with respect to such Bonds, the Trustee shall also be the Registrar and the paying agent for the Bonds.

Section 6.02. Trustee Entitled to Indemnity. The Trustee shall be under no obligation to institute any suit, or to undertake any proceeding under this Indenture, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability except as a consequence of its own negligence or default. Nevertheless, the Trustee may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as the Trustee, without indemnity, and in such case the Service shall reimburse the Trustee from the Revenues for all costs and expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith. If the Service shall fail to make such reimbursement, the Trustee may reimburse itself from any moneys in its possession under the provisions of this Indenture and shall be entitled to a preference therefor over any Bonds Outstanding hereunder.

Section 6.03. Responsibilities of the Trustee. The recitals contained in this Indenture and in the Bonds shall be taken as the statements of the Service and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or with respect to the security afforded by this Indenture, and the Trustee shall incur no liability with respect thereto. Except as otherwise expressly provided in this Indenture, the Trustee shall have no responsibility or duty with respect to: (i) the issuance of the Bonds for value; (ii) the application of the proceeds thereof, except to the extent that such proceeds are received by it in its capacity as Trustee; or (iii) the application of any moneys paid to the Service or others in accordance with this Indenture except as to the application of any moneys paid to it in its capacity as Trustee.

The duties and obligations of the Trustee shall be determined by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture.

The Trustee shall not be liable for any action taken or omitted by it in the performance of its duties under this Indenture except for its own negligence or default.

Section 6.04. Property Held in Trust. All moneys and securities held by the Trustee at any time pursuant to the terms of this Indenture shall be held by the Trustee in trust for the purposes and under the terms and conditions of this Indenture.

Section 6.05. Trustee Protected in Relying on Certain Documents. The Trustee may rely upon any resolution, order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond or other document provided to the Trustee in accordance with the terms of this Indenture that it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of this Indenture, or upon the written opinion of any counsel, architect, engineer, insurance consultant, management consultant or accountant believed by the Trustee to be qualified in relation to the subject matter, and the Trustee shall be under no duty to make any investigation or inquiry into any statements contained or matters referred to in any such instrument. The Trustee may consult with counsel, who may or may not be Bond Counsel or counsel to the Service, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it in good faith and in accordance therewith.

Whenever the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Indenture, such matter may be deemed to be conclusively proved and established by a certificate signed by an Authorized Officer of the Service, unless other evidence in respect thereof be hereby specifically prescribed. Such certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof, but in its discretion the Trustee may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable. Except as otherwise expressly provided herein, any request, order. notice or other direction required or permitted to be furnished pursuant to any provision hereof by the Service to the Trustee shall be sufficiently executed if executed in the name of the Service by an Authorized Officer of the Service.

The Trustee shall not be under any obligation to see to the recording or filing of this Indenture, or otherwise to the giving to any person of notice of the provisions hereof.

Section 6.06. Compensation. Unless otherwise provided by contract with the Trustee, the Service shall pay to the Trustee from the Revenues, from time to time, reasonable compensation for all services rendered by it hereunder, including its services as Registrar, together with all its reasonable expenses, charges and other disbursements and those of its counsel, agents and employees, incurred in and about the administration and execution of the trusts hereby created and the exercise of its powers and the performance of its duties hereunder, and the Trustee shall have a lien therefor on any and all funds at any time held by it hereunder prior to any Bonds Outstanding. The Service from the Revenues shall indemnify and save the Trustee harmless against any expenses and liabilities that the Trustee may incur in the exercise and performance of its powers and duties hereunder that are not due to its negligence or default.

If the Service shall fail to make any payment required by this Section, the Trustee may make such payment from any moneys in its possession under the provisions of this Indenture and shall be entitled to a preference therefor over any Bonds Outstanding hereunder.

Section 6.07. Permitted Acts. The Trustee and its directors, officers, employees or agents may become the owner of or may in good faith buy, sell, own, hold and deal in Bonds or Subordinate Obligations and may join in any action that any holder of Bonds or Subordinate Obligations may be entitled to take as fully and with the same rights as if it were not the Trustee. The Trustee may act as depository, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, the Service or any committee formed to protect the rights of holders of Bonds or Subordinate Obligations or to effect or aid in any reorganization growing out of the enforcement of the Bonds, any Subordinate Obligation or this Indenture, whether or not such committee shall represent the holders of a majority of the Bonds or Subordinate Obligations.

Section 6.08. Resignation of the Trustee. The Trustee may at any time resign and be discharged of its duties and obligations hereunder by giving not fewer than 30 days' written notice, specifying the date when such resignation shall take effect, to the Service and each Holder of any outstanding Bonds or Subordinate Obligations. Such resignation shall take effect upon the date specified in such notice or prior thereto in the event a successor shall have been previously appointed by the Service or the holders of Bonds as provided in Section 6.10, in which event such resignation shall take effect immediately on the appointment of such successor and the acceptance of such appointment by such successor.

Section 6.09. Removal of Trustee. The Trustee may be removed by the holders of a majority of the Bonds by an instrument or concurrent instruments in writing signed and acknowledged by such holders or by their attorneys-in-fact, duly authorized and delivered to the Service. Facsimile copies of each such instrument shall be delivered by the Service to the Trustee and any successor thereof. The Trustee may also be removed (i) by the Service at any time that there exists no Event of Default hereunder and (ii) at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of this Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Service or of the holders of not less than ten percent of the Bonds.

Section 6.10. Successor Trustee. If the Trustee shall resign, be removed, be dissolved or become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the position of the Trustee hereunder shall thereupon become vacant.

If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, a successor Trustee may be appointed within one year after any such vacancy shall

have occurred by the holders of a majority of the Bonds by an instrument or concurrent instruments in writing signed and acknowledged by such holders or their attorneys-in-fact, duly authorized and delivered to such successor Trustee, with notification thereof being given to the predecessor Trustee and the Service.

Until such successor Trustee shall have been appointed by the holders of Bonds, the Service shall forthwith appoint a Trustee to act hereunder. Copies of any instrument of the Service providing for any such appointment shall be delivered by the Service to the Trustee so appointed and the predecessor Trustee. The Service shall mail notice of any such appointment to each Holder of any outstanding Bonds or Subordinate Obligations within 30 days after such appointment. Any appointment of a successor Trustee made by the Service immediately and without further act shall be superseded and revoked by an appointment subsequently made by the holders of Bonds.

If in a proper case no appointment of a successor Trustee shall be made within one year after the giving by any Trustee of any written notice of resignation in accordance with Section 6.08 or after the occurrence of any other event requiring or authorizing such appointment, the Trustee or any holder of Bonds or Subordinate Obligations may apply to any court of competent jurisdiction for the appointment of such a successor, and the court may thereupon, after such notice, if any, as the court may deem proper, appoint such successor.

Any successor Trustee appointed under the provisions of this Section shall be a commercial bank or trust company or national banking association (i) which alone, or together with its parent bank, trust company, or bank holding company, has a capital and surplus aggregating at least $75,000,000, if there be such a commercial bank or trust company or national banking association willing and able to accept the appointment on reasonable and customary terms, and (ii) authorized by law to perform all the duties of the Trustee required by this Indenture.

Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor Trustee has been appointed.

Section 6.11. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under the provisions of Section 6.10 shall execute, acknowledge and deliver to its predecessor and the Service an instrument in writing accepting such appointment, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, immunities, powers, duties, obligations and trusts of its predecessor hereunder, with like effect as if originally appointed as Trustee. However, the Trustee then ceasing to act shall nevertheless, on request of the Service or of such successor, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor all the rights, immunities, powers and trusts of such Trustee and all the right, title and interest of such Trustee in and to the Trust Estate, and shall pay over, assign

and deliver to such successor any moneys or other properties subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the Service be required by such successor for more fully and certainly vesting in and confirming to it any such moneys, estates, properties, rights, powers, duties or obligations, any and all such deeds, conveyances and instruments in writing, on request and so far as may be authorized by law, shall be executed, acknowledged and delivered by the Service.

Section 6.12. Merger, Conversion or Consolidation of Trustee. Any company into which the Trustee may be merged or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business shall be the successor to such Trustee hereunder, without any further act, deed or conveyance, provided that such company shall be a commercial bank or trust company or national banking association qualified to be a successor to such Trustee under the provisions of Section 6.10.

Section 6.13. Trustee to File Continuation Statements. The Trustee shall file such continuation statements as may be required by the Maryland Uniform Commercial Code, as from time to time in effect (the "UCC"), in order to continue perfection of the security interest of the Trustee in such items of tangible or intangible personal property and any fixtures as may have been granted to the Trustee pursuant to this Indenture in the time, place and manner required by the UCC.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 7.01. Events of Default. Each of the following events is hereby declared to constitute an event of default hereunder (an "Event of Default"):

(a) payment of the principal of any Bond shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or payment of the purchase price of any Bond required by its terms to be purchased from the Holder thereof by the Service on any date prior to its stated maturity shall not be made in accordance with the terms thereof on such date; or

(b) payment of interest on any Bond shall not be made when the same shall become due and payable; or

(c) an order or decree shall be entered with the consent or acquiescence of the Service appointing a receiver or receivers of the Revenues, or such order or decree, having been entered without the consent or acquiescence of the Service, shall not have been vacated or discharged or stayed on appeal within 60 days after the entry thereof; or

(d) any proceeding shall be instituted with the consent or acquiescence of the Service for the purpose of effecting a composition between the Service and its creditors, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Trust Estate; or

(e) the Service shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in any Bond or in this Indenture on the part of the Service to be performed, which default, except for those defaults described in paragraph (a) through (d), inclusive, shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Service by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of not less than 25% of the Bondholders.

A default under this Indenture with respect to the Bonds shall not be or constitute a default under any other indenture entered into by the Service or with respect to any other Indebtedness of the Service, and no default under any other indenture entered into by the Service or with respect to any other Indebtedness of the Service shall be or constitute a default under this Indenture.

Section 7.02. Acceleration of Maturity. Upon the happening and continuance of any Event of Default specified in Section 7.01, then and in every such case the Trustee may, and upon the written request of not less than 25% of the Bondholders shall, by a notice in writing to

the Service, declare the principal of all of the Outstanding Bonds to be due and payable. The Trustee also shall declare the principal of all Outstanding Bonds to be due and payable upon the written direction of the Service following the occurrence of any Event of Default under the Intergovernmental Agreement. Notwithstanding the foregoing, the Trustee may not declare the principal of any Series of Bonds other than the Series 1995 Bonds to be due and payable without the prior written consent of any person whose consent shall be required for such declaration under the terms of the Supplemental Indenture authorizing the issuance of such Bonds.

Upon the giving of notice of such declaration, such principal shall become and be immediately due and payable, anything in the Bonds or in this Indenture to the contrary notwithstanding. At any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Indenture, the Trustee may (but in the event that such declaration has been made upon the request of the Bondholders, only with the written consent of not less than 25% of the Bondholders), by written notice to the Service, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date) and the principal of all matured Bonds (except the principal of any Bonds due only as a result of such declaration); (ii) sufficient moneys shall have accumulated and be available to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee; and (iii) every other default in the observance or performance of any covenant, condition or agreement contained in the Bonds, in this Indenture or in the Intergovernmental Agreement of which the Trustee has actual knowledge shall have been remedied to the satisfaction of the Trustee. No such annulment shall cxtend to or affect any subsequent default or impair any right consequent thereon. For purposes of declaring and annulling any default under this Indenture, the Trustee shall be deemed to have knowledge of any failure by the Service to make any payments of the principal of, either at maturity or by proceedings for redemption or otherwise, or interest on the Bonds when the same shall become due and payable.

Section 7.03. Enforcement. Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may proceed, and upon the written request of not less than 10% of the holders of Bonds shall proceed, to protect and enforce its rights and the rights of the holders of Bonds under the laws of the State of Maryland and under this Indenture and any Credit Facility (including any Debt Service Reserve Fund Credit Facility) by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained herein or therein, or in aid or execution of any power herein or therein granted, or for an accounting against the Service as if the Service were the trustee of an express trust or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under this Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Service, for principal of or interest on the Bonds, or otherwise under any of the provisions of this Indenture or of any Bond, with interest on overdue payments of principal at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the holders of Bonds, and to recover and enforce judgment or decree against the Service, but solely as provided herein and in the Bonds and from the sources and moneys provided herein and in the Bonds, for any portion of such amounts remaining unpaid and to collect in any manner provided by law the moneys adjudged or decreed to be payable.

Section 7.04. Priority of Payments following Default. If at any time there shall have occurred and be continuing an Event of Default, after payment of all amounts owing to the Trustee under this Indenture, amounts held by the Trustee hereunder together with any moneys thereafter becoming available for such purpose, whether through exercise of the remedies provided in this Article or otherwise, shall be applied as follows:

(a) unless the principal of all Outstanding Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

> FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds Outstanding, in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment of such installment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in such Bonds;
>
> SECOND: to the payment to the persons entitled thereto of the unpaid principal of any Outstanding Bonds that shall have become due and payable, in the order of their due dates, with interest upon the principal amount of such Bonds from the respective dates upon which they shall have become due and payable and, if the amount available shall not be sufficient to pay in full the principal of such Bonds due and payable on any particular date, together with such interest, then first to the payment of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal, ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or

preference, except as to any difference in the respective rates of interest specified in such Bonds; and

THIRD: to the payment of the interest on and the principal of the Bonds Outstanding as the same become due and payable; and

(b) if the principal of all Outstanding Bonds shall have become due by their terms or the principal of all Outstanding Bonds subject to acceleration shall have become due and payable by a declaration of acceleration, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee may determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The setting aside of such moneys in trust for the benefit of all holders of Bonds shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Service, to any holder of any Bond or Subordinate Obligation or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of this Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an interest payment date for the Bonds unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal of the Bonds to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date; provided, however, that the provisions of this paragraph shall be subject in all respects to the provisions of the Bonds with respect to the payment of defaulted interest on the Bonds. The Trustee shall not be required to make payment to the holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement.

Section 7.05. Discontinuance of Proceedings. In case any proceedings taken by the Trustee or the holders of any Bonds on account of any default with respect to the Bonds shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or such holders, then and in every such case the Service, the Trustee and the holders of such Bonds shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 7.06. Majority of the Holders May Control Proceedings. Anything in this Indenture to the contrary notwithstanding, the holders of a majority of the Bonds shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under this Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to holders of Bonds not parties to such direction.

Section 7.07. Restrictions Upon Action by Individual Holders. No holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law on any Bond for the execution of any trust hereunder or for any other remedy hereunder unless (i) such holder previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and (ii) the holders of not less than 10% of the Bonds shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by this Indenture or to institute such action, suit or proceeding in its or their name, and (iii) there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of this Indenture or to any other remedy hereunder; provided, however, that notwithstanding the foregoing provisions of this Section and without complying therewith, the holders of not less than 10% of the Bonds may institute any such suit, action or proceeding in their own names for the benefit of all holders of Bonds.

It is understood and intended that, except as otherwise provided above, no one or more holders of Bonds shall have any right in any manner whatever by his or her or their action to affect, disturb or prejudice the security of this Indenture or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all holders of Bonds and that any individual right of action or other right given by law to one or more of such holders is restricted by this Indenture to the rights and remedies herein provided.

Section 7.08. Actions by Trustee. All rights of action under this Indenture or under any Bond may be enforced by the Trustee without the possession of such Bond or the production thereof at the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all holders of Bonds, all subject to the provisions of this Indenture.

Section 7.09. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the holders of Bonds is intended to be exclusive of any other remedy or

remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 7.10. No Delay or Omission Construed as a Waiver; Waiver of Default. No delay or omission of the Trustee or of any holder of Bonds to exercise any right or power accruing upon any default shall impair any such right or power, nor shall any such delay or omission be construed to be a waiver of any such default or an acquiescence therein. Every power and remedy given by this Article to the Trustee and the holders of Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Trustee may, and upon written request of the holders of not less than 10% of the Bonds shall, waive any default with respect to Bonds which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of this Indenture or before the completion of the enforcement of any other remedy under this Indenture; but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

Section 7.11. Notice of Default. The Trustee shall mail to all holders of Bonds and Subordinate Obligations written notice of the occurrence of any Event of Default of which the Trustee shall have actual knowledge within 30 days after such Event of Default shall have occurred and be known to it.

Any provision of this Indenture to the contrary notwithstanding, the Trustee shall not be obligated to provide holders of Bonds and Subordinate Obligations written notice of any Event of Default except for Events of Default specified in Section 7.01(a) and (b) if the Trustee shall have determined in its discretion that the provision of notice of such Event of Default is not in the best interests of the holders of Bonds.

ARTICLE VIII

MODIFICATION OR AMENDMENT OF INDENTURE AND INTERGOVERNMENTAL AGREEMENT

Section 8.01. Modification or Amendment Without Consent. Without notice to or the consent of the holders of the Bonds, the Service and the Trustee may enter into at any time or from time to time a Supplemental Indenture supplementing, modifying or amending this Indenture or any Supplemental Indenture for one or more of the following purposes:

(a) to grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Trustee for the benefit of such holders;

(b) to add to the covenants and agreements of the Service contained in this Indenture, other covenants and agreements thereafter to be observed relative to the acquisition, construction, equipping, operation, maintenance, development or administration of the Project, or relative to the application, custody, use or disposition of the proceeds of Bonds or Subordinate Obligations so long as no such covenant or agreement shall prejudice in any material respect the rights of the holders of the Bonds Outstanding at the date as of which such covenant or agreement shall become effective;

(c) to surrender to the Trustee any right, power or privilege reserved to or conferred upon the Service by this Indenture;

(d) to confirm, as further assurance, any pledge under, and the subjection to any lien on, or claim or pledge of (whether created or to be created by this Indenture), the Trust Estate;

(e) to cure any ambiguity or to cure or correct any defect or inconsistent provisions contained in this Indenture or to make such provisions in regard to matters or questions arising under this Indenture as may be necessary or desirable and not contrary to or inconsistent with this Indenture;

(f) to provide for the terms of Additional Bonds, including (without limitation) any modifications or amendments required to grant to or otherwise secure for the holders of such Additional Bonds a parity interest in the security granted to the holders of the Series 1995 Bonds and any other then-Outstanding Bonds in accordance with Section 2.06 of this Indenture or to authorize, approve or provide the terms for the issuance of Subordinate Obligations in accordance with Section 2.11;

(g) to permit the qualification of this Indenture or any Supplemental Indenture under any federal statute now or hereafter in effect or under any state blue sky law and, in connection therewith, to add to this Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted or required by such federal statute or state blue sky law;

(h) to obtain or to maintain any ratings on Bonds from any nationally recognized securities rating agency so long as no provision of any such Supplemental Indenture shall prejudice in any material respect the rights of the holders of the Bonds Outstanding at the date as of which such Supplemental Indenture shall become effective;

(i) to make any other change in this Indenture which the Trustee determines shall not prejudice in any material respect the rights of the holders of the Bonds Outstanding at the date as of which such change shall become effective;

(j) to provide for the issuance of any Bonds in coupon form or in book entry form; provided, however, that prior to the effective date of any such amendment, there shall be delivered to the Service and the Trustee an opinion of Bond Counsel to the effect that the issuance of any such Bonds in coupon or book entry form (as the case may be) will not adversely affect the excludability from gross income for federal income tax purposes of the interest paid on any Tax-Exempt Bonds theretofore issued; or

(k) to preserve the excludability from gross income for federal income tax purposes of the interest paid on any Tax-Exempt Bonds theretofore issued.

Section 8.02. Supplemental Indentures Requiring Consent of Holders of Bonds. In addition to Supplemental Indentures permitted by Section 8.01, with the prior written consent of the holders of a majority of the Bonds, the Service and the Trustee may enter into at any time and from time to time Supplemental Indentures amending or supplementing this Indenture, any Supplemental Indenture or any Bond to modify any of the provisions thereof or to release the Service from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained; provided, however, that nothing contained herein shall permit (i) a change in any terms of redemption or purchase of any Bond, the due date for the payment of the principal of or interest on any Bond or any reduction in the principal, Redemption Price or purchase price of or interest rate on any Bond without the consent of the Holder of such Bond or (ii) except as expressly permitted hereby, the creation of a claim or lien upon, or a pledge of, the Trust Estate ranking prior to or on a parity with the claim, lien and pledge created by this Indenture, a preference or priority of any Bond over any other Bond or a reduction in the percentage of Bonds the consent of the Holders of which is required for any modification of this Indenture, without the unanimous consent of the holders of all Outstanding Bonds.

Section 8.03. Notation on Bonds. Bonds authenticated and delivered after the effective date of any Supplemental Indenture entered into by the Service may, and if the Trustee or the Service so determines, shall, bear a notation by endorsement or otherwise in form approved by the Service and the Trustee of such action. If the Service or the Trustee shall so determine, new Bonds modified as necessary, in the opinion of the Trustee and the Service, to conform to such Supplemental Indenture shall be prepared, authenticated and delivered and, upon demand of the Holder of any Outstanding Bond and surrender of such Bond to the Trustee, such Bond shall be exchanged, without cost to such Holder, for a new Bond so modified.

Section 8.04. Amendment of Intergovernmental Agreement. (a) Without notice to or the consent of the Bondholders, the Service may at any time and from time to time enter into any amendment, change or modification of the Intergovernmental Agreement that is (i) required or permitted by the provisions of the Intergovernmental Agreement, or (ii) required to cure any ambiguity or formal defect or omission therein, or (iii) required or permitted pursuant to the provisions of Section 2.05 or 2.11 of this Indenture in connection with the issuance of any Additional Bonds or Subordinate Obligations, respectively, or (iv) not prejudicial in any material respect to the rights of the holders of the Bonds in the judgment of the Service.

(b) Except as provided in paragraph (a) of this Section, the Service shall not enter into any amendment, change or modification of the Intergovernmental Agreement without the prior written consent of the Trustee, and the Holders of a majority of the Bonds Outstanding at the effective date of such amendment, change or modification.

ARTICLE IX

DEFEASANCE

Section 9.01. Defeasance. (a) If the Service shall pay or cause to be paid the principal or Redemption Price of and interest on all Bonds and Subordinate Obligations at the times and in the manner stipulated therein, in this Indenture and in any Supplemental Indenture authorizing or approving the issuance of any Additional Bonds or Subordinate Obligations, then the pledge of the Trust Estate to the Trustee for the benefit of the Bondholders and the holders of Subordinate Obligations and all other rights granted hereby to the Trustee, the Bondholders or the holders of Subordinate Obligations shall be discharged and satisfied. In such event, upon the request of the Service, the Trustee shall execute and deliver to the Service all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay or deliver to the Service, or to such officer, board or body as may then be entitled by law to receive the same, all property held by it pursuant to this Indenture (other than any moneys and securities required for the payment or redemption of Bonds or Subordinate Obligations not theretofore surrendered for such payment or redemption).

(b) A Bond shall be deemed to have been paid within the meaning of and with the effect expressed in this Section if (i) money for the payment or redemption of such Bond shall be held by the Trustee (through deposit by the Service of moneys for such payment or redemption or otherwise, regardless of the source of such moneys), whether at or prior to the maturity or the redemption date of such Bond, or (ii) if the maturity or redemption date of such Bond shall not have arrived, provision shall have been made by the Service for the payment of the principal or Redemption Price of and interest on such Bond on the due dates for such payments by deposit with the Trustee (or other method satisfactory to the Trustee) of Government Obligations, the principal of and the interest on which when due will provide for such payment, and the Service shall have made provision satisfactory to the Trustee for one publication in an Authorized Baltimore Newspaper and in an Authorized New York Newspaper of a notice that such moneys are so available for such payment; provided, however, that if such Bond is to be redeemed prior to the maturity thereof, the Service shall have irrevocably taken all action necessary to redeem such Bond and notice of such redemption shall have been duly and irrevocably given or provisions satisfactory to the Trustee shall have been irrevocably made for the giving of such notice.

(c) Anything in this Indenture to the contrary notwithstanding, at the written request of the Service, any moneys held by the Trustee in trust for the payment of any of the Bonds or Subordinate Obligations that remain unclaimed for five years after the later of the date at which such Bonds or Subordinate Obligations became due and payable and the date of deposit of such moneys shall be repaid by the Trustee to the Service, or to such officer, board or body as may then be entitled by law to receive such moneys, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto; provided, however, that before being required to make any such payment to the Service, the Trustee may, at the

expense of the Service, cause to be published in an Authorized Baltimore Newspaper and an Authorized New York Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not fewer than 40 nor more than 90 days after the date of publication of such notice, the balance of such moneys shall be returned to the Service.

(d) An Additional Bond or Subordinate Obligation shall be deemed to have been paid within the meaning of and with the effect expressed in this Section if it is deemed to be paid in accordance with the provisions of the Supplemental Indenture authorizing the issuance thereof.

ARTICLE X

MISCELLANEOUS

Section 10.01. Further Assurances. So far as it may be authorized by law, the Service shall pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights and Revenues and other property hereby pledged or assigned, or intended so to be, or which the Service may hereafter become bound to pledge or assign.

Section 10.02. Consent of Holders; Evidence of Signatures of Holders and Ownership of Bonds. Any request, direction, consent or other instrument which this Indenture may require or permit to be signed and executed by the holders of the Bonds may be in one or more instruments of similar tenor, and shall be signed or executed by such holders in person, by their attorneys duly appointed in writing or by their legal representatives. Except as otherwise expressly provided herein, proof of the execution of any such instrument or of an instrument appointing any such attorney, or the holding by any person of such Bond shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and the Service with regard to any action taken by either under such instrument if made in the following manner, but the Trustee may nevertheless in its discretion require further or other proof in any case in which it deems such further or other proof desirable:

(a) the fact and date of the execution by any Bondholder or Bondholder's attorney or legal representative of such instrument may be proved by the certificate (which need not be acknowledged or verified) of an officer of a bank or trust company satisfactory to the Trustee or of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which such officer purports to act, that the person signing such instrument acknowledged to such officer the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer; and the authority of any person executing any such instrument on behalf of a corporate holder may be established without further proof if such instrument is signed by a person purporting to be the president or a vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its secretary or an assistant secretary, its cashier or an assistant cashier; and

(b) the ownership of Bonds and the amount, numbers and other identification and date of holding the same shall be proved by the registration books established with respect to such Bonds, as the case may be.

The Supplemental Indenture authorizing the issuance of any Series of Additional Bonds secured by a Credit Facility may provide that the issuer of such Credit Facility shall be deemed the holder of all Outstanding Bonds of such Series for the purposes of making any request or

giving or withholding any consent, vote or direction permitted or required to be made or given by any holder of such Bonds under this Indenture or such Supplemental Indenture.

Any request, direction, consent or vote of the owner of any Bond given in accordance with this Indenture or any Supplemental Indenture shall bind all future owners of such Bond with respect to anything done or suffered to be done or omitted to be done by the Service or the Trustee in accordance therewith.

Section 10.03. Preservation by Trustee and Inspection of Documents. All documents received by the Trustee from the Service, the holders of Bonds or otherwise under the provisions of this Indenture shall be retained in its possession for a period of at least six years after their Receipt and shall be subject at all reasonable times to the inspection of the Service, any holder of Bonds, any holder of Subordinate Obligations and their agents and representatives so long as they are in the possession of the Trustee, any of whom may make copies thereof.

Section 10.04. Moneys and Funds Held for Particular Bonds. Amounts held by the Trustee for the payment of the principal or Redemption Price of and interest on Bonds or Subordinate Obligations due on any date shall, pending such payment, be set aside and held in trust by it for the holders of such Bonds or Subordinate Obligations (as the case may be) and, for the purposes of this Indenture, such principal or Redemption Price of and interest on such Bonds or Subordinate Obligations, due after such date, shall no longer be considered to be unpaid.

Section 10.05. No Recourse on Bonds. No recourse shall be had for the payment of the principal or Redemption Price of and interest on the Bonds or any Subordinate Obligations or for any claims based thereon or on this Indenture against any member or other officer of the Service, all such liability, if any, being expressly waived and released by every Holder of Bonds and Subordinate Obligations by the acceptance of such Bonds and Subordinate Obligations.

Section 10.06. Service Protected in Acting in Good Faith. In the exercise of the powers of the Service and its members, officers, employees and agents under this Indenture and the Intergovernmental Agreement, including (without limitation) the application of moneys and the investment of funds, the Service and its members, officers, employees and agents shall not be accountable to the Trustee or any holder of any Bond or Subordinate Obligation for any action taken or omitted by it or its members, officers, employees and agents in good faith and believed in good faith by it or them to be authorized or within the discretion or rights or powers conferred hereby or by the Intergovernmental Agreement.

No recourse shall be had by the Trustee or any holder of any Bond or Subordinate Obligation for any claims based on this Indenture or the Intergovernmental Agreement or on any Bond, Subordinate Obligation, Credit Facility or Credit Facility Agreement against any member, officer, employee or agent of the Service alleging personal liability on the part of such person unless such claims are based upon the bad faith, fraud or deceit of such person.

Section 10.07. Severability of Invalid Provision. If any covenant or agreement provided in this Indenture on the part of the Service or the Trustee to be performed should be contrary to law, then such covenant or agreement shall be null and void and shall in no way affect the validity of the other provisions of this Indenture or of the Bonds or any Subordinate Obligations.

Section 10.08. Notices. (a) Any notice or other instrument required to be given to the Service pursuant to this Indenture shall be in writing and shall be sent by registered or certified mail to it at its office in the City of Annapolis, Maryland, or such other address as it shall designate to the Trustee in writing; and any notice or other instrument required to be given to the Trustee pursuant to this Indenture shall be in writing and shall be sent by registered or certified mail to it at the corporate trust office of the Trustee in the [City of Baltimore, Maryland].

(b) In case, by reason of the suspension of publication of any Authorized Baltimore Newspaper or any Authorized New York Newspaper, or by reason of any other cause, it shall be impossible to make publication of any notice in an Authorized Baltimore Newspaper and an Authorized New York Newspaper as required by this Indenture, then the Trustee shall mail or deliver such notice to all holders of Bonds and such mailing or delivery shall constitute a sufficient publication of such notice.

Section 10.09. Other Bond Indentures. Subject to the provisions of Section 5.03, the Service expressly reserves the right to enter into one or more other bond indentures and general bond indentures and to issue bonds, notes and other obligations thereunder without compliance with the provisions hereof.

Section 10.10. Business Days. Except as otherwise expressly provided herein, if any date specified herein for the payment of any Bond or the performance of any act shall not be a Business Day, such payment or performance shall be made on the next succeeding Business Day with the same effect as if made on such date.

Section 10.11. Parties Interested Herein. Nothing in this Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the Service, the Trustee and the Bondholders any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the Service shall be for the sole and exclusive benefit of the Service, the Trustee and the Bondholders.

Section 10.12. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be deemed to be an original for all purposes; and all such counterparts shall together constitute but one and the same instrument.

Section 10.13. Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State of Maryland.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, sealed and delivered, all as of the day and year first above written.

(SEAL)

MARYLAND ENVIRONMENTAL SERVICE

ATTEST:

By: _____
James W. Peck
Director

_____
Annette Anselmi
Treasurer

(SEAL)

TRUSTEE NAME

ATTEST:

By: _____
Name
Title

_____
Name
Title

STATE OF MARYLAND, CITY OF BALTIMORE, TO WIT:

I HEREBY CERTIFY that on this __ day of _____ in the year 1995, before the subscriber, a Notary Public in and for the State of Maryland, personally appeared James W. Peck, the Director of the Maryland Environmental Service, and that he, as such officer, being authorized so to do, executed the aforegoing Indenture of Trust for the purposes therein contained, by signing his name thereto as Director of the Maryland Environmental Service and causing the corporate seal of the Maryland Environmental Service to be affixed thereto and attested by the Treasurer of the Maryland Environmental Service.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

(SEAL)

Notary Public

My Commission Expires:

STATE OF MARYLAND, CITY OF BALTIMORE, TO WIT:

I HEREBY CERTIFY that on this __ day of _____ in the year 1995, before the subscriber, a Notary Public in and for the State of Maryland, personally appeared _____, a Vice President of _____ a trust company duly organized and existing under the laws of the _____, and that **she**, as such officer, being authorized so to do, executed the aforegoing Indenture of Trust for the purposes therein contained, by signing **her** name thereto as such Vice President of _____ and causing the corporate seal of _____ to be affixed thereto and attested by a duly authorized corporate trust officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

(SEAL)

Notary Public

My Commission Expires:

APPENDIX A to
Indenture of Trust

DEFINITIONS

"Act" means the Maryland Environmental Service Act being codified as Sections 3-101 through 3-129, inclusive, of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume and 1994 Cumulative Supplement), and all future acts supplemental thereto or amendatory thereof.

"Additional Bonds" means any bond, note or other Indebtedness of the Service issued pursuant to Section 2.5 of the Indenture.

"Additional Facilities" means any project undertaken by the Service that is financed or refinanced pursuant to the Act and the Indenture by the issuance of Additional Bonds that is required in order to restore, maintain, improve or increase the disposal capacity of the Project or otherwise to permit the Service to meet its Yard Debris disposal obligations under the Intergovernmental Agreement, including (with limitation) the completion of the acquisition and construction of the Composting Facility. Additional Facilities may include, (without limitation) land, easements, rights-of-way, leaseholds and other interests in real property and any improvement, addition or betterment to or any construction, replacement, remodeling or equipping of any such project.

"Agency Obligations" means direct obligations (including bonds, notes or participation certificates) of, or obligations the timely payment of the principal of, premium, if any, and the interest on which are unconditionally guaranteed by, any of the following agencies or instrumentalities of the United States of America or their successors: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Tennessee Valley Authority, United States Postal Service, Export-Import Bank of the United States, Farmers Home Administration, General Services Administration, United States Maritime Administration, Small Business Administration, United States Department of Housing and Urban Development, Federal Housing Administration and Resolution Trust Corporation.

"Applicable Law" means any law, regulation, requirement or order of any federal, state or local agency, court or other governmental body applicable from time to time to the acquisition, design, construction, equipping, financing, ownership, possession or operation of the Project or the performance of any obligations under the Intergovernmental Agreement or any other agreement entered into in connection therewith.

"Authorized Baltimore Newspaper" means a daily newspaper printed in the English language and having a general circulation in the City of Baltimore, Maryland.

Intergovernmental Agreement. The Composting Facility shall include (without limitation) a compost pad, a scale and scale house, internal access roads and such other ancillary Yard Debris composting facilities the Service deems necessary or appropriate.

"Composting Facility Revenues" has the meaning specified in the Intergovernmental Agreement.

"Consumer Price Index" means the Consumer Price Index for the Baltimore, Maryland, Standard Metropolitan Statistical Area, All-Items for Urban Wage Earners and Clerical Workers, seasonally adjusted, published by the United States Department of Labor, or if such index is no longer published or its method of computation is substantially modified, an index approved by the Service.

"Cost", as applied to the Project and any Additional Facilities, includes the cost of construction or acquisition, including the purchase price of any existing project or the cost of acquiring all right, title, or interest in the Project or any Additional Facilities and the amount to be paid to discharge all obligations necessary to vest title to the Project or any Additional Facilities or any part of it or them in the Service or the owner; the cost of any reconstruction, extension, enlargement, alteration, repair, or improvement; the cost of all lands, properties, rights, easements, interests, franchises, and permits acquired; the cost of all labor, machinery and equipment, financing charges, interest prior to and during construction and for such period after completion of construction as the Service deems appropriate; the cost of revenue estimates, engineering and legal services, plans, designs, specifications, surveys, investigations, demonstrations, studies, estimates of cost, other expenses necessary or incident to determining the feasibility or practicability of any such acquisition, improvement, or construction; administrative expenses, and other expenses necessary or incidental to the financing herein authorized, and to the acquisition, operation, maintenance, improvement, construction of the Project or any Additional Facilities, and the placing of the Project or any Additional Facilities in operation, including reasonable provision for working capital; reserves for principal and interest and for extensions, enlargements, additions and improvements. Any obligation or expense incurred prior to the issuance of bonds or notes under the provisions of this title in connection with the foregoing items of cost may be regarded as a part of such costs.

"Coverage Ratio" means, when used with respect to any particular Fiscal Year, the quotient obtained by dividing (i) the aggregate of the Net Income Available for Debt Service for such Fiscal Year by (ii) the Debt Service Requirements on all Outstanding Long-Term Indebtedness as of the last day of such Fiscal Year; provided, however, that in any calculation of the actual or projected Coverage Ratio for any Fiscal Year that occurs prior to the first Fiscal Year in which the principal of, or any Sinking Fund Installment with respect to, any Long-Term Indebtedness issued to finance Additional Facilities becomes due and payable or any interest on such Long-Term Indebtedness ceases to be paid from amounts irrevocably deposited in escrow for the payment of interest on such Long-Term Indebtedness, such Long-Term Indebtedness shall not be taken into account in calculating Debt Service Requirements.

"Credit Facility" means any Liquidity Facility, letter of credit, bond insurance policy, bond purchase agreement, guaranty, line of credit, surety bond or similar credit or liquidity facility securing any Bond or other Indebtedness of the Service.

"Credit Facility Agreement" means the agreement, if any, pursuant to which any Credit Facility is issued.

"Credit Facility Provider" means the issuer of any Credit Facility then in effect.

"Debt Service Requirements" means, when used with respect to any Long-Term Indebtedness for any Fiscal Year or year (as the case may be), as of any particular date of calculation, the amount required to pay the sum of (a) the interest on such Long-Term Indebtedness payable during the period from the second day of such Fiscal Year or year (as the case may be) through the first day of the immediately succeeding Fiscal Year or year (as the case may be), and (b) the principal of, the Sinking Fund Installment for and any other amount required to effect any mandatory redemption of such Long-Term Indebtedness, if any, during the period from the second day of such Fiscal Year or year (as the case may be) through the first day of the immediately succeeding Fiscal Year or year (as the case may be), less any amount of such interest or principal for the payment of which moneys or Investment Obligations, the principal of and interest on which when due will provide for such payment, are irrevocably held in trust, including (without limitation) any accrued interest and capitalized interest on deposit in any fund or account established under this Indenture. For the purpose of calculating the Debt Service Requirements:

(i) with respect to any Variable Rate Indebtedness:

(A) for the purpose of calculating the Debt Service Reserve Fund Requirement, the amount required to be deposited in any debt service reserve fund for any Bond and the principal amount of Balloon Long-Term Indebtedness constituting Variable Rate Indebtedness payable in any Fiscal Year or year described in clause (ii)(D) below, such Indebtedness shall be deemed to bear interest at the fixed rate that it would have borne had it been issued at a fixed rate for the term thereof, as evidenced by a certificate of an Authorized Officer of the Service and a certificate of an investment banking firm or financial advisor knowledgeable in financial matters relating to the Service and the Project who may be, without limitation, the financial advisor to the Service, confirming such interest rate assumption as reasonable; and

(B) for all other purposes of the Indenture, such Variable Rate Indebtedness shall be deemed to bear interest at an annual rate equal to 110% of (1) in the case of any period during which such Indebtedness shall have been outstanding, the weighted average interest rate per annum borne by such Indebtedness during such period and (2) in any other case, the higher of (a) the weighted average interest rate per annum borne by such Indebtedness during the 12-month period ending on the date of calculation (or, in the case of any Variable Rate Indebtedness to be issued or issued during the immediately preceding 12-month period, the weighted average

interest rate per annum borne by other outstanding Indebtedness having comparable terms and issued by, or secured by agreements issued by, entities of comparable creditworthiness as the obligors with respect to such Variable Rate Indebtedness during the immediately preceding 12-month period, as evidenced by a certificate of an investment banking firm or a financial advisor knowledgeable in financial matters relating to the Service and the Project, who may be, without limitation, the financial advisor to the Service), and (b) the interest rate per annum borne by such Indebtedness on the date of calculation;

(ii) with respect to any Balloon Long-Term Indebtedness:

(A) unless such Indebtedness meets the requirements of clause (B), (C) or (D) below, the principal amount of such Indebtedness shall be deemed to be payable during the Fiscal Year or year in which such principal amount becomes due, except as provided in clause (E) below;

(B) if a Liquidity Facility is then in effect with respect to such Indebtedness, the principal amount of such Indebtedness payable in each Fiscal Year or year as of any date of calculation may be deemed to be the amount that would be payable during such Fiscal Year or year (as the case may be) if such Liquidity Facility was used or drawn upon to purchase or retire such Indebtedness on the stated maturity date thereof or on any date established for the mandatory redemption thereof, less the aggregate amount required to be on deposit in any irrevocable sinking fund established to provide for the payment of such Indebtedness in accordance with clause (C) below during such Fiscal Year or year (as the case may be);

(C) if (1) pursuant to an indenture entered into by the Service, an irrevocable sinking fund shall have been established to provide for the payment of such Indebtedness when due, (2) deposits to such sinking fund are current and timely and (3) verification of such timely deposits is contained in the most recent audited financial statements of the Service or a letter to the Service from an Independent Public Accountant, then the principal amount of such Indebtedness payable in each Fiscal Year or year (as the case may be) may be deemed to be the amount required to be deposited in such sinking fund for such Fiscal Year or year (as the case may be);

(D) In the case of any Balloon Long-Term Indebtedness in an aggregate principal amount that does not exceed 20% of the Revenues for the most recent Fiscal Year, the principal amount of such Indebtedness payable in each Fiscal Year or year (as the case may be) may be deemed to be the amount that would have been payable during such Fiscal Year or year (as the case may be) if such Indebtedness were required to be amortized in full from the date of its issuance or, in the case of any such Indebtedness issued to finance or refinance the Project or any Additional Facilities, a date on or before the completion of the Project or other any Additional Facilities, in substantially equal annual installments of principal (such principal to be rounded to the nearest $5,000) and interest over a term equal to the shorter of (1) 20 years and (2) 100% of the weighted average economic life of the facilities financed or refinanced thereby, as evidenced by a certificate of an Independent Public Accountant; provided, however, that if any

principal amount of such Indebtedness is stated to mature or is unconditionally subject to mandatory redemption within the 12-month period immediately succeeding the date of calculation, then such principal amount shall be deemed to be payable on the stated maturity date thereof or on the date established for the mandatory redemption thereof; and

(E) for purposes of calculating the Debt Service Reserve Fund Requirement and the amount required to be deposited in any debt service reserve fund for any Bond, the principal amount of such Indebtedness payable in each Fiscal Year or year shall be determined in accordance with clause (D) above without regard to the aggregate principal amount of such Indebtedness outstanding from time to time;

(iii) with respect to any Optional Tender Indebtedness:

(A) unless such Indebtedness meets the requirements of clause (B) below, the principal amount of such Indebtedness payable in each Fiscal Year or year as of any date of calculation shall be deemed to be the principal amount of such Indebtedness that could be payable by the Service during such Fiscal Year or year (as the case may be) in connection with any demand for the purchase or redemption of such Indebtedness by any holder thereof or any termination of any Credit Facility securing such Indebtedness, except as provided in clause (C) below;

(B) if a Liquidity Facility is then in effect with respect to such Indebtedness, the principal amount of such Indebtedness payable in each Fiscal Year or year as of any date of calculation may be deemed to be the amount that would be payable during such Fiscal Year or year (as the case may be) if such Liquidity Facility were used or drawn upon to purchase or retire such Indebtedness on the earliest date on which such Indebtedness may be required to be purchased or redeemed at the option of the holder thereof or in connection with any expiration of any Credit Facility securing such Indebtedness, except as provided in clause (C) below; and

(C) for purposes of calculating the Debt Service Reserve Fund Requirement and the amount required to be deposited in any debt service reserve fund for any Bond, the principal amount of such Indebtedness payable in each Fiscal Year or year (as the case may be) shall be determined in accordance with clause (ii)(D) above without regard to the aggregate principal amount of such Indebtedness outstanding from time to time; and

(iv) with respect to any Credit Facility Agreement, except as provided in clauses (ii)(B) and (iii)(B) above, so long as no demand for payment under the Credit Facility issued under such Credit Facility Agreement shall have been made, the debt service requirements of such Credit Facility Agreement shall be excluded from such calculation.

"Debt Service Reserve Fund Credit Facility" means any Credit Facility, which is rated in the highest rating category of each Rating Agency, held to the credit of the Debt Service Reserve Fund.

"Debt Service Reserve Fund Requirement" means, except as otherwise provided in the Supplemental Indenture authorizing any Additional Bonds with respect to such Additional Bonds, for each Series of outstanding Bonds, an amount equal to the least of (i) the greatest amount required in the then current or any future Fiscal Year to pay the Debt Service Requirements of the outstanding Bonds of such Series, (ii) 125% of the average annual Debt Service Requirements of the Bonds of such Series, determined as of the date of issuance thereof, and (iii) 10% of the proceeds of the Bonds of such Series, determined as of the date of issuance thereof and, in the case of any Bonds that constitute Tax-Exempt Bonds in accordance with Section 148 of the Code.

"Due for Payment" means, when used with respect to any date in connection with the payment of the principal of any Series 1995 Bonds, the stated maturity date of such Series 1995 Bonds or any date on which the principal of such Series 1995 Bonds is due to be paid by the application of a required Sinking Fund Installment for such Series 1995 Bonds; and when used with respect to any date in connection with the payment of the interest on any Series 1995 Bonds, any date on which the interest on such Series 1995 Bonds is payable in accordance therewith.

"Event of Default" means any event of default specified in Section 7.01 of the Indenture.

"Fiscal Year" means the period of 12 consecutive months beginning on July 1 in any calendar year and ending on June 30 of the succeeding calendar year, or such other fiscal year as the Service shall establish as its fiscal year.

"Government Obligations" means direct obligations of, or obligations that are unconditionally guaranteed by, the United States of America.

"Holder" or "holder" or any similar term (i) when used with reference to a Bond, means a Bondholder, and (ii) when used with reference to any Subordinate Obligation, the owner of such Subordinate Obligation, determined in accordance with the Supplemental Indenture authorizing or approving the issuance thereof.

"Indebtedness" means any indebtedness or liability for borrowed money, any installment sale obligation or any obligation under any lease that is capitalized under generally accepted accounting principles.

"Indenture" means the Indenture of Trust between the Service and the Trustee, dated as of June 1, 1995, as amended, modified or supplemented from time to time by Supplemental Indentures.

"Independent Consultant" means an independent consulting firm having a favorable reputation for skill and experience with respect to the design, construction and operation of Yard Debris composting facilities or similar facilities or the determination of the economic feasibility of such facilities, appointed in accordance with this Indenture.

"Independent Counsel" means any attorney or attorneys duly admitted to practice law before the highest court of any state who have regularly engaged in the practice of law as their primary occupation for at least five years and who are not officers or full-time employees of the Service or the Trustee. Bond Counsel to the Service may be deemed Independent Counsel.

"Independent Public Accountant" means an individual, partnership or corporation engaged in the accounting profession, either entitled to practice, or having members or officers entitled to practice, as a certified public accountant under the laws of the State of Maryland and in fact independent, employed by the Service from time to time to pass upon those matters required by the Indenture to be passed upon by an Independent Public Accountant.

"Inflation Factor" means a fraction the numerator of which is the Consumer Price Index most recently published prior to June 30 of the preceding Fiscal Year and the denominator of which is the Consumer Price Index most recently published prior to June 30, 1995.

"Intergovernmental Agreement" means the Yard Debris Composting Intergovernmental Agreement between the Service and each of the Baltimore Regional Counties, as each of the same may from time to time be amended, modified or supplemented in accordance with the terms thereof.

"Investment Obligations" means:

(a) Government Obligations;

(b) Agency Obligations;

(c) Obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years and rated in the highest general rating category of each of the Rating Agencies (without regard to any refinement or gradation of such rating category by numerical modifier or otherwise);

(d) United States dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks the short term certificates of deposit of which are rated with the highest letter and numerical rating by at least one nationally recognized statistical rating organization on the date of their purchase and which mature no more than 360 days from the date of their purchase (provided that the ratings assigned to any holding company of any such commercial bank shall not be deemed to be the ratings of such commercial bank for the purposes of this paragraph);

(e) obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not subject to redemption at the option of the issuer thereof prior to their maturity or as to which irrevocable instructions for the redemption thereof on the date specified in such instructions have been given by the issuer thereof; and (A) which are rated, based on the escrow established therefor, in the highest general rating category of one of the Rating Agencies, or (B)(i) which are fully secured as to

principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which fund is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(f) commercial paper which has received the highest letter and numerical rating from at least one of the statistical rating services and which matures not more than 270 days after the date of its purchase and the total investment of which may not exceed 3% of the total investments; and

(g) investments in a money market fund rated at the highest rating possible from at least one of the statistical rating services.

"Liquidity Facility" means a written commitment to provide money to purchase or retire any Indebtedness if: (i) on the date of delivery of such Liquidity Facility, the unsecured indebtedness of the provider of such Liquidity Facility is rated by each Rating Agency in a rating category not lower than the rating category in which the Bonds are then rated; and (ii) as of any particular date of determination, no amount realized under such Liquidity Facility for the payment of the principal or the purchase or redemption price of such Indebtedness (exclusive of amounts realized for the payment of accrued interest on such Indebtedness) shall be required to be repaid by the Service for a period of at least one year.

"Long-Term Indebtedness" means all Bonds, together with all of the following Indebtedness incurred or assumed by the Service:

(i) any obligation for the payment of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(ii) any obligation for the payment of money under leases that are required to be capitalized under generally accepted accounting principles;

(iii) any obligation for the payment of money under installment purchase contracts having an original term in excess of one year;

(iv) any obligation that would constitute Short-Term Indebtedness if a Liquidity Facility were not in effect with respect thereto; and

(v) any guaranty of any Indebtedness that would be described in item (i), (ii), (iii) or (iv) above if such Indebtedness were incurred directly by the Service.

"Maximum Annual Debt Service" means, when used with reference to any Long-Term Indebtedness for any year or Fiscal Year, as of any particular date of computation, the greatest amount required in the then-current or any future year or Fiscal Year, respectively, to pay the Debt Service Requirements of such Long-Term Indebtedness.

"Net Income Available for Debt Service" means, for any period, an amount determined in accordance with generally accepted accounting principles by deducting (i) the expenses of operating the Project or any Additional Facilities, exclusive of depreciation, interest, and amortization of financing expenses, from (ii) the sum of all operating and nonoperating revenues of the Service derived from or in connection with the Project or any Additional Facilities (including, without limitation, all revenues of the Service under the Intergovernmental Agreement); provided, however, that there shall be excluded from such calculation any nonoperating gains or losses on the sale or disposition of any asset or on the extinguishment of debt.

"Optional Tender Indebtedness" means any Indebtedness that is subject to optional or mandatory tender by the holder thereof (including, without limitation, any mandatory tender in connection with the expiration of any Credit Facility securing such Indebtedness) for purchase or redemption prior to the stated maturity date thereof if the purchase or redemption price of such Indebtedness is under any circumstances payable by the Service.

"Outstanding" means, as of any particular date, (a) when used with reference to Bonds, all Bonds authenticated and delivered under the Indenture except (i) any Bond canceled by the Trustee (or delivered to the Trustee for cancellation) at or before such date, (ii) any Bond for the payment of the principal or Redemption Price of and interest on which provision shall have been made as provided in Section 9.01 of the Indenture and (iii) any Bond in lieu of or in substitution for which a new Bond shall have been authenticated and delivered pursuant to Article II, Article III or Section 8.03 of the Indenture; and (b) when used with reference to any other Indebtedness, all Indebtedness theretofore issued or incurred other than any such Indebtedness that is deemed to have been paid and discharged under generally accepted accounting principles.

"Permitted Encumbrance" means:

(a)any lien arising by reason of any deposit by the Service to secure any public or statutory obligation, or to secure, or in lieu of, any surety, stay or appeal bond, and any deposit as security for the payment of taxes or assessments or other similar charges;

(b) any lien arising by reason of any deposit with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license or to enable the Service to maintain self-insurance or to participate in any funds established to cover any insurance risk or in connection with workers' compensation, unemployment insurance, any pension or profit sharing plan or other social security, or to share in the privileges or benefits required for the participation of the Service in such arrangements;

(c)any right reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law; any lien for taxes, assessments, levies, fees, water and sewer rents or charges and other governmental and similar charges and any lien of any mechanic, laborer, supplier or vendor for work or services performed or materials furnished in connection with such property that is not due and payable or that is not delinquent or the amount or validity of which is being contested and execution thereon stayed;

(d) any lien granted for the benefit of all holders of the Bonds in accordance with the Indenture;

(e) any lien upon Revenues pledged to the payment of Subordinate Obligations;

(f) any lien placed upon any tangible real or tangible personal property being acquired by the Service to secure all or a portion of the purchase price thereof, but only if such lien is non-recourse to other assets or properties of the Service; and

(g) such easements, rights-of-way, servitudes, restrictions and other defects, liens and encumbrances as the Service, following notice of such consent to Standard & Poor's Corporation, shall determine do not materially impair the use of the Project or any Additional Facilities for their intended purpose or the value of the Project or any Additional Facilities.

"Processing Fee" means the per ton fee payable by the Baltimore Regional Counties for yard debris composting services pursuant to Section 3.2 of the Intergovernmental Agreement.

"Project" means the acquisition, design, construction equipping and operation of the Composting Facility (being a "project" as defined in the Act) including the approximately 56 acre site on which the Composting Facility is located and all necessary attendant facilities and equipment, and all necessary or appropriate improvements thereto, as the Project may be amended in accordance with the Indenture; the definition of the "Project" set forth hereinabove shall not in any way limit the items that may be financed with the proceeds of the Bonds as permitted by the Act.

"Rating Agency" means Moody's Investors Service, Standard & Poor's Corporation or any other securities rating agency that, at the request of the Service, shall have assigned a rating

that is then in effect with respect to any Bonds, and their successors and assigns, and "Rating Agencies" means each such Rating Agency, collectively.

"Redemption Price" means, when used with respect to any Bond or portion thereof, the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

"Registrar" means the Trustee in its capacity as Bond registrar under the Indenture.

"Replacement Bonds" means Bonds issued in accordance with Section 2.07 of this Indenture.

"Revenues" means (i) all payments to the Service or the Trustee pursuant to the Intergovernmental Agreement, (ii) all moneys and securities on deposit in the funds and accounts created by this Indenture and (iii) all other receipts of the Service attributable to the ownership, leasing or operation of the Project, and the financing and refinancing of the Project and any Additional Facilities with the proceeds of Bonds.

"Serial Bonds" means the Bonds of any Series that are stated to mature in consecutive annual installments.

"Series" means any series of Bonds authorized by the Indenture.

"Series 1995 Bonds" means the Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project) Series 1995, dated as of June 1, 1995, authorized by Section 2.01 of the Indenture.

"Service" means Maryland Environmental Service, a body politic and corporate constituting an instrumentality of the State of Maryland, created by the Act and performing an essential governmental function of the State of Maryland, and its successors.

"Short-Term Indebtedness" means any Indebtedness (i) incurred or assumed by the Service for a term not exceeding 365 days, except any such Indebtedness with respect to which a Liquidity Facility is then in effect, and (ii) any guaranty of any Indebtedness that would be described in clause (i) above if such Indebtedness were incurred directly by the Service.

"Sinking Fund Installment" means the amount of money provided in the Indenture, and in each Supplemental Indenture authorizing any Series of Additional Bonds, to redeem or pay at maturity Term Bonds at the times and in the amounts provided in the Indenture or such Supplemental Indenture (as the case may be), less the amount of any credit against such amount arising from the purchase of Term Bonds in any prior year as provided in Section 4.06 of the Indenture.

"State" means the State of Maryland.

"Subordinate Obligations" means any subordinate Indebtedness issued by the Service in accordance with Section 2.11 of the Indenture.

"Supplemental Indenture" means any indenture of trust between the Service and the Trustee amending, modifying or supplementing the Indenture, any Supplemental Indenture, or any Bond, delivered and becoming effective in accordance with the terms of the Indenture.

"Tax-Exempt Bonds" means the Series 1995 Bonds and any other Bonds with respect to which there shall have been delivered to the Service an opinion of Bond Counsel to the effect that the interest on such Bonds is excludable from gross income for federal income tax purposes.

"Term Bonds" means the Bonds of any Series, other than Serial Bonds, payable prior to or at their stated maturity from Sinking Fund Installments deposited in the Sinking Fund Account.

"Total Costs" has the meaning specified in the Intergovernmental Agreement.

"Trust Estate" means all moneys and securities that from time to time are deposited or are required to be deposited or to be held in trust under any of the provisions of the Indenture and all property, rights and other assets that are and from time to time may be pledged and assigned to the Trustee under the Granting Clauses of the Indenture.

"Trustee" means the banking institution appointed by Section 6.01 of the Indenture as trustee for the Bonds and any other corporation that may at any time be substituted in its place pursuant to the Indenture, and their successors.

"Variable Rate Indebtedness" means, as of any particular date, Long-Term Indebtedness the interest rate on which is not established at a fixed rate or rates for the remaining term thereof.

"Yard Debris" means leaves, grass clippings, brush, tree trimmings, and any other materials which the Service determines may be disposed of at the Project.

Appendix B to
Indenture of Trust

[FORM OF SERIES 1995 BOND]

REGISTERED UNITED STATES OF AMERICA REGISTERED

STATE OF MARYLAND

No. _____ $_____

MARYLAND ENVIRONMENTAL SERVICE

REVENUE BOND
(REGIONAL YARD DEBRIS COMPOSTING PROJECT)
SERIES 1995

Interest Rate (per annum)	Maturity Date	Reference Date	CUSIP
%			

Registered Owner:

Principal Sum: Dollars

MARYLAND ENVIRONMENTAL SERVICE, a body politic and corporate constituting an instrumentality of the State of Maryland (the "Service"), for value received, hereby promises to pay, but only from the Revenues (defined herein) and other amounts pledged to such payment under the Indenture (defined herein), to the Registered Owner shown above or registered assigns or legal representative, upon the presentation and surrender hereof as provided herein, the Principal Sum shown above on the Maturity Date shown above (or earlier as hereinafter referred to), with interest thereon from the most recent date to which interest has been paid, or if the Date of Authentication shown below is prior to the first interest payment date, from _____, 1995, at the Interest Rate shown above until said Principal Sum is paid, payable on September 1, 1995 and semiannually thereafter on March 1 and September 1 of each year.

All interest due on this bond shall be payable to the person in whose name this bond is registered on the bond registration books maintained by _____, in [Baltimore, Maryland], as trustee and registrar (such entity and any successor in such capacity being referred to herein as the "Trustee") as of the close of business on the fifteenth day of the calendar month immediately preceding the interest payment date upon which such interest is due and payable (a "Regular Record Date") and shall be made by check mailed to the address of such owner as it

appears on the bond registration books maintained by the Trustee; provided, that if there is a default in the payment of interest due hereon, such defaulted interest shall be payable to the person in whose name this bond is registered as of the close of business on a subsequent date fixed by the Trustee (the "Special Record Date") that is at least 10 and not more than 15 days before the date set for the payment of such defaulted interest. Notice of any Special Record Date will be given as hereinafter provided to the registered owner hereof not later than 10 days before the Special Record Date. As provided in the Indenture, so long as all of the Bonds are maintained in book-entry form with The Depository Trust Company, New York, New York ("DTC"), interest on this bond will be paid in next day funds to the owner as of the Regular Record Date or the Special Record Date.

The principal or redemption price of and interest on this bond are payable in lawful money of the United States of America or by check payable in such money. If any payment of the principal or Redemption Price of or interest on this bond shall be due on a day other than a Business Day (defined herein), such payment shall be made on the next Business Day with like effect as if made on the originally scheduled date. A "Business Day" means a day other than a Saturday, Sunday or legal holiday in the State observed as such by the Service or a day on which banking institutions in the State or in the city in which the principal office of the Trustee, as designated by the Trustee, is located are authorized or obligated to remain closed.

The principal or redemption price of and interest on, this bond are payable solely from the Revenues (defined herein). **NEITHER THE SERVICE, THE STATE OF MARYLAND, NOR ANY POLITICAL SUBDIVISION THEREOF IS OBLIGATED TO PAY THIS BOND OR THE INTEREST HEREON EXCEPT FROM THE REVENUES, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF MARYLAND OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THIS BOND.**

All acts, conditions and things required by the Constitution and laws of the State of Maryland and the rules and regulations of the Service to happen, exist and be performed precedent to and in the issuance of this bond, the execution and delivery of the Intergovernmental Agreement (defined herein) and the Indenture have happened, exist and have been performed as so required.

No recourse shall be had for the payment of the principal or redemption price of and interest on this bond or for any claims based thereon or on the Indenture against any member or other officer of the Service or any person executing this bond, all such liability, if any, being expressly waived and released by the registered owner of this bond by the acceptance of this bond.

This bond shall not be valid or become obligatory for any purpose or be entitled to any benefit or security under the Indenture until it shall have been authenticated by the execution by the Trustee of the certificate of authentication endorsed hereon.

1. Indenture. This bond is one of a duly authorized series of bonds of the Service designated "MARYLAND ENVIRONMENTAL SERVICE REVENUE BONDS (REGIONAL YARD DEBRIS COMPOSTING PROJECT) SERIES 1995" (the "Bonds"), aggregating _____ Dollars ($_____) in principal amount, dated as of June 1, 1995, and duly issued by the Service under and pursuant to the Constitution and laws of the State of Maryland, particularly the Maryland Environmental Service Act (being Sections 3-101 through 3-129, inclusive, of the Natural Resources Article of the Annotated Code of Maryland, as amended) (the "Act"), and the Indenture of Trust dated as of June 1, 1995 between the Service and the Trustee (herein, with all amendments thereto, called the "Indenture"). The terms of the Bonds include those stated in the Indenture, and the Bonds are subject to all such terms. Reference is made hereby to the Indenture for a description of the funds, revenues and charges pledged thereunder, the nature and extent of the security created or to be created, and the rights, limitations of rights, obligations, duties and immunities of the Service, the Trustee and the holders of the Bonds. By the acceptance of this bond, the holder hereof assents to all of the provisions of the Indenture. Certified copies of the Indenture are on file at the corporate trust office of the Trustee in [Baltimore, Maryland,] and at the office of the Service in the City of Annapolis, Maryland.

2. Intergovernmental Agreement; Revenues. The Service has entered into Yard Debris Composting Intergovernmental Agreements dated as of _____, 1995 (with all amendments thereto, herein called the "Intergovernmental Agreements") with Howard County, Maryland, Baltimore County, Maryland and Anne Arundel County, Maryland, bodies politic and corporate and political subdivisions all of the State of Maryland (the "Baltimore Regional Counties"), pursuant to which the Baltimore Regional Counties have agreed to deliver to the Service Yard Debris (defined in the Intergovernmental Agreements) for disposal at the Composting Facility (defined in the Indenture) and to pay certain fees for such disposal services.

As defined in the Indenture, the "Revenues" include (i) all payments to the Service or the Trustee pursuant to the Intergovernmental Agreements and (ii) all other receipts of the Service attributable to the ownership, leasing or operation of the Project (defined in the Indenture) and the financing and refinancing of the Project and any Additional Facilities (defined in the Indenture) with the proceeds of the Bonds and any Additional Bonds (defined herein).

3. The Bonds. All the Bonds are of like tenor except as to number, principal amount, maturity, interest rate and redemption provisions and mature on _____ 1 of the years and in the amounts set forth below:

Principal Year	Interest Amount	Rate	Principal Year	Interest Amount	Rate
1996	$	%	2006	$	%
1997			2007		
1998			2008		
1999			2009		
2000			2010		
2001			2011		
2002			2012		
2003			2013		
2004			2014		
2005			2015		

The Bonds are issuable only in registered form without coupons in denominations of $5,000 and any integral multiple thereof.

4. Additional Bonds. The Indenture provides that Additional Bonds may be issued within the limitations and provisions of the Indenture. (The Bonds and any Additional Bonds are herein referred to as the "Parity Bonds"). All Parity Bonds issued within the limitations and provisions of the Indenture shall be secured equally and ratably by the Revenues and other property pledged by the Service.

5. Redemption. The Bonds at the time outstanding may be redeemed prior to their respective maturities as follows:

(a) Optional Redemption. Bonds maturing on or after September 1, 2006 are subject to redemption prior to maturity beginning on September 1, 2005, at the option of the Service as a whole at any time or in part on any interest payment date, at the following prices, expressed as percentages of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date set for redemption:

Period During Which Redeemed (both dates inclusive)	Redemption Price
September 1, 2005 through August 31, 2006	102%
September 1, 2006 through August 31, 2007	101
September 1, 2007 and thereafter	100

(b) Mandatory Sinking Fund Redemption. Bonds maturing on September 1, 20__ are subject to redemption prior to maturity at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date set for redemption from mandatory Sinking Fund Installments (as defined in the Indenture) paid from the Sinking Fund Account (created by the Indenture) on September 1 of the following years in the following amounts:

$_____ Term Bonds Due September 1, 20__

Year	Sinking Fund Installment	Year	Sinking Fund Installment
2004	$	2009	$
2005		2010	
2006		2011	
2007		2012	
2008		2013	

(c) Redemption from Insurance and Condemnation Proceeds. The Bonds are subject to redemption prior to maturity, as a whole at any time or in part on any interest payment date, at a redemption price equal to the principal amount of such Bonds redeemed, plus accrued and unpaid interest to the date fixed for redemption, in an amount equal to the amount of the net proceeds of casualty insurance and liability insurance with respect to the Project and net proceeds of all or any part of the Project which is taken in the exercise of the power of eminent domain, or through the exercise of any right or obligation on the part of any public authority to purchase the same, or as a result of any agreement between the Service and any such public authority, that are deposited and held in the Insurance and Condemnation Award Fund and that are not applied to the repair or replacement of the lost, damaged, destroyed or taken property in accordance with the terms of the Indenture.

(d) Extraordinary Optional Redemption. The Bonds are subject to redemption as a whole at any time at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest to the date fixed for redemption, at the option of the Service upon the occurrence of any of the following events:

(i) the Project or the Service's interest therein shall have been lost, damaged or destroyed to such an extent that, in the opinion of the Service (A) the Project cannot be reasonably restored within a period of 12 months to the condition thereof immediately preceding such loss, damage or destruction, or (B) the Service is thereby prevented from carrying on its normal operation of the Project for a period in excess of 12 months from the date of damage or destruction; or

(ii) taking or condemnation of the title to, or the temporary use of, all or substantially all of the Project by a competent authority or loss of use or possession of all or substantially all of the Project, which taking, condemnation or loss results, or is likely to result, in the Service's being prevented or likely to be prevented from carrying on its normal operation of the Project for a period in excess of 12 months from the date of any such event; or

(iii) as a result of changes in Applicable Law (defined in the Indenture), (A) the Indenture or any Intergovernmental Agreement shall become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed therein, or (B) unreasonable burdens or excessive liabilities are imposed upon the Service by reason of the operation of the Project, or (C) the Service is no longer able to operate the Project; or

(iv) changes in the economic availability of raw materials, energy, operating supplies or facilities necessary for the operation of the Project or technological or other changes shall have occurred which, in the reasonable judgment of the Service, render the Project uneconomic or unsuitable for the purposes specified in the Intergovernmental Agreement for a period in excess of 12 months from the date of such changes; or

(v) a final decree or judgment of any federal court or any determination, decision or decree by the Internal Revenue Service shall have been entered, which decree, judgment, determination or decision is not subject to further appeal and determines that interest paid or payable on any tax-exempt Bond is not or was not excludable from the gross income of the holder thereof for federal income tax purposes.

(e) Selection of Bonds to Be Redeemed. If fewer than all of the Bonds shall be called for redemption, the particular maturities of the Bonds to be redeemed shall be selected by the Service. If fewer than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed from such maturity shall be selected by lot by the Trustee in such manner as the Trustee in its discretion may determine. Money available for the redemption of Parity Bonds shall be allocated to the Bonds and any Additional Bonds outstanding under the Indenture in the manner provided in the Indenture.

(f) Notice of Redemption. The Trustee shall give notice of the call for any redemption by publication at least once in a daily newspaper of general circulation in the Borough of Manhattan, City and State of New York, or a financial journal published in such Borough, City and State, and at least once in a daily newspaper of general circulation in the City of Baltimore, Maryland, which notice shall be published at least 30 days before the redemption date. Notice of any such redemption shall also be mailed at least 30 days before the redemption date to the registered owners of the Bonds to be redeemed, but such mailing shall not be a condition precedent to such redemption, and failure so to mail any such notice to any of such registered owners shall not affect the validity of the proceedings for the redemption of the Bonds. As provided in the Indenture, so long as all of the Bonds are maintained in book-entry form with DTC, at least two Business Days prior to the day on which the notice is published by the Trustee

as set forth above, the Trustee shall provide notice of redemption of the Bonds to DTC in the manner and under the terms and conditions provided herein and in the Indenture.

(g) Effect of Call for Redemption. On the date designated for redemption, notice having been given as provided herein, the Bonds or portions of Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds or such portions thereof on such date and, if moneys for the payment of the redemption price and accrued interest are held by the Trustee as provided in the Indenture, interest on such Bonds or such portions thereof so called for redemption shall cease to accrue, such Bonds or such portions thereof so called for redemption shall cease to be entitled to any benefit or security under the Indenture, and the registered owners thereof shall have no rights in respect of such Bonds or such portions thereof so called for redemption except to receive payment of the redemption price thereof and the accrued interest thereon so held by the Trustee. If a portion of this bond shall be called for redemption, a new Bond or Bonds in the aggregate principal amount equal to the unredeemed portion hereof, of the same series and maturity and bearing interest at the same rate, shall be issued to the registered owner upon the surrender hereof.

6. Provisions Applicable to Book-Entry Bonds. So long as all of the Bonds shall be maintained in book-entry form with a Securities Depository (as defined in the Indenture) in accordance with Section 2.10 of the Indenture, in the event that part, but not all, of this bond shall be called for redemption, the holder of this bond may elect not to surrender this bond in exchange for a new Bond in accordance with paragraph 5(f) above and in such event shall make a notation indicating the principal amount of such redemption and the date thereof on the Payment Grid attached hereto. For all purposes, the principal amount of this bond outstanding at any time shall be equal to the lesser of (A) the Principal Sum shown on the face hereof and (B) such Principal Sum reduced by the principal amount of any partial redemption of this bond following which the holder of this bond has elected not to surrender this bond in accordance with the paragraph 5(f) above. The failure of the holder hereof to note the principal amount of any partial redemption on the Payment Grid attached hereto, or any inaccuracy therein, shall not affect the payment obligation of the Service hereunder. THEREFORE, IT CANNOT BE DETERMINED FROM THE FACE OF THIS BOND WHETHER A PART OF THE PRINCIPAL OF THIS BOND HAS BEEN PAID.

7. Acceleration; Defeasance. In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of all the Bonds then outstanding under the Indenture may become or may be declared due and payable before the stated maturities thereof, together with the interest accrued thereon.

The Indenture prescribes the manner in which it may be discharged and provides that Bonds shall be deemed to be paid if moneys or Government Obligations (defined in the Indenture), the principal of and interest on which, when due, will be sufficient to pay the principal or redemption price of and interest on such Bonds to the date of maturity or redemption thereof, shall have been deposited with the Trustee.

8. Persons Deemed Owners; Restrictions upon Actions by Individual Holders. The Service and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof (whether or not this bond shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Service or the Trustee) for the purpose of receiving payment of or on account of the principal or redemption price of this bond, and for all other purposes except as otherwise provided herein with respect to the payment of interest on this bond, and neither the Service nor the Trustee shall be affected by any notice to the contrary. All such payments so made to any such registered owner, or upon such owner's order, shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable under this bond.

The registered owner of this bond shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect hereto, except as provided in the Indenture.

9. Transfer and Exchange. This bond may be exchanged for an equal aggregate principal amount of Bonds, of the same maturity and bearing interest at the same rate and of other authorized denominations, and the transfer of this bond may be registered, upon presentation and surrender of this bond at the corporate trust office of the Trustee in Baltimore, Maryland, together with an assignment duly executed by the registered owner hereof or such owner's attorney or legal representative. The Service and the Trustee may require the person requesting any such exchange or transfer to reimburse them for any tax or other governmental charge payable in connection therewith. Neither the Service nor the Trustee shall be required to register the transfer of this bond or make any such exchange of this bond after this bond or any portion hereof has been selected for redemption. The Bonds shall be issued in book-entry form, subject to further action as provided in the Indenture, and the provisions set forth in the Indenture relating to book-entry form shall apply thereto.

10. Modifications. Modifications or alterations of the Indenture or the Intergovernmental Agreement may be made only to the extent and in the circumstances permitted by the Indenture and the Intergovernmental Agreement.

11. Negotiability. As declared by the Act, this bond shall be and be deemed to be for all purposes a negotiable instrument subject only to the provisions for registration and registration of transfer stated herein.

12. Governing Law. This bond shall be governed by and construed in accordance with the laws of the State of Maryland.

13. Notices. Except as otherwise provided in the Indenture and this bond, when the Trustee is required to give notice to the owner of this bond, such notice shall be mailed by first-class mail to the registered owner of this bond at such owner's address as it appears on the

registration books maintained by the Trustee. Any notice mailed as provided herein will be conclusively presumed to have been given, whether or not actually received by the addressee.

IN WITNESS WHEREOF, Maryland Environmental Service has caused this bond to be executed in its name by the manual signature of the Director of the Service and its corporate seal (or a facsimile thereof) to be hereunto affixed, imprinted, engraved or otherwise reproduced and attested by the manual signature of its Treasurer, all as of the first day of June, 1995.

MARYLAND ENVIRONMENTAL SERVICE

[SEAL]

By: _____
Director

Attest:

_____
Treasurer

[Certificate of Authentication]

Date of Authentication:

This bond is one of the bonds of the series designated herein and issued under the provisions of the within-mentioned Indenture. A signed original of the complete text of the opinion of Piper & Marbury L.L.P., Baltimore, Maryland, bond counsel is on file with the undersigned.

TRUSTEE NAME
as Trustee

By: _____
Authorized Signatory

PAYMENT GRID

Date of Payment	Principal Amount Paid	Principal Amount Outstanding	Holder Signature

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 19, 1995

NEW ISSUE

Moody's Investors Service, Inc.:
Standard & Poor's Corporation:
(See "Ratings" herein.)

In the opinion of Piper & Marbury L.L.P., Bond Counsel, assuming compliance with certain covenants described herein, (i) under the terms of the enabling legislation of the Service, the Series 1995 Bonds, their transfer, the interest payable on them, and any income derived from them, including any profit realized in their sale or exchange, shall be exempt at all times from taxation of every kind and nature by the State of Maryland, or by any of its political subdivisions, municipal corporations or public units of any kind, but no opinion is expressed as to Maryland estate or inheritance taxes, the Maryland franchise tax on financial institutions measured by income, or any other Maryland taxes not levied or assessed directly on the Series 1995 Bonds or the income therefrom; and (ii) interest on the Series 1995 Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions. As described herein under "Tax Exemptions", interest earned on the Series 1995 Bonds, for federal income tax purposes, 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, interest earned on the Series 1995 Bonds may be included in a corporation's "adjusted current earnings" in the calculation of a corporation's alternative minimum taxable income for federal income tax purposes and may be subject to the environmental tax imposed on corporations and the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

$ *

MARYLAND ENVIRONMENTAL SERVICE
REVENUE BONDS
(REGIONAL YARD DEBRIS COMPOSTING PROJECT),
SERIES 1995

Dated: July 1, 1995 **Due: September 1, as shown below**

The Series 1995 Bonds will be issued pursuant to an Indenture of Trust, dated as of June 1, 1995 (the "Indenture") between _____, (the "Trustee") and Maryland Environmental Service (the "Service"). The Service is a body politic and corporate and a public instrumentality of the State of Maryland. The proceeds of the Series 1995 Bonds will be used to finance the acquisition and construction of a regional yard debris composting facility, including a compost pad, a scale and scale house, internal access roads and certain other ancillary yard debris composting facilities (the "Composting Facility") to be located in Howard County, Maryland. Pursuant to Intergovernmental Agreements (collectively, the "Intergovernmental Agreement") between the Service and Howard County, Maryland, Baltimore County, Maryland and Anne Arundel County, Maryland (each a "Baltimore Regional County" and collectively, the "Baltimore Regional Counties"), the Baltimore Regional Counties have agreed to deliver a guaranteed annual amount (the "Guaranteed Annual Tonnage") of their Yard Debris (defined herein) for disposal at the Composting Facility in each year throughout the term of the Series 1995 Bonds and to pay certain disposal fees. The Baltimore Regional Counties will pay the Service a per ton fee (the "Processing Fee") to cover the costs of operating the Composting Facility and disposing of Yard Debris (the "Total Costs"). The Processing Fee payments for each of the Baltimore Regional Counties will be payable on a monthly basis and will be equal to the greater of (i) the product of the tons of Yard Debris delivered per month by each Baltimore Regional County multiplied by the Processing Fee, or (ii) the product of the Processing Fee multiplied by one-twelfth of the Guaranteed Annual Tonnage of Yard Debris for each of the Baltimore Regional Counties. The Baltimore Regional Counties will also pay a quarterly supplemental fee equal to the amount, if any, by which the Total Costs of the Composting Facility exceed the Processing Fees and other revenues of the Composting Facility (the "Supplemental Fee"). Under the terms of the Intergovernmental Agreement, the Baltimore Regional Counties agree to include in their annual budgets for each Fiscal Year, amounts sufficient to pay the Processing Fee and the Supplemental Fee for the next Fiscal Year. See "Security and Sources of Payment for the Series 1995 Bonds -- Budgeting Obligations".

The Series 1995 Bonds are issuable only as fully registered bonds in denominations of $5,000 and integral multiples thereof. All of the Series 1995 Bonds initially will be maintained under a book-entry system and will be registered in the name of Cede & Co., as registered owner of and nominee for The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Series 1995 Bonds. Individual purchases of the Series 1995 Bonds will be made only in book-entry form and individual purchasers ("Beneficial Owners") of Series 1995 Bonds will not receive physical delivery of bond certificates.

Interest on the Series 1995 Bonds from July 1, 1995, is payable on March 1, 1996 (eight months) and semiannually on September 1 and March 1. So long as the Series 1995 Bonds are maintained under a book-entry system, payments of principal of and interest on the Series 1995 Bonds will be made when due by the Trustee to DTC in accordance with the Indenture, and the Trustee will have no obligation to make any payments to any Beneficial Owner of any Series 1995 Bonds. See "Book-Entry Only System."

Payment of the principal of and interest on the Series 1995 Bonds when due will be insured by a municipal bond insurance policy to be issued by

AMBAC®

simultaneously with the delivery of the Series 1995 Bonds, as described herein.

The Series 1995 Bonds constitute special obligations of the Service payable solely from (i) Revenues from the Composting Facility pledged by the Service under the Indenture and (ii) to the extent provided in the Indenture, the proceeds of the Series 1995 Bonds. The Revenues consist of, in part, all payments to the Service or the Trustee pursuant to the Intergovernmental Agreement, including the Processing Fee.

Neither the State of Maryland nor any political subdivision thereof nor the Service shall be obligated to pay the Series 1995 Bonds or the interest thereon except from the Revenues, and neither the faith and credit nor the taxing power of the State of Maryland, of any political subdivision thereof or of the Service is pledged to the payment of the principal of or the interest on the Series 1995 Bonds. The issuance of the Series 1995 Bonds does not directly or indirectly or contingently ob igate, morally or otherwise, the State of Maryland, any political subdivision thereof or the Service to levy or pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Service has no taxing power.

The Series 1995 Bonds are subject to redemption prior to maturity as described herein under "The Series 1995 Bonds - Redemption Provisions."

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

Amount*	Maturing*	Interest Rate	Price or Yield	Amount*	Maturing*	Interest Rate	Price or Yield
$		%	%	$		%	%

(Accrued interest from _____, 1995 to be added)

The interest rates and prices or yields shown above were furnished by the successful bidders for the Series 1995 Bonds. All other information concerning the terms of the reoffering of the Series 1995 Bonds should be obtained from the successful bidders, and not from the Service. (See, "Sale at Competitive Bidding.").

The Series 1995 Bonds are offered when, as and if issued by the Service, subject to the approval of Piper & Marbury L.L.P., Baltimore, Maryland, Bond Counsel, and to certain other conditions. It is expected that the Series 1995 Bonds will be available for delivery in New York, New York, on or about _____, 1995.

* Estimated, subject to change.

No dealer, broker, sales representative, or other person has been authorized by Maryland Environmental Service (the "Service") to give any information or to make any representation other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information set forth herein has been obtained from the Service, AMBAC Indemnity Corporation (the "Bond Insurer") and other sources that are deemed to be reliable but is not guaranteed as to accuracy or completeness by the Service, and is not to be construed as a representation as to information from sources other than the Service, of the Service. The Bond Insurer has furnished the information contained under the caption "Municipal Bond Insurance" and the specimen form of municipal bond insurance policy contained in Exhibit G. References to all documents referred to herein are qualified in their entirety by reference to the complete terms and provisions of such documents. 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 Series 1995 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Service since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the Service and the purchasers or holders of any of the Series 1995 Bonds.

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 Series 1995 Bonds shall under any circumstances create any implication that there has been no change in the affairs of the Service since the date hereof.

This Official Statement is submitted in connection with the offering of the Series 1995 Bonds and may not be reproduced, used or relied upon, in whole or in part, for any other purpose.

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OFFICIAL STATEMENT

relating to

$5,915,000*

MARYLAND ENVIRONMENTAL SERVICE

REVENUE BONDS

(REGIONAL YARD DEBRIS COMPOSTING PROJECT)

SERIES 1995

INTRODUCTION

This Official Statement, including the cover page (excluding the price and yield information) and appendices, sets forth certain information for use in connection with the sale by Maryland Environmental Service (the "Service") of $5,915,000* Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project) Series 1995 (the "Series 1995 Bonds"). The issuance, sale and delivery of the Series 1995 Bonds are authorized by the Indenture of Trust dated as of June 1, 1995 (the "Indenture"), between the Service and _____, as trustee (the "Trustee").

The Service is authorized to issue the Series 1995 Bonds by the Maryland Environmental Service Act, being Sections 3-101 through 3-130, inclusive, of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume and 1994 Cumulative Supplement) (the "Act"). The Series 1995 Bonds and any Additional Bonds (as defined herein) issued pursuant to the Indenture are herein referred to as the "Bonds".

Brief descriptions of the Intergovernmental Agreement and the Indenture appear in Appendix D to this Official Statement. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. For the definition of certain other words and terms used elsewhere in this Official Statement (including the appendices hereto), see Appendix D.

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* Estimated, subject to change.

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Purpose of Issue

The proceeds of the Series 1995 Bonds will be used to finance the cost of designing, acquiring, constructing and equipping a regional yard debris composting facility which will include, among other things, a compost pad, a scale and scale house, internal access roads and other ancillary yard debris composting facilities and will be located in Howard County, Maryland (the "Composting Facility"). The Composting Facility is designed to accept leaves, grass clippings, brush, tree trimmings, Christmas trees and similar debris ("Yard Debris"). Hazardous wastes and materials other than Yard Debris will not be accepted at the Composting Facility.

The Service has entered into a separate Yard Debris Composting Intergovernmental Agreement dated as of _____, 1995 (collectively, the "Intergovernmental Agreement") with Howard County, Maryland, Baltimore County, Maryland and Anne Arundel County, Maryland (collectively, the "Baltimore Regional Counties"), pursuant to which the Baltimore Regional Counties have agreed to deliver certain guaranteed amounts of their Yard Debris (the "Guaranteed Annual Tonnage") for disposal at the Composting Facility in each year throughout the term of the Series 1995 Bonds and to pay certain disposal fees. The Baltimore Regional Counties will pay the Service a per ton fee (the "Processing Fee") to cover the costs of operating the Composting Facility and disposing of Yard Debris (the "Total Costs"). The Processing Fee will be payable by the Baltimore Regional Counties on a monthly basis. The Baltimore Regional Counties will also pay a fee designed to offset the amount by which the Total Costs exceed the Processing Fees and other revenues received (the "Supplemental Fee"). The Supplemental Fee will be payable by each of the Baltimore Regional Counties on a quarterly basis and in amounts proportionate to the Guaranteed Annual Tonnage of the respective Baltimore Regional County. See "Summary of Certain Provisions of the Intergovernmental Agreement -- Minimum Monthly Payment, Supplemental Fee and Quarterly Estimated Payments" in Appendix D.

The Intergovernmental Agreement authorizes the Service to enter into an agreement with a subcontractor pursuant to which the subcontractor would equip, start up, test, operate, maintain and insure the Composting Facility. It is anticipated that such agreement would have a term of five years and be terminable by the Service after three years. The Subcontractor would neither own nor have any property right in the Composting Facility or its site.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated uses of the Series 1995 Bonds, incidental costs related thereto and the estimated sources of funds available therefor are as follows:

Sources of funds:

Series 1995 Bonds	$5,915,000
Total sources of funds	$5,915,000

Uses of funds:

Estimated costs of land acquisition and construction	(1)	$5,120,000
Debt Service Reserve Fund Requirement	(2)	491,000
Capitalized Interest during Construction	(3)	78,000
Administrative fees and expenses, bond insurance premium, legal, financing and miscellaneous expenses		226,000
Total uses of funds		$5,915,000

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(1) Estimate of the Service. See "The Composting Facility" herein.

(2) The Debt Service Reserve Fund Requirement for the Series 1995 Bonds.

(3) Interest on a portion of the Series 1995 Bonds issued to finance the Composting Facility will be funded from the proceeds of the Series 1995 Bonds from the date of their initial delivery through October 1, 1995.

PLAN OF FINANCING

As set forth in "Estimated Sources and Uses of Funds," the proceeds of the Series 1995 Bonds will be used to (i) finance the costs of the Composting Facility; (ii) pay the interest accruing on the portion of the Series 1995 Bonds issued to finance the Composting Facility from the date of their initial authentication and delivery through October 1, 1995, (iii) fund a Debt Service Reserve Fund for the Series 1995 Bonds, and (iv) pay administrative fees and expenses, legal, financing and miscellaneous expenses related to the issuance of the Series 1995 Bonds.

The Series 1995 Bonds are secured by the Revenues pledged by the Service under the Indenture, including the security interest in the moneys in the funds and accounts maintained by the Trustee under the Indenture for the Series 1995 Bonds (other than the Rebate Fund). See "Security and Sources of Payment for the Series 1995 Bonds."

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1995 BONDS

General

The Series 1995 Bonds are special obligations of the Service, the principal and Redemption Price of and interest on which are payable solely from Revenues and, to the extent provided in the Indenture, the proceeds of the Series 1995 Bonds.

Neither the State of Maryland, nor any political subdivision thereof, nor the Service shall be obligated to pay the Series 1995 Bonds or the interest thereon except from Revenues, and neither the faith and credit nor the taxing power of the State of Maryland, of any political subdivision thereof or of the Service is pledged to the payment of the principal of or the interest

on the Series 1995 Bonds. The issuance of the Series 1995 Bonds does not directly or indirectly or contingently obligate, morally or otherwise, the State of Maryland or any political subdivision thereof or the Service to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Service has no taxing power. See "State Not Liable on Series 1995 Bonds."

Pledge of Revenues

Pursuant to the Indenture, the Service will pledge and assign to the Trustee the Revenues. The Revenues consist of: (i) all payments to the Service or the Trustee pursuant to the Intergovernmental Agreement; (ii) all moneys and securities on deposit in funds and accounts created by the Indenture (other than the Rebate Fund); and (iii) all other receipts of the Service attributable to the ownership or operation of the Composting Facility and the financing or refinancing of the Composting Facility and any Additional Facilities with the proceeds of Bonds.

The pledge made by the Indenture and the covenants and agreements contained in the Indenture to be performed by or on behalf of the Service are, by their terms, for the equal and ratable benefit, protection and security of the Holders of all Bonds (including any Additional Bonds). See "Additional Debt."

INTERGOVERNMENTAL AGREEMENT

General

The Baltimore Regional Counties have entered into an Intergovernmental Agreement with the Service which, subject to certain rights of termination described below, has a term at least equal to the term of the Series 1995 Bonds. The Intergovernmental Agreement provides that from and after the earlier of October 1, 1995 and the date on which the Composting Facility is open to accept Yard Debris (the "Operations Commencement Date"), the Baltimore Regional Counties shall deliver the Guaranteed Annual Tonnage of Yard Debris and shall pay on a monthly basis to the Service a Processing Fee for each ton of Yard Debris delivered during such month to cover the costs of operating the Composting Facility and disposing of the Yard Debris. If the aggregate amount of the per ton Processing Fees collected monthly, together with other Composting Facility Revenues are inadequate to cover the total cost of the Composting Facility, the Intergovernmental Agreement provides that the Baltimore Regional Counties will also pay on a quarterly basis a Supplemental Fee to cover such shortfall. See "Summary of Certain Provisions of the Intergovernmental Agreement -- Processing Fee and -- Minimum Monthly Payment, Supplemental Fee and Quarterly Estimated Payments" in Appendix D.

Obligation of the Baltimore Regional Counties to Pay Processing Fee and any Deficiency

From and after the Operations Commencement Date, each of the Baltimore Regional Counties has agreed to pay a monthly per ton Processing Fee and a quarterly Supplemental Fee to cover the Total Costs. In each fiscal year under the Intergovernmental Agreement (each "Fiscal Year"), the Service shall set a Processing Fee which together with other Composting Facility Revenues and the Supplemental Fee shall be at least equal to Total Costs for such Fiscal Year. The minimum monthly Processing Fee payments for a Baltimore Regional County are the greater of (i) the Processing Fee multiplied by the tons of Yard Debris delivered by the Baltimore Regional County during that month, and (ii) the Processing Fee multiplied by one-twelfth of the amount of Yard Debris that the Baltimore Regional County is obligated to deliver annually (the "Guaranteed Annual Tonnage").

As provided in the Intergovernmental Agreement, the Supplemental Fee is equal to the amount, if any, by which Total Costs exceed the sum of Composting Facility Revenues plus any unpaid portion of the Total Guaranteed Annual Payment, and is paid quarterly in specific shares ("Proportionate Shares") by each of the Baltimore Regional Counties. Composting Facility Revenues are equal to the aggregate amount of any revenues, fees and income received by the Service in connection with the operation of the Composting Facility and the provision of Yard Debris composting services to the Baltimore Regional Counties under the Intergovernmental Agreement, including revenues from tipping fees charged users of the Composting Facility, proceeds from the sale or lease of any of the Composting Facility equipment and interest earnings on moneys held by the Service relating to the provision of Yard Debris composting services. Total Costs include (without limitation) debt service payments with respect to the Series 1995 Bonds; aggregate costs of operating and maintaining the Composting Facility; costs of disposal of Unacceptable Material; costs of labor; amounts to provide for costs incurred if the Composting Facility is closed; and any amounts paid to the Company pursuant to the Service Agreement.

The Supplemental Fee will be paid in quarterly estimated payments, calculated by multiplying each Baltimore Regional County's Proportionate Share times the difference of (1) the sum of (i) estimated Total Costs for the Fiscal Year quarter at issue, plus (ii) the amount by which actual Total Costs exceeded estimated Total Costs for the immediately preceding Fiscal Year quarter; minus (2) the sum of (i) Composting Facility Revenues received in the immediately preceding Fiscal Year quarter, plus (ii) the unpaid portion of the Total Guaranteed Annual Payment due from the remaining Baltimore Regional Counties. See "Summary of Certain Provisions of the Intergovernmental Agreement -- Definitions" in Appendix D.

Budgeting Obligation

Under the terms of the Intergovernmental Agreement, each Baltimore Regional County has agreed to include in its annual budget for each Fiscal Year during the term of the Intergovernmental Agreement, amounts sufficient to pay the Processing Fee and the

Proportionate Share of the Supplemental Fee for the next Fiscal Year and otherwise to meet all of its obligations under the Intergovernmental Agreement or to take such other action as necessary to ensure the availability of such funds. The failure by a Baltimore Regional County to take any action to assure the availability of sufficient funds shall not excuse or limit any of such Baltimore Regional County's obligations under the Intergovernmental Agreement, whether any estimates of the Processing Fee, the Proportionate Share of the Supplemental Fee, Total Costs, Composting Facility Revenues, or other amounts payable under the Intergovernmental Agreement prove inaccurate. See "Summary of Certain Provisions of the Intergovernmental Agreement -- Estimates of Processing Fee; County Budgeting Obligations" in Appendix D.

Tipping Fee

Under the terms of the Intergovernmental Agreement, Yard Debris delivered by any Hauler other than a Baltimore Regional County or a Designated Hauler thereof shall be accepted by the Service at a tipping fee which shall be no less than the Processing Fee established under the Intergovernmental Agreement. The amount of any such tipping fee shall be included in Composting Facility Revenues and shall go toward reducing the Supplemental Fee paid to the Service by the Baltimore Regional Counties.

Quantity of Acceptable Yard Debris

Each Baltimore Regional County has agreed to deliver, and the Service has agreed to accept, certain amounts of Yard Debris for composting. The Service may refuse delivery of any Unacceptable Material. The failure of any Baltimore Regional County to deliver such amounts of Yard Debris shall not constitute a breach of, or Event of Default under, the Intergovernmental Agreement so long as such Baltimore Regional County continues to pay the Processing Fee for such undelivered amounts of Yard Debris. See "Summary of Certain Provisions of the Intergovernmental Agreement" in Appendix D.

The Intergovernmental Agreement provides that the Service may accept Yard Debris from persons other than a Baltimore Regional County provided that tipping fees are charged and collected and acceptance of such Yard Debris does not impair the obligations of the Service to the Baltimore Regional Counties under the Intergovernmental Agreement. In addition, the Service may accept Yard Debris generated or collected outside of the Baltimore Regional Counties, provided that either (i) the Baltimore Regional Counties have given consent or (ii) a Baltimore Regional County is in default under the Intergovernmental Agreement. See "Summary of Certain Provisions of the Intergovernmental Agreement -- Other Contracts for Waste Delivery" in Appendix D.

The Baltimore Regional Counties have agreed to deliver certain amounts of Yard Debris to the Composting Facility; however, if the Composting Facility is not capable of accepting the Yard Debris, the Service may direct that it be delivered to an Alternative Facility designated by the Service.

Termination of the Intergovernmental Agreement

If the Service or a Baltimore Regional County persistently or repeatedly fails or refuses substantially to fulfill its material obligations under the Intergovernmental Agreement, such failure shall constitute an Event of Default thereunder. If an Event of Default shall have occurred and be continuing, the Service or a Baltimore Regional County, as the case may be, would have the right to terminate the Intergovernmental Agreement upon written notice to the party in default. Upon such termination, such Baltimore Regional County would no longer be obligated to pay the Processing Fee or any other fee in connection with the Intergovernmental Agreement. See "Summary of Certain Provisions of the Intergovernmental Agreement -- Termination On Default" in Appendix D.

Each Baltimore Regional County has the option to terminate the Intergovernmental Agreement at any time. If all of the Baltimore Regional Counties exercise this option to terminate the Intergovernmental Agreement they must purchase and take title to and liability for the Composting Facility. The amount which the Baltimore Regional Counties must pay for the purchase is determined by a formula set forth in the Intergovernmental Agreement, but in no event shall the purchase price be less than the amount of money necessary to defease or redeem any outstanding Indebtedness, including the Series 1995 Bonds. In addition, any of the Baltimore Regional Counties may exercise this option to terminate the Intergovernmental Agreement on its own behalf by executing an agreement with the remaining Baltimore Regional Counties and the Service that the remaining Baltimore Regional Counties will collectively assume the terminating Baltimore Regional County's obligations under the Intergovernmental Agreement. See "Summary of Certain Provisions of the Intergovernmental Agreement -- Option to Terminate at any Time" in Appendix D.

Debt Service Reserve Fund

Upon the delivery of the Series 1995 Bonds, the Trustee will deposit in the Debt Service Reserve Fund from the proceeds of the Series 1995 Bonds an amount equal to the Debt Service Reserve Fund Requirement. The Indenture establishes the Debt Service Reserve Fund Requirement for the Series 1995 Bonds and other Series of Bonds secured by the Debt Service Reserve Fund as an amount equal to the least of (i) the greatest amount required in the then current or any future Fiscal Year to pay the Debt Service Requirements of such outstanding Bonds, (ii) 125% of the average annual Debt Service Requirements of such Bonds, determined as of the date of issuance thereof, and (iii) 10% of the proceeds of such Bonds, determined as of the date of issuance thereof. The Indenture provides that Maximum Annual Debt Service on the Bonds will be calculated as described in the definition of "Debt Service Requirements" under "Definitions of Certain Provisions of the Indenture" in Appendix D.

The Service may deliver to the Trustee a Debt Service Reserve Fund Credit Facility in substitution for amounts initially deposited in the Debt Service Reserve Fund. See "Investments"

and "Application of Moneys in the Debt Service Reserve Fund" under "Summary of Certain Provisions of the Indenture" in Appendix D.

If the amount credited to the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Trustee is required under the Indenture, after making certain payments from the Revenue Fund to the Interest Account, the Principal Account and the Sinking Fund Account, to make equal monthly payments in the amounts of one twelfth (1/12) of the deficiency until the amount credited to the Debt Service Reserve Fund equals the Debt Service Reserve Fund Requirement. See "Summary of Certain Provisions of the Indenture -- Deposit and Application of Moneys in the Debt Service Reserve Fund" in Appendix D.

Enforceability

The Indenture and the Series 1995 Bonds are subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditor's rights and to general principles of equity.

In the event that any Baltimore Regional County fails to make payments due under the Intergovernmental Agreement, such Baltimore Regional County may be sued by the Service, and any judgments resulting from any such suit would be enforceable against that Baltimore Regional County. Nevertheless, a judgment creditor of such Baltimore Regional County may be required to seek additional relief to compel such Baltimore Regional County to provide the funds from which such judgment may be paid, such as a mandatory injunction to require such Baltimore Regional County to make funds available to pay such judgment.

In addition, the Intergovernmental Agreement is subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditor's rights and to general principles of equity.

Additional Bonds

The Service may issue additional parity bonds (the "Additional Bonds") under a Supplemental Indenture if necessary (i) to complete the acquisition and construction of the Composting Facility or Additional Facilities, (ii) to pay the costs of restoring, maintaining, improving or increasing the composting capacity of the Composting Facility or otherwise to permit the Service to meet its Yard Debris disposal obligations under the Intergovernmental Agreement, or (iii) to refund or advance refund any outstanding Bonds, Subordinate Obligations or other obligations of the Service relating to the Composting Facility or Additional Facilities. The Processing Fee includes the amounts necessary to pay debt service on such Additional Bonds. Upon the issuance of Additional Bonds, the Debt Service Reserve Fund Requirement shall be determined as set forth in the Supplemental Indenture authorizing the Additional Bonds.

MUNICIPAL BOND INSURANCE

The Service has not undertaken any independent investigation of the operations of AMBAC Indemnity Corporation ("AMBAC Indemnity") and makes no representation herein as to the accuracy or adequacy of such information regarding AMBAC Indemnity or as to the absence of material adverse changes in such information subsequent to the date hereof. The Service makes no representation as to the ability of AMBAC Indemnity to make payments under its Municipal Bond Insurance Policy (as defined below). See "Appendix G - Specimen Form of Municipal Bond Insurance Policy."

AMBAC Indemnity Corporation

AMBAC Indemnity is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioners of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, and the Commonwealth of Puerto Rico, with admitted assets of approximately $2,204,000,000 (unaudited) and statutory capital of approximately $1,237,000,000 (unaudited) as of March 31, 1995. Statutory capital consists of AMBAC Indemnity policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly-owned subsidiary of AMBAC, Inc., a 100% publicly-held company. Moody's Investors Service, Inc., Standard & Poor's Corporation and Fitch Investors Service, Inc. have each assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

AMBAC Indemnity makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented under the heading "MUNICIPAL BOND INSURANCE."

Payment Pursuant to Municipal Bond Insurance Policy

AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Municipal Bond Insurance Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). AMBAC Indemnity will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by AMBAC Indemnity.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, AMBAC Indemnity will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee/Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of AMBAC Indemnity to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering bondholder's rights to payment.

THE SERIES 1995 BONDS

General

The Series 1995 Bonds will be dated as of July 1, 1995 will bear interest from July 1, 1995 at the rates set forth on the cover page of this Official Statement, payable on March 1, 1996 and semiannually thereafter on each September 1 and March 1 and, subject to the redemption provisions set forth below, will mature on the dates and in the amounts set forth on the cover page of this Official Statement.

The Series 1995 Bonds will be issued only as fully registered bonds in denominations of $5,000 and integral multiples thereof. All of the Series 1995 Bonds initially will be maintained under a book-entry system and will be registered in the name of Cede & Co., as registered owner of and nominee for The Depository Trust Company, New York, New York, ("DTC"), which will act as securities depository for the Series 1995 Bonds. So long as the Series 1995 Bonds shall be maintained under a book-entry system, payments of the principal of and interest on the Series 1995 Bonds will be made as described below under "Book-Entry Only System." At any other time, the principal of the Series 1995 Bonds are payable at the principal corporate trust office of the Trustee, and interest on the Series 1995 Bonds will be payable by check mailed by the Trustee to the registered holders of the Series 1995 Bonds as their names and addresses appear in the registration books maintained by the Trustee as of (i) the fifteenth day of the calendar month immediately preceding each Interest Payment Date or (ii) in the case of payment of any defaulted interest, at least ten days before such payment.

Redemption Provisions

Optional Redemption

The Series 1995 Bonds maturing on or after September 1, 2006 will be subject to redemption prior to maturity beginning on September 1, 2005 at the option of the Service as a whole at any time or in part on any interest payment date, at the following prices, expressed as

percentages of the principal amount of the Series 1995 Bonds to be redeemed, plus accrued interest thereon to the date set for redemption:

Period During Which Redeemed (both dates inclusive)	Redemption Price
September 1, 2005 through August 31, 2006	102%
September 1, 2006 through August 31, 2007	101
September 1, 2007 and thereafter	100

Extraordinary Mandatory Redemption

The Series 1995 Bonds are subject to redemption prior to maturity, as a whole at any time or in part on any interest payment date, at a redemption price equal to the principal amount of such Series 1995 Bonds redeemed, plus accrued and unpaid interest to the date fixed for redemption, in an amount equal to the amount of the net proceeds of casualty insurance and liability insurance with respect to the Composting Facility and net proceeds of all or any part of the Composting Facility which is taken in the exercise of the power of eminent domain, or through the exercise of any right or obligation on the part of any public authority to purchase the same, or as a result of any agreement between the Service and any such public authority, that are deposited and held in the Insurance and Condemnation Award Fund and that are not applied to the repair or replacement of the lost, damaged, destroyed or taken property in accordance with the terms of the Indenture.

Extraordinary Optional Redemption

The Series 1995 Bonds are subject to redemption as a whole at any time at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest to the date fixed for redemption, at the option of the Service upon the occurrence of any of the following events: (i) the Composting Facility or the Service's interest therein shall have been lost, damaged or destroyed to such an extent that, in the opinion of the Service (A) the Composting Facility cannot be reasonably restored within a period of 12 months to the condition thereof immediately preceding such loss, damage or destruction, or (B) the Service is thereby prevented from carrying on its normal operation of the Composting Facility for a period in excess of 12 months from the date of damage or destruction; or (ii) taking or condemnation of the title to, or the temporary use of, all or substantially all of the Composting Facility by a competent authority or loss of use or possession of all or substantially all of the Composting Facility, which taking, condemnation or loss results, or is likely to result, in the Service's being prevented or likely to be prevented from carrying on its normal operation of the Composting Facility for a period in excess of 12 months from the date of any such event; or (iii) as a result of changes in Applicable Law, (A) the Indenture or the Intergovernmental Agreement shall become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed therein, or (B) unreasonable burdens or excessive liabilities are imposed upon the Service by reason of the operation of the Composting Facility, or (C) the Service is no longer able to operate the Composting Facility; or (iv) changes in the economic availability of raw materials, energy,

operating supplies or facilities necessary for the operation of the Composting Facility or technological or other changes shall have occurred which, in the reasonable judgment of the Service, render the Composting Facility uneconomic or unsuitable for the purposes specified in the Intergovernmental Agreement for a period in excess of 12 months from the date of such changes; or (v) a final decree or judgment of any federal court or any determination, decision or decree by the Internal Revenue Service shall have been entered, which decree, judgment, determination or decision is not subject to further appeal and determines that interest paid or payable on any tax-exempt Bond is not or was not excludable from the gross income of the holder thereof for federal income tax purposes.

Selection of Bonds to Be Redeemed

If fewer than all of the Series 1995 Bonds shall be redeemed, the particular maturities of the Series 1995 Bonds to be redeemed shall be selected by the Service. If fewer than all of the Series 1995 Bonds of any one maturity shall be called for redemption, the particular Series 1995 Bonds to be redeemed shall be selected by lot by the Trustee; so long as all of the Series 1995 Bonds shall be maintained in book-entry form with DTC, the Trustee shall notify DTC of the maturities and principal amounts of the Series 1995 Bonds to be redeemed, and such notification is hereby deemed to be in a proper manner of selection of the Series 1995 Bonds to be redeemed. See "Book-Entry Only System".

Notice of Redemption

The Trustee shall give notice of the call for any redemption by mail at least 30 days before the redemption date to the registered owners of the Bonds to be redeemed, but such mailing shall not be a condition precedent to such redemption, and failure so to mail any such notice to any of such registered owners or any defect in such Notice or in the mailing thereof shall not affect the validity of the proceedings for the redemption of the Bonds.

So long as all of the Series 1995 Bonds are maintained in book-entry form with the Securities Depository, (i) the Service shall give DTC written notice of its election to redeem Bonds as set forth in the Indenture no less than 45 days nor more than 60 days before the date fixed for redemption and (ii) any notice of redemption of any Series 1995 Bond or portion thereof to be given by the Trustee as herein provided shall also be given to DTC, by legible facsimile transmission, registered or certified mail or overnight express delivery, no later than two Business Days prior to the date notice of such redemption is published pursuant to the terms of the Series 1995 Bonds. Such notice by the Trustee to DTC, in addition to the matters set forth in the Bond, shall state the (i) CUSIP number, certificate number and called amount of each certificate, redemption date, redemption price, redemption agent name and address, interest rate, and maturity date of the Series 1995 Bond or portion thereof to be redeemed and (ii) the date on which the notice of redemption with respect to such Series 1995 Bond or portion thereof is to be published. The Series 1995 Bonds so called for redemption will cease to bear interest upon provision of payment of principal of and interest on the Series 1995 Bonds called for redemption, on the specified redemption date and shall no longer be secured by the Indenture provided that funds for such redemption are on deposit at that time with the Trustee.

Registration and Exchange of Bonds

At such time as the Series 1995 Bonds are no longer held by Cede & Co. (or a successor entity), any Series 1995 Bond may be exchanged for an equal aggregate principal amount of Series 1995 Bonds of the same maturity and bearing interest at the same rate, in any authorized denomination, and the transfer of any Series 1995 Bond may be registered, upon presentation and surrender of such Bond at the principal corporate trust office of the Trustee, together with an assignment duly executed by the registered owner or such owner's attorney or legal representative. The Service and the Trustee may require the person requesting any such exchange or transfer to reimburse them for any tax or other governmental charge payable in connection therewith. Neither the Service nor the Trustee shall be required to register the transfer of any Series 1995 Bond or make any such exchange of any Series 1995 Bond after such Bond or any portion thereof has been selected for redemption.

Acceleration

Upon the occurrence of certain events, the due date for the payment of the principal amount of the Series 1995 Bonds may be accelerated. See "Summary of Certain Provisions of the Indenture--Events of Default and Remedies" in Appendix D.

ANNUAL DEBT SERVICE REQUIREMENTS OF THE SERIES 1995 BONDS

The following table sets forth for each fiscal year ending June 30 the amount required for the payment of principal due on the Series 1995 Bonds (whether at maturity or by mandatory redemption) on the immediately succeeding September 1 and for the payment of interest on the Series 1995 Bonds on September 1 of such year and on the immediately succeeding March 1, and the total Debt Service Requirements of the Series 1995 Bonds.

Year	Principal	Interest	Total Debt Service Requirement
1996	$175,000	%	
1997	185,000		
1998	195,000		
1999	205,000		
2000	215,000		
2001	225,000		
2002	235,000		
2003	250,000		
2004	260,000		
2005	275,000		
2006	290,000		
2007	305,000		
2008	320,000		
2009	335,000		
2010	355,000		
2011	375,000		
2012	395,000		
2013	415,000		
2014	440,000		
2015	465,000		

(1) Interest from July 1, 1995.

(2) Interest accruing on the portion of the Series 1995 Bonds issued to finance the Composting Facility from the date of delivery of the Series 1995 Bonds through October 1, 1995 will be funded in part from the proceeds of the Series 1995 Bonds.

* Estimated, subject to change.

BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Series 1995 Bonds. The Series 1995 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's registered owner and nominee). One fully-registered Series 1995 Bond will be issued for each maturity of each series of the Series 1995 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 1995 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1995 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1995 Bond (each a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transaction. Transfers of ownership interests in the Series 1995 Bonds are to be accomplished by entries made on the books of Direct Participants acting on behalf of Beneficial Owners. *Beneficial Owners will not receive certificates representing their ownership interests in Series 1995 Bonds, except in the event that use of the book-entry system for the Series 1995 Bonds is discontinued.*

To facilitate subsequent transfers, all Series 1995 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1995 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1995 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1995 Bonds are credited, which may or may not be the Beneficial Owners. The

Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as Cede & Co., or any successor thereto, is the registered Holder of the Series 1995 Bonds, as nominee, references herein to the Holders of Series 1995 Bonds shall mean DTC and shall not mean the Beneficial Owners of Series 1995 Bonds. During this period, the Service will recognize DTC or its nominee as the Holder of all Series 1995 Bonds for all purposes, including the payment of the principal of and interest on the Bonds, as well as the giving of notices and voting.

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.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 1995 Bonds within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 1995 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Service 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 Series 1995 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 1995 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the applicable payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the applicable payable date. Payments by Direct 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 Participant and not of DTC or the Service, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Service, and disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 1995 Bonds at any time by giving reasonable notice to the Service. Under such circumstances, in the event that a successor securities depository is not obtained, Series 1995 Bond certificates are required to be printed and delivered.

Book-Entry Only System--Miscellaneous

The information in the Section "Book-Entry Only System" concerning DTC and DTC's book-entry system has been obtained from sources that the Service believes reliable, but the Service takes no responsibility for the accuracy thereof. Neither the Service nor the Trustee will have any responsibility or obligations to Direct Participants, Indirect Participants or Beneficial Owners with respect to the payments to or the providing of notice to the Direct Participants, Indirect Participants, or Beneficial Owners. The Service cannot and does not give any assurance that Direct Participants, Indirect Participants or others will distribute principal and interest payments paid to DTC or its nominee, as the registered owner of the Series 1995 Bonds, or any 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.

Termination of Book-Entry Only System

The Service may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In the event that the book-entry only system is discontinued, the Series 1995 Bonds will be delivered by DTC to the Trustee and such Series 1995 Bonds will be exchanged for Series 1995 Bonds registered in the names of the Direct Participants or the Beneficial Owners identified to the Bond Registrar. In such event, certain provisions of the Series 1995 Bonds pertaining to ownership of the Series 1995 Bonds will be applicable to the registered owners of the Series 1995 Bonds as described below.

Registration and Exchange of Bonds

So long as the Series 1995 Bonds are maintained under a book-entry only system, Beneficial Owners thereof will have no right to receive physical possession of the Series 1995 Bonds, and transfers of ownership interests in the Series 1995 Bonds will be made through book-entries by DTC and the Direct Participants. See "Book-Entry Only System" above.

If the book-entry only system is discontinued, any Series 1995 Bond may be exchanged, in accordance with the terms of such Series 1995 Bond, for a new bond or bonds of any denomination authorized by the Indenture and bearing interest at the same rate of interest, in aggregate principal amount equal to the principal amount of the Bond surrendered, and the transfer of any Series 1995 Bond may be registered, upon presentation and surrender of such Bond at the principal corporate trust office of the Trustee. The Service and the Trustee may require the person requesting any such exchange or transfer to reimburse them for any tax or other governmental charge payable in connection therewith.

ADDITIONAL DEBT

Additional Bonds

The Indenture provides that Additional Bonds will be secured equally and ratably and on a parity with the Series 1995 Bonds. The Indenture permits the issuance of Additional Bonds for any one or more of the following purposes: (i) to refund or advance refund any outstanding Bonds, Subordinate Obligations or other obligations of the Service relating to the Composting Facility or Additional Facilities; (ii) to obtain funds to pay the Cost of Additional Facilities required to restore, maintain, improve or otherwise increase the composting capacity of the Composting Facility or otherwise to permit the Service to meet its Yard Debris composting and disposal obligations under the Intergovernmental Agreement, or (iii) to obtain funds necessary to pay the Cost of completing the Composting Facility or any Additional Facilities. Additional Bonds may be issued to pay the costs incurred in connection with the issuance and sale of any Bonds, to establish reserves and to pay interest on any Bonds prior to and during acquisition and construction and for a limited period after completion of the Composting Facility or any Additional Facilities, as the case may be.

See "Summary of Certain Provisions of the Indenture - Additional Bonds" in Appendix B for a further description of the conditions under which Additional Bonds may be issued.

THE SERVICE

The Service is a body politic and corporate of the State of Maryland constituting a public instrumentality organized and existing under and by virtue of the Act. The Service was created by the Maryland General Assembly in 1970 as an agency of the Maryland State Department of Natural Resources. The Service operates as both a Maryland agency and a self-supporting, non-profit public utility. Major activities of the Service include the provision of water supply and wastewater treatment, sewage sludge management, recycling assistance, solid waste management and energy and resource recovery from waste. Services are provided to State of Maryland-owned facilities, local communities, political subdivisions and the private sector.

Pursuant to Chapter 196 of the 1993 Acts of the Maryland General Assembly, effective July 1, 1993, the Service was established as an instrumentality of the State and a public corporation independent of the Department of Natural Resources. Chapter 196 also expanded the Board of Directors from seven to nine members; provided for the appointment of the Deputy Director, Secretary and Treasurer by the Director, with the approval of the Governor, provided for the appointment of the remaining Board members by the Governor, with the advice and consent of the Senate; exempted the Service from most provisions of the State Procurement Law; established the retirement and health benefits available for certain employees of the Service; authorized the Service to create a new personnel system; exempted the Service from most provisions of the State Merit System Law effective January 1, 1995; authorized the Service to create private corporations; authorized the Service to exercise the corporate powers granted

Maryland corporations under the Maryland General Corporation Law; and made other changes to the law governing the Service.

The Service currently operates approximately 129 public and private water and/or wastewater treatment plants throughout the State of Maryland.

Licensed and certified personnel operate and maintain the facilities. Projects range in size from basic pumping stations, to a $13 million advanced wastewater treatment facility. Capabilities include: financing, engineering, design, construction, laboratory testing, operation oversight, management, operation, maintenance and plant supervision.

The Water and Wastewater Division of the Service is headed by Michael Wojton. Mr. Wojton received a B.S. in Zoology from the University of Maryland. In his twenty years of experience with water treatment, Mr. Wojton has extensive experience with wells, facility planning, industrial pretreatment, EPA/State drinking water standards, NPDES and State construction permits and sludge management. As the Administrator of Water and Wastewater Programs for the Service, Mr. Wojton directs the activities of engineers, scientists, technicians, regional supervisors, plant superintendents, operators and maintenance staff in both engineering and operations services. He is a Registered Environmental Sanitarian in Maryland.

In the area of Solid and Hazardous Waste Management, the Service offers site analysis, planning, design, construction, operations and laboratory services. The Service has the capabilities and resources to finance as well as build and operate state-of-the-art solid waste facilities including sanitary landfills, incinerators and resource reclamation centers.

The Waste Management Division is headed by Robert Dale Miller. Mr. Miller received both his B.S. and M.S. in Resource Planning and Engineering from West Virginia University. He is also a graduate of the University of Baltimore School of Law. Prior to joining the Service, Mr. Miller was the Director of the Maryland Water Resources Administration from July, 1992 until __, 199__ and held various other positions in the Maryland Water Resources Administration for the twelve preceding years. He was also Chief Resource Planner for the Maryland Forest Service, Forest Planner for the United States Department of Agriculture Forest Service and Wildlife Assistant with the United States Fish and Wildlife Service. Mr. Miller is a member of the American Water Resources Association, the Association of Ground Water Scientists and engineers, the American Water Works Association and the Society of American Foresters.

Richard Diemer will serve as project manager for the Composting Facility. He has over 20 years experience in environmental monitoring, project operations, project management and project development. Mr. Diemer pioneered the development of large scale composting operations in Maryland that continue to be operated.

The Service also operates and manages the Hawkins Point Hazardous Materials Landfill, Hart and Miller Islands Dredge Disposal Facility and is a partner with Baltimore County in a resource recovery facility. The Service has also developed a sludge treatment program, including

a method of composting sludge producing a trademarked product marketed wholesale throughout the mid-Atlantic region as "ComPRO."

Membership and Organization

The Service's affairs are managed by a nine member Board of Directors. The four officers are Director, Deputy Director, Treasurer and Secretary. The Director is appointed by the Governor with the advice and consent of the Senate. The Deputy Director, Secretary and Treasurer are appointed by the Director with the approval of the Governor. The other five members, three from the public sector and two from the private sector, are appointed by the Governor with the advice and consent of the Senate. The Director and Deputy Director serve full-time for the Service; the Treasurer and the Secretary serve part-time. Current staffing includes approximately 85 State of Maryland classified and unclassified employees, and approximately 320 corporate (non-State of Maryland) employees. In October of 1994, George G. Perdikakis resigned from his position as Director of the Service. Lee Zeni was appointed and served as Acting Director until May of 1995, when James W. Peck was appointed as Director of the Service. Effective January 1, 1995, employees of the Service became members of the Service's new personnel system.

JAMES W. PECK, Director, appointed in May, 1995. Mr. Peck received his B.S. from the United States Military Academy and a Masters in Civil Engineering and in Nuclear Engineering from the University of Illinois. He is also a graduate of the Executive Development Program at the University of Iowa. Before becoming Director of the Service, Mr. Peck was the Assistant Secretary at the Maryland Department of Natural Resources from August, 1987 until March 5, 1995 and from December, 1983 to August, 1987 he was the Department's Director of Water Resources Administration. For twenty-five years prior to 1983, Mr. Peck was in the United States Corps of Army Engineers. He held positions including Instructor and Assistant Professor of Civil Engineering at the United States Military Academy, Deputy District Engineer in Kansas City, Battalion Commander for the 9th Engineer Battalion in Aschaffenburg, Germany, Assistant Director of Civil Works and District Engineer. Mr. Peck is a Registered Professional Engineer in both Maryland and the District of Columbia. He is a member of the ASCE, the APWA and the SAME.

ANNETTE ANSELMI, Treasurer, appointed in 1994. Prior to Ms. Anselmi's appointment, she was an independent financial consultant and a lecturer at Towson State University. Ms. Anselmi served as Baltimore County's Director of Finance from January 1982 to February 1986 and as Managing Deputy Comptroller for the City of Chicago from November 1980 to November 1981. For seven years prior to 1980, she worked for Baltimore County's Office of Budget as an Administrative Analyst. Ms. Anselmi received her undergraduate degree in Economics from Goucher College and a Masters in Administrative Science from The Johns Hopkins University. She is an active participant in the National Association of Counties and Homebuilders Taskforce on Infrastructure Financing and is affiliated with the Government Finance Officers Association, Association of Management Analysts in State and Local Government, and the National Economics Association.

The other members of the Board of Directors and some of their past and present affiliations are:

CAROLYN DAVIS, Secretary and Member, appointed in 1994. Deputy Chief of Staff of the Office of the Governor; Assistant Secretary of The Maryland Department of Natural Resources from 1991 through 1994; former Director of Public Information for the Maryland Department of Housing & Community Development.

WILLIAM B.C. ADDISON, JR., Public sector member appointed in 1994. Self-employed farmer who leases and operates a 300 acre tobacco, grain & vegetable farm; Assistant Journal Clerk of The Maryland State Senate since 1978; consultant to The Chesapeake Bay Foundation on Agricultural Management.

DANIEL F. MCMULLEN, III, Public sector member, appointed in 1994. County Administrator for Allegany County; member of the Maryland Transportation Authority; member of the Allegany County Chamber of Commerce; member of the Allegany County Local Government Study Advisory Committee.

EDWIN G. RICHARDS, Public Sector Member, appointed in 1987. County Administrator for Caroline County; member of the International City Management Association; member of the National Association of County Administrators; member of the Maryland Association of County Administrators.

LAWRENCE D. SHUBNELL, Private Sector Member, appointed in 1987. Senior Managing Director for Public Finance of Legg Mason Wood Walker, Inc.; former Director of Fiscal Research at the U.S. Treasury Department; former Director of Budget Review in the Maryland General Assembly; and former Director of the Budget for Anne Arundel County.

JOSEPH F. SNEE, JR., Private Sector Member, appointed in 1994. Attorney with Hertsch, Gessner Laws and Snee, P.A.; member of Harford County Bar Association; member of the Maryland State Bar Association; Director of The Lawyer Referral Service of the Harford County Bar Foundation, Inc.; member of The Harford County Chamber of Commerce.

Bonds and Notes

The Service has never defaulted in the payment of the maturing principal of or interest on any of its bonds or notes. The bonds and notes issued by the Service are limited obligations of the Service, payable solely from revenues of the Service received in connection with the respective projects financed or refinanced, and do not constitute general obligations of the Service to the payment of which the full faith and credit of the Service is pledged.

The Service expects to finance and refinance a variety of projects eligible for financing under the Service's Act, other than the Composting Facility and any Additional Facilities which may be financed under the Indenture. The Service intends to issue other series of bonds and notes for such purpose. Each such series will be issued pursuant to an indenture or indentures separate

and apart from any other indenture, except to the extent a series of bonds may be issued on a parity with bonds of another series if permitted by the applicable indenture or issued pursuant to a general bond of the Service.

THE COMPOSTING FACILITY

General

The Service is acting together with the Baltimore Regional Counties to develop the Composting Facility. The Composting Facility is designed to accept up to 45,000 tons of Yard Debris annually. The Service estimates that approximately 50 percent of the 45,000 tons will be leaves, 30 percent grass, and the remaining 20 percent light brush. The Yard Debris will be composted using aerated windrow methodologies to produce compost and mulch for use as soil amendment and ground cover. The composting process provides for recycling of organic material using a mechanized, high volume adaptation of the process that occurs in nature. Compost products provide benefits to poor soil by improving water retention and soil porosity, and by adding organic matter and micro-nutrients. Mulch products provide aesthetic qualities to landscaping as well as reducing water requirements and controlling weed growth. Both products enjoy wide popularity with garden centers, golf courses, landscapers, mulch vendors and top soil blenders.

In addition, the United States Environmental Protection Agency estimates that current programs which compost yard debris divert 18 percent of the total amount of solid waste nationally that enters the average landfill. This diversion of solid waste extends the useful life of existing landfills and delays the need for new landfills that are increasingly difficult to site and expensive to construct under new regulations. Furthermore, under the State's statutory recycling goals, the Baltimore Regional Counties must reduce their solid waste stream. The Maryland Department of the Environment has approved composted yard debris as a credit toward this reduction requirement.

Experience of the Service

The Service has significant experience in the management and operation of yard debris composting facilities using the same technology proposed for the Composting Facility. The Service has provided yard debris composting on a large scale for Montgomery County, Maryland since 1984 and for Prince George's County, Maryland since 1989. The Montgomery County composting facility is expected to receive and compost over 50,000 tons of yard debris annually by 1995. The Prince George's County composting facility will receive approximately 35,000 tons during the same year. Both of these composting operations have successfully achieved their intended purpose, with over 110,550 tons of compost products marketed and sold.

Compost Site

The site for the Compost Facility is located in southeastern Howard County near the intersection of Dorsey Road and Route 1. The location of the site is well suited for transport of material from northern Anne Arundel County and southwestern Baltimore County, as well as from Howard County. The site consists of roughly 56 acres of forested land. Of this acreage, approximately 28 acres will be developed for the composting operation as well as support facilities, providing sufficient capacity for the composting operation over its anticipated life. Support facilities include a scale, scale house, maintenance building, perimeter roadways, and storm water management facilities. The remainder of the site will remain undeveloped to provide a natural buffer between the operation and the surrounding properties. Included in the forested areas are approximately 3.5 acres of non-tidal wetland that will also be preserved.

Role of the Service in the Project

To facilitate construction of the project site, the Service agreed through a Letter of Understanding with each Baltimore Regional County to develop the Site Development Plan for the project and to oversee construction of the Composting Facility. The Service will also oversee construction of Dorsey Run Road, a Howard County road project that will provide access to the Composting Facility. The cost of the site on which the Composting Facility will be located is $3,660,000, which will be paid to Howard County as the current owner. The current cost estimate for construction of the Composting Facility is $1,550,000. This estimate is a best engineering estimate, based on the Site Development Plan submitted to Howard County along with the application for construction permits. Based on its experience in Montgomery and Prince George's Counties, the Service has also determined that the level of manpower requirements and the types and size of equipment to be used are reasonable for the size of the operation and the quantity of yard debris to be delivered and processed.

The Service has applied for, and expects approval of, the regulatory permits and approvals required by the State of Maryland to construct and operate the Composting Facility. On May 19, 1995 the Service applied for the National Pollution Discharge Elimination System permit, which is required for the discharge of water into State waters. The Composting Facility will discharge only storm water, and thus the Service expects full approval of the permit. On November 11, 1994 the Service received approval of its delineation of non-tidal wetlands, with the boundaries approved by the Maryland Department of Natural Resources, Water Resources Administration. The Service has received preliminary approval from Howard County of its Site Development Plan. Upon final approval, the Service will receive the Sediment and Erosion Permit needed for construction, and will apply for the Grading Permit. The Service expects to receive full approval of its Site Development Plan.

To facilitate the operation of the project, the Service has entered into an Intergovernmental Agreement with each Baltimore Regional County to provide for delivery of Guaranteed Annual Tonnages of Yard Debris to the Composting Facility by each County at a set

Processing Fee. The revenues from the Composting Facility, including all Processing Fees, will be pledged by the Service under the Indenture to the payment of Bonds.

The Service is authorized under the Intergovernmental Agreement to subcontract operations of the Composting Facility to a private contractor. The contractor would be responsible for composting the Yard Debris delivered, producing a marketable compost product, and marketing all compost produced.

The Service will provide operational oversight for the Composting Facility if it subcontracts operations in order to ensure that the subcontractor adheres to sound operational and management practices. This will be done in several ways. First, the Service will maintain a full time employee on site at all times to verify material weights entering and exiting the Composting Facility, as well as to observe and report to management concerning daily operational issues. Second, a Service project-manager will visit the site regularly to observe the operation and meet with the contractor to ensure that correct operational standards are being met. Third, the agreement with the subcontractor will stipulate that the Service must approve the operations and maintenance manual developed by the contractor. The manual will be similar to those used at the facilities in Montgomery and Prince George's Counties. Fourth, the Service will modify operations and maintenance procedures as necessary to reflect new technology standards and equipment, such as improved windrow turners. Finally, the Service will act as liaison between the three Baltimore Regional Counties and the subcontractor.

The Composting Facility has been designed to minimize the impact of odors and noise on surrounding properties. Oxygen content and temperature levels of the composting material will be monitored in order to reduce odors. Frequent turning will result in 5% oxygenation and keep the temperature at a desirable level for reducing odors. Similar practices have successfully controlled odor levels at the facilities in both Montgomery and Prince George's Counties. Noise levels will be controlled not only by the surrounding 300-foot wooded buffer zone, but also through operational procedures such as direction of traffic flow. Incoming vehicles will use a circular path to deliver their waste in order to reduce the need for the trucks to back-up, and the accompanying loud warning sound from backing vehicles.

Composting Process Operations

The composting process is not complicated, but adequate process control must be maintained to ensure that composting occurs under aerobic (i.e. with oxygen) conditions to prevent odors. In general, Yard Debris is collected from curbside residential areas in the Fall either in bulk or in plastic bags (depending on the Baltimore Regional County). The Baltimore Regional Counties deliver the Yard Debris to the Composting Facility, where it is weighed and checked for any contaminants. If the Yard Debris is bagged, the bags are manually removed. The leaves are then placed into elongated piles (each, a "windrow") approximately 16 feet wide and 7 feet high. The length of the windrow is determined by its configuration on the compost pad. This process continues throughout the Fall collection period (November through December), essentially filling the site with windrowed leaves. Composting begins almost immediately as

microorganisms break down the material and generate heat. The windrows are turned using a specialized composting machine which straddles the windrows, turning the leaves and maintaining pole porosity, oxygen content and uniform moisture control to optimize microbial conditions for composting. This process continues throughout the winter.

Throughout the spring and into the summer the Baltimore Regional Counties collect grass and deliver it to the Composting Facility. Again the material is weighed and bags removed if required. The grass is then incorporated into the partially decomposed windrows and mixed by the composting machine. The addition of grass accelerates the composing process by optimizing the carbon to nitrogen ratio (the "(C/N) ratio") of the material, which enhances the microbial activity. By late summer the composting process is complete, and material is screened to remove small contaminants and other items that did not fully break down in the composting cycle (such as small twigs and branches). The compost product is then ready for market.

Brush is processed separately from leaves and grass because of the different process required and because it produces a mulch product as opposed to compost. Brush delivered to the site is first weighed and then processed in a tub grinder to reduce its particle size and volume. The processed wood is placed into large windrows (25 feet wide by 12 feet high). The windrows of processed brush are augmented with grass to balance the C/N ratio and optimize decomposition. After a composting period of approximately 12 to 24 months, the mulch is ready for market.

Construction Schedule

The Service expects the Composting Facility to be completed no later than October 1, 1995, the Operations Commencement Date under the Intergovernmental Agreement.

TAX EXEMPTIONS

In the opinion of Bond Counsel, interest on the Series 1995 Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions; and, under the terms of the Service's enabling legislation, the Series 1995 Bonds, their transfer, the interest payable on them, and any income derived from them, including any profit realized in their sale or exchange, shall be exempt at all times from every kind and nature of taxation by the State of Maryland, or by any of its political subdivisions, municipal corporations or public units of any kind, but no opinion is expressed as to Maryland estate or inheritance taxes, the Maryland franchise tax on financial institutions measured by income, or any other Maryland taxes not levied or assessed directly on the Series 1995 Bonds or the income therefrom.

As defined in Section 8-101 of the Tax-General Article of the Annotated Code of Maryland (1988 Replacement Volume and 1994 Cumulative Supplement), the financial institutions referred to in the foregoing sentence include commercial banks, credit companies, finance companies (excluding finance companies that make loans only to farmers for agricultural

purposes), international banking facilities, loan companies, mortgage companies, safe-deposit companies, savings banks, savings and loan associations, trust companies, and companies that substantially compete with national banks in the State, and exclude companies licensed under the federal Small Business Investment Act of 1958, corporations that elect to be taxed as small business corporations under Subchapter S of the Internal Revenue Code of 1986, as amended (the "Code"), or entities that are real estate mortgage investment conduits as defined in the Code.

Under the provisions of 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 Series 1995 Bonds. These include a requirement that certain investment earnings received from the investment of the proceeds of the Series 1995 Bonds be rebated to the United States of America under certain circumstances (or that certain payments in lieu of rebate be made) and other requirements applicable to the investment of the proceeds of the Series 1995 Bonds. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Series 1995 Bonds in gross income for federal income tax purposes, effective from the date of their issuance. The Service has covenanted to regulate the investment of the proceeds of the Series 1995 Bonds and to take such other actions as may be required to maintain the excludability from gross income for federal income tax purposes of interest on the Series 1995 Bonds.

Interest on the Series 1995 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 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 Series 1995 Bonds. In addition, interest income on the Series 1995 Bonds will be includable in the applicable taxable base for the purposes of determining the environmental tax imposed by the Code on corporations for taxable years beginning before 1996, and the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States.

Prior to the enactment of the Tax Reform Act of 1986, financial institutions were generally permitted to deduct 80% of their interest expense on deposits and other obligations allocable to investments in tax-exempt obligations acquired after 1982. The Code eliminates this deduction for interest allocable to investments in tax-exempt obligations acquired after August 7, 1986. However, Section 265(b)(3) of the Code provides that certain tax-exempt obligations, if so designated by the issuer, will be treated as if acquired on August 7, 1986 for purposes of this allocation. The City has made the permitted designation and the Series 1995 Bonds will thus be "qualified tax-exempt obligations" under Section 265(b)(3) of the Code.

The Code also results in other consequences for federal income tax purposes of ownership of obligations such as the Series 1995 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; (ii) for property and casualty insurance companies, the amount of the deduction for losses incurred has been reduced by 15% of the sum of tax-exempt interest income and the deductible portion of dividends received by such companies; (iii) for S corporations having subchapter C earnings and profits, the receipt of certain levels of passive investment income, which includes interest on tax-exempt obligations such as the Series 1995 Bonds, can result in the imposition of tax on such passive investment income and, in some cases, loss of S corporation status; and (iv) 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.

Except as noted below in the case of market discount, the sale or other disposition of a Series 1995 Bond will normally result in capital gain or loss to its holder. A holder's initial tax basis in a Series 1995 Bond will be its cost. Upon the sale or retirement of a Series 1995 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 Series 1995 Bond, determined by adding to the original cost basis in such Series 1995 Bond the amount of original issue discount that is treated as having accrued as described below under "Tax Accounting of Discount Bonds". Such gain or loss will be long-term capital gain or loss if at the time of the sale or retirement the Series 1995 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, net capital gains will be taxed at a maximum rate of 28%, while short-term capital gains and other ordinary income will be taxed at a maximum rate of 39.6%. Because of the limitation on itemized deductions and the deduction for personal exemptions applicable to higher income taxpayers, the effective rate of tax may be higher in certain circumstances.

If a holder acquires a Series 1995 Bond after its original issuance at a discount below its principal amount (or in the case of a Series 1995 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 Series 1995 Bond was first issued), the holder will be deemed to have acquired the Series 1995 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 Series 1995 Bond with market discount subsequently realizes a gain upon the disposition of the Series 1995 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 which the holder held such Series 1995 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 Series 1995 Bond not issued at an original issue discount, market discount will be *de minimis* if the excess of the Series 1995 Bond's stated redemption price at maturity over the holder's cost of acquiring the Series 1995 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 the Series 1995 Bond and its stated maturity date. In the case of a Series 1995

Bond issued with original issue discount, market discount will be *de minimis* if the excess of the Series 1995 Bond's revised issue price over the holder's cost of acquiring the Series 1995 Bond is less than 0.25% of the revised issue price multiplied by the number of complete years between the date the holder acquires the Series 1995 Bond and its stated maturity date. For this purpose, a Series 1995 Bond's "revised issue price" is the sum of (i) its original issue price and (ii) the aggregate amount of original issue discount that is treated as having accrued with respect to the Series 1995 Bond during the period between its original issue date and the date of acquisition by the holder.

A Series 1995 Bond will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in the Series 1995 Bond exceeds the amount payable at maturity (or, in the case of a Series 1995 Bond callable prior to maturity, the amount payable on the earlier call date). The holder will be required to reduce his tax basis in the Series 1995 Bond for purposes of determining gain or loss upon disposition of the Series 1995 Bond by the amount of amortizable bond premium that accrues (determined on a constant yield method) during his period of ownership. No deduction (or other tax benefit) is allocable in respect of any amount of amortizable bond premium on the Series 1995 Bonds.

Tax Accounting Treatment of Discount Bonds

Certain maturities of the Series 1995 Bonds may be issued at an initial public offering price which is less than the amount payable on such Series 1995 Bonds at maturity (the "Discount Bonds"). The difference between the initial offering price (including accrued interest) at which a substantial amount of the Discount Bonds of each maturity was sold and the principal amount of such Discount Bonds payable at maturity constitutes original issue discount. In the case of any holder of Discount Bonds, the amount of such original issue discount which 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). Bond Counsel is of the opinion that, for federal income tax purposes (i) any holder of a Discount Bond will recognize 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 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 (ii) the amount of the basis adjustment described in clause (i)(b)(2) will not be included in the gross income of the holder.

Original issue discount on Discount Bonds will be attributable to semiannual compounding periods during the life of any 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 based on semiannual compounding. Such yield then is used to determine an amount of accrued interest for such semiannual compounding period. For this purpose, interest is treated as compounding semiannually on days which are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount which is treated as having accrued in

respect of a Discount Bond for any particular semiannual compounding period is equal to the excess of (i) the produce of (a) one-half of the yield for Discount Bond (adjusted as necessary for an initial short period) multiplied by (b) 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 (ii) the amount actually payable as interest on such Discount Bond during such period. For purposes of the preceding sentence (i) only that portion of the interest payment due on October 1, 1995 allocable to the period extending from the date of initial delivery of the Series 1995 Bonds to October 1, 1995 will constitute interest and (ii) the tax basis of a Discount Bond, if held by an original purchaser, can be determined by adding to the initial public offering price (including interest from April 1, 1995 to the date of initial delivery, such interest being referred to as "pre-issuance accrued interest") of such Discount Bond the original issue discount that is treated as having accrued during all prior semiannual compounding periods and subtracting all prior principal payments (including the pre-issuance accrued interest). Under certain income tax regulations, pre-issuance accrued interest may be excluded from the issue price under certain circumstances and, if so excluded, the pre-issuance accrued interest portion of the October 1, 1995 payment will be treated as a nontaxable return of the pre-issuance accrued interest and not as a payment on the Discount Bond. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then interest which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

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 from original issue discount on such Discount Bonds under the alternative minimum tax, the environmental 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 alternative minimum tax, the environmental tax or 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.

The foregoing is only a general summary of certain provision of the Code as enacted and in effect on the date of this Official Statement and does not purport to be complete; holders of the Series 1995 Bonds should consult their own tax advisors as to the effects, if any, of the Code (and any proposed or subsequently enacted amendments to the Code) in their particular circumstances.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard Poor's Corporation ("S&P") are expected to assign the Series 1995 Bonds ratings of ___ and ____ respectively, with the understanding that, upon delivery of the Series 1995 Bonds, a policy insuring the payment when due of the principal of and interest on the Series 1995 Bonds when due will be issued by the Bond Insurer. Any explanation of the significance of each of the ratings of the Series 1995 Bonds may be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on such materials and information, and on their own investigations, studies and assumptions. There is no assurance that such ratings will obtain for any given period of time or that they may not be lowered or withdrawn entirely by such rating agencies, or any of them, if in their, or its judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the respective Series 1995 Bonds.

LEGALITY OF THE SERIES 1995 BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Series 1995 Bonds are securities in which all public officers and public units of the State of Maryland and its political subdivisions and all banks, trust companies, savings and loan associations, investment companies and others carrying on a banking business, all insurance companies, insurance associations and others carrying on an insurance business, all personal representatives, guardians, trustees, and other fiduciaries, and all other persons may legally and properly invest funds, including capital in their control or belonging to them. The Act also provides that the Series 1995 Bonds are securities which may properly and legally be deposited with and received by any State of Maryland or municipal officer or any unit or political subdivision of the State of Maryland for any purpose for which the deposit of bonds or other obligations of the State of Maryland is authorized by law.

STATE NOT LIABLE ON SERIES 1995 BONDS

The Series 1995 Bonds are limited obligations of the Service payable solely from the Revenues pledged under the Indenture and, to the extent provided in the Indenture, from the proceeds of the Series 1995 Bonds. By the terms of the Act, the Series 1995 Bonds do not constitute a debt, liability or pledge of the faith and credit of the State of Maryland or of any political subdivision or of the State. Neither the State of Maryland nor any political subdivision thereof nor the Service shall be obligated to pay the Series 1995 Bonds or the interest thereon except from the Revenues and to the extent provided in the Indenture from the proceeds of the Series 1995 Bonds. Neither the faith and credit nor the taxing power of the State of Maryland or of any political subdivision thereof or of the Service, is pledged to the payment of the principal of or interest on such Bonds. The Series 1995 Bonds are not directly or indirectly or contingently an obligation, moral or other, of the State of Maryland or of any political subdivision thereof or

of the Service to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment. The Service has no taxing power.

LEGAL MATTERS

Piper & Marbury L.L.P., Baltimore, Maryland is acting as Bond Counsel in connection with the issuance of the Series 1995 Bonds. Bond Counsel's approving opinion, the proposed form of which appears as Appendix E, will be printed on the Series 1995 Bonds. The Attorney General of Maryland is legal advisor for the Service.

LITIGATION

No litigation is pending in any court seeking to restrain or enjoin the authorization, issuance or delivery of the Series 1995 Bonds or contesting the authority or proceedings for the authorization or issuance of the Series 1995 Bonds or their validity, or the creation, organization, corporate existence or powers of the Service, or the title of any of the present officers thereof to their respective titles.

EXPERTS

Public Financial Management, Inc., has served as financial advisor in connection with the issuance of the Series 1995 Bonds.

SALE AT COMPETITIVE BIDDING

The Series 1995 Bonds were offered by the Service at a competitive bidding on June __, 1995 in accordance with the Official Notice of Sale (the form of which is attached as Appendix F). The interest rates shown on the cover page of this Official Statement are the interest rates to the Service resulting from the award of the Series 1995 Bonds at the competitive bidding. The yield or prices shown on the cover page of this Official Statement were furnished by the successful bidders for the Series 1995 Bonds. All other information concerning the nature and terms of any reoffering should be obtained from the successful bidders for the Series 1995 Bonds and not from the Service.

CONTINUING DISCLOSURE

The Service will provide Comprehensive Annual Financial Report relating to each of the Baltimore Regional Counties and the Composting Facility each year to one or more major information providers in the state and local government securities market. The Service's undertakings set forth in this paragraph are made subject to the provisions of the next succeeding paragraph.

The undertakings by the Service set forth in this section entitled "Continuing Disclosure," and any claim made with respect to the performance by the Service of these undertakings, shall be governed by, subject to, and construed according to the laws of the State of Maryland. The Service shall be given written notice, sent to 2011 Commerce Park Drive, Annapolis, Maryland 21401, of any claimed failure by the Service to perform any such undertaking, and the Service shall be given 15 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the Service must be filed in the Circuit Court of Anne Arundel County, Maryland, and any party maintaining such suit or other proceeding shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action.

MISCELLANEOUS

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

The execution and delivery of this Official Statement by the Director of the Service has been duly authorized by the Service.

MARYLAND ENVIRONMENTAL SERVICE

By: _____

APPENDIX A

CERTAIN INFORMATION

CONCERNING

ANNE ARUNDEL COUNTY, MARYLAND

CERTAIN INFORMATION CONCERNING

ANNE ARUNDEL COUNTY, MARYLAND

General

Anne Arundel County, Maryland is a political subdivision of the State of Maryland, located thirteen miles east of Washington, D.C., with Baltimore City and Baltimore County as its northern boundary and the Chesapeake Bay as its entire eastern boundary. The County is also bordered by Howard County to the west, Prince George's County to the southwest and Calvert County at its southern tip.

Over the past several decades, the nature of land use in the County has changed and its population has increased. During this period, the County's economy has diversified, although it retains substantial rural and agricultural elements. Within its 418 square miles, there are situated at least 15 identifiable unincorporated communities and one incorporated community which, as of the 1990 U.S. Census, ranged in population from 10,000 to 37,300. The County's seat of government is located within the corporate limits of the City of Annapolis. The County's total population in 1980 was 370,775, and on April 1, 1990, was 427,239, as reported by the U.S. Census Bureau. Under home rule charter since 1965, the County is governed by an elected County Executive and a seven-member County Council.

Ratings

The last issuance of general obligation bonds of Anne Arundel County, issued 1995, were rated AA+ by Fitch Investors Service, Inc., Aa by Moody's Investors Service and AA+ by Standard & Poor's Corporation.

ANNE ARUNDEL COUNTY, MARYLAND
SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND (BUDGET BASIS)
LAST FIVE FISCAL YEARS
(UNAUDITED)

	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
	1990		1991		1992		1993		1994	
	Year Ended June, 30									
Revenues										
General property taxes	$194,106,500	$196,133,351	$209,515,200	$210,256,179	$231,899,500	$230,778,101	$263,937,450	$261,741,031	$266,479,680	$263,671,524
Local income taxes	120,305,000	130,563,949	137,465,000	131,993,686	133,314,000	134,987,891	136,301,000	144,961,103	146,712,600	153,262,212
State shared taxes	27,801,200	27,199,029	28,631,700	26,378,833	18,477,153	18,836,089	14,856,330	15,515,939	15,820,900	16,850,727
Grants and aid	25,095,630	24,741,499	26,373,241	24,395,836	21,663,827	15,229,514	21,269,406	8,563,159	19,381,500	20,431,494
Recordation and transfer taxes	16,385,000	29,355,651	21,725,000	22,951,132	23,638,200	28,768,587	28,653,000	33,205,605	32,085,600	37,942,741
Local sales taxes	13,836,500	13,579,641	14,940,000	13,552,326	13,550,135	13,761,557	14,774,640	13,960,204	14,092,600	14,328,906
Licenses and permits	8,297,700	8,149,399	7,947,220	6,430,079	7,276,100	8,644,944	9,503,210	9,408,096	9,774,040	10,621,304
Investment income	8,970,000	9,210,377	9,500,000	6,755,178	3,850,000	4,539,568	5,260,000	2,810,752	3,175,800	3,592,255
Inter-fund recoveries	5,370,750	5,662,409	5,370,930	6,200,564	4,962,650	5,135,186	4,879,880	5,016,499	7,067,530	8,027,382
Other	7,987,930	12,657,626	8,568,030	10,950,680	10,135,600	12,004,662	10,715,940	14,160,584	10,787,100	13,441,139
Total revenues	428,156,210	457,252,931	470,036,321	459,864,493	468,767,165	472,686,099	510,150,856	509,342,972	525,377,350	542,169,684
Expenditures										
Current										
Education	199,510,915	199,218,128	222,106,540	222,105,779	215,889,485	215,888,407	223,376,630	223,356,152	247,780,580	247,775,281
Higher Education	10,786,090	10,786,085	11,774,560	11,772,776	11,804,940	11,804,940	11,399,130	11,399,127	11,786,940	11,579,201
General Government	109,823,640	108,128,535	105,144,860	101,919,080	89,289,390	87,826,768	105,377,210	98,522,384	89,863,750	89,435,450
Public Safety	84,443,300	83,222,854	93,638,320	90,797,700	90,617,910	89,560,662	94,483,320	93,018,881	96,443,610	96,413,136
Public Works	24,548,100	24,547,748	25,227,660	25,152,132	23,670,350	23,519,571	24,775,640	24,372,619	36,255,930	36,247,276
Health	19,680,130	19,310,964	21,371,390	21,184,892	20,069,930	19,558,918	21,757,690	20,905,688	22,405,880	22,231,710
Libraries	7,767,600	7,737,178	8,172,810	7,791,487	7,645,610	7,636,860	7,785,410	7,782,559	8,632,360	8,630,269
Judicial	8,341,740	8,287,228	9,244,000	9,111,672	9,252,360	9,246,116	9,857,480	9,769,792	10,350,660	10,374,455
Recreation and Parks	7,840,270	7,840,107	8,789,330	8,765,172	9,665,570	9,375,914	9,798,760	9,535,813	7,472,990	7,456,698
Public Service	909,780	765,280	1,455,870	1,386,420	1,335,580	1,195,384	1,353,270	1,275,827	1,018,120	988,477
Social Services	2,301,010	2,234,084	2,433,500	2,128,796	2,333,810	2,192,297	2,165,680	2,163,754	2,352,200	2,209,009
Total expenditures	475,952,575	472,078,191	509,358,840	502,115,906	481,574,935	477,805,837	512,130,220	502,102,596	534,363,020	533,340,962
Net increase (decrease) in fund balance	(47,796,365	(14,825,260)	(39,322,519)	(42,251,413)	(12,807,770	(5,119,738)	(1,979,364)	7,240,376	(8,985,670	8,828,722
Fund balance, July 1	67,494,864	67,494,864	52,669,604	52,669,604	10,418,191	10,418,191	9,198,453	9,198,453	16,438,829	16,438,829
Equity transfer					3,900,000	3,900,000				
Fund balance, June 30	$19,698,499	$52,669,604	$13,347,085	$10,418,191	$1,510,421	$9,198,453	$7,219,089	$16,438,829	$7,453,159	$25,267,551
Fund balance reconciliation										
Budgetary fund balance, June 30		$52,669,604		$10,418,191		$9,198,453		$16,438,829		$25,267,551
Fund balance reserved for:										
Encumbrances		7,105,543		5,234,093		4,390,222		4,333,539		5,595,966
Inventories		322,505		279,319		322,714		416,628		410,624
Revenue Stabilization Fund								10,245,373		12,687,792
Fund balance, GAAP basis		$60,097,652		$15,931,603		$13,911,389		$31,434,369		$43,961,933

Source: Anne Arundel County, Maryland Comprehensive Annual Financial Reports.

General Fund operating results for the year 1990 reflect the continued growth and prosperity of the County, combined with a policy of conservatively estimating revenues so that at year end positive fund balances were maintained. In fiscal year 1991, certain revenues began to show decline. As a result, the County instituted expenditure control measures, including restrictions on out-of-state travel and a hiring freeze. In this manner, the County was able to maintain positive fund balances as of June 30, 1991 and 1992. Revenue growth plus continued expenditure controls resulted in an increased budget basis fund balance at June 30, 1993 and June 30, 1994. Revenue growth was primarily in income taxes resulting from gradual economic recovery in the area, and in recordation and transfer taxes, which benefitted from low interest rates which spurred an unusual level of mortgage refundings. The additional large increase is the balance of the Revenue Stabilization ("Rainy Day") Fund created in 1993 and added to in 1994.

Budget for Fiscal Year 1995

The County's fiscal year 1995 General Fund Current Expense Budget including the County funding for the Board of Education, Libraries, Social Services and the Community College, amounts to $579,387,240, with a County property tax rate of $2.35 per $100 of assessed value. The budget assumed the reduced level of State of Maryland funding made permanent in 1993, and utilization of a fund balance of $18,652,060. A growth rate of 6.3% in revenues over 1993 projected receipts was included in this plan.

The 1995 Capital Budget and Five Year Program totaled approximately $698 million. Support for the Capital Budget and Program consists of Federal and State grants, County bonds and pay-as-you-go financing.

Interim General Fund Revenues and Expenditures for Fiscal Year 1995

The Financial Officer has prepared summary unaudited data with respect to revenues and expenditures of the General Fund for the five months ended November 30, 1993 and 1994. The presentation of these data does not purport to be an interim statement of General Fund revenues, expenditures and fund balance. However, these statements have been prepared on a comparable basis and reflect the actual collection of revenues and actual expenditures and encumbrances for the two periods. The General Fund in the annual general purpose financial statements is prepared on the modified accrual basis.

Operating results through November, 1994 show revenue slightly above the anticipated level, resulting in a net increase in revenues. Expenditures through November, 1994 are slightly lower than prior levels (as a percent of budget), reflecting the continuation of expenditure control. Operating results through April 30, 1995 show revenue slightly above the anticipated level, resulting in a net increase in revenues.. Expenditures through April 30, 1995 are even with prior levels (as a percent of budget).

The following presents a summary of General Fund Revenues, Expenditures and Encumbrances for the five months ended November 30, 1993 and November 30, 1994, as compared with the related total Annual Budgets as revised. The projected budgetary fund balance at June 30, 1995 is $7,000,000.

INTERIM GENERAL FUND SCHEDULE
BUDGET AND ACTUAL
FOR THE FIVE MONTHS ENDED NOVEMBER 30
(UNAUDITED)

	Five Month Actual	Actual As a % of Budget	Annual Budget	% Change From FY-94 Budget	Five Month Actual	Actual As a % of Budget
	Fiscal Year 1993-94			Fiscal Year 1994-95		
Revenues						
General property taxes	$260,091,142	97.60%	$272,868,850	2.40%	$272,217,893	99.76%
Local income taxes	34,050,552	23.21	162,361,700	10.67	36,014,345	22.18
State shared taxes	4,321,100	27.31	16,474,370	4.13	5,871,102	35.64
Grants and aid	7,103,029	37.49	24,157,280	27.49	7,961,913	32.96
Recordation and transfer taxes	12,785,142	39.85	35,060,100	9.27	12,581,041	35.88
Local sales taxes	4,483,187	31.81	13,848,610	(1.73)	5,009,997	36.18
Licenses and permits	3,793,758	38.81	10,053,430	2.86	3,528,350	35.10
Investment income	1,269,173	39.96	2,948,410	(7.16)	2,423,488	82.20
Inter-fund recoveries	3,150,759	44.58	10,969,040	55.20	3,964,259	36.14
Other revenue	3,390,379	31.43	11,993,390	11.18	3,403,087	28.37
Total general fund revenues	$334,438,221	63.71%	$560,735,180	6.82%	$352,975,475	62.95%
Expenditures						
Board of Education	$79,055,419	31.91%	$272,813,400	10.10%	81,111,741	29.73
General Government	20,623,089	45.58	53,361,870	17.93	22,342,503	41.87
Public Safety	40,113,365	42.72	101,231,930	7.80	44,490,361	43.95
Department of Public Works	13,576,118	39.18	37,758,000	8.96	15,709,793	41.61
Department of Health	7,933,223	34.38	24,737,310	7.21	9,848,634	39.81
Community college	5,497,969	47.12	12,584,790	7.85	6,375,146	50.66
Libraries	3,673,327	43.39	9,360,460	10.58	3,842,749	41.05
Judicial	4,553,353	44.97	11,025,530	8.89	5,086,009	46.13
Department of Recreation and Parks	3,288,732	44.17	7,834,990	5.22	3,311,281	42.26
Public Service Departments	523,465	51.82	1,693,900	67.70	744,218	43.94
Department of Social Services	967,617	42.30	5,157,200	125.47	1,749,526	33.92
Capital Improvements	8,295,830	98.70	8,006,980	(4.73)	8,006,974	100.00
Contribution to "Rainy Day Fund"	2,000,000	100.00	2,300,000	15.00	1,000,000	43.48
Mandated Grants and Debt Service	10,059,249	32.38	31,520,880	1.46	12,519,634	39.72
Total expenditures	$200,160,756	37.97%	$579,387,240	9.91%	$216,138,569	37.30

Note: General Fund revenues do not include appropriated surplus which is dedicated as a source for each subsequent year's budget.

Source: Office of Budget and Finance.

Rainy Day Fund

Both the 1994 and 1995 budgets provide for a contribution to the "Rainy Day Fund". This fund may only be used upon request of the County Executive, with the approval of the County Council, to cover existing appropriations when revenues are not attained. Anne Arundel County created this fund in 1993. It is the County administration's intent to add to this fund in future budgets, until a balance of 3% of budgeted expenditures is reached, and then maintain the fund at that level. The 1995 budget provides for an addition to this fund of $2,300,000. The expected balance including interest income at June 30, 1995 is $15,750,000.

General Fund Revenues

The County's principal General Fund revenues are property taxes, income taxes, local taxes, and state and federal assistance.

APPENDIX B

CERTAIN INFORMATION

CONCERNING

BALTIMORE COUNTY, MARYLAND

CERTAIN INFORMATION CONCERNING

BALTIMORE COUNTY, MARYLAND

General

Baltimore County, Maryland is a body corporate and politic which performs all local governmental functions within its jurisdiction, as there are no incorporated towns, villages, municipalities or other political subdivisions with separate taxing authority. Accordingly, other than debt incurred in connection with the Metropolitan District, there is no overlapping debt in the County.

The County is situated in the geographic center of the State and surrounds the City of Baltimore almost completely. Its location is in a metropolitan area with a population of approximately 2.5 million. The City of Baltimore and the County are entirely separate political units.

During the last two decades, the basic demography of the County has changed from predominantly rural to a suburban and rural mix. Within its approximately 608 square miles (plus approximately 28 additional square miles of water) are situated at least 25 identifiable, unincorporated communities which, as of 1990, ranged in population size from approximately 4,300 to 6,300. The County seat of government is located at Towson. The County's total population in 1980 was 655,615 and in 1994 was 711,783. The County has the fourth largest population, and third largest land area, of any political subdivision in the State of Maryland.

Under home rule charter since 1957, the County is governed by an elected County Executive and a seven-member County Council, with each serving separate executive and legislative functions. Without referendum, the County is authorized to issue bonds, subject to certain indebtedness limitations, for the purpose of financing its Metropolitan District capital projects, and to issue notes having a maturity not in excess of 12 months for other general County purposes. Following referendum, the County is authorized to incur debt to finance its other capital projects.

Ratings

The last issuance of general obligation bonds of Baltimore County, issued 1993, were rated Aaa by Moody's Investors Service, AAA by Fitch Investors Service, Inc. and AA+ by Standard & Poor's Corporation.

CURRENT OPERATING BUDGET

Fiscal Year 1996 Operating Budget

On April 12, 1995 the County Executive submitted his budget proposal for Fiscal Year 1996 to the County Council. The General Fund Operating Budget submittal of $916,698,986 represents an increase of 2.1 percent from the adjusted Fiscal Year 1995 budget. Special Fund allocations, in the amount of $373,458,761, raise the amount of the Fiscal Year 1996 Total Operating Budget to $1,290,157,747. This proposed Total Budget is an increase of 1.8 percent over the adjusted Fiscal Year 1995 Total Operating Budget.

In the FY 1996 submitted budget, the County proposes to further the transition of certain recreational activities from general fund budget support to a self-supporting enterprise fund, a process which began in FY 1994. The enterprise fund, which includes the County's golf courses, is proposed to be expanded to include the County's beaches, fishing center and conference center at Oregon Ridge.

The FY 1996 submitted budget also proposes to incorporate the health insurance costs of the public schools into the County's self-insurance fund. The other component units of government, the public libraries and the community colleges, have already been incorproated into the County's Self-Insurance Fund.

In order to stimulate long-term growth in the County's income and property tax base, the FY 1996 Operating Budget proposes a reduction in closing costs for homebuyers through a partial exemption to the transfer tax. To fund this exemption, the Budget also proposes to reduce by half the discount paid for early payment of property taxes.

The table below compares General Fund revenues and expenditures between Fiscal Years 1995 and 1996 by category. Final action on the budget by the County Council is expected by May 26, 1995. The Baltimore County Charter specifies that the County Council may not increase expenditures recommended by the County Executive in his budget proposal. See "Financial Information-Budgetary Procedure."

GENERAL FUND
BUDGETED REVENUES AND EXPENDITURES

	1995 Revised Budget	1996 Proposed Budget	% Change
Revenues:			
Taxes	$806,547,765	$814,346,376	0.97%
Licenses	2,946,841	2,974,271	0.93%
Intergovernmental	52,324,119	56,811,472	8.58%
Charges for Services	8,228,940	8,233,885	0.06%
Fines and Forfeitures	1,635,205	2,047,189	25.19%
Reimbursement from Other Funds	3,044,561	2,983,252	-2.01%
Interest on Investments	5,775,000	9,565,167	65.63%
Miscellaneous	10,131,267	15,926,044	57.20%
Total	$890,633,698	$912,887,656	2.50%
Expenditures and Encumbrances:			
General Government	53,534,309	55,382,566	3.45%
Public Safety	151,486,449	156,661,930	3.42%
Public Works	52,032,829	53,817,282	3.43%
Health and Welfare	24,272,025	24,600,927	1.36%
Culture and Recreation	10,250,529	9,966,840	3.87%
Education	11,000	11,000	0.00%
Economic Opportunity	973,123	[illegible]	5.71%
Debt Service	66,603,000	64,021,923	-3.88%
Pension Plan Contributions	15,004,458	16,730,081	11.50%
Operating Transfers Out	10,354,184	10,013,447	-3.29%
Transfers to Component Units	450,551,872	468,004,599	3.87%
Miscellaneous	59,756,465	56,459,741	-5.52%
Revenue Stabilization Reserve	2,943,938	0	--
			100.00%
Total	$897,774,181	$916,698,986	2.11%

Fiscal Years 1994 and 1995 Interim Budget Comparison

The following statement presents the County's actual revenues and expenditures and encumbrances for the first ten months of FY 1994 and FY 1995 using the budgetary basis of accounting and calculates the percentage of estimated revenues received and the percentage of budgeted expenditures paid through the first ten months of each fiscal year. The last column computes the percentage of increase or decrease of revenues and expenditures and encumbrances for the first ten months of FY 1995 over the first two months of FY 1994.

BALTIMORE COUNTY, MARYLAND
INTERIM STATEMENT OF REVENUES,
EXPENDITURES AND ENCUMBRANCES -- GENERAL FUND
FIRST TEN MONTHS ACTUAL FY 1994 AND FY 1995
COMPARED WITH TOTAL BUDGET FY 1994 AND FY 1995
($ in 000's)

	Fiscal Year 1994		Fiscal Year 1995		% Increase (Decrease)
	Actual Through 4/30/94	% of Budget*	Actual Through 4/30/95	% of Budget*	Actual 1st Ten Mos. FY 95 v FY 94
Revenues:					
Taxes	$643,369	82.47%	$652,366	80.88%	1.38%
Licenses	2,419	99.46%	2,232	75.74%	-8.38%
Intergovernmental	35,778	73.90%	40,943	78.25%	12.62%
Charges for Services	6,152	75.94%	7,125	86.58%	13.66%
Fines and Forfeitures	1,090	66.34%	1,796	109.85%	39.31%
Reimbursement from Other Funds	948	31.89%	2,194	72.05%	56.79%
Interest on Investments	5,198	98.08%	8,518	147.50%	38.98%
Miscellaneous	6,594	70.83%	6,814	67.26%	3.23%
Total	$701,548	81.73%	$721,988	79.09%	2.83%
Expenditures and Encumbrances:					
General Government	$42,635	82.50%	$45,297	84.61%	5.88%
Public Safety	119,692	83.85%	127,683	84.29%	6.26%
Public Works	44,781	86.67%	44,291	85.12%	-1.11%
Health and Welfare	19,507	82.02%	20,033	82.54%	2.63%
Culture and Recreation	8,160	83.44%	8,677	84.64%	5.96%
Education	11	100.00%	10	90.91%	-10.00%
Economic Opportunity	671	82.74%	825	84.79%	18.67%
Debt Service	68,902	94.99%	64,290	96.53%	-7.17%
Pension Plan Contributions	14,158	99.99%	15,000	100.00%	5.61%
Transfers Out	355,798	82.16%	381,889	82.86%	6.83%
Miscellaneous	38,499	66.18%	41,866	70.06%	8.04%
Revenue Stabilization Reserve	0	--	2,944	100.00%	100.00%
Total	$712,814	83.04%	$752,805	83.85%	5.31%

*Includes budget revisions through April of each year.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FISCAL YEARS 1990 TO 1994

	1990(1)	1991(1)	1992	1993	1994
Revenues:					
Taxes	$ 656,820,538	$ 679,883,232	$ 701,511,865	$ 756,082,265	$783,030,760
Licenses and Permits	2,730,256	2,324,982	2,950,273	2,972,158	3,149,018
Intergovernmental	80,286,490	79,693,742	52,122,978	45,858,405	51,118,571
Charges for Services	10,325,688	9,916,046	11,357,373	11,828,597	8,222,775
Fines and Forfeitures	1,664,996	1,697,658	1,395,475	1,653,046	1,403,040
Interest on Investments	13,743,907	13,147,681	8,951,515	5,455,664	5,492,775
Miscellaneous	8,555,639	13,958,517	9,255,238	8,275,600	7,208,534
Total Revenues	$ 774,127,514	$ 800,621,858	$ 787,544,717	$ 832,125,735	$859,625,473
Expenditures:					
General Government	$ 47,606,165	$ 51,138,380	$ 49,160,168	$ 48,123,661	$ 51,227,586
Public Safety	138,456,333	145,183,968	145,290,213	141,314,435	140,442,466
Public Works	38,490,495	40,635,399	41,000,293	41,343,999	49,085,697
Health and Welfare	42,530,420	46,759,662	41,077,373	33,985,161	23,329,364
Culture and Recreation	12,942,370	13,334,413	12,924,547	11,174,520	9,571,239
Education	9,400	9,300	9,600	10,100	11,000
Economic Opportunity	1,399,283	1,286,284	1,033,555	858,176	768,657
Debt Service:					
Principal Retirement	23,339,571	27,243,121	32,958,094	35,708,033	38,928,586
Interest and Fiscal Charges	28,875,182	33,076,561	33,005,934	32,391,843	30,026,044
Pension Plan Contributions	16,622,684	14,860,621	13,415,059	13,024,485	14,158,930
Miscellaneous	38,412,361	42,495,458	19,555,236	(2) 19,384,931	20,589,631
Total Expenditures	$ 388,684,264	$ 416,023,167	$ 389,430,072	$ 377,319,343	$378,139,200
Excess of Revenues Over Expenditures	$ 385,443,250	$ 384,598,691	$ 398,114,645	$454,806,392	$481,486,273
Other Financing Sources (Uses):					
Proceeds of Refunding Bonds	--	$ 83,678,145	$ 68,880,000	$45,461,637	$43,692,803
Proceeds from Note	--	--	--	--	--
Proceeds from State Loan	(156,152)	--	--	--	--
Operating Transfers from Primary Government	425,844	429,161	448,274	351,679	161,308
Operating Transfers from Component Units	--	510,293	--	--	--
Operating Transfers Out	(18,985,395)	(17,078,329)	(32,917,329)	(2) (34,879,228)	(51,475,573)
Operating Transfers to Component Units	(382,148,613)	(397,455,987)	(400,488,614)	(411,191,164)	(417,181,230)
Payment to Refunded Escrow Agent	--	(83,678,145)	(68,880,000)	(45,461,637)	(43,692,803)
Other	--	(165,783)	(191,157)	(1,250,747)	--
Total Other Financing Sources (Uses):	$(400,864,316)	$(413,760,645)	$(433,148,826)	$(446,969,460)	$(468,495,495)
Excess (deficiency) of Revenues and Other Sources over Expenditures and Other Uses	$ (15,421,066)	$ (29,161,954)	$ (35,034,181)	$7,836,932	$12,990,778
Fund Balance at Beginning of Year	87,193,456	69,715,742	55,908,562	(3) 20,662,420	28,485,902
Residual Equity Transfer	(2,056,648)	(825,008)	(211,961)	(13,450)	(14,557)
Fund Balance at End of Year	$ 69,715,742	$ 39,728,780	$ 20,662,420	$ 28,485,902	$46,462,123
Fund Balance as a Percent of Revenues	9.01%	4.96%	2.62%	3.42%	4.82%

(1) Effective July 1,1991, the County adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board (GASB) relating to the financial reporting entity. The change resulting from this statement is the distinction between the County as primary government and its component units. Previously, the component units were blended with the County's accounts for financial statement purposes. The financial statement information presented for the fiscal years ended June 30, 1990 and 1991 has been restated to comply with the provisions of GASB Statement No. 14.

(2) Effective July 1,1991, the County entered into a self-funding arrangement for certain health care costs. The transfers from the General Fund to the Health Insurance Fund, which were approximately $23 million in FY 1992 and $26 million in FY 1993, are accounted for as operating transfers out. Prior to FY 1992, these payments for employees' health insurance were made to an outside insurer and accounted for as miscellaneous expenditures.

(3) During the year ended June 30, 1992, the County changed its method of accruing income tax revenue. Income taxes relating to June of the current fiscal year are now recorded in the current fiscal year. For purposes of the general purpose financial statements this change was recorded as of July 1, 1991, and resulted in an increase of $16,179,782 in the beginning fund balance of the General Fund.

BALTIMORE COUNTY, MARYLAND

COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

EXHIBIT 1 — JUNE 30, 1994

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt		
Assets and other debits:										
Cash, cash equivalents and restricted deposits (note 2)	$19,558,071	$ 21,560,131	$68,966,544	$1,937,999	$27,715,327	$ 31,181,566	$ —	$ —	$ 170,919,638	$ 36,613,383
Investment securities (note 2)	—	—	—	—	—	1,122,508,970	—	—	1,122,508,970	—
Receivables (net, where applicable, of allowances for estimated uncollectible amounts) (note 4):										
Taxes, including interest (note 3)	2,233,788	—	—	—	—	—	—	—	2,233,788	—
Accounts	8,183,372	254,152	22,386	—	18,675	—	—	—	8,478,585	12,436,746
Other governmental units	31,102,584	6,843,623	480,975	—	—	—	—	—	38,427,182	6,646,338
Assessments	—	331,157,380	754,756	—	—	—	—	—	331,912,136	—
Loans	561,364	59,905	—	4,279,439	—	—	—	—	4,900,708	1,163
Investments sold	—	—	—	—	—	12,075,799	—	—	12,075,799	—
Interest and dividends	—	—	—	12,968	—	7,127,378	—	—	7,140,346	—
Due from other funds	—	—	—	—	2,283,517	—	—	—	2,283,517	8,263,594
Due from primary government	—	—	—	—	—	—	—	—	—	1,329,603
Inventories	2,371,280	—	—	148,777	149,297	—	—	—	2,669,354	2,151,480
Prepaid costs	247,684	20,367	—	—	—	—	—	—	268,051	22,911
Deferred charges	—	—	—	—	—	—	—	—	—	70,341
Work in progress	—	—	—	104,888	—	—	—	—	104,888	—
Property, plant and equipment, net (note 6)	—	—	—	263,680	345,356	—	405,891,985	—	406,501,021	675,429,706
Amount to be provided for retirement of long-term debt (note 7)	—	—	—	—	—	—	—	909,017,939	909,017,939	27,152,853
Total assets and other debits	$64,258,143	$359,895,558	$70,224,661	$6,747,751	$30,512,172	$1,172,893,713	$405,891,985	$909,017,939	$3,019,441,922	$770,118,115

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt		
Liabilities:										
Cash overdraft	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,819,118
Accounts payable:										
For investments purchased	—	—	—	—	—	16,244,834	—	—	16,244,834	—
Investment expenses	—	—	—	—	—	418,693	—	—	418,693	—
Other	5,524,997	2,533,774	9,367,990	132,612	3,940,061	232,771	—	—	21,732,205	15,636,073
Accrued expenses	9,065,382	892,909	—	90,784	193,935	—	—	—	10,243,010	26,419,618
Due to other governmental units	92,212	1,587,436	—	51,429	—	280,216	—	—	2,011,293	—
Outstanding claims	—	—	—	—	20,041,600	—	—	—	20,041,600	—
Due to other funds	—	2,283,517	—	—	—	—	—	—	2,283,517	8,263,594
Due to component units	753,523	576,080	—	—	—	—	—	—	1,329,603	—
Other liabilities	7,359,906	674,779	3,496,349	—	146,833	59,689,156	—	—	71,367,023	5,609,648
Deferred revenue	—	331,157,380	—	—	—	—	—	—	331,157,380	5,240,030
Long-term debt (note 7):										
General long-term debt	—	—	—	—	—	—	—	557,940,000	557,940,000	—
Metropolitan District long-term debt	—	—	—	—	—	—	—	281,317,768	281,317,768	—
Other borrowings	—	—	—	—	—	—	—	28,355,193	28,355,193	—
Accrued liability for vested compensated absences	—	—	—	—	—	—	—	19,304,191	19,304,191	6,395,572
Supplemental obligations to retirees	—	—	—	—	—	—	—	—	—	5,009,085
Capital leases	—	—	—	—	—	—	—	—	—	12,028,196
Estimated landfill closing costs	—	—	—	—	—	—	—	20,821,080	20,821,080	—
Disputed tax liability	—	—	—	—	—	—	—	1,279,707	1,279,707	—
Notes payable	—	—	—	—	—	—	—	—	—	113,836
Certificate of participation	—	—	—	—	—	—	—	—	—	3,720,000
Total liabilities	22,796,020	339,705,875	12,864,339	274,825	24,322,429	76,865,670	—	909,017,939	1,385,847,097	91,254,770
Fund equity and other credits:										
Contributed capital (note 9)	—	—	—	4,877,573	5,979,083	—	—	—	10,856,656	—
Investment in fixed assets:										
General	—	—	—	—	—	—	330,117,819	—	330,117,819	—
Metropolitan District	—	—	—	—	—	—	75,774,166	—	75,774,166	—
Component units	—	—	—	—	—	—	—	—	—	672,009,677
Retained earnings:										
Unreserved	—	—	—	1,595,353	210,660	—	—	—	1,806,013	3,891,335
Fund balance:										
Reserved for:										
Encumbrances	6,521,554	1,807,095	—	—	—	—	—	—	8,328,649	10,470,432
Higher education programs	—	—	—	—	—	—	—	—	—	2,764,965
Inventories	2,371,280	—	—	—	—	—	—	—	2,371,280	137,444
Imprest funds	65,280	—	—	—	—	—	—	—	65,280	—
Prepaid costs	247,684	20,367	—	—	—	—	—	—	268,051	—
Non-current loans receivable (note 8)	561,364	59,905	—	—	—	—	—	—	621,269	—
Employees' retirement benefits	—	—	—	—	—	1,085,921,794	—	—	1,085,921,794	—
Debt service	—	—	—	—	—	4,318,292	—	—	4,318,292	—
Unreserved:										
Designated for disputed taxes	1,279,707	—	—	—	—	—	—	—	1,279,707	—
Designated for specific projects	—	1,956,700	—	—	—	5,786,174	—	—	7,742,874	516
Designated for subsequent years' expenditures	7,140,483	5,796,323	—	—	—	—	—	—	12,936,806	—
Designated for economic stabilization	23,274,771	—	—	—	—	—	—	—	23,274,771	—
Undesignated (deficit)	—	10,549,293	57,360,322	—	—	1,783	—	—	67,911,398	(10,410,271)
Total fund equity and other credits	41,462,123	20,189,683	57,360,322	6,472,926	6,189,743	1,096,028,043	405,891,985	—	1,633,594,825	678,863,348
Total liabilities, fund equity and other credits	$64,258,143	$359,895,558	$70,224,661	$6,747,751	$30,512,172	$1,172,893,713	$405,891,985	$909,017,939	$3,019,441,922	$770,118,118

See accompanying notes to general purpose financial statements.

BALTIMORE COUNTY, MARYLAND

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES (AND SIMILAR TRUST FUNDS) AND DISCRETELY PRESENTED COMPONENT UNITS

EXHIBIT 2 — YEAR ENDED JUNE 30, 1994

	Governmental Fund Types			*Fiduciary Fund Type*	*Total Primary Government (Memorandum Only)*	*Board of Education and Board of Library Trustees Component Units*
	General	*Special Revenue*	*Capital Projects*	*Expendable Trust*		
Revenues:						
Taxes	$ 783,030,760	$ —	$ 336,600	$ —	$ 783,367,360	$ —
Licenses and permits	3,149,018	933,573	—	—	4,082,591	—
Intergovernmental	51,118,571	56,944,165	6,923,301	—	114,986,037	169,962,638
Charges for services	8,222,775	70,978,340	10,427,935	—	89,629,050	2,170,360
Assessments	—	13,189,825	4,945,371	—	18,135,196	—
Fines and forfeitures	1,403,040	—	—	—	1,403,040	—
Interest on investments	5,492,775	1,908,584	—	373,575	7,774,934	—
Miscellaneous	7,208,534	9,095,283	166,632	6,797	16,477,246	7,729,253
Total revenues	859,625,473	153,049,770	22,799,839	380,372	1,035,855,454	179,862,251
Expenditures:						
Current:						
General government	51,227,586	2,533,569	—	—	53,761,155	—
Public safety	140,442,466	1,024,792	—	2,361,622	143,828,880	—
Public works	49,085,697	45,719,611	—	—	94,805,308	—
Health and welfare	23,329,364	45,297,064	—	—	68,626,428	—
Culture and recreation	9,571,239	372,041	—	12,300	9,955,580	22,586,219
Community development block grants	—	5,057,277	—	—	5,057,277	—
Education	11,000	—	—	—	11,000	542,449,789
Economic opportunity	768,657	7,423,816	—	—	8,192,473	—
Debt service:						
Principal retirement	38,928,586	23,640,544	—	4,055,000	66,624,130	6,162,250
Interest and fiscal charges	30,026,044	14,315,169	—	1,868,040	46,209,253	3,374,742
Pension plan contributions	14,158,930	—	—	—	14,158,930	—
Miscellaneous	20,589,631	761,341	—	—	21,350,972	—
Capital projects	—	—	64,650,198	—	64,650,198	26,188,552
Total expenditures	378,139,200	146,145,224	64,650,198	8,296,962	597,231,584	600,761,552
Excess (deficiency) of revenues over expenditures	481,486,273	6,904,546	(41,850,359)	(7,916,590)	438,623,870	(420,899,301)
Other financing sources (uses):						
Proceeds of refunding bonds	43,692,803	16,574,491	—	—	60,267,294	—
Proceeds of capital lease obligations	—	—	—	—	—	13,585,715
Proceeds of bonds:						
General obligation	—	—	55,000,000	—	55,000,000	—
Metropolitan District Facilities	—	—	45,000,000	—	45,000,000	—
Maryland Water Quality Financing Administration	—	—	879,360	—	879,360	—
Operating transfers in	161,308	3,239,403	13,193,631	5,799,325	22,393,667	—
Operating transfers from primary government	—	—	—	—	—	412,277,950
Operating transfers out	(51,475,573)	(3,137,031)	(3,851,653)	(23,637)	(58,487,894)	—
Operating transfers to primary government	—	—	—	—	—	(3,515,457)
Operating transfers to component units	(417,181,230)	(1,765,325)	(21,317,481)	—	(440,264,036)	—
Payment to refunded bond escrow agent	(43,692,803)	(16,574,491)	—	—	(60,267,294)	—
Total other financing sources (uses)	(468,495,495)	(1,662,953)	88,903,857	5,775,688	(375,478,903)	422,348,208
Excess (deficiency) of revenues and other sources over expenditures and other uses	12,990,778	5,241,593	47,053,498	(2,140,902)	63,144,967	1,448,907
Net income from food service operations	—	—	—	—	—	253,345
Fund balances at beginning of year	28,485,902	14,948,090	10,306,824	12,247,151	65,987,967	3,495,057
Contributions to proprietary funds (note 9)	(14,557)	—	—	—	(14,557)	—
Fund balances at end of year	$ 41,462,123	$ 20,189,683	$ 57,360,322	$10,106,249	$ 129,118,377	$ 5,197,309

See accompanying notes to general purpose financial statements.

BALTIMORE COUNTY, MARYLAND

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

EXHIBIT 3 — YEAR ENDED JUNE 30, 1994

	General Fund			*Budgeted Special Revenue Funds*		
	Budget	*Actual*	*Variance — Favorable (Unfavorable)*	*Budget*	*Actual*	*Variance — Favorable (Unfavorable)*
Revenues:						
Taxes	$780,088,387	$783,030,759	$ 2,942,372	$ —	$ —	$ —
Licenses and permits	2,561,084	3,149,018	587,934	891,557	933,573	42,016
Intergovernmental	48,413,971	51,118,570	2,704,599	—	—	—
Charges for services	8,096,101	8,222,775	126,674	71,934,557	70,978,340	(956,217)
Assessments	—	—	—	13,122,524	13,189,825	67,301
Fines and forfeitures	1,643,060	1,403,040	(240,020)	—	—	—
Reimbursement from other funds	2,972,880	2,829,156	(143,724)	5,722,561	—	(5,722,561)
Interest on investments	5,300,000	5,492,775	192,775	1,370,000	1,901,573	531,573
Miscellaneous	9,153,364	8,923,411	(229,953)	98,475	4,333,974	4,235,499
Operating transfers in	161,308	161,308	—	—	—	—
Total revenues	858,390,155	864,330,812	5,940,657	93,139,674	91,337,285	(1,802,389)
Expenditures and encumbrances:						
General government	53,314,491	52,088,932	1,225,559	335,374	325,871	9,503
Public safety	143,072,528	141,578,378	1,494,150	—	—	—
Public works	51,751,111	51,472,822	278,289	47,050,288	45,875,787	1,174,501
Health and welfare	23,765,568	23,294,886	470,682	—	—	—
Culture and recreation	9,745,029	9,677,718	67,311	—	—	—
Education	11,000	11,000	—	—	—	—
Economic opportunity	810,952	767,049	43,903	—	—	—
Debt service:						
Principal retirement	38,587,586	38,928,586	(341,000)	23,416,544	23,640,544	(224,000)
Interest and fiscal charges	32,710,680	30,036,124	2,674,556	16,334,925	14,323,651	2,011,274
Pension plan contributions	14,158,950	14,158,930	20	—	—	—
Operating transfers out	51,475,573	51,475,573	—	2,517,961	2,517,961	—
Operating transfers to component units	417,889,921	417,181,230	708,691	—	—	—
Miscellaneous	21,082,209	20,643,328	438,881	—	—	—
Total expenditures and encumbrances	858,375,598	851,314,556	7,061,042	89,655,092	86,683,814	2,971,278
Excess of revenues over expenditures and encumbrances (budgetary basis)	$ 14,557	13,016,256	$13,001,699	$ 3,484,582	$ 4,653,471	$ 1,168,889
Adjustments required under generally accepted accounting principles:						
Net change during year in reserve for encumbrances		272,830			1,250,171	
Other GAAP adjustments		(91,972)			(1,155,261)	
Net change in reserve for inventories, imprest funds and other programs		(1,714,877)			—	
Prior year encumbrance liquidations		1,508,541			69,017	
Net activity in unbudgeted special revenue funds		—			424,195	
Fund balances at beginning of year		28,485,902			14,948,090	
Contributions to proprietary funds		(14,557)			—	
Fund balances at end of year		$ 41,462,123			$20,189,683	

See accompanying notes to general purpose financial statements.

BALTIMORE COUNTY, MARYLAND

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES (AND SIMILAR TRUST FUNDS)

EXHIBIT 4 — YEAR ENDED JUNE 30, 1994

	Proprietary Fund Types		*Fiduciary Fund Type*	*Total Primary Government (Memorandum Only)*
	Enterprise	*Internal Service*	*Pension Trust*	
Operating revenues:				
Charges for services	$2,684,356	$ 7,211,953	$ —	$ 9,896,309
Investment income:				
Interest and dividends	—	—	57,078,461	57,078,461
Gain on sale of investments	—	—	14,998,223	14,998,223
Contributions	—	6,661,690	32,682,952	39,344,642
Miscellaneous	46,383	1,490,993	17,045	1,554,421
Total revenues	2,730,739	15,364,636	104,776,681	122,872,056
Operating expenses:				
Personal services	933,505	1,971,028	—	2,904,533
Materials	189,701	2,837,487	—	3,027,188
Depreciation	26,980	1,001,768	—	1,028,748
General fund overhead distribution	452,700	508,269	—	960,969
Rents and utilities	144,971	154,763	—	299,734
Supplies and maintenance	226,731	470,196	—	696,927
Benefit payments	—	—	62,867,959	62,867,959
Refunds	—	—	1,601,874	1,601,874
Investment expenses	—	—	2,369,879	2,369,879
Self-insured claims	—	45,710,537	—	45,710,537
Other expenses	107,257	72,816	73,793	253,866
Total expenses	2,081,845	52,726,864	66,913,505	121,722,214
Operating income (loss)	648,894	(37,362,228)	37,863,176	1,149,842
Non-operating revenues and expenses:				
Interest on investments and loans	165,078	518,493	—	683,571
Loss on sale of fixed assets	—	(2,134,552)	—	(2,134,552)
Net non-operating revenues (expenses)	165,078	(1,616,059)	—	(1,450,981)
Income (loss) before operating transfers	813,972	(38,978,287)	37,863,176	(301,139)
Operating transfers in	—	36,094,227	—	36,094,227
Operating transfers from component units	—	9,156,471	—	9,156,471
Net operating transfers	—	45,250,698	—	45,250,698
Net income	813,972	6,272,411	37,863,176	44,949,559
Fund equity (deficit) at beginning of year	5,281,381	(97,225)	1,048,058,618	1,053,242,774
Contributions from other funds and account groups	377,573	14,557	—	392,130
Fund equity at end of year	$6,472,926	$ 6,189,743	$1,085,921,794	$1,098,584,463

See accompanying notes to general purpose financial statements.

BALTIMORE COUNTY, MARYLAND

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES

EXHIBIT 5 — YEAR ENDED JUNE 30, 1994

	Proprietary Fund Types		Total Primary Government (Memorandum Only)
	Enterprise	Internal Service	
Cash flows from operating activities:			
Operating income (loss)	$ 648,894	$(37,362,228)	$(36,713,334)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	26,980	1,001,768	1,028,748
Changes in assets and liabilities:			
(Increase) decrease in due from other funds	—	4,770,086	4,770,086
(Increase) decrease in accounts receivable	—	(15,175)	(15,175)
(Increase) decrease in inventories	(148,777)	(6,306)	(155,083)
(Increase) decrease in prepaid costs	—	90,544	90,544
(Increase) decrease in due to other funds	—	(627,071)	(627,071)
(Increase) decrease in work in progress	(104,888)	—	(104,888)
Increase (decrease) in accounts payable, accrued expenses and deferred revenue	223,396	315,963	539,359
Increase (decrease) in due to other governmental units	51,429	—	51,429
Increase (decrease) in other liabilities	—	25,471	25,471
Increase (decrease) in outstanding claims	—	(3,175,425)	(3,175,425)
Net cash provided by (used in) operating activities	697,034	(34,982,373)	(34,285,339)
Cash flows from investing activities —			
Interest on investments	172,945	518,493	691,438
Cash flows from non-capital financing activities:			
Repayments of loans	740,560	—	740,560
Issuance of loans	(60,000)	—	(60,000)
Operating transfers in	—	36,094,227	36,094,227
Operating transfers from component units	—	9,156,471	9,156,471
Net cash provided by (used in) non-capital financing activities	680,560	45,250,698	45,931,258
Cash flows from capital and related financing activities:			
Purchase of property, plant and equipment	—	(228,633)	(228,633)
Proceeds from sale of property, plant and equipment	86,913	375,104	462,017
Contributions of capital	—	14,557	14,557
Net cash used in capital and related financing activities	86,913	161,028	247,941
Net increase in cash and cash equivalents	1,637,452	10,947,846	12,585,298
Cash, cash equivalents and restricted deposits at beginning of year	300,547	16,767,481	17,068,028
Cash, cash equivalents and restricted deposits at end of year	$1,937,999	$ 27,715,327	$ 29,653,326

See accompanying notes to general purpose financial statements.

BALTIMORE COUNTY, MARYLAND

COMBINED BALANCE SHEET — COMMUNITY COLLEGES, BOARD OF EDUCATION AND BOARD OF LIBRARY TRUSTEES

EXHIBIT 6 — JUNE 30, 1994

	Community Colleges	*Board of Education*	*Board of Library Trustees*	*Total*
Assets and other debits:				
Cash and cash equivalents	$ 9,792,255	$ 26,077,613	$ 743,515	$ 36,613,383
Accounts receivable	6,361,162	5,889,236	186,348	12,436,746
Due from other governmental units	—	6,579,788	66,550	6,646,338
Loans receivable	1,163	—	—	1,163
Due from other funds	1,971,661	6,262,458	29,475	8,263,594
Due from primary government	576,080	—	753,523	1,329,603
Inventories	930,184	1,083,852	137,444	2,151,480
Prepaid costs	22,911	—	—	22,911
Deferred charges	70,341	—	—	70,341
Property, plant and equipment, net	101,463,298	565,127,555	8,838,853	675,429,706
Amount to be provided for retirement of long-term debt	—	26,016,284	1,136,569	27,152,853
Total assets and other debits	121,189,055	637,036,786	11,892,277	770,118,118
Liabilities:				
Cash overdraft	2,819,118	—	—	2,819,118
Accounts payable	6,680,691	8,357,333	598,049	15,636,073
Accrued expenses	—	23,071,178	728,276	23,799,454
Due to other funds	1,971,661	6,262,458	29,475	8,263,594
Other liabilities	2,085,870	3,523,778	—	5,609,648
Deferred revenue	2,751,126	2,410,443	78,461	5,240,030
Accrued liability for vested compensated absences	2,620,164	5,597,304	798,268	9,015,736
Supplemental obligations to retirees	—	4,969,085	40,000	5,009,085
Capital leases	—	11,729,895	298,301	12,028,196
Notes payable	—	113,836	—	113,836
Certificate of participation	—	3,720,000	—	3,720,000
Total liabilities	18,928,630	69,755,310	2,570,830	91,254,770
Fund equity and other credits:				
Investments in fixed assets	100,604,063	562,566,761	8,838,853	672,009,677
Retained earnings:				
Unreserved	—	3,891,485	—	3,891,485
Fund balance:				
Reserved for:				
Encumbrances	1,294,618	8,834,097	341,717	10,470,432
Higher education programs	2,764,065	—	—	2,764,065
Inventories	—	—	137,444	137,444
Unreserved:				
Designated for specific projects	—	—	516	516
Undesignated (deficit)	(2,402,321)	(8,010,867)	2,917	(10,410,271)
Total fund equity and other credits	102,260,425	567,281,476	9,321,447	678,863,348
Total liabilities, fund equity and other credits	$121,189,055	$637,036,786	$11,892,277	$770,118,118

See accompanying notes to general purpose financial statements.

BALTIMORE COUNTY, MARYLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY — BOARD OF EDUCATION AND BOARD OF LIBRARY TRUSTEES

EXHIBIT 7 — YEAR ENDED JUNE 30, 1994

	Board of Education	*Board of Library Trustees*	*Total*
Revenues:			
Intergovernmental	$168,069,232	$ 1,893,406	$169,962,638
Charges for services	—	2,170,360	2,170,360
Miscellaneous	5,134,223	2,595,030	7,729,253
Total revenues	173,203,455	6,658,796	179,862,251
Expenditures:			
Culture and recreation	—	22,586,219	22,586,219
Education	542,449,789	—	542,449,789
Debt service:			
Principal retirement	6,162,250	—	6,162,250
Interest and fiscal charges	3,374,742	—	3,374,742
Capital projects	26,188,552	—	26,188,552
Total expenditures	578,175,333	22,586,219	600,761,552
Deficiency of revenues over expenditures	(404,971,878)	(15,927,423)	(420,899,301)
Other financing sources (uses):			
Proceeds of capital lease obligation	13,585,715	—	13,585,715
Operating transfers from primary government	395,252,476	17,025,474	412,277,950
Operating transfers to primary government	(2,184,053)	(1,331,404)	(3,515,457)
Net other financing sources	406,654,138	15,694,070	422,348,208
Excess (deficiency) of revenues and other sources (uses) over expenditures and other uses	1,682,260	(233,353)	1,448,907
Net income from food service operations	253,345	—	253,345
Fund equity at beginning of year as restated (note 14)	2,779,110	715,947	3,495,057
Fund equity at end of year	$ 4,714,715	$ 482,594	$ 5,197,309

See accompanying notes to general purpose financial statements.

BALTIMORE COUNTY, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND BALANCES
COMMUNITY COLLEGES

EXHIBIT 8 — YEAR ENDED JUNE 30, 1994

	Current Funds		Loan	Plant Funds		
	Unrestricted	Restricted	Funds	Unexpended	Invested in Plant	Total
Revenues and other additions:						
Student tuition and fees	$25,009,100	$ —	$ —	$ —	$ —	$ 25,009,100
Intergovernmental	28,170,958	—	—	—	—	28,170,958
Interest income	283,479	—	—	—	—	283,479
Miscellaneous	2,076,255	56,527	8,119	870,041	—	3,010,942
Auxiliary enterprises	6,316,226	—	—	—	—	6,316,226
Scholarship funds	—	915,676	—	—	—	915,676
Grant funds	—	12,524,367	—	—	—	12,524,367
Expended for plant facilities	—	—	—	—	4,745,022	4,745,022
Total revenues and other additions	61,856,018	13,496,570	8,119	870,041	4,745,022	80,975,770
Expenditures and other deductions:						
Educational and general expenditures	76,315,998	15,503,128	—	—	—	91,819,126
Auxiliary enterprises	5,979,963	—	—	—	—	5,979,963
Plant operations	—	—	—	1,238,689	—	1,238,689
Disposal of property, plant, and equipment	—	—	—	—	1,578,415	1,578,415
Miscellaneous	2,028,961	—	3,345	—	7,885	2,040,191
Total expenses and other deductions	84,324,922	15,503,128	3,345	1,238,689	1,586,300	102,656,384
Transfers:						
Operating transfers from primary government	25,228,481	2,015,325	—	542,391	199,888	27,986,085
Operating transfers to primary government	(5,641,014)	—	—	—	—	(5,641,014)
Total transfers	19,587,467	2,015,325	—	542,391	199,888	22,345,071
Net increase (decrease) in fund balances	(2,881,437)	8,767	4,774	173,743	3,358,610	664,457
Fund balances at beginning of year as restated (note 14)	3,836,706	(24,590)	28,718	509,681	97,245,453	101,595,968
Fund balances (deficit) at end of year	$ 955,269	$ (15,823)	$33,492	$ 683,424	$100,604,063	$102,260,425

See accompanying notes to general purpose financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity

Baltimore County, Maryland (the "County") is a body corporate and politic, which performs all local governmental functions within its jurisdiction. Under home rule charter since 1957, the County is governed by an elected County Executive and a seven-member County Council, with each serving executive and legislative functions.

As required by generally accepted accounting principles, the accompanying financial statements include the various departments, agencies and other organizational units governed by the County Executive and County Council (the primary government) and the County's component units. Blended component units, although legally separate entities, are, in substance, part of the County's operations and are reported as such. Discretely presented component units are reported separately from the primary government to emphasize that they are legally separate from the County. The component units are included as part of the County's reporting entity because of the significance of their operational or financial relationships with the County. The component units are fiscally dependent on the County and have no taxing authority of their own.

Blended Component Unit

The Employees' Retirement System of Baltimore County (System), a public employees retirement system (PERS), provides retirement benefits for most employees of the primary government and certain employees of the component units and related organizations. A board of trustees is responsible for the operation of the System. The System is reported as a pension trust fund within the primary government.

Discretely Presented Component Units

The discretely presented component units are all governed by individual boards of trustees. The Board of Education of Baltimore County and the board of trustees for the Community Colleges are appointed by the Governor of Maryland. The Board of Library Trustees is appointed by the County Executive. A brief description of the discretely presented component units follows.

1. The Board of Education of Baltimore County operates all public schools (grades K through 12) within the County.

2. The Board of Library Trustees operates all public libraries within the County.

3. The community colleges (Catonsville, Dundalk and Essex) operate a two-year college program. The community colleges' financial statements have been prepared using the accrual basis of accounting as defined by the American Institute of Certified Public Accountants Industry Audit Guide for Colleges and Universities.

A Comprehensive Annual Financial Report can be obtained from the respective administrative offices listed below:

Board of Education of Baltimore County
6901 North Charles Street
Towson, Maryland 21204

Baltimore County Employees' Retirement System
400 Washington Avenue
Towson, Maryland 21204

A Component Unit Financial Report can be obtained from the respective administrative offices listed below:

Board of Library Trustees
320 York Road
Towson, Maryland 21204

Dundalk Community College
7200 Sollers Point Road
Dundalk, Maryland 21222

Catonsville Community College
800 South Rolling Road
Catonsville, Maryland 21228

Essex Community College
7201 Rossville Boulevard
Baltimore, Maryland 21221

Related Organizations

The County Executive is also responsible for appointing the members of several boards, but the County's accountability for these organizations does not extend beyond making appointments. These boards include:

Economic Development Commission
Board of Recreation and Parks
Adult Public Guardianship Review Board
Board of Architectural Review
Mental Health Advisory Committee
Electrical Administrative Board
Landmarks Preservation Commission
Substance Abuse Advisory Council
Commission of Arts & Sciences
Agricultural Preservation Board
Human Relations Commission
Revenue Authority
Board of Health
Board of Social Services
Planning Board
Liquor Board
Plumbing Board
Ethics Commission
Commission on Disabilities
Private Industry Council
Minority Advisory Council
Commission for Women
Commission on Aging
Animal Welfare Board
Children & Youth Council

The amounts that the County appropriated to these organizations during the year ended June 30, 1994 were immaterial to the general purpose financial statements taken as a whole.

The accounting policies of the County conform to generally accepted accounting principles (GAAP). The following is a summary of the more significant of such policies.

Fund Accounting

The accounts of the County are organized on the basis of funds and account groups, each of which is a separate accounting entity. The operations of each fund are accounted for through a set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the financial statements. The memorandum totals included in the general purpose financial statements are presented only for informational purposes and are not intended to represent the financial position, results of operations, or the cash flows of the County as a whole.

The following funds, fund types and account groups are used by the County:

Governmental Funds

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

Special Revenue Funds — Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. These funds include:

Metropolitan District Operations Fund — The Metropolitan District is a distinct area within the County which provides water supply and sewerage systems to residents of the County within the District. Water, principally from County sources, is treated, delivered and billed by Baltimore City to County residents at rates sufficient to reimburse the City for water at cost, including treatment and distribution expenses. Similarly, sewage is pumped into the City system for treatment and disposal for which the County charges its residents and reimburses the City at cost. County residents connected to the water and sewer systems are billed assessments for sewer and/or water pipe and service charges sufficient to support the utility operation. The Metropolitan District Operations Fund receives the revenue from such assessments. Expenditures are for the limited maintenance, debt service and operation of the segments of the water and sewerage systems within the County. Due to its limited function, the Baltimore County Metropolitan District is not treated as an Enterprise Fund.

Liquor License Fund — accounts for the revenues and expenditures relating to the issuance and regulation of licenses for the sale of alcoholic beverages by the Board of Liquor License Commissioners. Any surplus funds remaining from this function are transferred to the General Fund.

Gifts and Grants Fund — accounts for a number of gifts and grants awarded to the County that are not accounted for in another fund.

Economic Development Loan Program Fund — established to account for loans financed by grants that provide funds for investment in designated geographic areas of the County.

Job Training Partnership Act Fund — accounts for grants received under the Job Training Partnership Act.

Capital Projects Funds — Capital Projects Funds are used to account for costs of construction and related funding sources. Capital improvements are authorized by capital budget ordinances. Projects are funded by County General Obligation and Metropolitan District bonds, pay-as-you-go appropriations and participation by developers, property owners, the State of Maryland and the Federal Government. Completed assets of a stewardship nature are transferred to the General Fixed Assets Account Group. These funds include:

General Public Facilities Fund — accounts for the costs of construction and related funding sources for capital projects of a general nature.

Public Schools Facilities Fund — accounts for the costs of construction and related funding sources for school-related capital projects.

Community Colleges Facilities Fund — accounts for the costs of construction and related funding sources for capital projects at the County's community colleges.

Metropolitan District Facilities Fund — accounts for the costs of construction and related funding sources for capital projects serving the County's Metropolitan District.

Proprietary Funds

Enterprise Fund — An Enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Capital Revolving

Financing Fund is used to account for monies loaned to certain independent volunteer fire, ambulance and rescue companies to finance the purchase of equipment, land or the construction or repair of certain facilities. The Golf Courses Fund accounts for the operations of the County's three courses.

Internal Service Funds — Internal Service Funds are used to account for goods or services provided by one department or agency to other departments or agencies of the County or to other governmental units on a cost-reimbursement basis and for the County's self insurance program. The risk of loss has not been transferred to the Self Insurance Fund. Accordingly, interfund charges for insurance are accounted for as operating transfers rather than as expenditures of the insured funds. Internal Service Funds include:

Vehicle Operations and Maintenance Fund — accounts for costs of operating a maintenance facility and the County's motor pool for all passenger vehicles and trucks up to and including ¾ of a ton.

Central Stores Fund — accounted for the costs of operating a supply house for the various supplies and materials used routinely by County employees, except for stationery. This fund was closed in fiscal year 1994. Agencies now purchase materials directly from vendors.

Central Printing Services Fund — accounts for the costs of operating a print shop.

Central Electronic Services Fund — accounted for the costs of operating an electronic maintenance facility to service the County's various communications systems. This fund was closed in fiscal year 1994 and replaced by an operating program in the General Fund.

Self-Insurance Program Fund — accounts for the costs of maintaining workers' compensation insurance for the County, Board of Education and the Board of Library Trustees. In addition, the fund accounts for uninsured personal injury and property damage claims filed against the County and the Board of Library Trustees.

Central Equipment Fund — accounted for the costs of operating and maintaining trucks over ¾ of a ton and construction equipment. This fund was closed in fiscal year 1994. Agencies using this equipment will be responsible for the purchase and some operative costs associated with the equipment.

Fiduciary Funds

Transactions related to assets held by the County in a trustee capacity or as an agent for individuals, private organizations and other governments are accounted for in the fiduciary fund types. Fiduciary fund types are comprised of:

Trust Funds — Trust Funds are used to account for assets held by the County in a trustee capacity. These include pension trust funds and expendable trust funds. These funds include:

Pension Trust Funds

Employees' Retirement System Fund — accounts for the accumulation of assets which are used for retirement benefits in the Employee's Retirement System of Baltimore County.

Police, Fire and Widows' Pension Fund — accounts for the bond proceeds used to fund retirement benefits in these pension plans.

Expendable Trust Funds

Recreation and Parks Fund — accounts for grants, devices, gifts or bequests made to the Department of Recreation and Parks through the Baltimore County Recreation and Parks Councils. Expenditures from this fund are conditioned to the donors' requests.

Capital Outlay Financing Fund — accounts for the acquisition of equipment and buildings financed with the proceeds of borrowings other than general obligation bonds. This allows the County to obtain timely financing for certain "fast track" purchases and projects.

Agency Funds — Agency Funds are used to account for assets held for other funds, governments or individuals. Agency funds are custodial in nature, that is, assets equal liabilities; and they do not involve measurement of operations. These funds include:

Deferred Compensation Fund — accounts for funds that are held in conjunction with the County's Employees' Deferred Compensation Plan.

Section 8 Housing Fund — accounts for housing subsidies to lower income families based on Department of Housing and Urban Development regulations.

Account Groups

General Fixed Assets Account Group — The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than

buildings, furniture, machinery, equipment, vehicles and work in progress) acquired or constructed by the reporting entity except the assets of the proprietary fund types and the component units. Public domain ("infrastructure") fixed assets consisting of roads, bridges, storm drains, underground water and sewer facilities and certain other property are recorded as expenditures in the Capital Projects Funds, and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair market value on the date donated. No depreciation has been provided in the General Fixed Assets Account Group.

Long-Term Debt Account Group — The Long-Term Debt Account Group accounts for all long-term debt backed by the full faith and credit of the County, other than long-term debt recorded in the enterprise funds and the component units.

Basis of Accounting

The modified accrual basis of accounting is followed by the governmental funds, expendable trust funds and agency funds. The measurement focus of these funds is the determination of financial position and changes in financial position ("financial flow" focus). Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, which is defined as when the revenues are both measurable and available. Property, sales and income taxes, developers' assessments, interest income and various inter-governmental revenues comprise the significant revenues susceptible to accrual. Property taxes and accounts receivable are reduced by an allowance for uncollectible accounts. Accrued sales and income taxes relate solely to amounts held by or due to agents for the County as of year end. Other accrued revenues represent measurable amounts related to current or prior periods which will be received within sixty days. Taxes receivable greater than two years old are fully provided for in the allowance for uncollectible accounts. Grant revenues already received may be deferred to the extent the earning process is considered incomplete. Licenses and permits, charges for services, fines and forfeitures and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Encumbrance accounting, more fully described below, is employed as an additional modification of the accrual basis of accounting on the budgetary basis financial statements only. Expenditures, other than principal and interest on long-term debt and employee annual vacation and sick leave, are recorded when the liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Expenditures for annual leave are recorded when paid.

The accrual basis of accounting is utilized by the proprietary funds and the pension trust funds. The measurement focus of these funds is the determination of net income and financial position ("capital maintenance" focus).

Agency funds are custodial in nature and do not present the results of operations or have a measurement focus.

Budgetary Data

As required by Article VII of the Baltimore County Charter, the annual operating budget and the capital budget are prepared by the County Executive and submitted to the County Council for adoption. Such budgets are prepared on the modified accrual basis of accounting described above, and reflect encumbrance accounting (as described below). Certain expenditures accrued in accordance with GAAP are not recognized in the budget. Prior to adoption of the budgets, the County Council may decrease or delete any item with the exception of those required by the general laws of the State of Maryland, provisions for debt service on outstanding obligations and provisions for estimated cash deficits. Requests for supplementary and emergency appropriations may be prepared during the year by the County Executive and adopted by the County Council. During the fiscal year ended June 30, 1994, supplementary and emergency appropriations of approximately $37,500,000 were adopted.

The operating budget reflects appropriations for the General Fund and certain Special Revenue Funds (Liquor License, Metropolitan District Operations and Gifts and Grants) on a function/agency/program basis. Expenditures and encumbrances of such funds may not legally exceed appropriations at the program level. Inter-program transfers of no more than ten percent of appropriations may be authorized by the County Administrative Officer. All other transfers must be approved by the County Executive and the County Council. Except for the Gifts and Grants Fund, all unencumbered appropriations in the operating budget lapse at the end of the fiscal year.

The capital budget reflects appropriations for the Capital Projects Funds at the individual project level. Expenditures and encumbrances may not legally exceed appropriations at that level and unencumbered appropriations lapse at the completion or abandonment of individual projects. All transfers of appropriations between projects must be approved by the County Executive and County Council.

The budget and actual comparison for Special Revenue Funds, included in the Combined Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance — Budget and Actual

— General and Budgeted Special Revenue Funds, reflects the budgeted and actual amounts for the Metropolitan District Operations and Liquor License funds.

In fiscal year 1994, the County recorded a liability in the Metropolitan District Operations Fund for wastewater treatment services provided by Baltimore City. This liability was not reflected in the Fund's budgetary basis statements resulting in another GAAP adjustment of $1.2 million.

The other Special Revenue Funds have not been included in the comparison because either they are not budgeted or they are not budgeted on an annual basis. The net actual activity of these funds has been included in the statement as a single amount in order to reconcile to the total combined fund balances of the Special Revenue Funds.

Pooled Cash, Cash Equivalents and Investment Income

Except for the Employees' Retirement Trust Fund, the County maintains a cash and investment income pool for all funds through which all interfund transactions are settled. Based on the availability of cash in various funds, marketable securities are purchased and income on investments is credited to these funds. All Capital Projects Fund interest income on investments has been recorded in the General Fund and Special Revenue Fund cash.

For purposes of the Combined Statement of Cash Flows, the County considers all cash balances deposited in checking accounts and investments with original maturities of less than ninety days when purchased to be cash and cash equivalents.

Restricted Cash

The Self Insurance Fund contains restricted deposits which represent funds held by the County's claims managers to settle certain claims on the fund.

Debt Retirement

General obligation long-term debt retirements are appropriated and paid from the General, Metropolitan District Operations Special Revenue and the Capital Revolving Financing Enterprise funds. The Metropolitan District Operations Special Revenue Fund includes approximately $331,000,000 of receivables for future billings for front-foot assessment charges for water and sewer lateral pipe abutting properties within the district. Revenue recognition of these receivables has been deferred because such amounts are not considered to be measurable and available in as much as their collection will not be realized for an indefinite future period. These assessments, which are levied on individual properties for a period of forty years from the date of installation, represent a significant revenue designated to retire the Metropolitan District long-term debt.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the General and certain Special Revenue funds. Under generally accepted accounting principles, encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances are reported with expenditures in all budgetary basis statements.

Investments

Investment securities of the pension trust funds are carried at cost and related transactions are recognized on a trade-date basis. Investment securities in the Deferred Compensation Fund are reported at market value. Other marketable securities are carried at cost which approximates market.

Inventories

Inventories are valued at cost. Cost is determined on the first-in, first-out basis. A reservation of fund balance for the amount of General Fund inventories has been made to reflect the non-availability of those amounts for appropriation or expenditure. Of the approximately $2.4 million of year end governmental fund-type inventories, $1.7 million represents inventories that are recorded as expenditures when purchased and $.7 million represents inventories that will be recorded as expenditures when consumed.

Fixed Assets — Proprietary Fund Types

Furniture, machinery, equipment and buildings of the Proprietary Fund Types are carried at historical cost. An allowance for depreciation has been provided using the straight-line method over the estimated useful lives which range from two to ten years for furniture, machinery and equipment and twelve to forty-five years for buildings.

Outstanding Claims

The outstanding claims liability includes estimates for all known workers' compensation, personal injury and property damage and health claims at June 30, 1994 and an estimate for claims incurred but not reported. The liability is accounted for in the Self Insurance Fund.

Reservations of Fund Balances
Reserves for encumbrances and inventories are described above. The reserve for employees' retirement benefits reflects the segregation of these amounts in a separate trust fund. The reserve for higher education programs represents funds restricted by grantors to specific programs of the Community Colleges. The remaining reserves indicate funds not available for appropriation.

Designations of Fund Balances
Designations for disputed taxes are discussed in note 10. Designations for specific projects represent grant activities in the Special Revenue Funds, and equipment purchases in the Trust and Agency Funds. Designations for subsequent years' expenditures represent funds that will be used to fund, in part, the applicable fiscal year 1995 operating budgets. Designations for economic stabilization are intended to protect the County against future revenue shortfalls and may be used upon County Council approval only when certain criteria have been met.

Vacation and Sick Leave
Under terms of union contracts, County employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation days up to a maximum of 75 days vacation. Employees are not reimbursed for accumulated sick leave. Payments made to employees for annual leave are charged as expenditures when paid. Accumulated vacation benefits are shown as obligations in the General Long-Term Debt Account Group since these amounts are not expected to be paid from currently available resources.

2. CASH AND MARKETABLE SECURITIES AND PENSION TRUST FUND INVESTMENT SECURITIES:

Baltimore County maintains an aggressive cash and investment program which includes a graduated incentive of 1% discount per month up to 2% for prepayment of property taxes. The County maintains cash balances in four local banks. These were fully covered by FDIC insurance and/or collateral pledged to Baltimore County accounts and held at the Federal Reserve in the County's name at year end. The collateral pledged by the banks consists of obligations issued by the U.S. Government and U.S. agencies.

In accordance with the terms of Section 15-4 of the Baltimore County Code, "the depository shall make no changes, substitution or exchanges to the collateral delivered to the custodian, subject to the duty of the depository at all times to maintain the total amount of assets pledged at least in the amount required for all public deposits secured thereby without the prior written approval of the Director of Finance." This policy has been strictly adhered to by all participating banks.

The Annotated Code of Maryland authorizes the County to invest in U.S. obligations, U.S. agencies, repurchase agreements, bankers' acceptances, state's local government investment pool, money market funds limited to U.S. obligations and repurchase agreements fully collateralized by U.S. obligations, collateralized deposits in banks or savings and loan associations in the State of Maryland and municipal obligations for bond sale proceeds only. Additionally, the Employees' Retirement System and the Deferred Compensation Fund may invest in stocks, corporate bonds and notes and real estate. The County has funded the Police, Fire and Widows' Pension Plan through the sale of bonds and invested the proceeds in a diversified, dedicated, cash-matched portfolio of tax-exempt securities. The securities held at year end are representative of securities held throughout the year.

At June 30, 1994, the carrying amount of the primary government's bank deposits was $(1,325,266), and the balance per bank records aggregated $576,518. The carrying amount of bank deposits for the component units was $3,389,358. The bank balances of deposits were fully secured by Federal Depository Insurance and/or by collateral held by the County's agent in the County's name.

Deficit cash, cash equivalent and restricted deposits balances in any particular fund are covered by advances from the Self-Insurance Fund. At June 30, 1994, an analysis of the cash and cash equivalent pool is as follows:

Fund Type:	*Equity in Pool*	*Advances*
General	$ 19,558,071	$ —
Special revenue	21,560,131	2,283,517
Capital projects	68,966,544	—
Enterprise	1,937,999	—
Internal service	27,715,327	—
Trust and agency	31,181,566	—
Total	170,919,638	$2,283,517
Less: advances	2,283,517	
Pooled cash and cash equivalents	$168,636,121	

Primary Government

	Category 1	Category 2	Category 3	Carrying Value	Market Value
Repurchase agreements	$ 45,500,000	$ —	$ —	$ 45,500,000	$ 45,500,000
U.S. securities and agencies	73,666,135	—	—	73,666,135	73,003,352
Municipal bonds	183,802,990	—	—	183,802,990	196,825,844
Foreign bonds	5,524,892	—	—	5,524,892	5,103,338
Corporate bonds	39,235,204	—	—	39,235,204	37,095,088
Stocks	160,345,701	—	—	160,345,701	205,523,227
Notes	500,000	—	—	500,000	500,000
	$508,574,922	$ —	$ —	508,574,922	563,550,849
Money market funds				126,744,896	126,744,896
Real estate equity funds				89,632,631	70,423,811
Bond mutual funds				269,543,212	264,389,483
Stock mutual funds				240,569,049	317,504,977
Deferred compensation investments — principally fixed annuities				59,689,164	59,689,164
Total — Primary Government				$1,294,753,874	$1,402,303,180

Component Units

	Category 1	Category 2	Category 3	Carrying Value	Market Value
Repurchase agreements:					
Board of Education	$ —	$ —	$6,893,766	$ 6,893,766	$ 6,893,766
Board of Library Trustees	—	1,101,000	—	1,101,000	1,101,000
Community Colleges	—	1,430,000	148,094	1,578,094	1,578,094
	$ —	$2,531,000	$7,041,860	9,572,860	9,572,860
Money market fund:					
Board of Education				4,661,134	4,661,134
Local government investment pool:					
Board of Education				13,141,425	13,141,425
Community Colleges				5,848,606	5,848,606
Total — Component Units				$ 33,224,025	$ 33,224,025

The reporting entity's investments are categorized above to give an indication of the level of risk assumed by the reporting entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the reporting entity or its agent in the reporting entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the reporting entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent but not in the reporting entity's name.

Restricted deposits in the Self-Insurance Program Internal Service Fund consist of monies deposited in an escrow account for the payment of approved claims. An outside administrator pays claims directly from the escrow account.

3. PROPERTY TAX:

The major portion of the County's property tax is levied each July 1 on the assessed value listed as of that date for all real and personal property located in the County. Assessed values are established by the State of Maryland Department of Assessments and Taxation at various rates of estimated market value. As of July 1, 1994, all real property was assessed at $13,635,493,060 which was approximately 40% of the estimated fair market value.

The property tax rate for the year ended June 30, 1994, was $2.865 per $100 of assessed valuation and current tax collection for the year then ended was 99.2% of the tax levied. Property taxes are recorded as receivables in the General Fund at the levy date with appropriate allowances for estimated uncollectible amounts as described in Notes 1 and 4.

The full year property tax calendar is as follows:

July 1 — Full year levy assessed for current fiscal year, lien date
*July 31 — Bills paid during July are granted a 2% discount
*August 31 — Bills paid during August are granted a 1% discount
September 30 — Gross amount of levy is due
October–April — Taxes are delinquent and interest accrues at the rate of 1% a month from October 1 to date of payment
May — Delinquent real properties are sold at the annual tax sale

**For bills dated other than July, a 2% discount is granted if paid within 30 days; then interest accrues.*

4. ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES:

At June 30, 1994, the allowance for estimated uncollectibles was comprised of the following:

	Primary Government	*Component Units*
	General Fund	*Community Colleges*
Taxes	$9,550,395	$ —
Accounts receivable	—	897,335
Student loans	—	515,468
Total	$9,550,395	$1,412,803

5. BENEFIT PLANS:

I. Employees' Retirement System

A. Plan Description

The County contributes to the Baltimore County Employees' Retirement System (the "System"), a fiduciary fund of the County. The System is a cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agent for the County and certain employees of the component units and the Revenue Authority. The payroll for employees covered by the System for the fiscal year ended June 30, 1994 was $246,970,987. Total payroll for the fiscal year ended June 30, 1994 was $275,665,105. The authority to establish and maintain the System is specified in Section 23-1 of the Baltimore County Code. Membership in the System is open to all regular employees in either the classified or unclassified service of the reporting entity and the Revenue Authority, except direct appointees of the Governor of Maryland, temporary employees and employees for whom there are existing pension provisions. Presently, membership in the System is compulsory for merit system employees after two years of service. Membership in the System is optional for part-time employees.

Benefits vest after five years of service. Members of the System are eligible for normal service retirement upon reaching the age of 60 or the age at which the member completes 30 years of creditable service, whichever is earlier, except for police officers, firefighters and correctional officers. Police officers are eligible for normal service retirement upon reaching the age of 55 or the age at which the member completes 20 years of creditable service, whichever is earlier. Firefighters are eligible for normal service retirement upon reaching the age of 55 or the age at which the member has completed 20 years of creditable service and attained the age of 50, whichever age is earlier. Correctional officers are eligible for normal service retirement upon reaching the age of 60, or the age at which the member completes 20 years of creditable service, whichever is earlier. The System provides disability benefits as established by Sections 23-53 and 23-55 of the Baltimore County Code. The amount of benefits paid is based on the highest average final compensation and the number of years of service. The rate of contribution is determined by the age of the member at the time the member actually joins the System. The County is required to contribute an actuarially determined amount annually to fund the System as specified by Section 23-38 of the Baltimore County Code.

At June 30, 1994, the date of the most recent annual actuarial valuation, the Employees' Retirement System membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	
General and correctional	3,504
Police and fire	1,017
Total	4,521
Current employees:	
Full-time	
Vested	
General and correctional	3,797
Police and fire	2,151
Non-Vested	
General and correctional	1,217
Police and fire	387
	7,552
Part-time	1,305
Members electing county council option	7
Total	8,864

B. Summary of Accounting Policies and Significant Plan Asset Matters

The System was established as of January 1, 1945 and placed under the management of the Board of Trustees for the purpose of providing retirement allowances and other benefits for employees.

The County contracts with an actuary, a pension consultant, a custodian and 14 investment managers for the purpose of administering the System. Of the 14 investment managers, one is an index manager, three are active equity managers, three are active fixed income managers, two are international equity managers and five are real estate equity managers. Investments are accounted for on the accrual basis. Security transactions are recorded as of trade date. Short-term instruments totaling approximately 2% of the total market value of the fund are invested both "in house" and by the custodian. The summary of assets held by investment type in the System as of June 30, 1994 is shown below:

Description	*Cost*	*Market*
Cash and cash equivalents	$ 18,033,487	$ 18,033,487
Bonds	394,834,779	385,322,119
Stocks	400,914,750	523,028,204
Real estate equity funds	89,632,631	70,423,811
Total	$903,415,647	$996,807,621

C. Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to June 30, 1994. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

Significant actuarial assumptions used to determine the pension benefit obligation include the following:

(a) An assumed rate of return on the investment of present and future assets of 7⅞% per annum, compounded annually for 1994, and 8% per annum for years prior to 1994.

(b) Assumed projected salary increases ranging from (i) 7.75% at age 25 to 5.50% at age 40 and after for General Employees, and (ii) 7.50% at age 25 to 5.25% at age 40 and after for Firefighters and Police officers for 1994, and ¼% per annum less for years prior to 1994. 4% of each increase is attributable to inflation, while the remainder is due to merit or seniority.

(c) No post-retirement benefit increases assumed in the future (except for those provided for by the current balance in the post-retirement increase fund).

Total unfunded pension benefit obligation applicable to the Employees' Retirement System was $48.4 million at June 30, 1994, as follows (in millions):

Pension benefit obligation:	
Members and dependents currently receiving benefits and terminated members not yet receiving benefits	$497.3
Current members:	
Accumulated member contributions with interest	151.7
System-financed vested	109.1
System-financed nonvested	191.4
Total pension benefit obligation	949.5
Net assets available for benefits at cost (market value is $994.5)	901.1
Unfunded pension benefit obligation	$ 48.4

D. Contributions Required and Contributions Made

Baltimore County Employees' Retirement System funding policy provides for annual employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the entry age actuarial funding method.

An employer contribution requirement of $17,336,291 for the year ended June 30, 1994, was determined based on the actuarial valuation performed as of June 30, 1992. Employee contribution rates were individually determined as described above, and were applied against actual covered payroll for the year ended June 30, 1994, resulting in required employee contributions of $15,342,591.

Contributions actually received for the year ended June 30, 1994 consisted of the following components:

	Amount	*Percent of Covered Payroll*
Employer:		
Normal Cost	$15,390,213	6.2%
Amortization of unfunded actuarial liability	1,946,078	0.8%
Total Employer	$17,336,291	7.0%
Employee:		
Normal Cost	$14,415,437	5.8%
Amortization of unfunded actuarial liability	927,154	0.4%
Total Employee	$15,342,591	6.2%

Normal cost is the amount necessary to finance benefits earned by employees during the current service year.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation for years prior to 1994 as discussed in (c) above.

E. Historical Trend Information

Historical trend information which provides information about Baltimore County Employees' Retirement System's progress made in accumulating sufficient assets to pay benefits when due is presented in a separately issued financial report.

For the three years ended June 30, 1992, 1993 and 1994 available assets were sufficient to fund 98.1%, 97.1% and 94.9%, respectively, of the pension benefit obligation. The unfunded pension benefit obligation represented 6.4%, 10.7% and 19.6% of the annual covered payroll for the three fiscal years ended June 30, 1992, 1993 and 1994, respectively. In addition, for the three fiscal years ended June 30, 1992, 1993 and 1994, the County's contributions to the System, all made in accordance with actuarially determined requirements, were 6.2%, 6.2% and 7.0%, respectively, of annual covered payroll.

II. Police, Fire and Widows' Pension Plan

A. Plan Description

Baltimore County is the administrator of a single-employer pension plan (the Pension Plan) providing benefits to County firefighters and County police officers hired prior to October 1, 1959, and the widows of County firefighters and police officers hired prior to October 1, 1959. The Pension Plan was created pursuant to Article III of Title 23 of the Baltimore County Code. The Pension Plan has not added any new members since October 1, 1959, and contains no provisions to add any new members in the future. The payroll for employees covered by the Pension Plan for the fiscal year ended June 30, 1994, totaled $135,679. The pension for retired firefighters and retired police officers shall at all times be equal to one-half of the salary of an active member of the Fire Department and Police Department, respectively, of the same rank the pensioner held at the time of his retirement. The pension allowance to the spouse shall be one-fourth of the base salary of the active or pensioned member of the County Police and Fire Departments. The member is required to make a contribution of 3% of base pay to the Pension Plan. The County has funded the Pension Plan through the issuance of tax exempt bonds.

At June 30, 1994, the membership of the Pension Plan consisted of:

Retirees and beneficiaries currently receiving benefits:	
Police	265
Fire	139
Widows and dependents	234
Total	638
Current employees:	
Police	0
Fire	1
Total	1
Grand Total	639

B. Summary of Significant Plan Asset Matters

The Pension Plan's investment assets consist primarily of municipal tax-exempt bonds and U.S. securities and agencies structured in a dedicated, cash-matched portfolio. The credit quality at the time the securities are purchased must be at least "A" by Moody's and "A–" by Standard and Poors'. The overall credit quality of the portfolio reflects a Moody's rating average "A1" and a Standard & Poor's rating averaging "AA–". The following investments represent five percent or more of net assets available for benefits.

Issuer	Percent of Portfolio
Intermountain Power Agency	9.6%
Georgia Electric Authority	8.3
Louisiana State	5.1

C. Funding Status and Progress

The amount shown as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to June 30, 1994. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System. The estimated pension benefit obligation was determined on the basis of the actuarial assumptions used to prepare the results of the June 30, 1987 actuarial valuation of the Pension Plan and projected to June 30, 1994. Significant actuarial assumptions used to determine the estimated pension obligation include the following:

(a) An assumed rate of return on the investment of present and future assets to be allocated by the County of 8% per annum, compounded annually.

(b) Assumed projected annual salary increases of 5% for all ages.

(c) Post-retirement annual benefit increases of 5% assumed in the future.

Estimated surplus of net pension assets over benefit obligation applicable to the Police, Fire and Widows' Pension Plan was $(9.9) million at June 30, 1994, as follows (in millions):

Estimated pension benefit obligation:	
Members and dependents currently receiving benefits and terminated members not receiving benefits	$177.8
Current members:	
Accumulated member contributions	.1
County-financed vested	.3
County-financed non-vested	.1
Total estimated pension benefit obligation	178.3
Net assets available for benefits at cost (market value is $199.1)	188.2
Unfunded pension benefit obligation (surplus)	$ (9.9)

D. Contribution Required and Contribution Made

The liabilities of the Pension Plan have been funded with the purchase by the County in 1988 of a portfolio of bonds sufficient to cash match the expected benefit payments of the Pension Plan. Because the benefits of the Pension Plan are currently funded, the County is not required to make any contribution to the Pension Plan. The employee contribution requirement is not actuarially determined but was established by Sections 23.143, 23.173 and 23.197 of the Baltimore County Code. Active members are required to make a contribution of 3% of base pay to the Pension Plan. Accordingly, employees contributed $4,070 (3% of current covered payroll) to the Pension Plan for the fiscal year ended June 30, 1994.

E. Historical Trend Information

Historical trend information which provides information about Baltimore County Police, Fire and Widow's Pension Plan's progress made in accumulating sufficient assets to pay benefits when due is presented as required supplementary information, immediately following the notes to general purpose financial statements.

For the fiscal years ended June 30, 1992, 1993, and 1994 available assets were sufficient to fund 100.5%, 99.8% and 105.6% of the pension benefit obligation, respectively. For the fiscal years ended June 30, 1992, 1993 and 1994 there was an unfunded pension benefit obligation (surplus) of (.8), .3 and (9.9) million dollars, respectively. In addition, for the fiscal years ended June 30, 1992, 1993 and 1994, no employer contribution was required.

III. Summary of Baltimore County Retirement Systems

A summary of Baltimore County's public employee retirement systems at June 30, 1994, is presented below: (in millions)

	Employees' Retirement System	Police, Fire and Widows' Pension Plan	Total
Pension benefit obligation	$949.5	$178.3	$1,127.8
Net assets at cost	901.1	188.2	1,089.3
Unfunded pension benefit obligation (surplus)	$ 48.4	$ (9.9)	$ 38.5

IV. Other Pension Plans

Baltimore County is also the administrator of single employer public plans providing retirement benefits for two unfunded defined benefit pension plans through appropriations in the General Fund. These plans include the Judges and Judges' Widows' Pension Plan and the Pension Plan for Survivors of Volunteer Fire Members. There is no covered payroll for either of these plans. The respective costs of these plans to the County is not significant.

Substantially, all employees of the component units who do not participate in the System participate in the State of Maryland Teacher's Retirement and Pension Systems. Employer contributions

to the Teacher's Systems of approximately $56 million for the year ended June 30, 1994 were made directly by the State of Maryland on behalf of the Board of Education and the Community Colleges according to State statute.

V. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all primary government employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of benefits under the plan) subject only to the claims of the County's general creditors. Participants' rights under the plan are equal to those of the general creditors of the County in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the County Attorney that the County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The County believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Assets and liabilities of this plan are reported in an agency fund.

VI. Post-Employment Benefits

In addition to providing pension benefits, the primary government provides certain health care and life insurance benefits, in accordance with State statutes and various labor agreements, to retired employees. Currently, 5,008 retirees of the primary government meet these eligibility requirements for health care and life insurance. The County allows such retirees to continue coverage under the group plans and contributes between 50% and 90% for health care premiums (based on the date of retirement, years of service, and type of retirement) and between 80% and 90% for life insurance depending on the retiree's bargaining unit. The cost of retiree health care and life insurance benefits is recognized as an expenditure as costs are incurred. During the year ended June 30, 1994, these costs totaled approximately $10.1 million for the primary government.

6. PROPERTY, PLANT AND EQUIPMENT:

A summary of changes in general fixed assets follows:

	Balance July 1, 1993	Additions/ Transfers	Dispositions	Balance June 30, 1994
Primary government:				
General government fixed assets:				
Land	$ 72,072,656	$ 4,132,992	$ 1,503	$ 76,204,145
Buildings	123,477,771	6,328,610	977,276	128,829,105
Furniture, fixtures and other equipment	35,500,688	14,138,733	2,400,960	47,238,461
Motor vehicles	21,194,370	14,414,191	2,240,636	33,367,925
Construction-in-progress	35,151,399	16,354,079	7,027,295	44,478,183
Total general fixed assets	287,396,884	55,368,605	12,647,670	330,117,819
Metropolitan district fixed assets:				
Land	844,215	217,251	—	1,061,466
Buildings	1,801,371	—	—	1,801,371
Improvements other than buildings	32,886,074	—	—	32,886,074
Furniture, fixtures and other equipment	1,332,076	237,383	120,775	1,448,684
Motor vehicles	4,418,830	25,036	18,869	4,424,997
Construction-in-progress	32,379,223	1,772,351	—	34,151,574
Total metropolitan district fixed assets	73,661,789	2,252,021	139,644	75,774,166
Total primary government	361,058,673	57,620,626	12,787,314	405,891,985
Component units:				
Board of Education	528,254,385	36,985,211	2,672,835	562,566,761
Board of Library Trustees	7,259,434	1,879,978	300,559	8,838,853
Total component units	535,513,819	38,865,189	2,973,394	571,405,614
Total reporting entity	$896,572,492	$96,485,815	$15,760,708	$977,297,599

The following is a summary of general fixed assets by source at year end:

	General	Metro	Total Primary Government	Board of Education	Board of Library Trustees	Total Reporting Entity
General, Metropolitan District, Board of Education, and Board of Library Trustees Fixed Assets:						
Land	$ 76,204,145	$ 1,061,466	$ 77,265,611	$ 43,283,917	$ —	$120,549,528
Buildings	128,829,105	1,801,371	130,630,476	458,266,972	—	588,897,448
Improvements	—	32,886,074	32,886,074	—	—	32,886,074
Equipment	47,238,461	1,448,684	48,687,145	28,062,710	8,441,490	85,191,345
Vehicles	33,367,925	4,424,997	37,792,922	18,080,716	397,363	56,271,001
Leased equipment	—	—	—	12,305,827	—	12,305,827
Leased vehicles	—	—	—	2,566,619	—	2,566,619
Construction-in-progress	44,478,183	34,151,574	78,629,757	—	—	78,629,757
Total	$330,117,819	$75,774,156	$405,891,985	$562,566,761	$8,838,853	$977,297,599
Investment in General, Metropolitan District, Board of Education, and Board of Library Trustees Fixed Assets:						
General, Metropolitan and Board of Education operation revenue	$ 16,271,234	$ 1,838	$ 16,273,072	$314,613,863	$ —	$330,886,935
General, Metropolitan and Board of Education obligation bonds	162,443,458	32,001,136	194,444,594	—	—	194,444,594
Federal grants	3,921,769	2,309,005	6,230,774	1,495,662	—	7,726,436
State grants	3,426,291	704,618	4,130,909	228,400,777	—	232,531,686
Gifts	18,551,188	13,288	18,564,476	—	—	18,564,476
Developers	417,400	719,026	1,136,426	—	—	1,136,426
Special assessment	1,910	—	1,910	2,444,028	—	2,445,938
Authorized resources	125,084,569	40,025,255	165,109,824	—	8,838,853	173,948,677
Long-term lease	—	—	—	15,612,431	—	15,612,431
Total	$330,117,819	$75,774,166	$405,891,985	$562,566,761	$8,838,853	$977,297,599

A summary of changes in the primary government's general fixed assets by function and activity follows:

Function and Activity	*General Fixed Assets 7/1/93*	*Additions and Transfers*	*Dispositions*	*General Fixed Assets 6/30/94*
General government:				
Control:				
Legislative	$ 116,830	$ 2,615	$ —	$ 119,445
Executive	114,217	17,757	5,953	126,021
Judicial	229,890	11,264	4,815	236,339
Total control	460,937	31,636	10,768	481,805
Staff agencies:				
Elections	1,860,975	5,360	98,195	1,768,140
Finance	4,585,720	1,255,332	8,313	5,832,739
Law	856,454	9,156	10,612	854,998
Recording and reporting	182,883	5,653	—	188,536
Administrative officers and boards	341,910	15,724	8,078	349,556
Planning and zoning	700,561	76,211	75,133	701,639
Personnel administration	399,419	3,217	13,054	389,582
Research and investigation	70,655	—	—	70,655
General government buildings	102,569,145	11,406,952	101,626	113,874,471
Community promotion	170,724	106,040	9,495	276,269
Total staff agencies	111,747,446	12,883,645	324,506	124,306,585
Total general government	112,208,383	12,915,281	335,274	124,788,390
Public safety:				
Police protection	10,294,878	6,061,967	1,354,665	15,002,180
Fire protection	19,736,554	758,337	503,615	19,991,276
Protective inspection	301,154	—	5,422	295,732
Other inspections	571,526	58,866	925	629,467
Correction	705,276	2,875	13,798	694,353
Total public safety	31,609,388	6,882,045	1,878,425	36,613,008
Highways	16,269,637	614,967	81,927	16,802,677
Sanitation and waste removal	9,622,817	13,839,014	2,244,557	21,217,274
Metropolitan District	41,282,566	479,670	139,644	41,622,592
Health and hospitals	5,545,266	55,478	65,743	5,535,001
Public welfare	1,118,505	62,627	62,364	1,118,768
Recreation	64,259,178	4,645,114	952,085	67,952,207
Culture	11,612,311	—	—	11,612,311
Construction in progress	67,530,622	18,126,430	7,027,295	78,629,757
Total for primary government	$361,058,673	$57,620,626	$12,787,314	$405,891,985

Communications equipment purchased in prior years comprises approximately $11 million of the equipment recorded in fiscal year 1994.

Property, plant and equipment recorded in the Proprietary and Community College Fund types as of June 30, 1994 consist of the following:

	Primary Government		Board of Education
	Internal Service	*Enterprise*	*Enterprise*
Proprietary fund types:			
Buildings	$ —	$ 979,414	$ 822,977
Furniture, fixtures and other equipment	18,166,302	748,949	3,261,089
	18,166,302	1,728,363	4,084,066
Less accumulated depreciation	17,820,946	1,464,683	1,523,272
Total	$ 345,356	$ 263,680	$2,560,794
Community Colleges:			
Land		$ 4,797,824	
Buildings		69,910,181	
Furniture, fixtures and other equipment		25,674,281	
Work in progress		1,081,012	
Total		$101,463,298	

7. LONG-TERM OBLIGATIONS:

The principal long-term obligations of the County are general obligation bonds issued to finance the construction of county-wide public facilities, general obligation bonds issued to finance the construction of water and sewer facilities within the County's Metropolitan District, and the pension obligations described in note 5.

Other long-term obligations include the accrued liability for vested compensated absences, other borrowings, estimated landfill closing costs and disputed tax liability which is described in note 10. Of the primary government's general long-term debt, only the liability for landfill costs is expected to be paid with bond proceeds.

The County considers all non-proprietary vested compensated absences to be long-term debt.

Other borrowings of the primary government consist primarily of notes payable and obligations under capital leases.

The County Charter authorizes the County Council by appropriate resolution to issue bonds other than water and sewer bonds up to a debt limit of 10% of the assessable base of the County, and to issue bonds up to a debt limit of 8% of the assessable base of property within the Metropolitan District. Information related to these limitations is as follows:

	General Bonds	*Metropolitan District*
Legal limitation for the borrowing of funds and issuance of bonds	$1,584,535,895	$1,157,033,959
Bonded debt outstanding applicable to debt limit	557,940,000	281,317,768

Since 1971, the State of Maryland has assumed responsibility for the majority of local school construction costs. Further, the State has undertaken to reimburse local subdivisions for the majority of local debt service costs related to school construction which occurred prior to 1969. General long-term debt includes $630,000 in outstanding principal which is covered by the State's reimbursement provisions. Principal debt service payments reimbursed by the State for the fiscal year ended June 30, 1994 totaled $609,582.

General obligation bonds approved by voter referendum, appropriated in the Capital budget but not issued as of June 30, 1994, were $181,911,779. General obligation bonds approved, but not yet appropriated, were $80,290,102. Metropolitan District bonds, which may be issued without approval by voter referendum, appropriated in the Capital Budget, but not yet issued at June 30, 1994, were $314,128,907.

On October 13, 1993, the County issued $16,820,000 Metropolitan District Bonds — 1993B Refunding Series and $44,340,000 Consolidated Public Improvement Bonds — 1993B Refunding Series with an average interest rate of 4.51% for the purpose of advance refunding $4,500,000 principal amount of the Baltimore County Metropolitan District Bonds (58th Issue) and $8,100,000 principal amount of the Baltimore County Consolidated Public Improvement Bonds — 1986 Series with an average interest rate of 6.67%, and $10,000,000 principal amount of the Baltimore County Metropolitan District Bonds (62nd Issue) and $30,000,000 principal amount of the Baltimore County Consolidated Public Improvement Bonds — 1991 Series with an average interest rate of 6.49%. The net proceeds of $60,152,020 (after payment of $115,274 in underwriting fees and other issuance costs) were used to purchase U.S. Treasury securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded issues. As a result, the refunded issues are considered to be defeased, and the liability for those bonds has been removed from the General Long-Term Debt Account Group.

The County advance refunded these issues to reduce its total debt service payments over the next 18 years by $2,838,910 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2,442,949.

In prior years, the County defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. On June 30, 1994, $163,765,000 of bonds outstanding from refundings in prior years are considered defeased.

A summary of the reporting entity's long-term obligations as of June 30, 1994, and transactions during the year then ended follows:

	Balance July 1, 1993	*Increase*	*Decrease*	*Balance June 30, 1994*
Primary Government:				
General long-term debt:				
General obligation bonds (consolidated public improvement), 2.5%–8%, 1994–2014	$369,390,000	$ 99,340,000	$ 79,410,000	$389,320,000
General obligation bonds (pension funding), 3.2%–8.9%, 1994–2016	170,715,000	—	2,095,000	168,620,000
General obligation bonds (metropolitan district), 0.1%–8%, 1994–2014*	257,772,490	61,820,000	38,274,722	281,317,768
Accrued liability for vested compensated absences	18,390,055	914,136	—	19,304,191
Estimated landfill closing costs	16,300,000	4,521,080	—	20,821,080
Disputed tax liability	2,030,264	—	750,557	1,279,707
Other borrowings, 4.2%–10%, 1994–2000	36,869,379	1,201,372	9,715,558	28,355,193
Total — primary government	871,467,188	167,796,588	130,245,837	909,017,939
Component Units				
Community Colleges:				
Accrued liability for vested compensated absences	2,556,740	63,424	—	2,620,164
Board of Education:				
Accrued liability for vested compensated absences	5,071,933	525,371	—	5,597,304
Supplemental obligations to retirees	6,962,675	2,169,112	4,162,702	4,969,085
Capital leases	4,746,193	13,585,715	6,602,013	11,729,895
Notes payable	221,365	—	221,365	—
Certificates of participation	4,285,000	—	565,000	3,720,000
Total — Board of Education	21,287,166	16,280,198	11,551,080	26,016,284
Board of Library Trustees:				
Accrued liability for vested compensated absences	770,346	27,922	—	798,268
Retirement incentive program	80,000	—	40,000	40,000
Capital leases	540,599	—	242,298	298,301
Total — Board of Library Trustees	1,390,945	27,922	282,298	1,136,569
Total reporting entity	$896,702,039	$184,168,132	$142,079,215	$938,790,956

* *Includes three General Obligation pledges which represent loan agreements with the Maryland Water Quality Financing Administration. As of June 30, 1994, the outstanding balance of the loans was $15,574,768.*

The following is a schedule of principal and interest payments to service long-term bonded obligations and other borrowings of the County:

	General Long-Term Debt							
	General Bonds Payable		Metropolitan District Bonds Payable		Other Borrowings		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Primary Government — July 1 to June 30:								
1994–1995	$ 41,085,000	$ 32,376,574	$ 22,711,109	$ 14,642,718	$ 5,442,120	$1,728,846	$ 69,238,229	$ 48,748,138
1995–1996	42,225,000	29,797,323	24,592,943	13,287,837	5,437,880	1,394,580	72,255,823	44,479,740
1996–1997	39,865,000	27,325,574	23,437,928	11,975,990	5,571,865	1,056,839	68,874,793	40,358,403
1997–1998	36,540,000	24,983,527	22,041,119	10,740,991	5,493,328	705,115	64,074,447	36,429,633
1998–1999	34,370,000	22,847,324	20,588,569	9,580,691	3,095,000	334,739	58,053,569	32,762,754
1999–2004	141,645,000	87,201,222	82,780,034	33,397,925	3,315,000	114,368	227,740,034	120,713,515
2004–2009	106,415,000	51,465,152	53,245,912	15,552,968	—	—	159,660,912	67,018,120
2009–2014	85,075,000	22,204,862	31,920,154	3,614,433	—	—	116,995,154	25,819,295
2014–2017	30,720,000	3,149,000	—	—	—	—	30,720,000	3,149,000
Total borrowings	$557,940,000	$301,350,558	$281,317,768	$112,793,553	$28,355,193	$5,334,487	$867,612,961	$419,478,598

As of June 30, 1994, the County has implemented Governmental Accounting Standards Board Statement No. 18 "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" (GASB 18) to account for the liability for closure and postclosure care costs for one active and three closed landfills. Of the liability recorded in the General Long-Term Debt Account Group at June 30, 1994, $12,000,000 is related to the estimated closing costs for the inactive landfills.

State and federal laws require the County to place a final cover on its open landfill when it stops accepting waste in approximately 2010 and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these costs as a liability in the General Long-Term Debt Account Group based on the landfill capacity used as of each balance sheet date. The $8.82 million included in the landfill closure and postclosure care costs liability at June 30, 1994 for the open landfill, represents the cumulative amount reported to date based on the use of 32 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $18.66 million as the remaining estimated capacity is filled. The actual cost may be higher due to inflation, changes in technology, or changes in regulations. In implementing GASB 18, the County has not restated the landfill closure and postclosure care costs liability as of June 30, 1993 due to immateriality.

The Maryland Department of the Environment (MDE) on behalf of the United States Environmental Protection Agency (EPA) has undertaken a site inspection of the closed Parkton Landfill. Site inspection is a preliminary step in consideration for listing on the EPA's National Priorities List (NPL). Placement on the NPL could result in further studies and possible remedial action.

As of June 30, 1994, the MDE has completed its preliminary site inspection. MDE has advised the County that Parkton Landfill does not appear to qualify for placement on the NPL.

During the years ended June 30, 1989, June 30, 1992, June 30, 1993, and June 30, 1994, the Board of Education offered an incentive program to eligible employees who consented to retire effective July 1, 1990, July 1, 1992, July 1, 1993, and July 1, 1994, respectively. Under the program, the retirees will receive annual payments for a maximum of five years. The amount and number of such payments is based upon the eligible employees' compensation level and number of years the employee is retiring prior to "normal" retirement, as defined in the Maryland State Teachers Retirement or Pension System or the Baltimore County Retirement System. As of June 30, 1994, the Board's liability for future payments under the program is $4,969,085.

8. Loans Receivable/Loans Payable:

The Baltimore County Revenue Authority has lent to Baltimore County $1,300,000, which in turn has lent this amount to the Maryland Economic Development Corporation (MEDCO). MEDCO will use these funds to purchase a dry dock from Bethlehem Steel. This dry dock will then be leased back to Bethlehem Steel. Amounts paid to MEDCO under this agreement will be used to pay back the borrowing directly to the Revenue Authority. Baltimore County acts as guarantor for the outstanding balance of this loan. As of June 30, 1994, the balance of the loan is $561,364.

In addition, Baltimore County is guarantor (in part) on three loans made in 1988 between the Maryland Department of Economic Development and MEDCO for the development of an aluminum extruding facility, an industrial park (in part) and a building. As of June 30, 1994, the aggregate amount of the guarantees may not exceed $2,000,000.

9. CONTRIBUTED CAPITAL AND RETAINED EARNINGS — PROPRIETARY FUND TYPE:

The following table summarizes the changes in the Proprietary Fund type's contributed capital and retained earnings for the year ended June 30, 1994.

	Primary Government			
	Enterprise		*Internal Service*	
	Retained Earnings	*Contributed Capital*	*Retained Earnings*	*Contributed Capital*
Balance July 1, 1993	$ 781,381	$4,500,000	$(12,968,058)	$12,870,833
Amount contributed by:				
General Fund	—	—	—	14,557
Disolution of:				
Central Stores Fund	—	—	145,972	(145,972)
Central Electronic Services	—	—	46,244	(46,244)
Central Equipment Fund	—	—	6,714,091	(6,714,091)
Non-cash donations of buildings and equipment	—	377,573	—	—
Net income	813,972	—	6,272,411	—
Balance June 30, 1994	$1,595,353	$4,877,573	$ 210,660	$ 5,979,083

10. LITIGATION:

The Court of Special Appeals affirmed a Maryland Tax Court ruling that the County could not collect its electricity tax on the demand and customer charge portions of electricity billings. Subsequently, the Court of Appeals confirmed the previous finding. The County's remaining liability for this matter, which has been recorded in the General Long-Term Debt Account Group, is $1,279,707 including interest. Additional claims for refunds of the tax of approximately $1,600,000 have been filed against the County. The ultimate amount of the County's liability with respect to these additional claims cannot be estimated. As of June 30, 1994, the County designated approximately $1,300,000 of the unreserved fund balance of the General Fund in connection with these matters. On September 6, 1991 an amendment to the electricity tax legislation defining certain terms in the tax law authorizing the application of the tax to gross sales was enacted.

The County is a defendant in various suits claiming damanges for personal injury and property damage in automobile and general liability cases. In addition, there are various other tort suits alleging violations of individual civil rights pending against the County as well as miscellaneous other litigation, mostly contract claims. Amounts claimed in these matters are substantial. In the opinion of the County Attorney, the County should prevail in most or all of said various tort suits, suits alleging violations of individual civil rights and in miscellaneous other litigation (although the outcome of litigation cannot be predicted with certainty). In any event, it is the further opinion of the County Attorney that the likelihood that the County would incur aggregate liability arising from such litigation in an amount that would be material in relation to its financial position is remote.

11. COMMITMENTS:

Leases

The following is a schedule by years of future minimum rental payments for facilities and equipment under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 1994.

	Primary Government			*Component Units*		
	Facilities	*Equipment*	*Total*	*Facilities*	*Equipment*	*Total*
Year ending June 30:						
1995	$ 2,705,436	$ 934,348	$ 3,639,784	$1,150,115	$ 431,660	$1,581,775
1996	2,210,035	857,437	3,067,472	1,025,468	431,660	1,457,128
1997	1,482,762	857,437	2,340,199	837,561	431,660	1,269,221
1998	1,229,580	857,437	2,087,017	770,234	431,064	1,201,298
1999	1,150,058	857,437	2,007,495	285,001	431,064	716,065
Later years	12,930,684	3,787,013	16,717,697	882,030	1,903,866	2,785,896
	$21,708,555	$8,151,109	$29,859,664	$4,950,409	$4,060,974	$9,011,383

The total rental expenditures for the year ended June 30, 1994, for all leases except those with terms of a month or less that were not renewed were approximately $3,000,000 for the primary government and $1,900,000 for the component units.

Contracts and Other Commitments

Unencumbered amounts committed for future expenditure in the Capital Projects Funds approximated $499,000,000 at June 30, 1994. Such amounts will be funded by future bond proceeds, approved federal and state grants, and future assessments.

Encumbered contracts in the General Public Facilities Fund and the Metropolitan District Facilities Fund amounted to approximately $22,300,000 and $20,500,000, respectively, at June 30, 1994.

12. CONTINGENCIES:

The County participates in a number of federal grant programs, including principally the Job Training Partnership Act, Community Development Block Grants and the Lower Income Housing Assistance Program. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of certain programs for or including the year ended June 30, 1994 have not yet been conducted. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Based on prior experience, the County expects such amounts, if any, to be minimal.

13. INDIVIDUAL FUND DISCLOSURES:

At June 30, 1994, the Vehicle Operations and Maintenance Fund of the Internal Service Funds had a deficit retained earnings balance of $4,925,540.

This deficit will be eliminated through future operating revenues.

14. ACCOUNTING CHANGES:

On July 1, 1993, the administrative functions of the Carroll County branch of Catonsville Community College were assumed by Carroll County. For purposes of the general purpose financial statements, the following changes were recorded as of July 1, 1993.

	Unrestricted	*Restricted*	*Invested in Plant*
Fund equities, July 1, 1993, as previously reported	$4,413,138	$(22,828)	$98,836,470
To eliminate Catonsville Community College — Carroll County campus as a part of this component unit	(576,432)	(1,762)	(1,591,017)
Fund equities, July 1, 1993, as restated	$3,836,706	$(24,590)	$97,245,453

In addition, beginning fund equity on the Combining Statement of Revenues, Expenditures and Changes in Fund Equity — Board of Education and Board of Library Trustees has been corrected to agree with the prior year ending fund equity as shown on the prior year's balance sheet.

BALTIMORE COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT AND PENSION SYSTEMS
ANALYSIS OF FUNDING PROGRESS
JUNE 30, 1994

Fiscal Year	(A) Net Assets Available for Benefits(1)	(B) Pension Benefit Obligation	(C) Percentage Funded (A)/(B)	(D) Unfunded Pension Benefit Obligation (Surplus)	(E) Annual Covered Payroll	(F) Unfunded Pension Benefit Obligation (Surplus) as a % of Covered Payroll (D)/(E) (2)
Police, Fire and Widows' Pension Plan (in millions):						
1987 (3)	$ 0.7	$171.9	0.4%	$171.2	$0.9	—
1988	171.3	174.0	98.4	2.7	0.9	—
1989	172.4	175.6	98.2	3.2	0.8	—
1990	175.0	176.4	99.2	1.4	0.8	—
1991	176.9	176.8	100.1	(.1)	0.7	—
1992	178.0	177.2	100.5	(.8)	0.4	—
1993	177.7	178.0	99.8	.3	0.1	—
1994	188.2	178.3	105.6	(9.9)	0.1	—

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of Baltimore County's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of Baltimore County's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the system. This information should be presented for 10 years; however, during the transition period when 10 years of the standardized measure of the pension obligation is unavailable, all required information is disclosed for as many years as the information is available.

(1) Net assets available for benefits are shown at cost.

(2) The pension benefit obligation as a % of covered payroll is not shown because it is statistically distorted. Annual covered payroll is virtually non-existent since the system was closed to new members on October 1, 1959. As of June 30, 1994 there was only one active employee.

(3) This plan was funded on a "pay-as-you-go" basis until fiscal year 1988, when the County issued tax exempt bonds to fund the County's pension liability.

BALTIMORE COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT AND PENSION SYSTEMS
REVENUES BY SOURCE
JUNE 30, 1994

Fiscal Year	Employee Contributions	Employer Contributions	Employer Contributions as a % of Covered Payroll	Investment Income	Miscellaneous	Total
Police, Fire and Widows' Pension Fund: (1)						
1985	$50,286	$ 9,719,208	580.0%	$ —	$ 8,905	$ 9,778,399
1986	39,857	10,460,000	787.0	—	7,172	10,507,029
1987	28,029	10,852,000	1,162.0	—	7,245	10,887,274
1988	26,719	10,431,000	1,171.0	1,785,377	7,505	12,250,601
1989	26,843	—	—	13,307,136	7,955	13,341,934
1990	25,050	—	—	15,412,441	14,835	15,452,326
1991	20,873	—	—	15,078,385	14,325	15,113,583
1992	12,086	—	—	14,433,764	—	14,445,850
1993	5,742	—	—	12,967,795	17,481	12,991,018
1994	4,070	—	—	20,099,014	17,045	20,120,129

(1) Contributions were made on a "pay-as-you-go" basis of financing until May 2, 1988 when the System was funded through the issuance of general obligation bonds.

BALTIMORE COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT AND PENSION SYSTEMS
EXPENSES BY TYPE
JUNE 30, 1994

Fiscal Year	Benefit Payments	Refunds	Administrative Expenses	Miscellaneous	Total
Police, Fire and Widows' Pension Fund:					
1985	$ 9,982,308	—	$ —	—	$ 9,982,308
1986	10,517,564	—	—	—	10,517,564
1987	11,206,299	—	—	—	11,206,299
1988	11,471,642	—	—	—	11,471,642
1989	11,977,079	—	267,711	—	12,244,790
1990	12,764,772	—	27,974	—	12,792,746
1991	13,254,827	—	—	—	13,254,827
1992	13,258,521	—	108,454	—	13,366,975
1993	12,970,961	—	344,394	—	13,315,355
1994	12,650,426	—	299,727	—	12,950,153

APPENDIX C

CERTAIN INFORMATION

CONCERNING

HOWARD COUNTY, MARYLAND

CERTAIN INFORMATION CONCERNING

HOWARD COUNTY, MARYLAND

General

Howard County, Maryland is 251 square miles in area, and is home to over 200,000 residents. The County is located directly between Baltimore, Maryland and Washington, D.C., and at its closest point is less than four miles from the former and 13 miles from the latter. The County was formed in 1851, and bears the name of Colonel John Eager Howard, the fifth Governor of Maryland. The County was predominately agricultural in character until 1966, when construction began on the new town of Columbia. The County's population has grown approximately 275 percent since then, and is among the wealthiest in the nation. Under a home rule charter since 1968, the County is governed by an elected county executive and five-member council.

Ratings

The last issuance of general obligation bonds of Howard County, issued 1995, were rated AAA by Fitch Investors Service, Inc., Aa1 by Moody's Investors Service and AA+ by Standard & Poor's Corporation.

The following table presents the County's General Fund activity for the ten-month periods ended April 30, 1994 and 1995, as compared with the annual budgets adopted for fiscal years 1994 and 1995.

Interim Statement of General Fund Revenues and Expenditures
(Budget vs. Actual) (1)

	Fiscal Year 1994(4)		Fiscal Year 1995(4)	
	Annual Budget	7/1/93-04/30/94	Annual Budget	7/1/94-04/30/95
Revenues (2):				
Local Property Taxes	$154,		745	$166,128,682
Local Income Taxes	93		)00	51,673,073
Local Other Taxes	9		)00	8,264,011
State Shared Taxes	6		)00	5,689,486
Revenues from Other Agencies:				
Federal Grants			)00	21,900
State Grants	2		100	2,498,054
Charges for Services	9		)00	7,385,481
Interest on Investments	10		)00	5,443,470
Licenses and Permits	2,694,700	2,442,351	2,784,800	2,586,615
Interfund Reimbursements	8,888,531	8,146,905	9,109,095	8,348,932
Fines and Forfeitures	192,000	344,909	300,100	333,848
Miscellaneous Revenues	78,000	454,002	2,224,500	188,760
Total Revenues	298,414,890	245,082,824	324,488,640	258,562,312
Appropriations from Fund Balance	--	--	--	--
Total Revenues and Appropriations from Fund Balance	$298,414,890	$245,082,824	$324,488,640	$258,562,312
Percent of Budget		82.1%		80.0%
Expenditures and Encumbrances (3):				
General Government	$ 26,973,795	$ 22,526,828	$ 29,231,130	$ 24,683,932
Public Works	24,292,800	18,965,034	23,828,860	18,710,145
Public Safety	26,998,530	22,927,239	30,943,870	25,455,457
Recreation and Parks	4,818,740	3,883,076	5,225,560	4,073,233
Health	3,508,660	--	3,405,140	--
Social Services	2,523,050	1,155,623	2,608,610	988,910
Education	160,076,980	130,885,961	171,235,870	141,081,328
Libraries	6,762,520	5,625,335	7,013,080	5,844,230
Debt Service:				
Principal Payments on Debt	15,559,110	14,192,002	17,480,950	16,048,137
Interest Payments on Debt	20,844,070	12,570,100	25,347,940	14,518,930
Capital Improvements	1,453,000	1,453,000	695,000	695,000
Miscellaneous	4,603,635	3,670,654	7,472,630	3,938,750
Total Expenditures and Encumbrances	$298,414,890	$237,854,852	$324,488,640	$256,038,053
Percentage of Budget		79.7%		78.9%
Excess (Deficiency) Revenues and Appropriations from Balance over (under) Expenditures and Encumbrances		$7,227,972		$2,524,259

Howard County

(1) The information in this table is presented in the same format as the County's Current Budget. Amounts are unaudited.
(2) Revenues shown are accrued through December 31, except that property taxes are recorded as revenue at the time of their levy since these amounts are measurable.
(3) Expenditures are recorded when goods and services are received and the actual liabilities are incurred, except for debt service.
(4) For fiscal year 1994, the County's contribution to the State Health Department, the self-supporting activities of the Recreation and Parks Department and all activities of the County funded with categorical grants were re-classified from the General Fund to separate Special Revenue Funds.

The following table presents the General Fund activity for the last five fiscal years on a budgetary basis along with the annual budget adopted for fiscal year 1995.

Statement of General Fund Revenues and Expenditures (Budgetary Basis)(1)(2)

	Fiscal Year Ended June 30					Annual Budget
	1990	1991	1992	1993	1994[4]	1995[4]
Revenues:						
Local Property Taxes	$110,585,776	$118,827,319	$138,452,307	$149,790,533	$157,923,053	$167,385,745
Local Income Taxes	74,371,189	77,396,401	81,837,086	89,202,605	94,227,993	103,469,000
Local Other Taxes	8,877,401	6,780,007	8,376,302	10,450,188	11,264,887	10,760,000
State Shared Taxes	11,743,096	11,509,712	4,490,015	(1,001,295)(3)	7,172,683	7,020,000
Revenues from Other Agencies:						
Federal Grants	4,488,841	4,125,053	4,355,239	3,538,858	19,701	25,000
State Grants	3,049,940	4,175,345	4,128,300	5,397,314	2,641,979	3,166,100
Other	1,117,239	1,322,562	1,163,993	1,389,017	--	--
Charges for Services	10,639,039	9,030,631	11,492,707	13,468,133	9,015,855	7,902,000
Interest on Investments	3,875,962	6,607,907	5,637,421	3,311,801	2,896,072	10,342,300
Licenses and Permits	3,246,524	2,349,552	3,137,487	2,788,055	3,274,092	2,784,800
Interfund Reimbursements	6,850,269	12,249,972	10,221,844	8,127,136	8,901,376	9,109,095
Fines and Forfeitures	222,345	246,150	327,639	244,747	371,726	300,100
Miscellaneous Revenues	1,327,096	1,816,062	2,682,829	404,062	885,622	2,224,500
Total Revenues	240,394,717	256,436,673	276,303,169	287,111,154	298,595,039	324,488,640
Appropriations from Fund Balance	22,601,634	21,572,856	--	--	--	--
Total Revenues and Appropriations from Fund Balance	$262,996,351	$278,009,529	$276,303,169	$287,111,154	$298,595,039	$324,488,640
Expenditures and Encumbrances:						
General Government	$18,204,367	$26,139,934	$25,429,518	$25,527,870	$26,870,456	$29,072,970
Public Works	27,865,759	24,044,531	22,011,815	22,303,244	24,394,701	23,758,860
Public Safety	25,894,239	27,618,828	25,151,854	25,936,254	26,909,653	30,934,870
Recreation and Parks	6,175,396	6,876,345	6,660,476	7,696,971	4,754,835	5,225,560
Health	3,876,024	4,248,067	4,361,417	4,356,187	3,508,660	3,405,140
Social Services	2,579,649	2,952,751	2,660,002	2,270,137	2,513,871	2,486,610
Education	126,456,150	145,453,110	140,733,840	144,638,526	160,076,980	171,235,870
Libraries	5,021,490	5,670,164	5,183,630	5,529,425	6,762,520	7,013,080
Debt Service:						
Principal Payment on Debt	10,420,000	11,240,000	11,892,703	14,279,470	15,492,002	17,480,950
Interest Payment on Debt	8,705,723	12,884,627	12,361,335	13,634,329	13,180,367	25,347,940
Capital Improvements	5,533,000	2,642,704	266,000	1,255,500	1,453,000	695,000
Intergovernmental	6,659,215	8,108,756	7,979,508	8,167,688	--	--
Miscellaneous	2,537,775	3,331,104	3,477,407	3,850,397	4,119,991	7,831,790
Total Expenditures and Encumbrances	$249,928,787	$281,210,921	$268,169,505	$279,445,998	$290,037,036	$324,488,640
Excess (Deficiency) Revenues and Appropriations from Fund Balance over (under) Expenditures and Encumbrances	$ 13,067,564	$ (3,201,392)	$ 8,133,664	$ 7,665,156	$ 8,558,003	$ --

(1) The information in this table is presented in the same format as set forth in the County's Current Budget.
(2) The information in this table should be read in conjunction with the audited financial statements appearing in Appendix A of this Official Statement.
(3) Represents reductions in State aid to the County.
(4) For fiscal years 1994 and 1995, the County's contribution to the State Health Department, the self-supporting expenditures of the Recreation and Parks Department and all activities of the County funded with categorical grants have been re-classified from the General Fund to separate Special Revenue Funds.

Howard County, Maryland
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Reported Component Units
June 30, 1994

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Obligations	Component Units
Assets and Other Debits:									
Equity in pooled cash and cash equivalents	$ 1,191,753	$16,320,222	$ 11,697,419	$ 13,943,982	$13,153,609	$ 4,590,330	$ -	$ -	$ 43,022,665
Investments	-	4,165,458	-	-	-	33,667,001	-	-	-
Receivables:									
Service billings	-	-	-	5,052,012	-	-	-	-	-
Property taxes	3,452,562	241,922	-	13,996	-	89,728	-	-	-
Due from other governmental agencies	15,098,131	1,718,910	640,718	-	-	394,812	-	-	11,636,446
Other	1,233,582	5,231,526	153,368	4,473	80,106	990,189	-	-	7,286,101
Due from primary government	-	-	-	-	-	-	-	-	4,711,856
Interfund receivable	12,080,276	-	-	-	-	-	-	-	-
Materials and supplies	56,719	31,691	-	396,792	88,700	-	-	-	384,409
Deferred compensation plan investments	-	-	-	-	-	16,973,493	-	-	1,801,501
Other assets	83,690	-	-	-	-	11,610	-	-	150,830
Restricted assets:									
Equity in pooled cash and cash equivalents	-	-	-	31,898,276	-	-	-	-	-
Due from other governmental agencies	-	-	-	668,012	-	-	-	-	-
Water & sewer assessments receivable	-	-	-	131,243,288	-	-	-	-	-
Other receivables	-	-	-	88,107	-	-	-	-	-
Materials and supplies	-	-	-	30,444	-	-	-	-	-
Property, plant and equipment, at cost	-	-	-	388,935,872	6,412,579	-	334,608,230	-	389,201,422
Accumulated depreciation	-	-	-	(97,397,794)	(4,572,033)	-	-	-	(470,505)
Amount to be provided for long-term obligations	-	-	-	-	-	-	-	384,648,527	3,045,134
Total Assets and Other Debits	$33,196,713	$27,709,729	$ 12,491,505	$474,877,460	$15,162,961	$56,717,163	$334,608,230	$384,648,527	$460,769,859

Howard County, Maryland
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Reported Component Units
June 30, 1994

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Obligations	Component Units
Liabilities:									
Accounts payable / accrued expenses	$ 6,673,988	$ 883,292	$ 5,855,962	$ 4,505,207	$ 2,569,182	$ 473,799	$ -	$ -	$ 36,025,583
Due to component units	652,000	-	-	-	-	4,059,856	-	-	-
Interfund payable	-	-	11,571,750	-	250,159	258,367	-	-	-
Deposits and connection fees	-	50,533	297,254	-	-	723,183	-	-	-
Deferred revenues	3,189,269	2,296,624	-	-	-	-	-	-	1,045,795
Due to other governmental agencies	-	-	-	-	-	89,554	-	-	612,908
Deferred compensation plan payable	-	-	-	-	-	16,973,493	-	-	1,801,501
Related to restricted assets:									
Accounts payable	-	-	-	1,977,870	-	-	-	-	-
Deposits and connection fees	-	-	-	429,260	-	-	-	-	-
Developer agreement deposits	-	-	-	19,154,380	-	-	-	-	-
Deferred water and sewer assessments	-	-	-	52,497,315	-	-	-	-	-
General county bonds and notes	-	-	-	-	-	-	-	299,889,600	-
Metropolitan district bonds payable	-	-	-	108,504,678	-	-	-	-	-
Other long-term debt	-	-	-	14,843,949	-	-	-	84,758,927	3,207,898
Total Liabilities	10,515,257	3,230,449	17,724,966	201,912,659	2,819,341	22,578,252	-	384,648,527	42,693,685
Equity and Other Credits:									
Investment in general fixed assets	-	-	-	-	-	-	334,608,230	-	387,854,759
Contributed capital	-	-	-	227,990,771	136,892	-	-	-	498,553
Retained earnings:									
Reserved for insurance claims	-	-	-	-	9,065,035	-	-	-	-
Reserved for construction	-	-	-	50,612,597	-	-	-	-	-
Unreserved (deficit)	-	-	-	(5,638,567)	3,141,693	-	-	-	5,783,623
Fund balance:									
Reserved for encumbrances	2,328,967	1,719,341	14,726,281	-	-	-	-	-	9,357,779
Reserved for contingencies	4,814,679	-	-	-	-	-	-	-	-
Reserved for noncurrent loans receivable	-	4,491,746	-	-	-	-	-	-	-
Reserved for college programs	-	-	-	-	-	-	-	-	3,999,581
Reserved for retirement system	-	-	-	-	-	34,138,911	-	-	-
Unreserved:									
Designated for subsequent year's expenditures	-	-	-	-	-	-	-	-	1,712,327
Undesignated (deficit)	15,537,810	18,268,193	(19,959,742)	-	-	-	-	-	8,869,552
Total Equity and Other Credits	22,681,456	24,479,280	(5,233,461)	272,964,801	12,343,620	34,138,911	334,608,230	-	418,076,174
Total Liabilities, Equity and Other Credits	$33,196,713	$27,709,729	$ 12,491,505	$474,877,460	$15,162,961	$56,717,163	$334,608,230	$384,648,527	$460,769,859

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

Howard County, Maryland
All Governmental Fund Types and Discretely Reported Component Units
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 1994

	General	Special Revenue	Capital Projects	Component Units
Revenues:				
Property taxes	$157,923,053	$ 13,364,631	$ -	$ -
Other local taxes	105,492,880	4,386,225	9,455,749	-
State shared taxes	7,172,683	-	-	-
Revenues from other governmental agencies	2,661,680	8,014,006	1,706,288	100,970,475
Charges for services	9,015,855	5,966,564	-	14,143,227
Interest on investments	2,896,072	791,948	-	923,629
Licenses and permits	3,274,092	-	-	-
Recoveries for interfund services	2,876,874	-	-	-
Fines and forfeitures	371,726	-	-	561,010
Miscellaneous	884,521	2,236,705	616,598	3,208,136
Total Revenues	292,569,436	34,760,079	11,778,635	119,806,477
Other Sources of Financial Resources:				
Operating transfers in	4,811,044	6,137,200	13,859,420	-
Operating transfers from primary government/component units	1,213,458	-	-	166,839,500
Total Revenues and Other Sources of Financial Resources	298,593,938	40,897,279	25,638,055	286,645,977
Expenditures:				
Current:				
General government	26,944,473	-	-	-
Public works	23,593,739	-	-	-
Public safety	26,980,154	13,201,819	-	-
Recreation and parks	4,765,267	-	-	-
Health	-	4,771,290	-	-
Social services	2,428,130	-	-	-
Education	-	-	-	237,717,872
Libraries	-	-	-	7,518,277
Intergovernmental	-	8,337,609	-	-
Miscellaneous	3,652,563	6,787,142	-	-
Capital improvements	-	2,375,117	60,138,279	37,492,027
Debt Service:				
Principal payments on debt	15,492,002	172,000	-	-
Interest payments on debt	13,180,367	2,875,698	-	-
Principal payments on leases	337,355	-	-	-
Interest payments on leases	46,408	-	-	-
Total Expenditures	117,420,458	38,520,675	60,138,279	282,728,176
Other Uses of Financial Resources:				
Operating transfers out	5,489,200	997,113	18,048,893	-
Operating transfers to primary government/component units	166,839,500	-	-	1,213,458
Payment to refunded bond escrow agent	-	-	56,735,000	-
Total Expenditures and Other Uses of Financial Resources	289,749,158	39,517,788	134,922,172	283,941,634
Excess (deficiency) of Revenues and Other Sources of Financial Resources over Expenditures and Other Uses of Financial Resources	8,844,780	1,379,491	(109,284,117)	2,704,343
Fund Balance, July 1, 1993	13,836,676	23,099,789	104,050,656	27,018,519
Fund Balance (deficit), June 30, 1994	$ 22,681,456	$ 24,479,280	$ (5,233,461)	$ 29,722,862

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

Howard County, Maryland
General and Special Revenue Funds
Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balances - Budgetary Basis
For the Year Ended June 30, 1994

	General Fund			Special Revenue Funds		
	Final Budget	Actual	Variance (under) over	Final Budget	Actual	Variance (under) over
Revenues:						
Property taxes	$154,615,159	$157,923,053	$ 3,307,894	$ 16,448,470	$ 13,364,631	$ (3,083,839)
Other local taxes	102,924,000	105,492,880	2,568,880	4,581,794	4,386,225	(195,569)
State shared taxes	6,350,000	7,172,683	822,683	-	-	-
Revenues from other governmental agencies	2,580,500	2,661,680	81,180	11,326,950	8,014,006	(3,312,944)
Charges for services	9,897,000	9,015,855	(881,145)	10,867,850	5,971,006	-
Interest on investments	10,195,000	2,896,072	(7,298,928)	363,000	791,948	428,948
Licenses and permits	2,694,700	3,274,092	579,392	-	-	-
Recoveries for interfund services	3,656,830	2,876,874	(779,956)	-	-	-
Fines and forfeitures	192,000	371,726	179,726	-	-	-
Miscellaneous	78,000	885,622	807,622	14,600,864	2,273,571	(12,327,293)
Total Revenues	293,183,189	292,570,537	(612,652)	58,188,928	34,801,387	(18,490,697)
Other Sources of Financial Resources:						
Operating transfers in	5,231,701	6,024,502	792,801	3,778,660	5,732,487	1,953,827
Appropriation from fund balance	-	-	-	1,352,752	1,352,752	-
Total Revenues and Other Sources of Financial Resources	298,414,890	298,595,039	180,149	63,320,340	41,886,626	(16,536,870)
Expenditures and Encumbrances:						
Current:						
General government	27,178,795	26,870,456	(308,339)	-	-	-
Public works	24,409,600	24,394,701	(14,899)	-	-	-
Public safety	26,968,930	26,909,653	(59,277)	16,391,665	13,277,907	(3,113,758)
Recreation and parks	4,818,740	4,754,835	(63,905)	-	-	-
Health	-	-	-	8,650,730	4,947,562	(3,703,168)
Social services	2,523,050	2,513,871	(9,179)	-	-	-
Intergovernmental	-	-	-	11,899,760	9,131,266	(2,768,494)
Miscellaneous	4,188,835	3,997,391	(191,444)	21,106,032	6,092,861	(15,013,171)
Capital improvements	-	-	-	250,000	2,375,544	2,125,544
Debt Service:						
Principal payments on debt	15,563,446	15,492,002	(71,444)	168,000	172,000	4,000
Interest payments on debt	20,839,734	13,180,367	(7,659,367)	3,812,070	2,875,698	(936,372)
Total Expenditures and Encumbrances	126,491,130	118,113,276	(8,377,854)	62,278,257	38,872,838	(23,405,419)
Other Uses of Financial Resources:						
Operating transfers out	171,923,760	171,923,987	227	1,042,083	997,113	(44,970)
Total Expenditures and Other Uses of Financial Resources	298,414,890	290,037,263	(8,377,627)	63,320,340	39,869,951	(23,450,389)
Excess of Revenues and Other Sources of Financial Resources over Expenditures and Encumbrances and Other Uses of Financial Resources	$ -	8,557,776	$ 8,557,776	$ -	2,016,675	$ 6,913,519
Less appropriation from fund balance		-			(1,352,752)	
Fund Balance, budgetary basis, July 1, 1993		13,557,235			22,096,016	
Fund Balance, budgetary basis, June 30, 1994		$ 22,115,011			$ 22,759,939	

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

Howard County, Maryland
All Proprietary Fund Types and Similar Trust Funds
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
For the Year Ended June 30, 1994

	Proprietary Fund Types		
	Enterprise	Internal Service	Pension Trust
Operating Revenues:			
User charges	$ 17,515,155	$ 14,927,928	$ -
Employer and employee contributions	-	-	3,971,376
Investment income	-	-	2,791,369
Miscellaneous sales and services	1,286,414	34,397	-
Total Operating Revenues	18,801,569	14,962,325	6,762,745
Operating Expenses:			
Salaries and employee benefits	6,332,952	8,759,113	-
Contractual services	3,547,511	1,795,453	269,418
Supplies and materials	1,222,864	574,696	-
Business and travel	64,630	61,897	-
Purchased water and transmission charges	3,359,811	-	-
Sewage treatment charges	2,741,535	-	-
Share of county administrative expense	1,708,950	-	-
Other	10,363	1,099,272	869,784
Depreciation expense:			
Applicable to capital grants	3,792,099	-	-
Applicable to assets financed with bonds	5,102,295	-	-
Other	207,380	402,322	-
Less: house connection and capitalized overhead costs	(962,583)	-	-
Total Operating Expenses	27,127,807	12,692,753	1,139,202
Operating income (loss)	(8,326,238)	2,269,572	5,623,543
Nonoperating Revenues (Expenses):			
Ad valorem charges	10,240,635	-	-
Water and sewer assessment charges (interest portion)	2,713,611	-	-
Interest on investments	1,809,755	515,521	-
Charges for services	848,860	-	-
Interest expense	(5,980,698)	-	-
Other income, net	153,221	159,105	-
Net Income (Loss) Before Operating Transfers	1,459,146	2,944,198	5,623,543
Operating Transfers Out	-	(272,458)	-
Net Income	1,459,146	2,671,740	5,623,543
Add depreciation on assets acquired from grants externally restricted for capital construction	3,792,099	-	-
Increase in Retained Earnings/Fund Balance	5,251,245	2,671,740	5,623,543
Retained Earnings/Fund Balance, July 1, 1993	39,722,785	9,534,988	28,515,368
Retained Earnings/Fund Balance, June 30, 1994	$ 44,974,030	$ 12,206,728	$ 34,138,911

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

Howard County, Maryland
Proprietary Fund Types
Combined Statement of Cash Flows
For the Year Ended June 30, 1994

	Enterprise Fund	Internal Service Fund
Cash Flows from Operating Activities:		
Operating income (loss)	$ (8,326,238)	$ 2,269,572
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	9,101,774	402,322
Increase in service billings receivable	(669,775)	-
Increase (decrease) in accounts payable and accrued expenses	(764,820)	570,077
Increase in interfund payable	-	250,159
Decrease in property taxes receivables	6,128	-
Decrease (increase) in materials and supplies	38,841	(33,089)
Decrease in other receivables	-	4,904
Other	139,372	159,565
Net Cash provided by (used in) Operating Activities	(474,718)	3,623,510
Cash Flows from Noncapital Financing Activities:		
Operating transfers out	-	(272,458)
Cash Flows from Capital and Related Financing Activities:		
In-aid-of-construction charges	2,876,370	-
Developer contributions	962,025	-
Ad valorem charges	10,240,635	-
Water and sewer assessment charges	6,602,038	-
Charges for services	848,860	-
Revenue from other governmental agencies	239,529	-
Interest	(5,968,543)	-
Construction of water and sewer system	(15,858,671)	-
Acquisition of equipment	(57,723)	(1,382,543)
Principal payments on long-term debt	(6,460,000)	-
Issuance of other long-term debt	3,855,544	-
Retirement of other long-term debt	(192,094)	-
Net Cash used in Capital and Related Financing Activities	(2,912,030)	(1,382,543)
Cash flows from Investing Activities - Interest on investments	1,809,755	515,521
Net Increase (Decrease) in Cash and Cash Equivalents	(1,576,993)	2,484,030
Cash and Cash Equivalents, July 1, 1993	47,419,251	10,669,579
Cash and Cash Equivalents, June 30, 1994	$ 45,842,258	$ 13,153,609

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

Howard County, Maryland
Combining Balance Sheet
Component Units
June 30, 1994

	Board of Education	Library	Community College	Total
Assets and Other Debits				
Equity in pooled cash and cash equivalents	$ 38,437,488	$ 1,293,905	$ 3,291,272	$ 43,022,665
Receivables:				
Due from other governmental agencies	7,899,474	1,609	3,735,363	11,636,446
Other	7,085,085	-	201,016	7,286,101
Due from primary government	4,711,856	-	-	4,711,856
Materials and supplies	156,127	-	228,282	384,409
Deferred compensation plan investments	-	1,801,501	-	1,801,501
Other assets	-	21,040	129,790	150,830
Property, plant and equipment, at cost	345,518,025	10,446,815	33,236,582	389,201,422
Accumulated depreciation	(470,505)	-	-	(470,505)
Amount to be provided for long-term obligations	2,692,049	353,085	-	3,045,134
Total Assets and Other Debits	$ 406,029,599	$ 13,917,955	$ 40,822,305	$ 460,769,859
Liabilities				
Accounts payable and accrued expenses	$ 33,404,445	$ 307,175	$ 2,313,963	$ 36,025,583
Deferred revenues	464,800	-	580,995	1,045,795
Due to other governmental agencies	-	-	612,908	612,908
Deferred compensation plan payable	-	1,801,501	-	1,801,501
Other long-term debt	2,842,049	353,085	12,764	3,207,898
Total Liabilities	36,711,294	2,461,761	3,520,630	42,693,685
Equity and Other Credits				
Investment in general fixed assets	344,829,537	10,446,815	32,578,407	387,854,759
Contributed capital	498,553	-	-	498,553
Retained earnings	5,783,623	-	-	5,783,623
Fund balance:				
Reserved for encumbrances	9,124,246	233,533	-	9,357,779
Reserved for college programs	-	-	3,999,581	3,999,581
Unreserved:				
Designated for subsequent year's expenditures	988,640	-	723,687	1,712,327
Undesignated	8,093,706	775,846	-	8,869,552
Total Equity and Other Credits	369,318,305	11,456,194	37,301,675	418,076,174
Total Liabilities, Equity and Other Credits	$ 406,029,599	$ 13,917,955	$ 40,822,305	$ 460,769,859

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

Howard County, Maryland
Combining Statement of Revenues, Expenditures and Changes in Equity
Component Units
For the Year Ended June 30, 1994

	Board of Education	Library	Community College	Total
Revenues:				
Revenues from other governmental agencies	$ 91,451,715	$ 491,085	$ 9,027,675	$ 100,970,475
Charges for services	4,857,328	-	9,285,899	14,143,227
Interest on investments	782,091	-	141,538	923,629
Fines and forfeitures	-	561,010	-	561,010
Miscellaneous	2,831,238	8,909	367,989	3,208,136
Total Revenues	99,922,372	1,061,004	18,823,101	119,806,477
Other Sources of Financial Resources:				
Operating transfers from primary government	151,841,980	6,762,520	8,235,000	166,839,500
Total Revenues and Other Sources of Financial Resources	251,764,352	7,823,524	27,058,101	286,645,977
Expenditures:				
Current:				
Education	212,223,273	-	25,494,599	237,717,872
Libraries	-	7,518,277	-	7,518,277
Capital improvements	37,492,027	-	-	37,492,027
Total Expenditures	249,715,300	7,518,277	25,494,599	282,728,176
Other Uses of Financial Resources:				
Operating transfers to primary government	1,153,727	-	59,731	1,213,458
Total Expenditures and Other Uses of Financial Resources	250,869,027	7,518,277	25,554,330	283,941,634
Excess of Revenues and Other Sources of Financial Resources over Expenditures and Other Uses of Financial Resources	895,325	305,247	1,503,771	2,704,343
Fund Equity, July 1, 1993	23,094,890	704,132	3,219,497	27,018,519
Fund Equity, June 30, 1994	$ 23,990,215	$ 1,009,379	$ 4,723,268	$ 29,722,862

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

1. The Reporting Entity and Description of Funds and Account Groups

A. The Reporting Entity:

Howard County, Maryland (the County), was formed in 1851 under a commission form of government. Under home rule charter since 1968, the County is governed by an elected County Executive and a five member County Council with each serving separate executive and legislative functions.

The combined financial statements include Howard County, Maryland as the primary government and its significant component units in accordance with generally accepted accounting principles. The component units include the activities of the Howard County Board of Education, the Library and the Community College. The component units are included in the County's reporting entity because of the significance of their operational or financial relationship with the County in that the County approves budgetary requests and provides a significant amount of funding. These separate entities have been included in the County's financial statements because County elected officials are financially accountable for the component units' activities. The reporting entity includes the County as the primary government and the aforementioned component units. The primary government is also hereinafter referred to as the County.

The financial activities of the Howard County Housing Commission and the Economic Development Authority, which are also component units of the County, are excluded due to immateriality.

The financial activities of the Volunteer Fire Districts, Circuit Court, Department of Social Services, Cooperative Extension Services, Soil Conservation District, Health Department and Grant-in-Aid Organizations are not considered part of the County's reporting entity and, therefore, are not included in the annual financial report. The County is not financially accountable for these agencies. These agencies are not required to submit a complete budget to the County for approval. Additionally, the County does not establish spending limits nor is it responsible for funding deficits of these agencies. Also, the County does not exercise control over the assets of these agencies. Thus, only the County's portion of these agencies' costs are included in this annual report.

B. Description of Funds and Account Groups:

The County's accounts are organized on the basis of funds and account groups. A fund is defined as an accounting entity with a self-balancing set of accounts recording assets and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. The following fund types and account groups, which are summarized by type in the financial statements, are used by the County:

Governmental Fund Types
Governmental Funds are those through which most governmental functions of the County are financed. The acquisition, use, and balances of the County's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the County's governmental fund types.

General Fund - The General Fund is the general operating fund of the County. The County uses this fund for the collection of State and County Taxes, fees and other revenues and funds due to the County, and for the disbursement of all expenditures not accounted for in any other fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources which by law are designated to finance particular functions or activities of the County. These funds include:

Historic Properties Fund which operates County-owned historic sites and facilities. Presently, this fund operates the historic Waverly site in Marriottsville.

Community Renewal Program Fund which deals primarily with the management and construction of public housing projects.

Agricultural Land Preservation Fund which supports the agricultural land preservation program that is designed to preserve the open character and agricultural use of County land.

Public Service Communications Fund which accounts for revenues received from a cable television company.

Fire Tax Reserve Fund which accounts for the activities of the two fire districts. During fiscal 1994, the County restructured it's existing six fire districts into two: a metropolitan and a rural district. The new districts are divided along the western boundary of the County's planned water and sewer service area.

Grants Fund which contains all categorical grants received by the County from federal, state and local sources. These grants are given to the County for a specific purpose.

Health Department Fund which accounts for the County's portion of the financial activities of the local health department.

Recreation Program Fund which supports the County recreation and parks self-sustaining programs. User fees support the entire costs of these programs.

Previously, the Grants, Health Department, and Recreation Program Funds were a part of the County's General Fund. They have been separated this year for better financial disclosure.

Capital Projects Funds - Capital Projects Funds are used to account for all resources for the construction or acquisition of fixed assets, except those accounted for in proprietary fund types. The County accumulates costs relative to capital programs in the following funds: General Improvements Fund, Fire Service Building and Equipment Fund, Public Libraries Fund, Recreation and Parks Fund, Storm Drainage Fund, Highway Fund, and Police Buildings and Equipment Fund.

Proprietary Fund Types
Proprietary Funds are used to account for the County's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following are the County's proprietary fund types:

Enterprise Fund - This fund is used to account for the County's water and sewer operations.

Internal Service Funds - These funds account for goods and services furnished by certain County agencies to other County agencies primarily on a cost reimbursement basis. These funds include:

Central Stores Fund which provides centralized purchasing of stationery and supplies and printing and duplicating services. In addition, the Central Stores Fund provides a motor pool facility to other County agencies. Revenues are generated on a user charge basis.

Information Systems Services Fund which charges the cost of centralized data processing operations to other County agencies. Revenues are generated from County agencies using these services.

Risk Management Self-Insurance Fund which includes the County's risk management activities for workers's compensation, general liability, vehicle physical damage, and property damage. Revenues are generated from County agencies using these services.

Employee Benefits Self-Insurance Fund which pools County employee benefits costs. Revenues are generated from County agencies providing employee benefits.

Radio Maintenance Fund which provides for the maintenance and replacement of the County's radio communications systems. Revenues are generated from County agencies using radios.

Fiduciary Fund Type - Trust and Agency Funds
Pension Trust Funds are used to account for the activities of the County's single-employer public employee retirement system. Agency Funds are used to account for assets held for other funds, governments, or individuals. Agency funds are custodial in nature, that is, assets equal liabilities; and they do not involve measurement of operations. These funds include:

Police and Fire Employees' Pension Trust Fund which is used to account for the activities of the County's Police and Fire Employees' Retirement Plan.

Street Light District Fund which is used to account for the monies collected from property owners to construct street lights in a particular district.

School Construction Fund which is used to account for the payment by the County of capital construction expenditures financed with bond and transfer tax monies on behalf of the Board of Education.

State Property Tax and Interest Fund which is used to account for taxes billed and collected by the County on behalf of the State.

Road Surety Deposit Fund which is used to account for bonds posted by individuals or developers for road maintenance agreements and for constructing water and sewer facilities.

Community College Construction Fund which is used to account for the payment by the County of capital construction expenditures financed with bonds on behalf of the Community College.

Deferred Compensation Fund which is used to account for the activities of the County's deferred compensation plan established in accordance with Internal Revenue Code Section 457.

Account Groups
Account groups are used to establish accounting control and accountability for the County's general fixed assets and general long-term debt. The following are the County's account groups:

General Fixed Assets Account Group - Fixed assets of the County other than those pertaining to the proprietary funds are recorded substantially at historical cost in the General Fixed Assets Account Group. Such assets do not include roads, bridges, rights-of-way, storm drainage, lighting systems, and sidewalks since such assets are immovable and of value only to the County. No depreciation is provided on general fixed assets.

Long-Term Obligations Account Group - This account group is used to account for all long-term debt of the County except that accounted for in the Proprietary Funds and the component units.

C. Component Units
The financial data of the County's component units are discretely presented in a column separate from the financial data of the primary government. They are reported in a separate column to emphasize that they are legally separate from the County. The following are the County's component units:

The Board of Education of Howard County is responsible for the operation of special education, elementary, middle and high schools. The Board is governed by five members elected by County voters. The County is responsible for levying taxes and has budgetary control over the Board of Education.

The Howard County Library operates various library branches throughout the County. The Library is governed by a seven member board nominated by the County Executive and appointed by the County Council. The County is responsible for levying taxes and has budgetary control over the Library.

The Howard Community College provides educational services to County citizens by offering two-year associate degrees and a continuing education program. The Community College is governed by a seven member board appointed by the governor of Maryland. The County is responsible for levying taxes and has budgetary control over the Community College. The financial statements of the Community College have been prepared in accordance with generally accepted accounting principles which were promulgated by the American Institute of Certified Public Accountants (AICPA).

Financial information regarding the component units is included in the component units combining statements. Annual financial reports for individual component units can be obtained from their respective administrative offices:

Howard County Board of Education
10910 Route 108
Ellicott City, Maryland 21043

Howard County Library
10375 Little Patuxent Parkway
Columbia, Maryland 21044

Howard Community College
10901 Little Patuxent Parkway
Columbia, Maryland 21044

2. Summary of Significant Accounting Policies

The accounting and financial reporting policies of the reporting entity conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

Basis of Accounting

The Proprietary, Pension Trust and the Community College funds of the reporting entity are reported on the accrual basis of accounting, except that no depreciation has been provided on Community College plant and equipment. Under this method of accounting, revenues are recognized when earned, and expenses are recorded when liabilities are incurred. In the Enterprise Fund, an estimated amount of user charges is recorded for services rendered but not yet billed at year end.

The Governmental and Agency Funds of the reporting entity are maintained and reported on the modified accrual basis of accounting. Revenues, including property, local and state shared taxes, investment income and revenues from other governments, are recorded when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. All other revenues are generally not susceptible to accrual because they are not measurable in advance of collection. Expenditures for these funds are recorded when liabilities are incurred and become payable in the current period except for principal and interest on long-term debt which are recorded as an expenditure when due.

Budgetary Process

Pursuant to County Charter, the County Executive's capital and operating portions of the budget for all County funds are submitted to the County Council by April 1 and 21, respectively. The County Council holds public hearings and pursuant to County Charter an annual budget appropriation ordinance must be passed by the County Council or the Executive's proposed budget ordinance stands adopted. The adopted ordinance or budget becomes effective July 1, and provides the spending authority at the individual agency department level for the operations of the County Government with the unexpended or unencumbered appropriation authority of the operating budget expiring the following June 30. Capital unencumbered appropriations continue until the specific capital project is closed.

During the fiscal year, the County Council upon the request of the County Executive may approve transfers between projects in the capital budget but it may not increase the total size of the capital budget. With regard to the operating budget, the County Council, at anytime during the fiscal year, may approve supplemental budgets upon request of the County Executive from the budgeted contingency reserve which may not exceed 4% of the budget. After April 1 of each year, the Council may also at the request of the Executive approve transfers between departments in the operating budgets. The Council may also approve supplemental budgets from unappropriated funds only in emergencies affecting "life, health and property." Additionally, the County Executive has the authority to make transfers within a department at any time during the year without approval of the County Council. During the 1994 fiscal year, the Council approved numerous capital and operating budget transfers. No supplemental budgets or emergency appropriations were requested.

Encumbrances
Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the Governmental Funds. Open encumbrances are treated as reservations of fund balances since the commitments will be honored through subsequent years' expenditures.

Cash Equivalents
For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

Investments
Investments in the Special Revenue Fund Type are for the Agricultural Land Preservation Fund and represent stripped-coupon U.S. Treasury securities stated at cost plus amortized discount. Pension Trust Fund and pooled investments are reported at cost, which approximates market. Deferred compensation plan investments are reported at market value.

Materials and Supplies
Materials and supplies are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Materials and supplies are recorded as an asset when purchased, and charged to expenditures/expenses when consumed.

Property, Plant and Equipment - Proprietary and Community College Funds
Property, plant, and equipment of the Proprietary Funds are stated at historical cost. Contributed assets are recorded at fair market value at the time received. Depreciation on proprietary fund assets has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	40 years
Water and sewer utility plant	40 years
Furniture, fixtures and equipment	5-20 years

Depreciation applicable to assets acquired with grants and shared revenues is charged to operations and then transferred to the related contributed equity accounts. The Community College's plant and equipment are stated at cost and no depreciation is provided.

Compensated Absences
Vacation benefits, including the FICA portion, are earned by employees of the County based on time in service, and the rights to such benefits are vested. Sick leave is also accumulated by employees based on time in service. However, accumulated sick leave benefits do not vest and are not paid unless sickness causes employees to be absent, except that accumulated sick time is credited to month of service in the calculation of employees' retirement benefits.

The County records vested vacation benefits as earned in accordance with Governmental Accounting Standards Board Statement No. 16. In the Governmental Funds, the total amount of vacation benefits is recorded as a liability in the Long-Term Obligations Account Group as the current portion of this liability is considered to be immaterial. The liability related to the Enterprise Fund is accrued as an expense and liability in that fund. Sick leave benefits are recorded when paid.

Self-Insurance
Accounts payable and accrued expenses in the self-insurance funds include liabilities for unpaid claims based upon individual case estimates for claims reported at June 30, 1994. There were no material amounts of incurred but not reported claims as of year-end.

Water and Sewer Assessments
Water and sewer assessments are charged to property owners on a 30 year basis to recover the debt service on bonds used to construct main and lateral water and sewer lines which benefit such properties. A water and sewer assessments receivable is established for the entire uncollected assessed amount. The portion of the receivable relating to bond principal is credited to contributed capital and the portion representing interest is initially recorded as a deferred liability and then recognized as revenues when billed.

3. Reconciliation Between GAAP and Budgetary Basis

The General Fund and all Special Revenue Funds of the primary government each have a legally adopted annual budget. The "Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balances - Budgetary Basis - General and Special Revenue Funds" is prepared on a basis consistent with those budgets. The budgets are prepared using encumbrance accounting wherein encumbrances are treated as an expenditure of the current period. Also, the budgets include appropriations of prior year fund balances as other sources in the current year and account for payroll expenditures on a cash basis. The "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types" is prepared on a basis consistent with GAAP where encumbrances are treated only as a reservation of fund balance, prior year fund balances are not included as other sources and payroll expenditures are recorded on an accrual basis.

The statements are reconciled as follows:

	General Fund	Special Revenue Funds
Budgetary basis - excess of revenues and other sources over expenditures and encumbrances and other uses	$8,557,776	$2,016,675
Adjustments:		
Appropriation of prior year fund balances	-	(1,352,752)
Current year encumbrances outstanding	2,326,899	1,719,341
Prior year encumbrances expended this year	(1,696,393)	(962,465)
Prior year encumbrances lapsed during the current fiscal year	(1,101)	(41,308)
Effect of recording payroll expenditures on an accrual basis	(342,401)	-
GAAP basis - excess of revenues and other sources over expenditures and other uses	$8,844,780	$1,379,491

The ending fund balances are reconciled as follows:

	General Fund	Special Revenue Funds
Budgetary basis, June 30, 1994	$22,115,011	$22,759,939
Adjustments:		
Reserve for encumbrances	2,328,967	1,719,341
Payroll expenditures recorded on an accrual basis	(1,762,522)	-
GAAP basis, June 30, 1994	$22,681,456	$24,479,280

For financial reporting purposes, the General Fund budget and actual data also includes these amounts budgeted as separate funds in the County's Budget: general fund ($289,114,890) and bond anticipation notes fund ($9,300,000) for a total of $298,414,890. The budget variance for interest on investments and interest payment on debt is due to the bond anticipation notes fund. Debt service on these notes is budgeted at a 15% interest rate ceiling to cover any contingencies.

4. Equity in Pooled Cash and Cash Equivalents

The County maintains a cash and investment pool that is available for use by all funds. Each fund is allocated interest income, on a daily basis, based on their share of the investment pool. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". The carrying amount of total deposits, including certificates of deposit, was $8,079,678 and the bank balance was $3,539,127 at June 30, 1994. The bank balance was covered by Federal Depository Insurance or by collateral held by the County's agent in the County's name. Any fund that has issued checks in excess of its share of the cash balance will report an interfund payable.

Except for the Police and Fire Employee's Retirement Plan, statutes authorize the County to invest in obligations of the U.S. Treasury and Federal Government agencies, bankers acceptances, repurchase agreements and certificates of deposit secured by Federal Government obligations, the State Treasurer's Investment Pool, and mutual funds dealing in government securities. The Police and Fire Employees' Retirement Plan's investment policy, established under Section 20.001 of the County Code, establishes fundamental limitations and provides current asset limitation targets and guidelines for permitted debt and equity securities. Except for investments in U.S. Government obligations, no more than 5% of the Police and Fire Employees' Retirement Plan's total invested assets may be invested in securities of a single issuer.

County policy requires that collateral securities underlying repurchase agreements and certificates of deposit must have a market value at least 102 percent of the cost of the investment. This policy has been complied with. Repurchase agreements and certificates of deposit at June 30, 1994 mature at various dates through July 11, 1994.

The County's investments are categorized on the following schedule to give an indication of the level of risk assumed at year-end. Category 1 includes investments for which the securities are held by the County's agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's counterparty's trust department in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty but not in the County's name. The investments of the deferred compensation plan and the pension trust fund are held separately from those of other County funds. The investments at year end are representative of those investments purchased during the fiscal year.

	Category			Carrying
	1	2	3	Amount
Repurchase agreements	$11,038,508	-	-	$11,038,508
U.S. Government securities	18,557,453	-	-	18,557,453
U.S. Government agency notes	57,093,619	-	-	57,093,619
Bankers' acceptances	11,755,046	-	-	11,755,046
Corporate stocks	13,390,979	-	-	13,390,979
Corporate bonds	2,858,030	-	-	2,858,030
Total	$114,693,635	-	-	114,693,635
Investment in State Treasurer's investment pool				500,000
Fidelity U.S. Treasury investment pool				4,538,783
Deferred compensation plan investment in mutual funds				16,973,493
Police and fire pension trust fund investments in mutual funds				2,815,954
Total investments				$139,521,865

The following table reconciles the County's deposits ($8,079,678) and investments ($139,521,865) to the combined balance sheet:

Equity in pooled cash and cash equivalents	$60,897,315
Investments	37,832,459
Deferred compensation plan investments	16,973,493
Restricted equity in pooled cash	31,898,276
Total	$147,601,543

The following disclosures are provided for the component units. The carrying amount of total deposits, including certificates of deposit, was $1,939,446 and the bank balance was $6,838,249 at June 30, 1994. Of the bank balance, $1,845,403 was covered by Federal Depository Insurance or by collateral held by the component unit's agent in the component unit's name; $4,875,274 was covered by collateral held in the pledging bank's trust department or by the pledging bank's agent in the component unit's name and $117,572 was uninsured and uncollateralized.

For the component units' investments: $22,000,000 were repurchase agreements under category 1; $9,849,000 were repurchase agreements under category 2; $9,215,328 were in the State Treasurer's investment pool; $1,801,501 were deferred compensation plan investments; and $18,891 were in a U.S. Treasury portfolio fund.

5. Due From Other Governmental Agencies

The amounts due from other governmental agencies primarily are tax and grant revenues due from the Federal and State governments.

6. Property Tax and Transfer Tax

The County's real property tax is levied each July 1 on the assessed values certified as of that date for all taxable real property located in the County. Assessed values are established by the State Department of Assessments and Taxation at predetermined percentages of estimated market value. There is no one lien date used by the State, rather properties are assessed by the State for tax purposes throughout the year. A revaluation of all property is required to be completed every three years. A discount of 1% and 1/2% is allowed if payment is made in July or August, respectively. Beginning October 1, interest is charged each month that taxes remain unpaid. Property represented by delinquent taxes is sold at a public auction during April. Property taxes levied during the current year are recorded as receivables and revenue, net of estimated uncollectible amounts. The net receivables uncollected sixty days after year-end are recorded as deferred revenues.

The Howard County Code imposes a transfer tax upon every instrument of writing conveying title to real or leasehold property offered for sale or lease and recorded in Howard County. The Code specifies that the proceeds shall be distributed to the School Construction Fund (25%), the Recreation and Parks Fund (25%), the Agricultural Land Preservation Fund (25%), the Community Renewal Fund (12-1/2%) and the Fire Service Building and Equipment Fund (12-1/2%).

7. General Fixed Assets and Property, Plant and Equipment

A summary of the components of and changes in general fixed assets for the primary government follows. Construction in progress retirements consist principally of immovable stewardship type assets.

	Balance July 1, 1993	Additions	Transfer In (Out)	Retirements	Balance June 30, 1994
Land	$40,061,822	$ -	$1,953,955	$ -	$42,015,777
Buildings	68,755,300	-	3,291,192	-	72,046,492
Improvements other than buildings	316,776	-	-	-	316,776
Equipment	35,114,716	1,129,628	4,101,703	623,260	39,722,787
Construction in progress	142,359,382	62,513,395	(9,346,850)	15,019,529	180,506,398
Total	$286,607,996	$63,643,023	$ -	$15,642,789	$334,608,230

A summary of primary government Proprietary Funds and the component units property, plant and equipment at June 30, 1994 follows:

	Proprietary Fund Types		Component Units		
	Enterprise	Internal Service	Board of Education	Library	Community College
Land	$ 7,290,130	$ -	$ 3,623,090	$ 12,869	$ 562,505
Buildings	5,016,080	-	232,287,627	156,007	19,955,454
Water and sewer utility plant	337,870,497	-	-	-	-
Furniture, fixtures and equipment	3,822,342	6,412,579	30,880,546	10,277,939	8,717,777
Less accumulated depreciation	(97,397,794)	(4,572,033)	(470,505)	-	-
Construction in progress	34,936,823	-	78,726,762	-	4,000,846
Total	$291,538,078	$1,840,546	$345,047,520	$10,446,815	$33,236,582

Construction in progress is composed of the following:

	Project Budget	Expended to June 30, 1994	Encumbered as of June 30, 1994
Capital Projects Funds:			
General improvements fund	$103,976,500	$99,992,179	$2,200,878
Fire service building and equipment fund	6,616,024	2,254,663	479,630
Public libraries fund	13,178,000	11,823,994	707,057
Storm drainage fund	7,973,000	2,533,560	263,183
Police building and equipment fund	30,000	-	-
Recreation and parks fund	58,621,870	30,337,623	3,295,113
Highway fund	59,145,800	25,702,950	7,780,420
Special Revenue Funds:			
Community renewal fund	5,160,000	5,564,483	33,543
Agricultural land preservation fund	69,030,000	2,296,946	66,761
Enterprise Fund	146,968,000	34,936,823	9,904,318
Board of Education	141,972,700	78,726,762	-
Community College	6,801,000	4,000,846	-
Total Construction in progress	$619,472,894	$298,170,829	$24,730,903

8. Debt.

A summary of long-term debt outstanding for the primary government at June 30, 1994 is as follows:

	Due Dates	Interest Rates	Amount Outstanding
Enterprise fund:			
Metropolitan district bonds	1995 - 2023	0.10% to 8.50%	$108,504,678
Major water and sewer agreements	various	not applicable	2,018,515
State water quality revolving loan	1995 - 2015	4.40% to 6.55%	12,825,434
Long-term obligations account group:			
General obligation bonds	1995 - 2013	3.00% to 8.80%	239,889,600
General obligation bond anticipation notes	1995	variable	60,000,000
Other long-term debt:			
Obligations under capitalized leases	1995 - 1996	7.19%	464,858
Vested vacation benefits	various	not applicable	5,481,510
Installment obligation debt (see note 10)	1995 - 2022	8.00% to 8.60%	35,155,000
Local government insurance trust obligations	1995 - 2010	6.10% to 7.125%	1,923,851
Landfill closure obligation (see note 11)	various	not applicable	40,863,628
State promissory note	various	6.90%	570,080
Kiwanis club installment purchase agreement	1995 - 1999	7.00%	300,000
Total other long-term debt			84,758,927
Total debt			$507,997,154

The County is subject to State and County law which limits the amount of applicable General County debt outstanding to 12 per cent of assessed values. At June 30, 1994, the statutory debt limit was $756,515,644 providing a debt margin of $516,626,044. The authorized, unissued General County and Metropolitan District Bonds at June 30, 1994 were $134,150,862 and $48,530,605, respectively. There is no overlapping municipal bonded debt in the County and the County is in compliance with its debt agreement provisions.

The changes in long-term debt for the primary government for the year ended June 30, 1994 are as follow:

	Balance July 1,1993	Additions	Retirements and Defeasances	Balance June 30, 1994
Metropolitan district bonds	$114,964,678	$-	$6,460,000	$108,504,678
Major water & sewer agreements	2,209,609	-	191,094	2,018,515
State water quality revolving loan	8,970,890	3,855,544	1,000	12,825,434
General county bonds	311,974,602	-	72,085,002	239,889,600
General county bond anticipation notes	60,000,000	-	-	60,000,000
Obligations under capitalized leases	802,212	-	337,354	464,858
Vested vacation benefits	4,786,274	695,236	-	5,481,510
Installment obligation debt	35,327,000	-	172,000	35,155,000
Insurance trust obligations	1,988,766	-	64,915	1,923,851
Landfill closure obligation	22,454,545	18,409,083	-	40,863,628
State promissory note	597,167	-	27,087	570,080
Kiwanis club installment purchase agreements	350,000	-	50,000	300,000
Total	$564,425,743	$22,959,863	$79,388,452	$507,997,154

The full faith, credit and unlimited taxing power of the County are irrevocably pledged to the payment of the principal and interest of General County bonds and other long-term debt. Metropolitan District bonds and their related interest charges are being financed from front foot benefit assessment charges, ad valorem taxes and in-aid-of-construction charges. In the event such revenues and charges are insufficient to finance the debt service, the full faith, credit and unlimited taxing power of the County are irrevocably pledged to the payment of the principal and interest of these bonds.

Industrial revenue bonds issued by the County for the benefit of private businesses in the County are not debt of or charges against the general credit or taxing power of the County. These amounts are not included in general long-term debt.

The County participates in the Maryland Local Government Insurance Trust which provides insurance for claims in excess of coverage provided by the County's self-insurance funds. During 1990, the Trust issued certificates of participation to various local government entities in order to capitalize its excess liability and environmental coverage pools. The County's unpaid portion of these certificates is $1,923,851 at June 30, 1994.

Beginning in fiscal year 1993, the County has participated in the State water quality revolving loan program. Under this program, the State makes loans to local governments with interest rates that are below the market rate for tax-exempt financings. The proceeds of the loan will be used to expand the County's wastewater treatment plant. The total loan amount available is $15,211,855; of which the County has borrowed $12,825,434 as of June 30, 1994.

A summary of debt service requirements to maturity, including principal and interest, for certain long-term debt is as follows as of June 30, 1994:

Fiscal Year Ending June 30:	Metropolitan District Bonds	General County Bonds and BANS	Installment Obligation Debt	Insurance Trust Obligations
1995	$11,636,924	$89,022,888	$2,979,610	$200,518
1996	11,746,430	28,103,923	3,005,065	199,984
1997	11,432,965	26,995,556	2,953,795	200,398
1998	11,178,400	26,202,626	2,987,250	200,398
1999	10,871,251	24,103,071	2,931,979	199,973
2000 - 2004	46,620,525	108,062,504	14,629,368	1,001,213
2005 - 2009	31,981,476	73,714,846	14,312,312	1,001,638
2010 - 2014	19,912,762	31,208,200	14,083,980	200,325
2015 - 2019	14,110,950	-	13,766,924	-
2020 - 2024	3,670,875	-	35,490,748	-
Total	$173,162,558	$407,413,614	$107,141,031	$3,204,447

The County has entered into various capital leases for certain personal property. The following is a schedule of future minimum leases together with the present value of the net minimum lease payments for the primary government as of June 30, 1994:

Fiscal Year Ending June 30:	
1995	$346,116
1996	144,215
Total minimum lease payments	490,331
Less : amount representing interest	25,473
Present value of net minimum lease payments	$464,858

Pursuant to an escrow deposit agreement associated with the refunding bond issue of 1993, the County had reserved the right to elect to direct the escrow agent to liquidate some or all of the securities held in trust and apply the proceeds of such liquidation to either redeem the $60,000,000 1993 Bond Anticipation Notes outstanding or to refund the 1991 and 1992 series General Obligation bonds totaling $56,735,000. On June 20, 1994, the County enacted legislation which waived the County's right to direct the escrow deposit agent to liquidate any securities held in trust and apply the proceeds of the liquidation to the redemption of the $60,000,000 1993 Bond Anticipation Notes outstanding. As a result, the 1991 and 1992 series General Obligation bonds totaling $56,735,000 are considered defeased and the liability for these bonds has been removed from the Long-Term Obligations Account Group.

In prior years, the County defeased certain General County and Metropolitan District bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Long-Term Obligations Account Group and the Enterprise Fund. At June 30, 1994, $83,995,000 of General County bonds and $60,420,000 of Metropolitan District bonds are considered defeased from prior years.

9. Restricted Asset and Liabilities - Enterprise Fund

Federal and State grants, water and sewer assessments, in-aid-of-construction charges, developer contributions and bonds proceeds for purposes of construction of the water and sewer system are restricted. Developer contributions primarily represent water and sewer projects constructed by developers on behalf of the County in connection with the development of privately owned property. The agreements between the developers and the County relating to such projects provide for specific refunds to the developer from bond proceeds based upon house connections within a specified period of years. Any amounts not refunded at the end of the specified time period are transferred to contributed capital. The cumulative amounts of other nonoperating revenues are available for construction activities and reflected as a reservation of retained earnings.

10. Agricultural Land Preservation Program

Under its agricultural land preservation program, the County acquires development rights in a particular parcel of agricultural property by entering into an installment purchase agreement with the property owner. Under the terms of the agreement, the County pays the property owner semiannual interest payments for 30 years, and minimal portions of the installment purchase price for 29 years. The remaining amount of the purchase price is paid at the end of 30 years with a balloon payment. Upon execution of an agreement, the County purchases stripped-coupon U.S. Treasury obligations in amounts sufficient to equal the balloon payment in 30 years and records the obligation in the Long-Term Obligations Account Group. The County acquires the development rights to the land in perpetuity.

11. Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the County to place a final cover on the County's landfill when closed in approximately 2002 and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. The County recognizes a portion of these costs in each operating period based on landfill capacity used as of each balance sheet date. However, many of the closure and postclosure care costs will be paid after each cell is filled to capacity. Total closure and postclosure care costs, as determined through engineering studies, will approximate $63,190,000. This cumulative amount reported to date is based on the use of 40% of the estimated capacity of the landfill. Actual costs may be higher due to inflation. As of June 30, 1994, the County has recognized $40,863,628 of these costs in the Long-Term Obligations Account Group. The County intends to finance these costs through the proceeds of bonds.

12. Retirement Plans

Generally, all employees of the primary government, except certain policemen and firemen, participate in the State of Maryland Employees Retirement and Pension Systems. The systems are cost-sharing multiple-employer systems. Certain police and fire personnel participate in a single-employer pension plan (the Howard County Police and Fire Employees' Retirement Plan (Police and Fire Plan)). The Maryland State Retirement Systems administer the Employees Retirement System (established October 1, 1941) and the Employees Pension System (established January 1, 1980) under the provisions of Article 73B of the Annotated Code of Maryland. The Police and Fire Plan was established and operates under the provisions of the Howard County Code, Sections 1.4 and 1.401, effective March 31, 1990. All full-time and permanent part-time employees of the County must be members of one of the plans. All police and fire officers hired on or after July 1, 1990 must enroll in the Police and Fire Plan. All other employees hired after December 31, 1979 must enroll in the Pension Systems. The payroll for employees covered by the State Systems for the year ended June 30, 1994 was: $4,627,681 for Employees Retirement System and $36,112,477 for Employees Pension System. The payroll for police and fire employees covered by the Police and Fire Plan for the year ended June 30, 1994 was $17,536,909. The County's total payroll for all systems was approximately $62,630,000.

Under the terms of the Retirement System, a member may retire after 30 years of service regardless of age; or at age 60 or over, regardless of years of service. A member is eligible for vesting after 5 years of service; however, his contributions must be left in the Retirement System in order to qualify for benefits at age 60. The annual retirement allowance is computed as 1/55 of the member's average final compensation multiplied by the total years of creditable service. The member may choose to receive this allowance for the remainder of his life or he may choose a modified allowance under an option to provide for a beneficiary.

Under the conditions of the Pension System, a member may retire after 30 years of service regardless of age, at age 65 with two years of service, at age 64 with three years of service, at age 63 with four years of service, or at age 62 with at least five years of service. An employee may also take early retirement with reduced benefits between ages 55 and 62 with 15 years of service. The annual pension payment is computed as 0.8 percent of an employee's final average salary up to the Social Security integration level, plus 1.5 percent of average final salary in excess of the integration level, multiplied by years of service. The Social Security integration level is defined as the average annual earnings for which Old Age and Survivors Benefits would be provided under Title II of the Social Security Act for a male employee age 65 computed as though for the prior year he had paid the maximum annual FICA tax.

The Employees Retirement and Pension Systems are jointly contributory according to State statute. The County's contribution to both plans includes both current service cost and amortization of a portion of the unfunded actuarial accrued liability. The employer contribution requirements for the year was $1,289,860 for the Retirement System and $2,025,593 for the Pension System. These contributions represented 27.9% and 5.6% of covered payroll, respectively. The employee contribution requirement was $295,652 for the Retirement System. This contribution represented 6.4% of covered payroll. No employee contributions were required for the Pension System. All County contributions have been paid to the State as of year end. Both systems also provide death and disability benefits.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the systems' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other systems and employers. The systems do not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation is not yet determined for the systems as of June 30, 1994. The computation as determined through the latest actuarial valuation date, June 30, 1993, is as follows for the systems: pension benefit obligation $6,116,880,000; net assets at market value $4,951,887,000; and unfunded pension benefit obligation $1,164,993,000.

The County's 1994 contribution for each separate plan represented 1% of total contributions required of all participating entities. To the extent available, historical trend information showing the systems' progress in accumulating sufficient assets to pay benefits when due is presented in the Maryland State Retirement and Pension Systems' June 30, 1993 comprehensive annual financial report and supplements thereto.

The Police and Fire Plan is considered part of the County's reporting entity and is included in the County's financial statements as a pension trust fund. All of the County's full-time career police and fire officers are eligible to participate in the Police and Fire Plan. Employees attaining the age of 62 who have completed five years of creditable service and employees who have completed 25 years of creditable service are eligible to a normal retirement benefit of two percent of their final average compensation multiplied by the number years of creditable service not greater than 30 years. The Police and Fire Plan permits early retirement following the completion of 20 years of creditable service. The benefit depends upon the amount of time the early retirement precedes the normal retirement date. Participants and their beneficiaries may also be eligible for disability and death benefits, which vary if incurred in the line of duty, based on years of creditable service and average final compensation. Employees are required to contribute 7.7% of their annual compensation to the Police and Fire Plan. The County is required to fund the remainder of the cost of its employees' participation in the Police and Fire Plan. The contribution requirement for the year ended June 30, 1994 was $3,971,376, which consisted of $2,612,504 from the County and $1,358,872 from employees. These contributions represented 14.7% and 7.7% of total covered payroll, respectively.

The number of employees covered and current membership classification at July 1, 1993 are as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	30
Active employees:	
Fully vested	310
Non-vested	170

The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1993. Significant actuarial assumptions used include: (1) a rate of return on the investment of present and future assets of 8% per year compounded annually, (2) projected salary increases of 13.5% for the first year, 10.5% for the second year, 8.0% annually for the next three years and 6.5% annually thereafter, and 2% per year compounded annually, attributable to inflation, and (3) benefit increases after retirement according to the CPI-U for the Baltimore area, but in no event more than 2%.

The unfunded pension benefit obligation of the Police and Fire Plan at July 1, 1993 is as follows (in millions):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$10.0
Current employees:	
Accumulated employee contributions including allocated investment income	3.9
Employer - financed vested	17.8
Employer - financed nonvested	18.0
Total pension benefit obligation	49.7
Net assets available for benefits, at market	32.5
Unfunded pension benefit obligation	$17.2

The Police and Fire Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the projected unit credit actuarial cost method. Contributions during the year ended June 30, 1994 were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at July 1, 1993. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Trend information for the Police and Fire Employees' Retirement Plan for the years ended June 30, 1991, 1992 and 1993 respectively, is as follows: available assets were sufficient to fund 47%, 56% and 65.4% of the pension benefit obligation, the unfunded pension benefit obligation represented 129.2%, 122.3% and 97.8% of the annual payroll for employees covered by the plan, and the County's contributions to the plan, all made in accordance with actuarially determined requirements, were 14.3%, 14.8% and 14.7% of annual covered payroll. Other historical trend information showing the Plan's progress in accumulating sufficient assets to pay benefits when due is presented to the extent available in the Plan's June 30, 1994 separately issued financial statements.

Generally, all employees of the component units participate in the State of Maryland Employees Retirement and Pension Systems and the Teacher's Retirement and Pension Systems. The component units' employer contributions to the Employees Systems were $1,222,466 for the year ended June 30, 1994. Contributions to the Teacher's Retirement and Pension Systems are made directly by the State of Maryland according to State statute. These amounts are unavailable.

13. Other Postemployment Benefits

The County provides a postemployment health insurance program through the General Fund in addition to the pension benefits described in note 12. These postemployment benefits were created in accordance with County statute. All employees who retire from the County may participate in the program. In order to be eligible, the retiree must have a minimum of ten years of County service, have passed his 50th birthday, and possess a combination of age and County service which total a minimum of 75 years. The County will pay a percentage of the retiree's health insurance premium based upon this criteria. Other retirees who do not meet the eligibility criteria are permitted to participate in the retirees' health insurance program by paying the full premium at the group rate. Currently, 104 employees meet these eligibility requirements. The County accounts for these benefits on a current funding basis, at a cost of $121,592 for fiscal year 1994.

14. Deferred Compensation Plan

The County participates in a deferred compensation plan agreement with the National Association of Counties (NACO). This plan, available to all County employees, was established in accordance with Internal Revenue Code Section 457. A deferred compensation plan offers employees an opportunity to defer a portion of their salary along with the related Federal and State income tax, until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. NACO has agreed to sponsor the plan and has selected the Public Employees Benefit Services Corporation (PEBSCO) to be the plan administrator.

The plan administrator has the responsibility for investing the deferred monies as directed by the employees, maintaining detailed accounting records for both the individual employee and the County, and disbursing funds to plan participants. The plan assets, including all income earned and rights purchased, are the exclusive property of Howard County and are subject to all the claims of creditors of the County. The assets of the plan are reported at their fair market value in an agency fund. The rights of employees are those of general creditors of the County. The County believes that it is unlikely that it will use the plan assets to satisfy the claims of general creditors in the future. The County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

15. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The reporting entity, excluding the Board of Education, has established two internal service funds to account for and finance its uninsured risks of loss. The reporting entity's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the use of a risk pool. The Employee Benefits Fund provides full coverage for employee benefits and long-term disability claims. For the long-term disability program, the funds budgeted for employee benefits are the County's share. Employees also contribute a percentage of the cost of benefits. The Risk Management Fund provides coverage up to a maximum of $1,000,000 for each automotive physical damage claim, $1,000,000 for each general liability claim, $100,000 for each property damage claim, and full coverage on each worker's compensation claim.

The reporting entity belongs to the Local Government Insurance Trust (the "Trust") which provides insurance for claims in excess of coverage provided by the reporting entity's Risk Management Fund. The reporting entity participates in the Trust in the areas of excess property, general, automobile liability, pollution, and environmental coverages. The Trust consists of various local counties and municipalities. The Trust was created to provide: broader insurance coverages than those available from commercial insurers, coverages which would otherwise be unavailable, and loss control and risk management services. Settled claims have not exceeded this coverage in any of the past five fiscal years.

All funds of the reporting entity participate in the risk management program and make payments to the internal service funds based on a combination of actuarial estimates and historical cost information. These amounts are needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

As of June 30, 1994, the reserve for catastrophic losses was $9,065,035 and is reported as reserved for insurance claims in the internal service funds. The claims liability of $2,274,584 in accounts payable is based on the requirements of Governmental Accounting Standards Board Statement no. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the self-insurance funds claims liability in fiscal 1993 and 1994 were:

	Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	End of Year
1993	$1,520,757	$949,141	$(735,121)	$1,734,777
1994	1,734,777	1,041,859	(502,132)	2,274,584

16. Contributed Equity

The changes in contributed equity for the primary government are summarized as follows:

	Enterprise Fund	Internal Service Fund
Balance, July 1, 1993	$223,439,592	$136,892
Shared revenue externally restricted for construction	4,077,924	-
Principal portion of Water & Sewer assessments	4,265,354	-
Depreciation on assets acquired from capital grants	(3,792,099)	-
Balance, June 30, 1994	$227,990,771	$136,892

17. Individual Fund Disclosures

The deficit fund balances of the General Improvements Fund ($11,288,454), the Public Libraries Fund ($1,614,615) and the Recreation & Parks Fund ($2,555,780) will be eliminated through future bond sales. The deficit fund balance of the Grants Fund ($284,812) will be eliminated through receipt of intergovernmental revenues.

The reserved for contingencies fund balance on the general fund was established to retain revenues for future use to be used to maintain a consistent level of service without requiring a substantial tax increase if estimated revenues decline substantially during the course of the budget year.

Expenditures exceeded appropriations in the Community Renewal Program fund due to capital improvements which are budgeted on an ongoing basis as opposed to expenditures made on an annual basis.

Interfund assets and liabilities consist of the following:

Receivable Fund	Payable Fund	Amount
Due from/to primary government and component units:		
Board of education	General	$652,000
Board of education	School construction	4,059,856
Total		$4,711,856
Interfund receivable/payable:		
General	General improvements	$8,988,050
General	Public libraries	487,587
General	Recreation and parks	2,096,113
General	Central stores	250,159
General	Community college construction	258,367
Total		$12,080,276

18. Commitments and Contingencies

Grants

The County receives grant funds, principally from the U.S. Government, for various County programs. Expenditures from certain of these funds are subject to audit by the grantor, and the County is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the management of the County, no material refunds will be required as a result of expenditures disallowed by the grantors.

Litigation

The County is a defendant in lawsuits and other claims which occur in the ordinary course of County operations. It is the opinion of the County Solicitor that such lawsuits and claims will not have a material adverse impact on the County's financial condition.

APPENDIX D

DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF THE INDENTURE AND THE INTERGOVERNMENTAL AGREEMENT

DEFINITIONS OF CERTAIN TERMS

In addition to terms defined elsewhere in this Official Statement, the following are definitions of certain terms contained in this Official Statement. Terms used but not defined herein shall have the meanings set forth in the Indenture or the Intergovernmental Agreement, as the case may be.

"Act" means the Maryland Environmental Service Act being codified as Sections 3.101 through 3-130, inclusive, of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume and 1994 Cumulative Supplement), and all future acts supplemental thereto or amendatory thereof.

"Additional Bonds" means any bond, note or other Indebtedness of the Service issued pursuant to the Indenture.

"Additional Facilities" means any project undertaken by the Service that is financed or refinanced pursuant to the Act and the Indenture by the issuance of Additional Bonds that is required in order to restore, maintain, improve or increase the disposal capacity of the Project or otherwise to permit the Service to meet its yard debris disposal obligations under the Intergovernmental Agreement, including (without limitation) the completion of the acquisition and construction of the Composting Facility. Additional Facilities may include, (without limitation) land, easements, rights-of-way, leaseholds and other interests in real property and any improvement, addition or betterment to or any construction, replacement, remodeling or equipping of any such project.

"Agency Obligations" means direct obligations (including bonds, notes or participation certificates) of, or obligations the timely payment of the principal of and the interest on which are unconditionally guaranteed by, any of the following agencies or instrumentalities of the United States of America: the Farmers Home Administration, the General Services Administration, the United States Maritime Administration, the Small Business Administration, the Government National Mortgage Administration, the United States Department of Housing and Urban Development, the Federal Housing Administration and the Export-Import Bank.

"Alternate Facility" means any composting or solid waste disposal facility, other than the Composting Facility, located a commercially reasonable distance from the Composting Facility and designated by the Service, in consultation with the Baltimore Regional Counties, to receive all or a portion of the Yard Debris required to be accepted by the Service under the Intergovernmental Agreement.

"Applicable Law" means any law, regulation, requirement or order of any federal, state or local agency, court or other governmental body, applicable from time to time to the

acquisition, design, construction, equipping, financing, ownership, possession or operation of the Project or the performance of any obligations under the Intergovernmental Agreement or any other agreement entered into in connection therewith.

"Authorized Officer of the Service" means the Director or the Deputy Director of the Service, and a person who, by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Service by its Director and its Secretary, is designated on behalf of the Service to perform any act, including (without limitation) the execution of any Indebtedness, certificates, deeds, leases, mortgages, agreements or other documents or instruments.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness 25% or more of the principal amount of which matures in the same 12-month period, which portion of such principal amount is not required by the documents governing such Long-Term Indebtedness to be amortized by redemption prior to such period.

"Baltimore Regional Counties" means, respectively, Howard County, Maryland, Baltimore County, Maryland and Anne Arundel County, Maryland, and their respective successors and permitted assigns.

"Bond" or "Bonds" means the Series 1995 Bonds and any Additional Bonds, collectively

"Bond Counsel" means the law firm of Piper & Marbury L.L.P., Baltimore, Maryland, subject to further action by the Service.

"Bondholder" means the registered owner of a Bond.

"Business Day" means a day other than a Saturday, Sunday or legal holiday in the State of Maryland or the State of New York observed as such by the Service, the Trustee, or any of them.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor federal income tax statute or code, and the applicable regulations thereunder.

"Completion Date" means, when used with respect to the Project or any Additional Facilities, the date on which the Authorized Officer of the Service files the certificates required by the Indenture with the Trustee certifying the completion or acquisition of each and every portion of the Project or such Additional Facilities.

"Composting Facility" means the Yard Debris composting facility which the Service anticipates developing on an approximately 56 acre parcel of land located in Howard County, Maryland, in the vicinity of U.S. Route 1 and the proposed Dorsey Run Road, and which is

intended to receive Yard Debris from the Baltimore Regional Counties under the Intergovernmental Agreement. The Composting Facility shall include a compost pad, a scale and scale house, internal access roads and such other ancillary Yard Debris composting facilities the Service, after first consulting with the Baltimore Regional Counties, deems necessary.

"Composting Facility Revenues" means, for any Fiscal Year, the aggregate amount of any revenues, fees and income received by the Service in connection with the operation of the Composting Facility and the provision of Yard Debris composting services to the Baltimore Regional Counties under the Intergovernmental Agreement, including (without limitation) (a) revenues from the Processing Fee and any other tipping fees charged to users of the Composting Facility; (b) other operating revenues of the Composting Facility, including (but not limited to) charges for services or use of property or equipment, or proceeds from the sale of composted Yard Debris collected by the Service; (c) the proceeds from any award of damages or settlement given to the Service in connection with a condemnation of all or a portion of the Composting Facility; (d) the proceeds from any award of damages or settlement given to the Service in connection with any claim suit or proceeding brought by the Service against any subcontractor hired pursuant to of the Intergovernmental Agreement, against any other person hired by the Service to provide services or materials in furtherance of the Service's obligation under the Intergovernmental Agreement, or against any person who may cause the Service to incur costs under the Intergovernmental Agreement; and (e) interest earnings on money held by the Service in the Special Purpose Fund, but not including interest earnings on any accounts or reserves created under the Intergovernmental Agreement; provided, however, that Composting Facility Revenues do not include the Supplemental Fee and provided further that Composting Facility Revenues do not include (x) gifts, grants, bequests, contributions or donation to the Service which constitute non-operating revenue of the Service or (y) any balance in the Special Purpose Fund on the first day of a Fiscal year carried over from any previous Fiscal year.

"Concluding Payment" means an amount equal to the product of the fair market value of the Composting Facility (as determined (a) utilizing one or more generally accepted appraisal approaches approved by the American Institute of Real Estate Appraisers, or (b) from the purchase price in an arm's length sale of the Composting Facility) multiplied by the Total Proportionate Share.

"Consumer Price Index" means the Consumer Price Index for the Baltimore, Maryland, Standard Metropolitan Statistical Area, All-Items for Urban Wage Earners and Clerical Workers, seasonally adjusted, published by the United States Department of Labor, or if such index is no longer published or its method of computation is substantially modified, an index approved by the Service.

"Cost", as applied to the Project and any Additional Facilities, includes the cost of construction or acquisition, including the purchase price of any existing project or the cost of acquiring all right, title, or interest in the Project or any Additional Facilities and the amount to be paid to discharge all obligations necessary to vest title to the Project or any Additional

Facilities or any part of it or them in the Service or the owner; the cost of any reconstruction, extension, enlargement, alteration, repair, or improvement; the cost of all lands, properties, rights, easements, interests, franchises, and permits acquired; the cost of all labor, machinery and equipment, financing charges, interest prior to and during construction and for such period after completion of construction as the Service deems appropriate; the cost of revenue estimates, engineering and legal services, plans, designs, specifications, surveys, investigations, demonstrations, studies, estimates of cost, other expenses necessary or incident to determining the feasibility or practicability of any such acquisition, improvement, or construction; administrative expenses, and other expenses necessary or incidental to the financing herein authorized, and to the acquisition, operation, maintenance, improvement, construction of the Project or any Additional Facilities, and the placing of the Project or any Additional Facilities in operation, including reasonable provision for working capital; reserves for principal and interest and for extensions, enlargements, additions and improvements. Any obligation or expense incurred prior to the issuance of bonds or notes under the provisions of this title in connection with the foregoing items of cost may be regarded as a part of such costs.

"Coverage Ratio" means, when used with respect to any particular Fiscal Year, the quotient obtained by dividing (i) the aggregate of the Net Income Available for Debt Service for such Fiscal Year by (ii) the Debt Service Requirements on all Outstanding Long-Term Indebtedness as of the last day of such Fiscal Year; provided, however, that in any calculation of the actual or projected Coverage Ratio for any Fiscal Year that occurs prior to the first Fiscal Year in which the principal of, or any Sinking Fund Installment with respect to, any Long-Term Indebtedness issued to finance Additional Facilities becomes due and payable or any interest on such Long-Term Indebtedness ceases to be paid from amounts irrevocably deposited in escrow for the payment of interest on such Long-Term Indebtedness, such Long-Term Indebtedness shall not be taken into account in calculating Debt Service Requirements.

"Credit Facility" means any Liquidity Facility, letter of credit, bond insurance policy, bond purchase agreement, guaranty, line of credit, surety bond or similar credit or liquidity facility securing any Bond or other Indebtedness of the Service.

"Credit Facility Agreement" means the agreement, if any, pursuant to which any Credit Facility is issued.

"Credit Facility Provider" means the issuer of any Credit Facility then in effect.

"Debt Service" means an amount equal to (i) the amount of any principal of and premium, if any, and interest on the Indebtedness or any other financing by or on behalf of the Service to finance costs related to the Composting Facility or the provision of services under the Intergovernmental Agreement plus (ii) fees and expenses (including fees and expenses of counsel to the Service) of the Service, the Trustee, and any remarketing agent, letter of credit bank or other credit facility provider, and tender agent, if any, for the Indebtedness and administrative fees and expenses of the Service under the Indenture and any other financing

documents relating to the Indebtedness, including (without limitation) the amount necessary to eliminate deficiencies in any debt service reserve fund relating to the Indebtedness, and any other amount payable by the Service under any Supplemental Indenture for any Indebtedness.

"Debt Service Requirements" means, when used with respect to any Long-Term Indebtedness for any Fiscal Year or year (as the case may be), as of any particular date of calculation, the amount required to pay the sum of (a) the interest on such Long-Term Indebtedness payable during the period from the second day of such Fiscal Year or year (as the case may be) through the first day of the immediately succeeding Fiscal Year or year (as the case may be), and (b) the principal of, the Sinking Fund Installment for and any other amount required to effect any mandatory redemption of such Long-Term Indebtedness, if any, during the period from the second day of such Fiscal Year or year (as the case may be) through the first day of the immediately succeeding Fiscal Year or year (as the case may be), less any amount of such interest or principal for the payment of which moneys or Investment Obligations, the principal of and interest on which when due will provide for such payment, are irrevocably held in trust, including (without limitation) any accrued interest and capitalized interest on deposit in the Interest Account. For the purpose of calculating the Debt Service Requirements:

(i) with respect to any Variable Rate Indebtedness:

(A) for the purpose of calculating the Debt Service Reserve Fund Requirement, the amount required to be deposited in any debt service reserve fund for any Bond and the principal amount of Balloon Long-Term Indebtedness constituting Variable Rate Indebtedness payable in any Fiscal Year or year described in clause (ii)(D) below, such Indebtedness shall be deemed to bear interest at the fixed rate that it would have borne had it been issued at a fixed rate for the term thereof, as evidenced by a certificate of an Authorized Officer of the Service and a certificate of an investment banking firm or financial advisor knowledgeable in financial matters relating to the Service and the Project who may be, without limitation, the financial advisor to the Service, confirming such interest rate assumption as reasonable; and

(B) for all other purposes of the Indenture, such Variable Rate Indebtedness shall be deemed to bear interest at an annual rate equal to 110% of (1) in the case of any period during which such Indebtedness shall have been outstanding, the weighted average interest rate per annum borne by such Indebtedness during such period and (2) in any other case, the higher of (a) the weighted average interest rate per annum borne by such Indebtedness during the 12-month period ending on the date of calculation (or, in the case of any Variable Rate Indebtedness to be issued or issued during the immediately preceding 12-month period, the weighted average interest rate per annum borne by other outstanding Indebtedness having comparable terms and issued by, or secured by agreements issued by, entities of comparable creditworthiness as the obligors with respect to such Variable Rate Indebtedness during the immediately preceding 12-month period, as evidenced by a certificate of an investment banking firm or a financial advisor knowledgeable in financial matters relating to the Service and the

Project, who may be, without limitation, the financial advisor to the Service), and (b) the interest rate per annum borne by such Indebtedness on the date of calculation;

(ii) with respect to any Balloon Long-Term Indebtedness:

(A) unless such Indebtedness meets the requirements of clause (B), (C) or (D) below, the principal amount of such Indebtedness shall be deemed to be payable during the Fiscal Year or year in which such principal amount becomes due, except as provided in clause (E) below;

(B) if a Liquidity Facility is then in effect with respect to such Indebtedness, the principal amount of such Indebtedness payable in each Fiscal Year or year as of any date of calculation may be deemed to be the amount that would be payable during such Fiscal Year or year (as the case may be) if such Liquidity Facility was used or drawn upon to purchase or retire such Indebtedness on the stated maturity date thereof or on any date established for the mandatory redemption thereof, less the aggregate amount required to be on deposit in any irrevocable sinking fund established to provide for the payment of such Indebtedness in accordance with clause (C) below during such Fiscal Year or year (as the case may be);

(C) if (1) pursuant to an indenture entered into by the Service, an irrevocable sinking fund shall have been established to provide for the payment of such Indebtedness when due, (2) deposits to such sinking fund are current and timely and (3) verification of such timely deposits is contained in the most recent audited financial statements of the Service or a letter to the Service from an Independent Public Accountant, then the principal amount of such Indebtedness payable in each Fiscal Year or year (as the case may be) may be deemed to be the amount required to be deposited in such sinking fund for such Fiscal Year or year (as the case may be);

(D) In the case of any Balloon Long-Term Indebtedness in an aggregate principal amount that does not exceed 20% of the Revenues for the most recent Fiscal Year, the principal amount of such Indebtedness payable in each Fiscal Year or year (as the case may be) may be deemed to be the amount that would have been payable during such Fiscal Year or year (as the case may be) if such Indebtedness were required to be amortized in full from the date of its issuance or, in the case of any such Indebtedness issued to finance or refinance the Project or any Additional Facilities, a date on or before the completion of the Project or other any Additional Facilities, in substantially equal annual installments of principal (such principal to be rounded to the nearest $5,000) and interest over a term equal to the shorter of (1) 20 years and (2) 100% of the weighted average economic life of the facilities financed or refinanced thereby, as evidenced by a certificate of an Independent Public Accountant; provided, however, that if any principal amount of such Indebtedness is stated to mature or is unconditionally subject to mandatory redemption within the 12-month period immediately succeeding the date of calculation, then such principal amount shall be deemed to be payable on the stated maturity date thereof or on the date established for the mandatory redemption thereof; and

(E) for purposes of calculating the Debt Service Reserve Fund Requirement and the amount required to be deposited in any debt service reserve fund for any Bond, the principal amount of such Indebtedness payable in each Fiscal Year or year shall be determined in accordance with clause (D) above without regard to the aggregate principal amount of such Indebtedness outstanding from time to time;

(iii) with respect to any Optional Tender Indebtedness:

(A) unless such Indebtedness meets the requirements of clause (B) below, the principal amount of such Indebtedness payable in each Fiscal Year or year as of any date of calculation shall be deemed to be the principal amount of such Indebtedness that could be payable by the Service during such Fiscal Year or year (as the case may be) in connection with any demand for the purchase or redemption of such Indebtedness by any holder thereof or any termination of any Credit Facility securing such Indebtedness, except as provided in clause (C) below;

(B) if a Liquidity Facility is then in effect with respect to such Indebtedness, the principal amount of such Indebtedness payable in each Fiscal Year or year as of any date of calculation may be deemed to be the amount that would be payable during such Fiscal Year or year (as the case may be) if such Liquidity Facility were used or drawn upon to purchase or retire such Indebtedness on the earliest date on which such Indebtedness may be required to be purchased or redeemed at the option of the holder thereof or in connection with any expiration of any Credit Facility securing such Indebtedness, except as provided in clause (C) below; and

(C) for purposes of calculating the Debt Service Reserve Fund Requirement and the amount required to be deposited in any debt service reserve fund for any Bond, the principal amount of such Indebtedness payable in each Fiscal Year or year (as the case may be) shall be determined in accordance with clause (ii)(D) above without regard to the aggregate principal amount of such Indebtedness outstanding from time to time; and

(iv) with respect to any Credit Facility Agreement, except as provided in clauses (ii)(B) and (iii)(B) above, so long as no demand for payment under the Credit Facility issued under such Credit Facility Agreement shall have been made, the debt service requirements of such Credit Facility Agreement shall be excluded from such calculation.

"Debt Service Reserve Fund Credit Facility" means any Credit Facility, which is rated in the highest rating category of each Rating Agency, held to the credit of the Debt Service Reserve Fund.

"Debt Service Reserve Fund Requirement" means (a) when used with respect to or in connection with the Series 1995 Bonds, and other series of Bonds secured by the Debt Service Reserve Fund maintained for the Series 1995 Bonds or such Debt Service Reserve Fund, as of

any particular date of computation, an amount equal to Maximum Annual Debt Service on all outstanding bonds secured thereby; and (b) when used with respect to any other series of Bonds or the Debt Service Reserve Fund maintained for such Bonds, such amount as shall be established in the Supplemental Indenture authorizing the issuance of such Bonds.

"Designated Hauler" means a Hauler designated by a Baltimore Regional County to deliver Yard Debris to the Composting Facility for the account of the Baltimore Regional County.

"Due for Payment" means, when used with respect to any date in connection with the payment of the principal of any Series 1995 Bonds, the stated maturity date of such Series 1995 Bonds or any date on which the principal of such Series 1995 Bonds is due to be paid by the application of a required Sinking Fund Installment for such Series 1995 Bonds; and when used with respect to any date in connection with the payment of the interest on any Series 1995 Bonds, any date on which the interest on such Series 1995 Bonds is payable in accordance therewith.

"Event of Default" has the respective meanings specified in the Indenture and the Intergovernmental Agreement.

"Fiscal Year" means the year commencing on July 1 of any calendar year and ending on June 30 of the succeeding calendar year or such other fiscal year as the Service shall establish as its Fiscal Year.

"Fiscal Year Quarter" means the three month period that begins, as the case may be, on either July 1, October 1, January 1 or April 1 of each year.

"Government Obligations" means direct obligations of the United States of America.

"Guaranteed Annual Payments" means an amount equal to the product of the Processing Fee then applicable under the Intergovernmental Agreement multiplied by the then applicable Guaranteed Annual Tonnage.

"Guaranteed Annual Tonnage" means, unless modified, pursuant to the Intergovernmental Agreements, fifteen (15) thousand tons per year for Anne Arundel County, seven (7) thousand tons per year for Baltimore County, and eight (8) thousand tons per year for Howard County.

"Hauler" means any Person other than a Designated Hauler or a Baltimore Regional County who provides Yard Debris hauling or disposal services and who has received permission from the Baltimore Regional Counties to deliver Yard Debris to the Composting Facility, and whose name and address has been provided to the Service in writing by one of the Baltimore Regional Counties.

"Hazardous Waste" has the meaning set forth in COMAR 26.13.01.03B, as amended from time to time.

"Holder" or "holder" or any term similar (i) when used with reference to a Bond, means a Bondholder, and (ii) when used with reference to any Subordinate Obligation, the owner of such Subordinate Obligation, determined in accordance with the Supplemental Resolution authorizing or approving the issuance thereof.

"Holiday" means any day that the Service and the Baltimore Regional Counties designate in writing as a Holiday.

"Indebtedness" means any bonds, notes, commercial paper or other obligations issued by the Service from time to time for borrowed money relating to the Composting Facility or the provision of Yard Debris composting services under the Intergovernmental Agreement. Indebtedness may include and be issued for any Cost, as such term is defined in The Maryland Environmental Service Act, being codified in 3-101 through 3-129 of the Natural Resources Article of the Annotated Code of Maryland (1989 Replacement Volume and 1994 Cumulative Supplement), as amended from time to time.

"Indenture" means the Indenture of Trust between the Service and the Trustee, dated as of _____, 1995, as amended, modified or supplemented from time to time by Supplemental Indentures.

"Independent Consultant" means an independent consulting firm having a favorable national reputation for skill and experience with respect to the design, construction and operation of Yard Debris composting facilities or the determination of the economic feasibility of such facilities, appointed in accordance with the Indenture.

"Independent Counsel" means any attorney or attorneys duly admitted to practice law before the highest court of any state who have regularly engaged in the practice of law as their primary occupation for at least five years and who are not officers or full-time employees of the Service or the Trustee. Bond Counsel to the Service may be deemed Independent Counsel.

"Independent Engineer" means any form of Engineers of recognized standing designated by the Service, with the approval of the Baltimore Regional Counties.

"Independent Public Accountants" means any independent certified public accountant or firm of independent certified public accountants of recognized standing designated by the Service.

"Inflation Factor" means a fraction the numerator of which is the Consumer Price Index most recently published prior to June 30 of the preceding Fiscal Year and the denominator of which is the Consumer Price Index most recently published prior to June 30, 1995.

"Intergovernmental Agreement" means the Yard Debris Composting Intergovernmental Agreements between the Service and each of the Baltimore Regional Counties, as each of the same may from time to time be amended, modified or supplemented in accordance with the terms thereof.

"Investment Obligations" means:

(a) Government Obligations;

(b) Agency Obligations;

(c) Obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years and rated in the highest general rating category of each of the Rating Agencies (without regard to any refinement or gradation of such rating category by numerical modifier or otherwise);

(d) United States dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks the short term certificates of deposit of which are rated with the highest letter and numerical rating by at least one nationally recognized statistical rating organization on the date of their purchase and which mature no more than 360 days from the date of their purchase (provided that the ratings assigned to any holding company of any such commercial bank shall not be deemed to be the ratings of such commercial bank for the purposes of this paragraph);

(e) obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not subject to redemption at the option of the issuer thereof prior to their maturity or as to which irrevocable instructions for the redemption thereof on the date specified in such instructions have been given by the issuer thereof; and (A) which are rated, based on the escrow established therefor, in the highest general rating category of one of the Rating Agencies, or (B)(i) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which fund is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(f) commercial paper which has received the highest letter and numerical rating from at least one of the statistical rating services and which matures not more than 270 days after the date of its purchase and the total investment of which may not exceed 3% of the total investments; and

(g) investments in a money market fund rated at the highest rating possible from at least one of the statistical rating services.

"Liquidity Facility" means a written commitment to provide money to purchase or retire any Indebtedness if: (i) on the date of delivery of such Liquidity Facility, the unsecured indebtedness of the provider of such Liquidity Facility is rated by each Rating Agency in a rating category not lower than the rating category in which the Bonds are then rated; and (ii) as of any particular date of determination, no amount realized under such Liquidity Facility for the payment of the principal or the purchase or redemption price of such Indebtedness (exclusive of amounts realized for the payment of accrued interest on such Indebtedness) shall be required to be repaid by the Service for a period of at least one year.

"Long-Term Indebtedness" means all Bonds, together with all of the following Indebtedness incurred or assumed by the Service:

(i) any obligation for the payment of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(ii) any obligation for the payment of money under leases that are required to be capitalized under generally accepted accounting principles;

(iii) any obligation for the payment of money under installment purchase contracts having an original term in excess of one year;

(iv) any obligation that would constitute Short-Term Indebtedness if a Liquidity Facility were not in effect with respect thereto; and

(v) any guaranty of any Indebtedness that would be described in item (i), (ii), (iii) or (iv) above if such Indebtedness were incurred directly by the Service.

"Maximum Annual Debt Service" means, when used with reference to any Long-Term Indebtedness for any year or Fiscal Year, as of any particular date of computation, the greatest amount required in the then-current or any future year or Fiscal Year, respectively, to pay the Debt Service Requirements of such Long-Term Indebtedness.

"Minimum Monthly Payment" has the meaning given in Section 3.4 of the Intergovernmental Agreement.

"Net Income Available for Debt Service" means, for any period, an amount determined in accordance with generally accepted accounting principles by deducting (i) the expenses of operating the Project or any Additional Facilities, exclusive of depreciation, interest, amortization of financing expenses, from (ii) the sum of all operating and nonoperating revenues of the Service derived from or in connection with the Project or any Additional Facilities (including, without limitation, all revenues of the Service under the Intergovernmental Agreement); provided, however, that there shall be excluded from such calculation any nonoperating gains or losses on the sale or disposition of any asset or on the extinguishment of debt.

"Operations Commencement Date" means the date on which the Composting Facility is capable of receiving Yard Debris in accordance with Applicable Law; provided, however, that the Operations Commencement Date shall be no later than October 1, 1995, irrespective of whether the Composting Facility is capable at such time of receiving Yard Debris. The Service shall provide the Baltimore Regional Counties no less than fourteen (14) days' prior written notice of the Operations Commencement Date.

"Optional Tender Indebtedness" means any Indebtedness that is subject to optional or mandatory tender by the holder thereof (including, without limitation, any mandatory tender in connection with the expiration of any Credit Facility securing such Indebtedness) for purchase or redemption prior to the stated maturity date thereof if the purchase or redemption price of such Indebtedness is under any circumstances payable by the Service.

"Outstanding" means, as of any particular date, (a) when used with reference to Bonds, all Bonds authenticated and delivered under the Indenture except (i) any Bond canceled by the Trustee (or delivered to the Trustee for cancellation) at or before such date, (ii) any Bond for the payment of the principal or Redemption Price of and interest on which provision shall have been made as provided in the Indenture and (iii) any Bond in lieu of or in substitution for which a new Bond shall have been authenticated and delivered pursuant to the Indenture; and (b) when used with reference to any other Indebtedness, all Indebtedness theretofore issued or incurred other than any such Indebtedness that is deemed to have been paid and discharged under generally accepted accounting principles.

"Permissible Bypassed Yard Debris" means Yard Debris that the Service is not required to process, but is required to accept under the Intergovernmental Agreement.

"Permissible Diverted Yard Debris" means Yard Debris that the Service is not required to accept under the Intergovernmental Agreement.

"Permitted Encumbrance" means:

(a) any lien arising by reason of any deposit by the Service to secure any public or statutory obligation, or to secure, or in lieu of, any surety, stay or appeal bond, and any deposit as security for the payment of taxes or assessments or other similar charges;

(b) any lien arising by reason of any deposit with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license or to enable the Service to maintain self-insurance or to participate in any funds established to cover any insurance risk or in connection with workers' compensation, unemployment insurance, any pension or profit sharing plan or other social security, or to share in the privileges or benefits required for the participation of the Service in such arrangements;

(c) any right reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law; any lien for taxes, assessments, levies, fees, water and sewer rents or charges and other governmental and similar charges and any lien of any mechanic, laborer, supplier or vendor for work or services performed or materials furnished in connection with such property that is not due and payable or that is not delinquent or the amount or validity of which is being contested and execution thereon stayed;

(d) any lien granted for the benefit of all holders of the Bonds in accordance with the Indenture;

(e) any lien upon Revenues on deposit in the Composting Facility Closure Fund within the Special Purpose Fund;

(f) any lien upon Revenues pledged to the payment of Subordinate Obligations;

(g) any lien placed upon any real or tangible personal property being acquired by the Service to secure all or a portion of the purchase price thereof; and

(h) such easements, rights-of-way, servitudes, restrictions and other defects, liens and encumbrances as the Service shall determine do not materially impair the use of the Project or any Additional Facilities for their intended purpose or the value of the Project or any Additional Facilities.

"Private Tipping Fee" means the fee charged to any person other than the Service, a Baltimore Regional County or a Designated Hauler to process Yard Debris delivered to the Composting Facility. The Private Tipping Fee must at least equal the Processing Fee.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company or unincorporated organization, or any government unit or agency or political subdivision.

"Processing Fee" means the per ton fee payable by the Baltimore Regional Counties for Yard Debris composting services pursuant to the Intergovernmental Agreement.

"Project" means the acquisition, design, construction, equipping and operation of a Composting Facility consisting of a compost pad, scale and scale house, and internal access roads (being a "project" as defined in the Act) including all necessary attendant facilities and equipment, as the Project may be amended in accordance with the Indenture; the definition of the "Project" set forth hereinabove shall not in any way limit the items that may be financed with the proceeds of the Bonds as permitted by the Act.

"Project Waste" means Qualified Residue and waste materials generated at the Composting Facility by the provision of composting services under the Intergovernmental Agreement.

"Proportionate Share" of a Baltimore Regional County means, respectively, for Anne Arundel County, fifty percent, for Baltimore County, twenty-three and 33/100's percent and for Howard County, twenty-six and 67/100's percent, unless otherwise adjusted pursuant to the Intergovernmental Agreement.

"Qualified Residue" means residue that meets the quality and quantity standards specified in the Service Agreement.

"Rating Agency" means Moody's Investors Service, Inc., Standard & Poor's Corporation or any other securities rating agency that, at the request of the Service, shall have assigned a rating that is then in effect with respect to any Bonds, and their successors and assigns, and "Rating Agencies" means each such Rating Agency, collectively.

"Receiving Hours" means 7 a.m. to 5 p.m., Monday through Saturday unless otherwise agreed by the Service and the Baltimore Regional Counties.

"Redemption Price" means, when used with respect to any Bond or portion thereof, the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

"Registrar" means the Trustee in its capacity as Bond registrar under the Indenture.

"Reloading Fee" means a surcharge, as set forth in the Service Agreement, to each ton of Unacceptable Material removed in accordance with the Service Agreement.

"Replacement Bonds" means Bonds issued in accordance with the Indenture.

"Residue" means the material that remains after Yard Debris has been processed and removed.

"Revenues" means (i) all payments to the Service or the Trustee pursuant to the Intergovernmental Agreement, (ii) all moneys and securities on deposit in the funds and accounts created by this Indenture and (iii) all other receipts of the Service attributable to the ownership, leasing or operation of the Project, and the financing and refinancing of the Project and any Additional Facilities with the proceeds of Bonds.

"Serial Bonds" means the Bonds of any series that are stated to mature in consecutive annual installments.

"Series" means any series of Bonds authorized by the Indenture.

"Series 1995 Bonds" means the Maryland Environmental Service Revenue Bonds (Regional Yard Debris Composting Project) Series 1995, dated as of _____, authorized by Section 2.01 of the Indenture.

"Service" means Maryland Environmental Service, a body politic and corporate constituting an instrumentality of the State of Maryland, created by the Act and performing an essential governmental function of the State of Maryland.

"Service Agreement" means the Service Agreement dated as of _____, 1995, between the Service and _____ providing for the operation of the Composting Facility by _____.

"Short-Term Indebtedness" means any Indebtedness (i) incurred or assumed by the Service for a term not exceeding 365 days, except any such Indebtedness with respect to which a Liquidity Facility is then in effect, and (ii) any guaranty of any Indebtedness that would be described in clause (i) above if such Indebtedness were incurred directly by the Service.

"Sinking Fund Installment" means the amount of money provided in the Indenture, and in each Supplemental Indenture authorizing any Series of Additional Bonds, to redeem or pay at maturity Term Bonds at the times and in the amounts provided in the Indenture or such Supplemental Indenture (as the case may be), less the amount of any credit against such amount arising from the purchase of Term Bonds in any prior year as provided in the Indenture.

"Special Purpose Fund" means the Composting Facility Services Fund established on the books of the Service for the purpose of maintaining discrete financial accounting records

of transactions undertaken pursuant to the Intergovernmental Agreement and described in the Intergovernmental Agreement.

"State" means the State of Maryland.

"Subordinate Obligations" means any subordinate Indebtedness issued by the Service as described under "Summary of Certain Provisions of the Indenture - Subordinate Obligations" below.

"Supplemental Fee" means the quarterly fee payable by the Baltimore Regional Counties to the Service for Yard Debris composting services under the Intergovernmental Agreement and as defined therein.

"Supplemental Indenture" means any indenture of trust between the Service and the Trustee amending, modifying or supplementing the Indenture, any Supplemental Indenture, or any Bond, delivered and becoming effective in accordance with the terms of the Indenture.

"Surcharge" means the amount set forth in the Service Agreement for each ton of Unacceptable Material that is delivered to the Project and not removed in accordance with the Service Agreement.

"Tax-Exempt Bonds" means the Series 1995 Bonds and any other Bonds with respect to which there shall have been delivered to the Service an opinion of Bond Counsel to the effect that the interest on such Bonds is excludable from gross income for federal income tax purposes.

"Term Bonds" means the Bonds of any series, other than Serial Bonds, payable prior to or at their stated maturity from Sinking Fund Installments deposited in the Sinking Fund Account.

"Tipping Fee" means the per ton fee paid by a Hauler to dispose of Yard Debris at the Composting Facility.

"Ton" means a "short ton" of two thousand (2,000) pounds.

"Total Costs" means, with regard to any Fiscal Year, all costs or expenses of the Service, or amounts payable by the Service, in connection with the ownership or operation of the Composting Facility, or the performance by the Service of its obligations under the Intergovernmental Agreement, including (without limitation) the sum of:

(a) Debt Service for the Fiscal Year; and

(b) an amount equal to the aggregate costs of operation, maintenance, repair, equipping and management of the Composting Facility and the provision of

Yard Debris composting services under the Intergovernmental Agreement for the Fiscal Year, including (but not limited to) (i) the reasonable costs of any services provided under operating contracts, service charges or rentals or tipping fees paid to owners or operators of Alternative Facilities, (ii) the costs of disposal of Unacceptable Material, (iii) the reasonable costs of direct labor (including without limitation, labor and services provided by the Service to supervise and manage the Company), supervision, on-site clerical support, fringe benefits, insurance, taxes, materials, supplies, transportation, utilities, tools, equipment, rentals, and lease payments, (iv) the cost of providing and operating monitoring wells with respect to the Composting Facility, (v) all costs, liabilities and penalties under the Comprehensive Environmental Response Compensation and Liability Act (42 U.S.C. 9601 et seq.), the Solid Waste Disposal Act (42 U.S.C. 6901 et seq.), and the Maryland Hazardous Substances Spill Response Law (Maryland Annotated Code, Health-Environmental Article §§7-201 et seq.) or comparable local, State or federal law, (vi) all indirect costs to the Service for administrative, financial, engineering and other oversight and support services (including fees and expenses of counsel to the Service) and (vii) any amounts paid to the Sub-contractor in accordance with the Service Agreement, and all costs of the Service incurred in conjunction with the sale of the Composting Facility in accordance with the Intergovernmental Agreement.

"Total Guaranteed Annual Payment" means, for a Fiscal Year, the aggregate of Guaranteed Annual Payments of the Baltimore Regional Counties.

"Total Proportionate Share" of a Baltimore Regional County means, at any time of calculation, the fraction the numerator of which is the total amount of Yard Debris delivered by the Baltimore Regional County to the Composting Facility during the entire term of this Intergovernmental Agreement, and the denominator of which is the aggregate amount of Yard Debris delivered by or on behalf of the Baltimore Regional Counties to the Composting Facility during the same entire term.

"Trust Estate" means all moneys and securities that from time to time are deposited or are required to be deposited or to be held in trust under any of the provisions of the Indenture and all property, rights and other assets that from time to time may be pledged and assigned to the Trustee under the Granting Clauses of the Indenture.

"Trust Indenture" means any trust indenture, bond resolution or comparable instrument under which Indebtedness is issued by the Service in connection with the financing or refinancing of the Composting Facility or otherwise in connection with the provision of services under the Intergovernmental Agreement, or any modifications thereof or additions thereto, which Indebtedness is, in whole or in part, payable from the revenues credited to the Special Purpose Fund.

"Unacceptable Material" means:

(a) Hazardous Waste; and

(b) any materials that are not Yard Debris.

"Variable Rate Indebtedness" means, as of any particular date, Long-Term Indebtedness, the interest rate on which is not established at a fixed rate or rates for the remaining term thereof.

"Waste Allowance" means, five percent (5%), by weight, of the total monthly amount of accepted Yard Debris.

"Wrongfully Bypassed Material" means Yard Debris that the Company does not process for any reason other than as permitted pursuant to the Service Agreement.

"Wrongfully Diverted Yard Debris" means Yard Debris rejected by the Company for any reason other than as permitted pursuant to the Service Agreement.

"Yard Debris" means leaves, grass, clippings, brush and tree trimmings less than four (4) inches in diameter, and Christmas trees.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. It is not a complete recital of the terms of the Indenture and reference should be made to the Indenture for a complete statement of its terms. Words and terms used in this summary shall have the same meanings as in the Indenture, except where otherwise noted.

Creation of Funds and Accounts (Sections 4.01)

The following funds and separate accounts within funds are created by the Indenture for the benefit of the holders of all Bonds Outstanding under the Indenture: Revenue Fund; Construction Fund; Debt Service Fund (Interest Account, Principal Account and Sinking Fund Account); Debt Service Reserve Fund; Redemption Fund; Insurance and Condemnation Award Fund and Rebate Fund. Each such fund or account shall be held by the Trustee. The Rebate Fund is not pledged to the payment of any Bonds.

Application of Proceeds of Series 1995 Bonds; Transfers of Funds and Accounts (Section 4.02)

Upon the receipt of the proceeds of the Series 1995 Bonds by the Trustee on behalf of the Service in trust for the benefit of the holders from time to time of the Bonds, the Trustee shall make payments from such proceeds as follows: (i) any accrued interest on the Series 1995 Bonds shall be deposited in the Interest Account; (ii) an amount equal to the Debt Service Reserve Fund Requirement shall be deposited in the Debt Service Reserve Fund; and (iii) the balance of such proceeds shall be deposited in the Construction Fund. In addition, the Trustee will deposit in the Interest Account moneys received from the Baltimore Regional Counties for the purpose of paying interest on the Series 1995 Bonds, which moneys shall, together with interest thereon, be equal to interest on the Series 1995 Bonds prior to the Operations Commencement Date.

Application of Moneys in the Construction Fund (Section 4.03)

Moneys deposited in the Construction Fund shall be used only to finance or refinance the Costs of or relating to the Project and any Additional Facilities. Payments from the Construction Fund shall be made in accordance with requisitions meeting the requirements of the Indenture.

Upon completion of the Project or any Additional Facilities, the Trustee shall pay the balance of moneys then remaining in the Construction Fund as follows and in the following order of priority: (i) to the Debt Service Reserve Fund, such amount necessary to make the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement; and (ii) to the

Redemption Fund, any balance or deposit in the Construction Fund after making the payment required above.

Deposit of Revenues (Section 4.05)

The Revenues received pursuant to the Indenture and any other moneys that are required to be deposited in the Revenue Fund, shall be deposited by the Trustee in the Revenue Fund. Except as otherwise set forth below, the Trustee shall transfer moneys in the Revenue Fund upon deposit thereof as follows and in the following order of priority:

FIRST: to the Interest Account, the amount, if any, necessary to make the amount on deposit therein equal to the amount of interest accrued and unpaid on the Bonds Outstanding on the first day of the immediately succeeding month (in the case of any Outstanding Bonds that constitute Variable Rate Indebtedness, calculated on the basis of the actual interest rates borne by such Bonds through the date of such transfer and assuming such Bonds bear interest during any period after the date of such transfer at an annual rate equal to 110% of the interest rate borne by such Bonds on the date of such transfer);

SECOND: (i) to the Principal Account, the lesser of (A) one-twelfth (1/12) of the amount of any principal of the Bonds Outstanding becoming due on the immediately succeeding September 1 and (B) the amount required to make the amount on deposit in the Principal Account equal to the principal amount, if any, becoming due on the Bonds Outstanding on the immediately succeeding September 1;

(ii) to the Sinking Fund Account, the lesser of (A) one-twelfth (1/12) of the amount of any Sinking Fund Installment for the Bonds Outstanding due on the immediately succeeding September 1 and (B) the amount necessary to make the amount credited to the Sinking Fund Account equal to the Sinking Fund Installment, if any, becoming due on the Bonds on the immediately succeeding September 1; and

THIRD: to the Debt Service Reserve Fund, beginning in the month immediately succeeding any month in which the Service receives notice of any deficiency in the Debt Service Reserve Fund pursuant to the Indenture, one-twelfth (1/12) of the amount of such deficiency until the amount credited to the Debt Service Reserve Fund equals the Debt Service Reserve Fund Requirement.

After making the payments required above, any balance remaining in the Revenue Fund on the last day in any month shall be paid to the Service unless such amount constitutes the proceeds of

Bonds or the investment earnings thereon, in which case such amount shall be transferred to such funds and accounts as the Service, upon advice of Bond Counsel, shall direct.

The Service shall pay over to the Trustee and the Trustee shall immediately deposit in the Insurance and Condemnation Award Fund upon receipt thereof (i) all proceeds received under any title insurance policy relative to all or any portion of the Project or any Additional Facilities, (ii) the proceeds of all or any portion of the Project or any Additional Facilities taken in the exercise of the power of eminent domain, condemnation or through the exercise of any right or any obligation on the part of any public authority to purchase the same, or as a result of any agreement between the Service and any such public authority, and (iii) any insurance proceeds payable in connection with the loss, damage or destruction of all or any portion of the Project or any Additional Facilities.

The Service shall pay over to the Trustee and the Trustee shall immediately deposit the proceeds of any use and occupancy insurance policy (A) to the Interest Account, to the extent of the amount of such proceeds that represents interest accruing on the Bonds for the period covered by such payment, and (B) to the Principal Account and the Sinking Fund Account, to the extent of the amount of such proceeds that represents the amount, if any, payable by the Service during the period covered by such payment in respect of the principal of or Sinking Fund Installment for the Bonds.

Application of Moneys in the Debt Service Fund (Section 4.06)

The Trustee shall pay from the Interest Account the interest due on the Outstanding Bonds on each interest payment date, and any amounts required for the payment of accrued interest upon any purchase or redemption of Outstanding Bonds.

The Trustee shall on each September 1 pay from the Principal Account the principal amount due, if any, on the Outstanding Bonds, upon presentation and surrender of the requisite Bonds. The Trustee shall take all action necessary to effect the timely redemption of Outstanding Term Bonds from the Sinking Fund Account in accordance with the Sinking Fund Installments.

Application of Moneys in the Debt Service Reserve Fund (Section 4.07)

If on any interest payment date the amount in the Interest Account shall be less than the amount of interest due on the Outstanding Bonds, or if on any September 1 the amount credited to the Principal Account or the Sinking Fund Account shall be less than the amount of the principal and the Sinking Fund Installment (either or both, as the case may be) then due on the Bonds, the Trustee forthwith shall transfer any moneys from the Debt Service Reserve Fund, first, to the Interest Account, and second, to the Principal Account and Sinking Fund Account, to the extent necessary to make good any deficiency.

For the purposes of the Indenture, in the case of the Debt Service Reserve Fund a "deficiency" shall mean that the value of the assets of the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement; and a "surplus" shall mean that the value of the assets of the Debt Service Reserve Fund is in excess of the Debt Service Reserve Fund Requirement; provided, however, that interest earned and profits realized by reason of investment of amounts on deposit in the Debt Service Reserve Fund and required to be transferred to the Debt Service Fund shall not create a surplus within the meaning of the Indenture.

The Trustee shall determine the value of the assets in the Debt Service Reserve Fund in the manner prescribed in the Indenture as of the close of business (i) on September 1 and March 1 in each year during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and between the date of delivery of any series of Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds, (ii) on September 1 in each year during any other period, (iii) on the date of any withdrawal from the Debt Service Reserve Fund, and on the last Business Day of each month thereafter until a deficiency no longer exists in the Debt Service Reserve Fund, (iv) on any date on which the Trustee obtains actual knowledge that any Debt Service Reserve Fund Credit Facility is no longer entitled to be credited against the Debt Service Reserve Fund under the Indenture and (v) on any other date on which the Service shall direct.

The Trustee shall transfer the amount of any surplus that exists in the Debt Service Reserve Fund from time to time upon the direction of the Service as follows:

> FIRST: to the Construction Fund during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and, unless the Supplemental Indenture authorizing the issuance of any Additional Bonds shall otherwise provide, during the period between the date of delivery of such Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds; and
>
> SECOND: to the Redemption Fund.

Application of Moneys in the Redemption Fund (Section 4.08)

On any date that a determination of the value of the assets of the Debt Service Reserve Fund discloses a deficiency therein, the Trustee shall transfer to the Debt Service Reserve Fund from the Redemption Fund any amount on deposit in the Redemption Fund (other than moneys set aside to pay the Redemption Price on any Bonds theretofore called for redemption and moneys set aside for the purchase of Bonds theretofore contracted to be purchased) to the extent of such deficiency. The Trustee shall notify the Service of such transfer and the amount thereof. Upon the direction of the Service, the Trustee may set aside any

amount on deposit in the Redemption Fund for the redemption of particular Bonds by the delivery of irrevocable written instructions to the Trustee. Amounts set aside for the redemption of Bonds and investment earnings on such amounts shall be applied to the payment of the interest due on such Bonds on or prior to the redemption date of such Bonds to the extent provided in such instructions.

Moneys in the Redemption Fund shall be applied by the Trustee to the purchase or redemption of Bonds of such Series and maturities as the Service, shall direct; provided, however, that if any Supplemental Indenture authorizing the issuance of any Series of Additional Bonds shall so provide, moneys available for the redemption or purchase of Bonds on any date shall be allocated among all Series of Bonds in proportion (as nearly as practicable) to the aggregate principal amount of Bonds of each such Series subject to redemption on such date and the Bonds of such Series of Additional Bonds to be purchased or redeemed on any date shall be selected in accordance with the provisions of such Supplemental Indenture.

Application of Moneys in the Insurance and Condemnation Award Fund (Section 4.09)

(a) The Service may elect within six months of any loss, damage, destruction or taking of the Project or any Additional Facilities to apply the proceeds resulting therefrom on deposit in the Insurance and Condemnation Award Fund to the repair or replacement of the lost, damaged, destroyed or taken property, if:

(i) the Service delivers to the Trustee a certificate of an Authorized Officer of the Service in form and substance satisfactory to the Trustee, setting forth his estimate of the cost of repairing or replacing the lost, damaged, destroyed or taken property to be repaired or replaced and the time required therefor; and

(ii) the Service delivers to the Trustee a certificate of an Authorized Officer of the Service, in form and substance satisfactory to the Trustee, that (1) the amount of such proceeds, together with any other moneys deposited or available for deposit in the Insurance and Condemnation Award Fund (which may include, without limitation, amounts available to be drawn under a letter of credit, guaranty or other instrument in form and substance satisfactory to the Trustee delivered to the Trustee for the credit of the Insurance and Condemnation Award Fund) will be sufficient to pay the costs of repairing or replacing the lost, damaged, destroyed or taken property to be repaired or replaced, (2) the Coverage Ratio for each of the two Fiscal Years following restoration of the Project or any Additional Facilities (taking into account proceeds of insurance available to the Service for each Fiscal Year during the period of restoration) is projected to be at least 1.00 and (3) neither the Service nor

the County is in default in the performance or observance of any of the covenants, conditions, agreements or provisions of the Service Agreement, and the Service Agreement is in full force and effect.

(b) The Service may elect within six months of any loss, damage, destruction or taking of the Project or any Additional Facilities to apply any proceeds resulting therefrom on deposit in the Insurance and Condemnation Award Fund to the redemption of Outstanding Bonds if:

(i) the Service either delivers to the Trustee a certificate of an Authorized Officer of the Service, in form and substance satisfactory to the Trustee, to the effect that (after giving effect to the redemption of such Bonds) the Coverage Ratio for each Fiscal Year during the period covered by projections contained in such certificate, which shall be a period of at least two full Fiscal Years or such longer period as shall be deemed advisable by the Service, is projected to be at least 1.00; or

(ii) the Service shall pay to the Trustee for deposit in the Insurance and Condemnation Award Fund an amount of money that, together with any other moneys held to the credit of the funds and accounts created by the Indenture, shall be sufficient to provide for the redemption of all Outstanding Bonds in the manner provided by the Indenture.

(c) The Service may elect to apply a portion of such proceeds to the repair or replacement of the lost, damaged, destroyed or taken property and to apply the remaining proceeds to the redemption of Outstanding Bonds so long as the Service shall satisfy the requirements of paragraph (a) above.

(d) The Service shall elect to apply such proceeds in accordance with paragraph (a), (b) or (c) above within six months of such loss, damage, destruction or taking. If the Service does not make such election or is not entitled to apply such proceeds in accordance with paragraph (a), (b) or (c) above, the Trustee shall employ an Independent Consultant at the expense of the Service, within six months of such loss, damage, destruction or taking, to submit a written report and recommendations as to the use of such proceeds that would result in the maximum feasible Coverage Ratio. Such report shall include a financial projection for a period extending at least through the second full Fiscal Year after the date of completion of any repairs or replacements recommended by such Independent Consultant. Such proceeds shall be applied in accordance with the recommendations of such Independent Consultant.

(e) If any portion of the Project or any Additional Facilities shall be lost, damaged or destroyed as a result of a casualty as to which insurance has not been maintained as required under the terms of the Indenture, and if the amount of such loss, damage or destruction is in excess of $100,000 multiplied by the Inflation Factor, the Service shall elect, promptly after such loss, damage or destruction, either to expend for repairs, restoration or replacement of the

property lost, damages or destroyed such sum as may be required therefor, or to pay such sum to the Trustee; provided, however, that if in any single Fiscal Year such loss, damage or destruction is in an aggregate amount equal to or in excess of $200,000 multiplied by the Inflation Factor, and the Service shall not have elected to repair or replace the lost, damaged or destroyed property within six months of such loss, damage or destruction, then the Service shall either (i) deliver to the Trustee a certificate of an Authorized Officer of the Service, in form and substance satisfactory to the Trustee, to the effect that the Coverage Ratio for each Fiscal Year during the period covered by projections covered by such certificate, which shall be a period of at least two full Fiscal Years or such longer period as shall be deemed advisable by the Service, is projected to be at least 1.00, or (ii) forthwith pay to the Trustee for deposit in the Insurance and Condemnation Award Fund the amount that, together with any other moneys in the funds and accounts established by the Indenture, shall be sufficient to provide for the redemption of all Outstanding Bonds. Notwithstanding any other provision of this paragraph, the Service may elect within such six-month period to repair or replace some of the lost, damaged or destroyed property and to pay the remaining sum (and any additional moneys) to the Trustee to be applied to the redemption of Outstanding Bonds if the Service's certificate delivered to the Trustee pursuant to clause (i) above indicates that the Coverage Ratio for each Fiscal Year during the period extending through the second full Fiscal Year after the date of completion of such repairs or replacements is projected to be at least 1.00.

(f) As used in this Section, the terms "repair" and "replace" include (without limitation) the construction or acquisition of replacement or substitute property, structures, machinery, equipment or other improvements having a fair market value (but not necessarily the same function) at least equal to the fair market value, immediately prior to loss, damage, destruction or taking, of the property lost, damages, destroyed or taken. The election of the Service to repair or replace any lost, damaged, destroyed or taken property shall be made by a written certification of an Authorized Officer of the Service to the effect that the Service has entered into substantial, binding commitments for such repair or replacement.

(g) The Service shall adjust losses under property and business interruption insurance policies related to the Project or any Additional Facilities as promptly as practicable and with due regard to the interests of the Trustee and the holders of Bonds. Any adjustment of any loss, damage or destruction in an amount in excess of $20,000 under any policy of casualty insurance and any settlement or payment of indemnity in an amount in excess of $20,000 under any such policy shall be evidenced by an appropriate certificate, filed with the Trustee, signed by an Authorized Officer of the Service.

(h) If any public authority or other entity, in the exercise of its power of eminent domain or condemnation power or through the exercise of any right or obligation on the part of such entity, or as a result of any agreement between the Service and such entity made in lieu of condemnation proceedings, takes or damages the Project or any Additional Facilities, or any part thereof, the Service shall take prompt and appropriate measures to protect and enforce its rights and interests and those of the Trustee in connection with any condemnation proceeding.

Prompt written notice of any taking, loss, damage or destruction of any part of the Project or any Additional Facilities or of any official notice thereof or of the institution of any proceeding therefor by any public instrumentality, body, agency or officer shall be given to the Trustee.

(i) If moneys on deposit in the Insurance and Condemnation Award Fund are to be used to pay the costs of repair or replacement of lost, damaged, destroyed or taken property, such moneys shall be disbursed by the Trustee from time to time to or at the direction of the Service in accordance with requisitions meeting the requirements of the Indenture.

If moneys on deposit in the Insurance and Condemnation Award Funds are to be applied to the redemption of Bonds, such moneys shall be transferred by the Trustee to the Redemption Fund to be applied to the extraordinary redemption of Bonds on the earliest practicable redemption date.

Investments (Section 4.10)

Moneys in any of the funds and accounts established pursuant to the Indenture that are held by the Trustee shall be invested by the Trustee as shall be directed by an Authorized Officer of the Service but only in Investment Obligations maturing in such amounts and on such dates as may be necessary to provide moneys to meet payments from such funds and accounts. Notwithstanding the foregoing, moneys in the Debt Service Reserve Fund shall be invested only in Investment Obligations maturing or redeemable at the option of the holder not later than ten years following the date of their purchase.

Subject to the provisions of the Indenture, interest earned, profits realized and losses suffered by reason of any investment of the funds and accounts created by the Indenture shall be credited or charged, as the case may be, to the fund or account for which such investment shall have been made; provided, however, that during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and, unless the Supplemental Indenture authorizing the issuance of any Additional Bonds shall otherwise provide, during the period between the date of delivery of any Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds, the Trustee shall pay to the Construction Fund from the Interest Account an amount equal to the interest earned from the investment of money in the Interest Account which, together with other money on deposit in the Interest Account is in excess of the amount required to pay interest on the Bonds on each interest payment date prior to the Completion Date.

Interest earned, profits realized and losses suffered by reason of any investment of the Debt Service Reserve Fund shall be calculated by the Trustee on each date on which the Trustee is required to determine the value of the assets of the Debt Service Reserve Fund in accordance with the Indenture. If the net investment result for the Debt Service Reserve Fund for any such period is a gain (by virtue of either interest earned or profits realized), the amount of such investment gain shall be credited to the Debt Service Reserve Fund to the extent that

there exists a deficiency therein, and the balance of such investment gain, if any, shall be paid by the Trustee from time to time upon the direction of the Service as follows: (i) to the Construction Fund during the period between the date of delivery of the Series 1995 Bonds and the Completion Date of the Project and, unless the Supplemental Indenture authorizing the issuance of any Additional Bonds shall otherwise provide, during the period between the date of delivery of any Additional Bonds and the Completion Date of any Additional Facilities financed with the proceeds of such Additional Bonds and (ii) in any other case, to the Debt Service Fund for deposit in such accounts as the Service shall direct.

In addition, in determining the value of the assets of the Debt Service Reserve Fund, there shall be credited to the Debt Service Reserve Fund the amount that can be realized by the Trustee under any Debt Service Reserve Fund Credit Facility if each of the following conditions is met: (i) on the date of delivery of such Debt Service Reserve Fund Credit Facility to the Trustee and throughout the period during which such Debt Service Reserve Fund Credit Facility is credited to the Debt Service Reserve Fund, the unsecured long-term indebtedness or the claims-paying ability of the issuer of such Debt Service Reserve Fund Credit Facility or its parent holding company or other controlling entity is rated by each Rating Agency which maintains a rating on the Bonds secured thereby in a rating category not lower than the rating category in which the Bonds are then rated; (ii) such Debt Service Reserve Fund Credit Facility permits the Trustee to realize amounts thereunder (A) at such times as the Trustee is required to transfer any amount (other than any surplus) from the Debt Service Reserve Fund in accordance with the Indenture and (B) immediately prior to the expiration date of such Debt Service Reserve Fund Credit Facility unless all Bonds secured thereby have been paid in accordance with the Indenture prior to such date or there shall have been deposited in the Debt Service Reserve Fund money or securities authorized for investment of the Debt Service Reserve Fund (including without limitation, any substitute Debt Service Reserve Fund Credit facility meeting the requirements of this paragraph) equal to the Debt Service Reserve Fund Requirement; (iii) in connection with the delivery of such Debt Service Reserve Fund Credit Facility, the Trustee shall have agreed to make the drawings permitted by clause (ii) above; and (iv) such amounts shall be payable in no fewer than 12 equal monthly installments.

The Trustee shall not be liable for any depreciation in the value of any obligations in which moneys of the funds or accounts created by the Indenture shall be invested, or for any loss arising from any permitted investment.

The Rebate Fund (Section 4.12)

The Service shall (i) hold and invest Bond Proceeds within its control (if such proceeds are invested), (ii) direct the Trustee to transfer amounts on deposit in any fund or account created by the Indenture to the Rebate Fund and (iii) deposit funds with the Trustee for deposit to the Rebate Fund or otherwise make funds available for the payment of rebates to the United States of America, all in accordance with the expectations of the Service set forth in its Tax and Section 148 Certificate.

The Service shall make timely payment, but only from the Revenues, of any rebate amount (or installment thereof) required to be paid to the United States of America in order to preserve the excludability from gross income, for federal income tax purposes, of interest paid on the Tax-Exempt Bonds, and shall include with any such payment such other documents, certificates or statements as shall be required to be included therewith under then-applicable law and regulations.

Upon receipt of written notice from an Authorized Officer of the Service directing the transfer of amounts on deposit in any fund or account created by the Indenture to the Rebate Fund, the Trustee shall make the transfer referred to therein, any other provision of the Indenture to the contrary notwithstanding. Amounts on deposit in the Rebate Fund from time to time required to be rebated to the United States of America pursuant to Section 148 of the Code shall be made available by the Trustee to the Service for the payment of such rebates upon the written direction of an Authorized Officer of the Service and shall not be pledged to the payment of the principal or Redemption Price of or interest on any Bonds.

As used in the above paragraphs, "rebate" means the required rebate payable to the United States of America and any penalty in lieu of rebate pursuant to Section 148(f) of the Code.

Additional Bonds (Section 2.05)

The Indenture authorizes the issuance of Additional Bonds by the Service pursuant to a Supplemental Indenture for any one or more of the following purposes: (i) to refund or advance refund Outstanding Bonds; (ii) to obtain funds necessary to pay the Cost of Additional Facilities required in order to restore, maintain, improve or increase the disposal capacity of the Project or otherwise permit the Service to meet its Yard Debris composting obligations under the Service Agreement; or (iii) to obtain funds necessary to pay the Cost of completing the Project and any Additional Facilities. Additional Bonds may be issued to pay the costs incurred in connection with the issuance and sale of any Bonds, to establish reserves and to pay interest on any Bonds prior to and during the acquisition and construction and (if deemed advisable by the Service) for a limited period after the completion of the Project or any Additional Facilities, as the case may be. The issuance of Additional Bonds shall be authorized by a Supplemental Indenture and on a parity with, and shall be entitled to the same benefit and security of the Indenture (including the pledge of the Revenues made by the Indenture) as the Series 1995 Bonds and any other series of Additional Bonds that may be issued from time to time as provided in the Indenture.

The Supplemental Indenture authorizing the issuance of any Series of Additional Bonds may provide that funds on deposit in any Debt Service Reserve Fund or proceeds realized under any Credit Facility securing the payment of such Additional Bonds shall not be available

to pay the principal or Redemption Price of or interest on, or the purchase price of, the Series 1995 Bonds or any other series of Additional Bonds.

Any Supplemental Indenture authorizing the issuance of Additional Bonds may provide that (i) such Series of Bonds shall be secured by the Debt Service Reserve Funds maintained for the Series 1995 Bonds, (ii) such Series of Additional Bonds shall not be secured by a Debt Service Reserve Fund, (iii) such Additional Bonds shall be secured by a separate Debt Service Reserve Fund.

The Indenture requires that, prior to the delivery of each series of Additional Bonds, there must be delivered to the Trustee, among other things:

(a) a counterpart of the applicable Supplemental Indenture authorizing the issuance of such Additional Bonds executed by the parties hereto;

(b) an opinion of Bond Counsel to the effect that (i) the Supplemental Indenture of the Service authorizing the issuance of such Additional Bonds has been duly authorized, executed and delivered by the Service and, assuming the due authorization, execution and delivery thereof by the Trustee, constitutes the valid and binding obligation of the Service; (ii) the Service is duly authorized and entitled to issue such Additional Bonds, and Bonds executed, authenticated and delivered as provided in such Supplemental Indenture have been duly and validly issued and constitute valid and binding limited obligations of the Service; and (iii) the issuance of such Additional Bonds will not adversely affect the excludability from gross income, for federal income tax purposes, of interest paid on any Tax-Exempt Bonds theretofore issued;

(c) a certificate of an Authorized Officer of the Service to the effect that on the date of the authentication and delivery of such Additional Bonds, (i) the Service is not in default in the performance or observance of any of the covenants, conditions, agreements or provisions of the Indenture, and (ii) neither the Service nor the any of the Baltimore Regional Counties is in default in the performance or observance of any of the covenants, conditions, agreements or provisions of any of the Intergovernmental Agreement; provided, however, that the Trustee shall not be required to have received the certificate described in this paragraph (c) in connection with the issuance of any Bonds issued for the purpose of refunding or advance refunding any Outstanding Bonds;

(d) a written order of the Service directing the authentication and delivery of such Additional Bonds, describing the Additional Bonds to be authenticated and delivered, designating the purchasers to whom such Additional Bonds are to be delivered, stating the purchase price of such Additional Bonds and stating that all items required by the Indenture are therewith delivered to the Trustee in form and substance satisfactory to the Service; and

(e) moneys or securities authorized for the investment of the Debt Service Reserve Fund (which may include, without limitation, a Debt Service Reserve Fund Credit Facility qualified to be credited to the Debt Service Reserve Fund under the Indenture), in an amount equal to the amount, if any, required to be paid to the Debt Service Reserve Fund to make the amount on deposit in the Debt Service Reserve Fund equal the Debt Service Reserve Fund Requirement upon the issuance of such Additional Bonds; and

(f) a certificate of an Authorized Officer of the Service to the effect that the Coverage Ratio for the most recent Fiscal Year of the Service for which audited financial statements are available is not less than 1.00 (assuming for this purpose that Composting Facility Revenues do not include any amounts described in items (c) and (d) of such definition); and

Notwithstanding the foregoing, the Trustee shall not be required to have received the items required under paragraph (f) above in connection with the issuance of any Additional Bonds issued for the purpose of (i) refunding or advance refunding any Outstanding Bonds if the Trustee shall have received a certificate of an Authorized Officer of the Service to the effect that, after giving effect to the proposed refunding or advance refunding, Maximum Annual Debt Service on all Outstanding Bonds will not be increased by more than five percent or (ii) financing or refinancing the cost of any portion of the Composting Facility.

Additional Bonds may be authenticated, delivered and paid for in installments of less than the total authorized principal amount of a series of Bonds from time to time as the Service may direct in its written requests.

Amendment of the Project and of Additional Facilities (Section 5.05)

The Service shall not consent to any amendment of the Project or any Additional Facilities which shall: (i) increase the cost of the Project or such Additional Facilities to an amount in excess of the amount of moneys available or reasonably expected to become available for the payment of such costs, or (ii) decrease the scope of the Project or such Additional Facilities so that the Project or such Additional Facilities, as decreased in scope, would cease to be an economically feasible or functional facility.

Nothing contained in the Indenture shall be construed to prohibit the Service from exercising its judgment and discretion in reducing the scope of the Project or any Additional Facilities in the event that (i) unforeseen circumstances would result in inadequate money to complete the Project or such Additional Facilities, and (ii) such inadequacy could not reasonably be remedied by the issuance of Bonds or otherwise.

Subordinate Obligations Authorized (Section 2.11)

In addition to any Additional Bonds issued in accordance with the Indenture, the Service may issue from time to time other Indebtedness for any purpose for which Additional Bonds may be issued under the Indenture. The Service may pledge the Revenues to the payment of any Subordinate Obligations, but any such pledge shall be junior and subordinate to the pledge of the Revenues to secure the Bonds. So long as no Event of Default under the Indenture shall have occurred and be continuing, the Service may pay or prepay, or authorize the payment or prepayment of, the principal of and interest on any Subordinate Obligation and no recourse shall be had by the holder of any Bond against the person to whom any such payment shall have been made unless such person shall have had, at the time of receipt of such payment, actual knowledge of the insolvency of the Service. During the continuance of any Event of Default under the Indenture, no payments shall be made with respect to the principal of or interest on any Subordinate Obligation.

Performance of Covenants, Undertakings and Agreements; Representations as to Authorization and Validity of Bonds (Section 5.02)

The Service shall faithfully perform at all times all of its covenants, undertakings and agreements contained in the Intergovernmental Agreement and any Bond executed, authenticated and delivered under the Indenture or in any proceedings of the Service pertaining thereto. The Service shall take all legally available action to cause the Baltimore Regional Counties to perform fully all duties and acts and comply fully with the covenants of the Baltimore Regional Counties contained in the Intergovernmental Agreement.

The Service shall take all legally available action to cause _____ to perform fully all duties and acts and comply fully with the covenants of _____ contained in the Service Agreement.

The Service represents and covenants that: (i) it is duly authorized under the Constitution and laws of the State of Maryland, particularly the Act, to issue the Bonds and to enter into the Intergovernmental Agreement and to pledge the Trust Estate in the manner and to the extent set forth in the Indenture; (ii) all action on its part for the issuance of the Series 1995 Bonds has been duly and effectively taken; and (iii) the Series 1995 Bonds are and will be valid and binding limited obligations of the Service according to their terms.

Liens, Encumbrances and Charges (Section 5.03)

The Service shall not create and shall not suffer to remain any lien, encumbrance or charge upon its interest in the Revenues, except for the pledge created for the security of the Bonds and, to the extent provided in the Indenture, any Additional Bonds and Subordinate Obligations and Permitted Encumbrances. The Service will cause to be discharged, or will make adequate provisions to satisfy and discharge, within 60 days after the same shall accrue, all lawful claims and demands that, if unpaid, might by law become a lien upon its interest in the Revenues; provided, however, that nothing contained in this Section shall require the

Service to pay or cause to be discharged, or make provision for, any such lien, encumbrance or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings. Except for Subordinate Obligations, so long as any Bonds or Additional Bonds shall be Outstanding, the Service shall not issue any bonds, notes or other evidences of indebtedness other than the Bonds, secured by any pledge of or other lien or charge on the Revenues under the Indenture. The Service shall not create or cause to be created any lien or charge on the Revenues, other than the lien on and pledge of the Revenues authorized by the Indenture to secure the Bonds, Additional Bonds and any Subordinate Obligations. Anything in this Section to the contrary notwithstanding, the Service may dispose of Revenues at any time unless it is in default under the Indenture.

Rate Covenant (Section 5.07)

(a) The Service shall fix, charge and collect the Processing Fee in each Fiscal Year which, together with other Composting Facility Revenues for such Fiscal Year, shall be at least equal to Total Costs for such Fiscal Year.

(b) If the Processing Fee, together with other Composting Facility Revenues imposed and collected by the Service, shall be less than the amount required under paragraph (a) of this above in any Fiscal Year, the Service shall immediately employ an Independent Consultant to submit a written report and recommendations with respect to such Processing Fee, and Composting Facility Revenues and with respect to improvements or changes in the operations of or the services rendered by Service under the Intergovernmental Agreement. The Service shall require any Independent Consultant employed hereunder to file its report and recommendations within 150 days from the end of any such Fiscal Year with the Service and the Trustee.

(c) Any Independent Consultant retained by the Service pursuant to this Section may recommend with respect to the Processing Fee or other charges imposed and collected by the Service and with respect to improvements or changes in the operations of or the services rendered by the Service under the Intergovernmental Agreement that the Service either (A) make no change or (B) make some change, even though such recommendation is not calculated to result in compliance with the requirements of paragraph (a) of this Section, if the Independent Consultant includes in its written report and recommendations a statement to the effect that compliance with such recommendations should result in compliance with such requirements to the maximum extent feasible.

(d) To the extent permitted by Applicable Law, the Service promptly shall revise its Processing Fee and other charges in conformity with any recommendation of the Independent Consultant retained by the Service pursuant to this Section and shall otherwise follow the recommendations of such Independent Consultant. If the Service shall revise such Processing Fee and other charges in conformity with the recommendations of the Independent Consultant and otherwise follow the recommendations of the Independent Consultant, then the failure of

the Service to meet the requirements of paragraph (a) of this Section for such Fiscal Year shall not constitute an Event of Default under the Indenture.

(e) Nothing set forth in this Section shall be construed to excuse the Service from the payment in timely manner of all amounts due under the Indenture or the performance of any other obligation of the Service under the Indenture.

Insurance (Section 5.08)

(a) The Service shall maintain, or cause to be maintained, insurance of the types and in the amounts ordinarily and customarily maintained on facilities such as the Project.

(b) The Service may satisfy the requirements of paragraph (a) above by (i) so long as the Service Agreement is in effect, maintaining or causing to be maintained insurance in compliance with Article VIII and Schedule 7 of the Service Agreement; (ii) establishing and maintaining a self-insurance plan that protects the Service against the risks required to be insured against by paragraph (a) of this Section; or (iii) participating in any self-insurance plan that protects the Service against the risks required to be insured against by paragraph (a) of this Section and that is established and maintained by the State of Maryland.

Amendments or Modifications of the Indenture and the Service Agreements (Sections 8.01, 8.02 and 8.04)

Without notice to or the consent of the holders of the Bonds, the Service and the Trustee may enter into at any time or from time to time a Supplemental Indenture supplementing, modifying or amending the Indenture or any Supplemental Indenture for one or more of the following purposes: (i) to grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Trustee for the benefit of such holders; (ii) to add to the covenants and agreements of the Service contained in the Indenture, other covenants and agreements thereafter to be observed relative to the acquisition, construction, equipping, operation, maintenance, development or administration of the Project, or relative to the application, custody, use or disposition of the proceeds of Bonds or Subordinate Obligations so long as no such covenant or agreement shall prejudice in any material respect the rights of the holders of the Bonds Outstanding at the date as of which such covenant or agreement shall become effective; (iii) to surrender to the Trustee any right, power or privilege reserved to or conferred upon the Service by the Indenture; (iv) to confirm, as further assurance, any pledge under, and the subjection to any lien on, or claim or pledge of (whether created or to be created by the Indenture), the Trust Estate; (v) to cure any ambiguity or to cure or correct any defect or inconsistent provisions contained in the Indenture; (vi) to provide for the terms of Additional Bonds, including (without limitation) any modifications or amendments required to grant to or otherwise secure for the holders of such Additional Bonds a parity interest in the security granted to the holders of the Series 1995 Bonds and any other then-Outstanding Bonds in

accordance with the Indenture or to authorize or approve the issuance of Subordinate Obligations in accordance with the Indenture; (vii) to permit the qualification of the Indenture or any Supplemental Indenture under any federal statute now or hereafter in effect or under any state blue sky law; (viii) to obtain or to maintain any ratings on Bonds from any nationally recognized securities rating agency so long as no provision of any such Supplemental Indenture shall prejudice in any material respect the rights of the holders of the Bonds Outstanding at the date as of which such Supplemental Indenture shall become effective; (ix) to make any other change in the Indenture, including (without limitation) any change necessary in connection with the issuance of any Subordinate Obligation, which the Trustee determines shall not prejudice in any material respect the rights of the holders of the Bonds Outstanding at the date as of which such change shall become effective; (x) to provide for the issuance of any Bonds in coupon form or in book entry form; provided, however, that prior to the effective date of any such amendment, there shall be delivered to the Service and the Trustee an opinion of Bond Counsel to the effect that the issuance of any such Bonds in coupon or book entry form (as the case may be) will not adversely affect the excludability from gross income for federal income tax purposes of the interest paid on any Tax-Exempt Bonds theretofore issued; or (xi) to preserve the excludability from gross income for federal income tax purposes of the interest paid on any Tax-Exempt Bonds theretofore issued.

With the prior written consent of the holders of a majority of the Bonds, the Service and the Trustee may enter into at any time and from time to time Supplemental Indentures amending or supplementing the Indenture, any Supplemental Indenture or any Bond to modify any of the provisions thereof or to release the Service from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained; provided, however, that nothing contained herein shall permit (i) a change in any terms of redemption or purchase of any Bond, the due date for the payment of the principal of or interest on any Bond or any reduction in the principal, Redemption Price or purchase price of or interest rate on any Bond without the consent of the Holder of such Bond or (ii) except as expressly permitted hereby, the creation of a claim or lien upon, or a pledge of, the Trust Estate ranking prior to or on a parity with the claim, lien and pledge created by the Indenture, a preference or priority of any Bond over any other Bond or a reduction in the percentage of Bonds the consent of the Holders of which is required for any modification of the Indenture, without the unanimous consent of the holders of all Outstanding Bonds.

Without notice to or the consent of the Bondholders, the Service may at any time and from time to time enter into any amendment, change or modification of the Intergovernmental Agreement that is (i) required or permitted by the provisions of the Intergovernmental Agreement, or (ii) required to cure any ambiguity or formal defect or omission therein, or (iii) required or permitted pursuant to the provisions of the Indenture in connection with the issuance of any Additional Bonds, or (iv) not prejudicial in any material respect to the rights of the holders of the Bonds in the judgment of the Service and the Trustee.

Except as provided above, the Service shall not enter into any amendment, change or modification of the Intergovernmental Agreement without the prior written consent of the Trustee and the Holders of a majority of the Bonds Outstanding at the effective date of such amendment, change or modification.

Events of Default and Remedies

Events of Default (Sections 7.01 and 7.02)

Each of the following events, among others, is declared to constitute an event of default under the Indenture: (i) payment of the principal of any of the Bonds shall not be made when due and payable, either at maturity or by proceedings for redemption or otherwise; or payment of the purchase price of any of the Bonds required by their terms to be purchased from the Holders thereof by the Service on any date prior to their stated maturity shall not be made in accordance with the terms thereof on such date; (ii) payment of interest on any of the Bonds shall not be made when due and payable; (iii) an order or decree shall be entered with the acquiescence of the Service appointing a receiver of the Revenues, and shall not have been vacated or discharged or stayed on appeal within 60 days after the entry thereof; (iv) any proceeding shall be instituted with the acquiescence of the Service for the purpose of effecting a composition between the Service and its creditors, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Trust Estate; (v) the Service shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in any of the Bonds or in the Indenture on the part of the Service to be performed, which default, except for those defaults described in (i) through (iv), inclusive, shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Service by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of not less than 25% of the Bondholders.

Upon the happening and continuance of any Event of Default specified in the Indenture, the Trustee may, and upon the written request of not less than 25% of the Bondholders shall, by a notice in writing to the Service, declare the principal of all of the Outstanding Bonds to be due and payable. The Trustee also shall declare the principal of all Outstanding Bonds to be due and payable upon the written direction of the Service following the occurrence of any Event of Default under the Intergovernmental Agreement. Notwithstanding the foregoing, the Trustee may not declare the principal of any Series of Bonds other than the Series 1995 Bonds to be due and payable without the prior written consent of any person whose consent shall be required for such declaration under the terms of the Supplemental Indenture authorizing the issuance of such Bonds.

Upon the giving of notice of such declaration, such principal shall become and be immediately due and payable, anything in the Bonds or in the Indenture to the contrary

notwithstanding. At any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee may (but in the event that such declaration has been made upon the request of the Bondholders, only with the written consent of not less than 25% of the Bondholders), by written notice to the Service, annul such declaration and its consequences if: all defaults shall have been remedied pursuant to the Indenture.

Enforcement and Priority of Payments Following Default (Sections 7.03 and 7.04)

Upon the happening and continuance of any Event of Default, the Trustee may proceed, and upon the written request of not less than 10% of the holders of Bonds shall proceed, to protect and enforce its rights and the rights of the holders of Bonds under the laws of the State of Maryland and under the Indenture and any Credit Facility (including any Debt Service Reserve Fund Credit Facility) by such suits, actions or special proceedings in equity or at law as the Trustee shall deem most effectual to protect and enforce such rights.

If at any time there shall have occurred and be continuing an Event of Default, after payment of all amounts owing to the Trustee under the Indenture, amounts held by the Trustee hereunder together with any moneys thereafter becoming available for such purpose, whether through exercise of the remedies provided in this Article or otherwise, shall be applied as follows:

(a) unless the principal of all Outstanding Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds Outstanding, in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment of such installment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in such Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any Outstanding Bonds that shall have become due and payable, in the order of their due dates, with interest upon the principal amount of such Bonds from the respective dates upon which they shall have become due and payable and, if the amount available shall not be sufficient to pay in full the principal of such Bonds due and payable on any particular date, together with such interest, then first to the payment of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal, ratably, according to the amount of principal due on such date, to the

persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in such Bonds; and

THIRD: to the payment of the interest on and the principal of the Bonds Outstanding as the same become due and payable; and

(b) if the principal of all Outstanding Bonds shall have become due by their terms or the principal of all Outstanding Bonds subject to acceleration shall have become due and payable by a declaration of acceleration, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds.

Interest Payment Date (Section 2.02)

All interest due on the Series 1995 Bonds shall be payable to the person in whose name the Series 1995 Bonds are registered on the bond registration books maintained by the Trustee and registrar (such entity and any successor in such capacity being referred to herein as the "Trustee") as of the close of business on the fifteenth day of the calendar month immediately preceding the interest payment date upon which such interest is due and payable (a "Regular Record Date") and shall be made by check mailed to the address of such owner as it appears on the bond registration books maintained by the Trustee; provided, that if there is a default in the payment of interest due on the Series 1995 Bonds, such defaulted interest shall be payable to the persons in whose names the Series 1995 Bonds are registered as of the close of business on a special record date that is at least 10 and not more than 15 days before the date set for the payment of such defaulted interest. Notice of any such special record date will be given by first-class mail to the registered owners of the Series 1995 Bonds not later than 10 days before such special record date. As provided in the Indenture, so long as all of the Series 1995 Bonds are maintained in book-entry form with The Depository Trust Company, New York, New York ("DTC"), interest on the Series 1995 Bonds will be paid in next day funds to the owners thereof as of the Regular Record Date or the special record date.

Restrictions Upon Action by Individual Holders (Section 7.07)

No holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law on any Bond for the execution of any trust hereunder or for any other remedy hereunder unless (i) such holder previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and (ii) the holders of not less than 10% of the Bonds shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued,

and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in its or their name, and (iii) there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy hereunder; provided, however, that notwithstanding the foregoing provisions of this Section and without complying therewith, the holders of not less than 10% of the Bonds may institute any such suit, action or proceeding in their own names for the benefit of all holders of Bonds.

Defeasance (Section 9.01)

If the Service shall pay or cause to be paid the principal or Redemption Price of and interest on all Bonds and Subordinate Obligations at the times and in the manner stipulated therein, in the Indenture and in any Supplemental Indenture authorizing or approving the issuance of any Additional Bonds or Subordinate Obligations, then the pledge of the Trust Estate to the Trustee for the benefit of the Bondholders and the holders of Subordinate Obligations and all other rights granted hereby to the Trustee, the Bondholders or the holders of Subordinate Obligations shall be discharged and satisfied.

A Bond shall be deemed to have been paid within the meaning of and with the effect expressed in this Section if (i) money for the payment or redemption of such Bond shall be held by the Trustee (through deposit by the Service of moneys for such payment or redemption or otherwise, regardless of the source of such moneys), whether at or prior to the maturity or the redemption date of such Bond, or (ii) if the maturity or redemption date of such Bond shall not have arrived, provision shall have been made by the Service for the payment of the principal or Redemption Price of and interest on such Bond on the due dates for such payments by deposit with the Trustee (or other method satisfactory to the Trustee) of Government Obligations, the principal of and the interest on which when due will provide for such payment, and the Service shall have made provision satisfactory to the Trustee for notice to the Holder of such Bond that such moneys are so available for such payment; provided, however, that if such Bond is to be redeemed prior to the maturity thereof, the Service shall have irrevocably taken all action necessary to redeem such Bond and notice of such redemption shall have been duly and irrevocably given or provisions satisfactory to the Trustee shall have been irrevocably made for the giving of such notice.

Anything in the Indenture to the contrary notwithstanding, at the written request of the Service, any moneys held by the Trustee in trust for the payment of any of the Bonds or Subordinate Obligations that remain unclaimed for five years after the later of the date at which such Bonds or Subordinate Obligations became due and payable and the date of deposit of such moneys shall be repaid by the Trustee to the Service, or to such officer, board or body as may

then be entitled by law to receive such moneys, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged.

An Additional Bond or Subordinate Obligation shall be deemed to have been paid within the meaning of the Indenture if it is deemed to be paid in accordance with the provisions of the Supplemental Indenture authorizing the issuance thereof.

Service Protected in Acting in Good Faith (Section 10.06)

In the exercise of the powers of the Service and its members, officers, employees and agents under the Indenture and the Intergovernmental Agreement, including (without limitation) the application of moneys and the investment of funds, the Service and its members, officers, employees and agents shall not be accountable to the Trustee or any holder of any Bond or Subordinate Obligation for any action taken or omitted by it or its members, officers, employees and agents in good faith and believed in good faith by it or them to be authorized or within the discretion or rights or powers conferred by the Indenture or by the Intergovernmental Agreement.

No recourse shall be had by the Trustee or any holder of any Bond or Subordinate Obligation for any claims based on the Indenture or the Intergovernmental Agreement or on any Bond, Subordinate Obligation, Credit Facility or Credit Facility Agreement against any member, officer, employee or agent of the Service alleging personal liability on the part of such person unless such claims are based upon the bad faith, fraud or deceit of such person.

SUMMARY OF CERTAIN PROVISIONS OF THE INTERGOVERNMENTAL AGREEMENT

The following is a summary of certain terms of the Yard Debris Composting Intergovernmental Agreement (the "Intergovernmental Agreement"). It is not a complete recital of the terms of the Intergovernmental Agreement and reference should be made to the Intergovernmental Agreement for a complete statement of its terms.

Delivery and Acceptance of Yard Debris (Section 2.1)

Beginning on the Operations Commencement Date and throughout the term of the Intergovernmental Agreement, but subject to certain provisions of the Intergovernmental Agreement, each Baltimore Regional County shall deliver or cause to be delivered to the Service an amount of Yard Debris equal to the Guaranteed Annual Tonnage, in accordance with the provisions of the Intergovernmental Agreement and without cost to the Service, provided,

however that so long as each Baltimore Regional County pays its Minimum Monthly Payment and its Proportionate Share of the Supplemental Fee, the failure to deliver such Yard Debris to the Service shall not constitute or give rise to a breach of the Intergovernmental Agreement or an Event of Default under the Intergovernmental Agreement by the Baltimore Regional County. The Service shall accept the specified amount of Yard Debris from each of the Baltimore Regional Counties, subject to the provisions of the Intergovernmental Agreement.

All deliveries shall be made to the Composting Facility unless the Service notifies the Baltimore Regional Counties that the Composting Facility is not capable of accepting deliveries of Yard Debris; in which event the Service, after first consulting with the Baltimore Regional Counties, shall direct that Yard Debris be delivered to the Alternative Facility designated by the Service. In designating an Alternative Facility the Service shall first consider and give reasonable preference to an alternative composting facility over other types of solid waste disposal facilities. In no event will use by the Service of Alternative Facility constitute or give rise to a breach of the Intergovernmental Agreement or an Event of Default under the Intergovernmental Agreement by the Service.

During the month of January of each Fiscal Year, the Service shall notify the Baltimore Regional Counties as to whether the Composting Facility has the capacity to accept an amount of Yard Debris that is greater than the aggregate of the then Guaranteed Annual Tonnage of the Baltimore Regional Counties. Each Baltimore Regional County, in its sole discretion, may, with in sixty (60) days' receipt of such notice, notify, in writing to the Service with copies to the other Baltimore Regional Counties, that it intends to utilize a portion of such excess capacity, not to exceed an amount equal to that Baltimore Regional County's then Proportionate Share of the existing capacity. If the Baltimore Regional County notifies the Service that it intends to utilize an amount of the excess capacity that is less than its Proportionate Share of the total amount of such excess capacity, then for the Fiscal Year following receipt of the Baltimore Regional County's notice provided under this paragraph, the Service may make the unutilized portion of the excess capacity available first to the other Baltimore Regional Counties and then to Haulers in accordance with the Intergovernmental Agreement, and for the next Fiscal Year thereafter shall make such unutilized portion of excess capacity available to the Baltimore Regional Counties as provided in the Intergovernmental Agreement. The Baltimore Regional County's Guaranteed Annual Tonnage shall be increased by the amount of any excess capacity that it utilizes in accordance with this paragraph, up to the amount equal to the Baltimore Regional County's Proportionate Share of the excess capacity made available to it.

The Baltimore Regional County, with the prior written consent of the Service and the other Baltimore Regional Counties (which consent may not be unreasonably withheld), may assign all or a portion of its Guaranteed Annual Tonnage to another Baltimore Regional County, if the other Baltimore Regional County assumes, in a writing given to the Service and the other Baltimore Regional Counties, all of the Baltimore Regional County's obligations with respect to such assigned Guaranteed Annual Tonnage.

Commencement of Operations; Subcontracting (Section 2.2)

The Service's current estimate (which is non-binding) of the approximate Operations Commencement Date is October 1, 1995. The Service shall notify the Baltimore Regional Counties at any time it reasonably anticipates any change in such estimate of the Operations Commencement Date which results in a cumulative deviation of more than 30 days from the estimate most recently given to the Baltimore Regional Counties. The Service shall give the Baltimore Regional Counties at least fourteen days' prior notice of the date expected to be the actual Operations Commencement Date.

The Baltimore Regional Counties acknowledge that the Service intends to provide the Composting Facility by designing and constructing the Composting Facility and by subcontracting with the firm of _____ (the "Company") to operate it. The Baltimore Regional Counties hereby approve the selection of _____ as the subcontractor. The Service shall not enter into an agreement with any other subcontractor to operate the Composting Facility without the prior express written consent of the Baltimore Regional Counties. Except as otherwise provided under the Intergovernmental Agreement, the failure or inability of the Company to perform its obligations shall not relieve or excuse the Service from otherwise providing the Composting Facility.

Receiving Hours (Section 2.3)

The Service shall keep the Composting Facility open (or use reasonable efforts to cause any Alternative Facility to be kept open) for the receiving of Yard Debris from 7:00 a.m. until 5:00 p.m. Monday through Saturday, except Holidays (as defined in the Intergovernmental Agreement). The estimate to be given to the County pursuant to the Intergovernmental Agreement shall be accompanied by a statement indicating the days of the week on which the Service will observe any Holidays during the next calendar year.

Emergency Operation (Section 2.4)

In the event that, due to a natural disaster or other emergency condition, there is delivered to the Service Yard Debris in quantities substantially in excess of those normally delivered during such season, the Service shall use reasonable efforts to accommodate the additional service demands; provided, however, that the Service's determination as to its methods of operation and its ability to provide all such Yard Debris composting services as demanded on a timely basis shall be final. Additional charges for deliveries under this