

**REPORT OF THE
CAPITAL DEBT AFFORDABILITY COMMITTEE
ON
RECOMMENDED DEBT AUTHORIZATIONS**

FOR FISCAL YEAR 2008

**SUBMITTED TO
THE GOVERNOR AND GENERAL ASSEMBLY
OF MARYLAND**

OCTOBER 2006

October 25, 2006

The Honorable Robert L. Ehrlich, Jr.
Governor of Maryland
State House
Annapolis, Maryland 21404

The Honorable Thomas V.M. Miller, Jr.
President of the Senate of Maryland
State House
Annapolis, Maryland 21404

The Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21404


Gentlemen:

The Capital Debt Affordability Committee, created pursuant to Section §8-104, *et seq.*, of the State Finance and Procurement Article, is required to submit to the Governor and the General Assembly each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized for the next fiscal year. The Committee is also required to submit an estimate of the amount of new bonds for academic facilities that prudently may be authorized.


The Committee recommends an \$810 million limit for new general obligation debt authorizations by the 2007 General Assembly to support the 2008 capital program, with the projection of an annual increase of 3% in future years. The \$810 million represents a 3% increase over the fiscal year 2007 authorization, plus an additional \$100 million. The Governor has announced that he intends to use the additional \$100 million for public school construction. The \$810 million also includes \$3 million previously authorized for the Southern Maryland Regional Strategy-Action Plan for Agriculture.

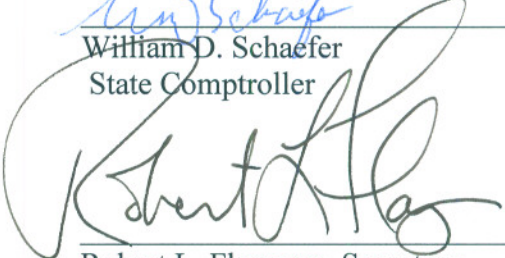
Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee recommends a limit of \$30 million for new academic facilities bonds for the University System of Maryland for fiscal year 2008.

We are pleased to present to you the Committee's annual report, with the recommendations relating to the fiscal 2008 capital program.


Nancy K. Kopp
State Treasurer
Chair


Cecilia Januszkiewicz, Secretary
Budget and Management


William D. Schaefer
State Comptroller


Robert L. Flanagan, Secretary
Department of Transportation


Paul B. Meritt
Public Member

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	i
I. INTRODUCTION	
A. Background	1
B. 2005 Recommendations and Subsequent Events.....	3
II. TAX SUPPORTED DEBT - TRENDS AND OUTLOOK	
A. General Obligation Bonds	5
B. Transportation Debt	11
C. Lease and Conditional Purchase Financings	15
D. Maryland Stadium Authority	16
E. Bay Restoration Bonds	19
III. CAPITAL PROGRAMS	
A. State of Maryland Capital Program	21
B. Capital Improvement and School Construction Needs.....	23
IV. CRITERIA USED BY BOND RATING AGENCIES	
A. Moody's Investors Service	25
B. Standard & Poor's.....	26
C. Fitch Ratings	27
V. AFFORDABILITY ANALYSIS	
A. The Concept of Affordability.....	28
B. History of Affordability Criteria.....	28
C. 2006 Affordability Recommendation	29
D. Comparison of Recommendation and Criteria	30
E. Comparison of Recommendation and Capital Program	36
F. Affordability Risk Analysis	36
VI. HIGHER EDUCATION DEBT	
A. Background.....	41
B. Incorporating Higher Education Academic Debt into the Affordability Analysis	42
C. University System of Maryland Debt Capacity Study.....	43
D. Recommending a Prudent Level of New Higher Education Academic Debt to be Authorized	44
E. Baltimore City Community College	46
VII. OTHER ISSUES	
A. Maintenance of Public School Facilities	48

APPENDICES

A-1	Maryland Personal Income and Population Historical Data and Projections	52
A-2	Maryland State Revenue Historical Data and Projections	53
B-1	Proposed General Obligation Authorizations and Estimated Issuances	54
B-2	Projected General Obligation Debt - Authorized But Unissued	55
B-3	Projected General Obligation Debt Outstanding	56
B-4	Projected General Obligation Debt Service	57
C-1	Historical Data - General Obligation Debt	58
C-2	Historical Data - School Debt	59
C-2a	Historical Data – Comparison of Total GO Authorizations to Total Authorized for School Construction	60
C-3	Historical Data - Consolidated Transportation Bonds	61
C-4	Historical Data - County Transportation Bonds	62
C-5	Summary of Tax Supported Debt at June 30, 2006	63
C-6	Summary of Debt of Higher Education Institutions at June 30, 2006	64

EXECUTIVE SUMMARY

The Capital Debt Affordability Committee (CDAC or the Committee), established by Chapter 43 of the Laws of Maryland 1978 and codified in Section §8-104 *et seq.* of the State Finance and Procurement Article, is charged with reviewing on a continuing basis the size and condition of State tax supported debt, and advising the Governor and General Assembly each year regarding the maximum amount of new general obligation debt that prudently may be authorized for the next fiscal year. Since its creation in 1978, the Committee's charge has been enlarged to include the continuing review of higher education debt and annual estimates concerning the prudent maximum authorization of academic facilities bonds to be issued by the University System of Maryland, Morgan State University and St. Mary's College of Maryland (Chapter 93, Laws of Maryland 1989). In 2004, the Committee's charge was also expanded by the Public School Facilities Act of 2004 (Chapters 306, 307, Laws of Maryland 2004) to include review of the additional school construction funding needs as identified in the 2004 Task Force to Study Public School Facilities report, and a specific recommendation regarding additional funding for school construction when recommending the State's annual debt limit.

The Committee recommends an \$810 million limit for new general obligation debt authorization for fiscal year 2008 to support the 2008 capital program, with the projection of an annual increase of 3% in future years. The \$810 million represents a 3% increase over the fiscal year 2007 authorization, plus an additional \$100 million. The Governor has announced that he intends to use the additional \$100 million for public school construction. The \$810 million also includes \$3 million previously authorized for the Southern Maryland Regional Strategy-Action Plan for Agriculture.

The analysis indicates that the Committee's projection of general obligation bond authorizations is currently affordable and that the risks of exceeding the affordability criteria are limited. None of the potential risks – interest rate increases greater than those assumed in the projections, limited growth of personal income, accelerated sales of general obligation bonds, and increased authorizations of either general obligation bonds or other components – pose a serious threat of exceeding the affordability criteria.

The Committee believes that the \$810 million authorization recommendation for the first year of the current five year program (a 3% increase over the 2007 authorization level, plus an additional \$100 million) and 3% annual increases for the next four are prudent and within current projections of capacity. Within these levels, relying upon prudent timing of authorization and issuances, the Committee believes that the current projected needs in school construction, transportation, higher education and other essential areas can be substantially met.

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee recommends a limit of \$30 million for new academic facilities bonds for the University System of Maryland for fiscal year 2008.

Pursuant to its charge under the Public School Facilities Act, the Committee's 2005 Report recognized the documented need for at least \$1.2 billion in additional school construction funding over the amount then projected in the State's Capital Improvements Program in order to meet "2003 standards of basic minimum adequacy and provide sufficient capacity for presently anticipated enrollments."

As more fully discussed in Section III, Part B (Capital Improvement and School Construction Needs), the Committee reviewed this documented need for increased school construction and renovation, the need to increase funding over time to meet the goal set forth in the Public School Facilities Act of 2004, and the challenge of meeting these goals with the escalation in building costs. The current recommendation of \$810 million for fiscal year 2008 and an annual rate of increase of 3% includes more than a \$100 million per year increase in general obligation bond authorization compared to the CDAC 2005 recommendation as noted in the chart in Section V, Part C. The Governor has announced that he intends to use the additional \$100 million for public school construction. Consequently, this recommendation would provide \$250 million in GO bond funds for public school construction in each of the fiscal years 2008-2012, meeting the annual funding goal set by the 2004 Public School Facilities Act in those years.

In reaching these recommendations, the CDAC met on June 19, July 28 and August 14, 2006. At the June 19 meeting, the Committee reviewed the size, condition and projected issuances of tax supported debt including General Obligation Bonds, Consolidated Transportation Bonds, GARVEE Bonds, Maryland Stadium Authority Bonds and Bay Restoration Bonds. The Committee also conducted a similar review of the debt of higher education institutions. At the July 28 meeting, the Committee examined the components of the affordability ratios, reviewed the capital programs of the State and of Public Schools, and considered the criteria used by bond rating agencies. At both the July 28 and August 14 meetings, CDAC analyzed the sensitivity of the affordability criterion.

I. INTRODUCTION

A. Background

The creation of the Capital Debt Affordability Committee was an outgrowth of two events: the dramatic increase in outstanding debt during the mid-1970's and the release in June 1974 of the Department of Legislative Services' two year study on the State's debt picture, titled "An Analysis and Evaluation of the State of Maryland's Long-Term Debt: 1958 - 1988."

In response to this study and the rising level of State debt, the 1978 General Assembly enacted the current State Finance and Procurement Article, Section 8-104, *et seq.*, which created the Committee as a unit of the Executive Department. The members are the Treasurer (Chair), the Comptroller, the Secretaries of Budget and Management and Transportation, one public member appointed by the Governor, and (since 2005) as non-voting members, the Chairs of the Maryland Senate and House of Delegates Capital Budget Subcommittees.

The Committee is required to review the size and condition of the State debt on a continuing basis and to submit to the Governor, by September 10 of each year, an estimate of the total amount of new State debt that prudently may be authorized for the next fiscal year. Although the Committee's estimates are advisory only, the Governor is required to give due consideration to the Committee's findings in determining the total authorizations of new State debt and in preparing a preliminary allocation for the next fiscal year. The Committee is required to consider:

- The amount of State tax supported debt that will be outstanding and authorized but unissued during the next fiscal year;
- The capital program and the capital improvement and school construction needs during the next five fiscal years;
- Projected debt service requirements for the next ten years;
- Criteria used by recognized bond rating agencies to judge the quality of State bond issues;
- Other factors relevant to the ability of the State to meet its projected debt service requirements for the next five years or relevant to the marketability of State bonds; and
- The effect of new authorizations on each of the factors enumerated above.

In addition to these tasks, the Committee has generally reviewed other types of public debt issued by State or State-created authorities or agencies. In keeping with a narrow interpretation of its statutory charge, the Committee's efforts through 1986 focused mainly on bringing the State's general obligation debt in line with certain parameters. In 1987, however,

the Committee began to adopt a more comprehensive view of State debt that included all tax supported debt in addition to general obligation debt.

This broader view was adopted in recognition of the fact that the rating agencies and investment community take a more comprehensive view of a state's debt when analyzing that state's obligations. Discussions with rating analysts over several years indicated that analysts were interested in all tax supported debt. Summaries of rating agency reports indicated that the measure of debt used was "net tax supported debt" - the sum of general obligation debt, consolidated and county transportation debt (net of sinking funds), capital lease commitments, and tax or bond anticipation notes.

The more comprehensive view of debt also recognized that other forms of long-term commitments were becoming more common. Capital leases, particularly lease purchase obligations, were more visible, if not more widely used. The bonds to be issued by the Maryland Stadium Authority for the Baltimore stadium were to be supported by lease arrangements; the State had consolidated a significant amount of equipment lease obligations; and the Motor Vehicle Administration was using the capital lease method for expanding or relocating its service center network. Although these leases do not represent debt in the constitutional sense, any default on these leases would be viewed by the market as similar to a default on State bonds. This broader view was ultimately codified and included in the Committee's statutory charge by Chapter 241, Laws of Maryland, 1989.

The 1989 General Assembly further expanded the Committee's charge as part of legislation relating to higher education debt (Chapter 93, Laws of Maryland, 1989). As enacted, the statute directs the Committee to review on a continuing basis the size and condition of any debt of the University System of Maryland, Morgan State University, and St. Mary's College of Maryland; take any debt issued for academic facilities into account as part of the Committee's affordability analysis with respect to the estimate of new authorizations of general obligation debt; and, finally, to submit to the Governor and the General Assembly an estimate of the amount of new bonds for academic facilities that prudently may be authorized in the aggregate for the next fiscal year by the University System of Maryland, Morgan State University, and St. Mary's College of Maryland. The 1994 General Assembly added Baltimore City Community College to the list of higher education institutions that the Committee reviews.

The 2004 General Assembly added to the duties of the Committee in passage of the Public School Facilities Act of 2004 (Chapters 306, 307, Laws of Maryland, 2004, uncodified Section 11), in which it directed the Committee to annually "review the additional school construction funding needs as identified in the 2004 Task Force to Study Public School Facilities report and ... make a specific recommendation regarding additional funding for school construction when recommending the State's annual debt limit." The statute also directs that the Committee "include a multiyear funding recommendation that will provide stability in the annual funding for school construction."

Most recently, the 2005 General Assembly expanded the scope of what the Committee considers in Chapters 471, 472, Laws of Maryland, 2005, by explicitly recognizing debt issued by the Maryland Department of Transportation (MDOT) under Title 4, Subtitle 6 of the Transportation Article, or by the Maryland Transportation Authority (MdTA) under Title 4, Subtitle 3 of that Article, when “secured by a pledge of future federal aid from any source” (e.g., GARVEE bonds) as “tax supported debt.” Thus, this type of debt must be taken into account both in the annual authorization recommendation and in consideration of the amount of tax supported debt outstanding.

It is useful to note that the bond rating agencies are not uniform in their treatment of the federal-revenue backed debt when assessing the State’s situation. Two of the agencies do include GARVEEs as tax supported debt outstanding; the remaining agency considers it a “gray area” and would not include them as long as the bonds are “stand alone,” that is, not backed by the State’s full faith and credit. All three agencies also noted that to the extent the State includes GARVEEs as tax supported, it would be appropriate to include the supporting federal revenue stream that backs the bonds when considering the debt service affordability criterion of 8% of State revenues. Further, one of the two bond rating agencies that include GARVEEs as tax supported debt stated that they did so for their own analytic purposes, but would accept and understand if a State did otherwise for affordability determination purposes.

The 2005 Session of the General Assembly also expanded the membership of the Committee with the addition of the Chair of the Capital Budget Subcommittee of the Senate Budget and Taxation Committee and the Chair of the Capital Budget Subcommittee of the House Committee on Appropriations as non-voting *ex officio* members. Chapter 445, Laws of Maryland, 2005.

B. 2005 Recommendations and Subsequent Events

The following lists the recommendations of the Capital Debt Affordability Committee to the 2006 General Assembly for the fiscal year 2007 capital program and the subsequent events related to those recommendations.

- *New authorizations of general obligation debt should be limited to \$690 million, including \$5 million for the Southern Maryland Regional Strategy-Action Plan for Agriculture Loan of 2005.*

The net general obligation debt authorized for fiscal year 2007 (effective June 1, 2006) totaled \$690 million:

\$711.1	New general obligation debt authorized by the 2006 General Assembly,
\$1.6	Authorized for Southern Maryland Regional Strategy-Action Plan for Agriculture Loan of 2006
(\$22.7)	Reductions in previously authorized debt
<hr/>	
\$690.0	

- *New authorizations for academic facilities at the University System of Maryland should be limited to an aggregate of \$25 million.*

The 2006 General Assembly authorized the University System of Maryland to issue \$25.0 million in new academic facility bonds - \$10.0 million to finance various capital projects and \$15.0 million to finance capital facility renewal projects.

II. TAX SUPPORTED DEBT - TRENDS AND OUTLOOK

The State of Maryland has issued four types of tax supported debt in recent years: (1) general obligation debt, which pledges the full faith and credit of the State; (2) bonds, notes and other obligations issued by the Department of Transportation and backed by the operating revenues and pledged taxes of the Department; (3) capital leases; and (4) revenue bonds issued by the Maryland Stadium Authority secured by leases with the State. In addition, there are two categories of State tax supported debt that will be issued in the near future – bonds for the purpose of Chesapeake Bay restoration secured by the revenue from a Statewide fee, and bonds for transportation projects supported by anticipated federal revenue (GARVEE bonds). Although the State has the authority to make short-term borrowings in anticipation of taxes and other receipts up to a maximum of \$100 million, the State has not issued short-term tax anticipation notes or made any other similar short-term borrowings for cash flow purposes. Tax supported debt as of June 30, 2006 is summarized on *Appendix C-5*.

A. General Obligation Bonds

General obligation bonds are authorized and issued to provide funds for: (1) general construction and capital improvements to State-owned facilities, including institutions of higher education; (2) grants to local educational authorities for construction and capital improvements to public schools; and (3) financial assistance in the form of loans or grants to local governments and the private sector for individual capital projects. The latter category includes water quality improvements, jails and detention facilities, community colleges, economic development, community health facilities, historic preservation, private higher education, and other community projects.

Trends in Outstanding General Obligation Debt. *Graph 1* depicts the growth between 1975 and 2006 in the State's total general obligation debt. During the 1975-1978 periods, the growth in general obligation debt outstanding accelerated principally as a result of the expanded State role in financing public school construction. Between 1978 and 1991, the annual amount authorized and issued for school construction was significantly reduced from earlier years and, consequently, the level of outstanding debt grew modestly and then declined. Since 1991, the level of new authorizations and issuances has increased significantly, resulting in an increased level of outstanding general obligation debt. This increase has generally been accompanied by a growth in personal income and State revenue, however, so that the debt ratios have remained significantly below affordability criteria. For further information on the authorizations and issuances of General Obligation Debt and State Public School Construction refer to *Appendices C-1 and C-2*. Using the data from *Appendices C-1 and C-2*, *Appendix C-2a* compares the total authorized for school construction with the total authorized for general obligation bonds.

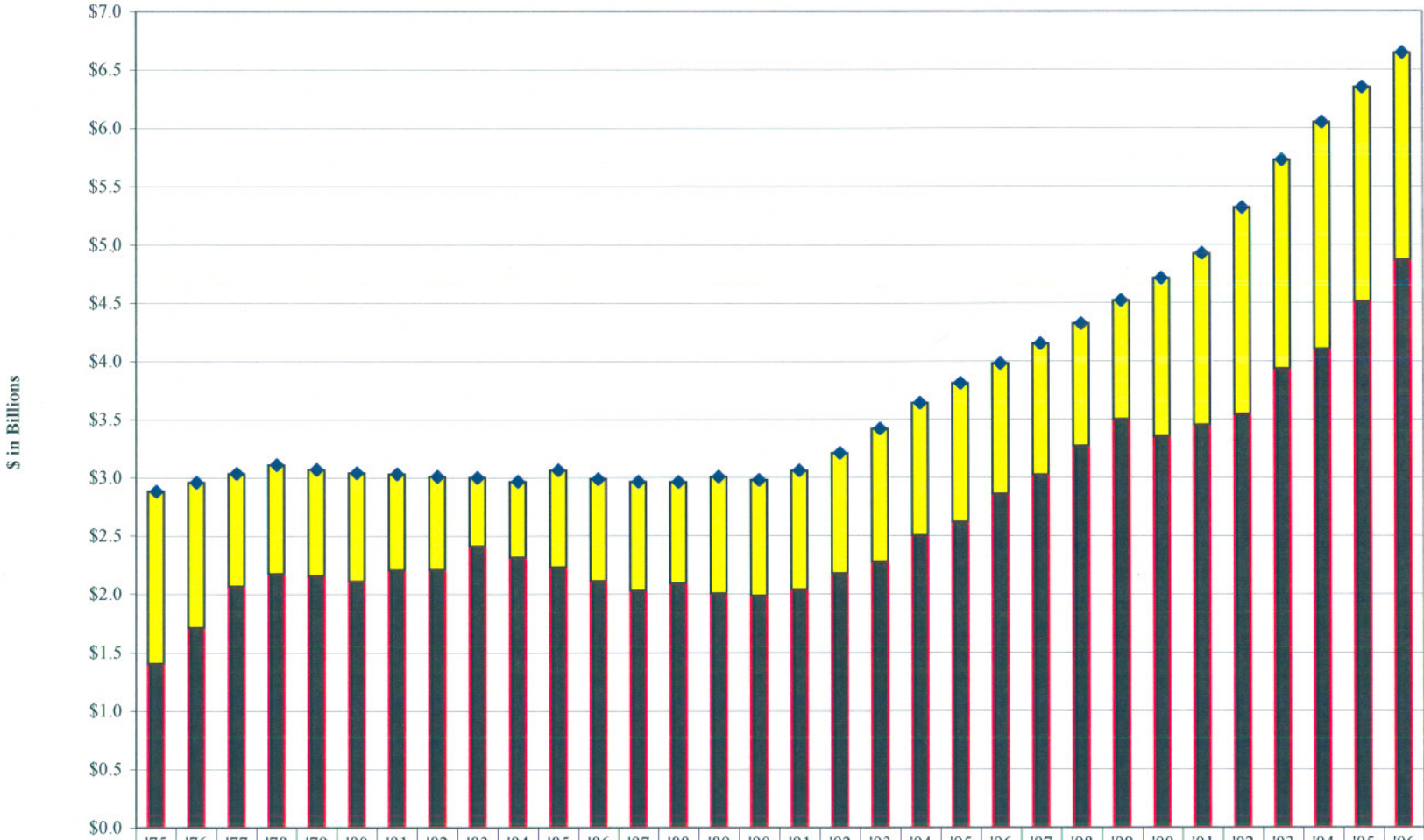
Graphs 2.1 and 2.2 depict the sources and uses, respectively, for the Annuity Bond Fund for the actual years 1996 through 2005 and the projections for fiscal years 2006 – 2011. As depicted in *Graph 2.1*, the payment of general obligation debt service (i.e., principal and interest) relies primarily on the State property tax.

Graph 2.1 also illustrates the reliance on general funds to support general obligation debt service in the years depicted in this graph. The State constitution requires the collection of an annual tax to pay debt service; State statute requires that the Board of Public Works set an annual property tax rate sufficient to pay debt service in the following fiscal year. Prior to fiscal year 2003, the State used general funds, appropriated either to the Annuity Bond Fund or to the Aid to Education program of the State Department of Education, to provide a substantial portion of the general obligation debt service. If the fiscal year 2007 tax rate remains constant in fiscal years 2008 through 2011, a general fund appropriation to the Annuity Bond Fund will again be required to meet future debt service.

The growth in debt service (**Graph 2.2**) reflects both the increase in debt outstanding (**Graph 1**) and dramatic variances in interest over time (**Graph 3**).

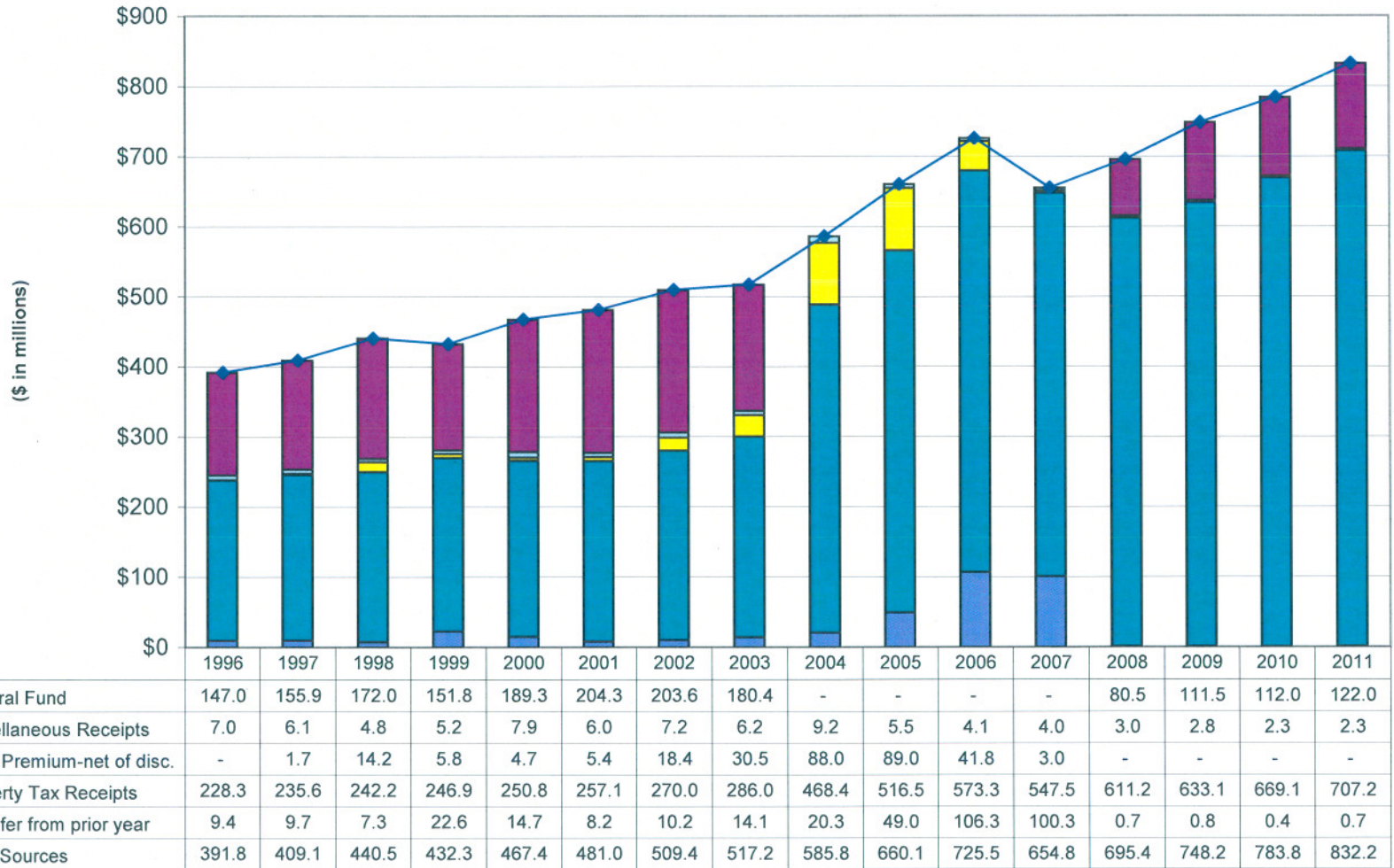
Graph 3 depicts the true interest costs (TIC) on tax-exempt and taxable State general obligation debt beginning in 1988 through the sale of the 2006 General Obligation Bonds Second Series that were sold on July 26, 2006. During the time period analyzed in this chart, the TICs on tax-exempt general obligation debt ranged from a low of 3.098% in the 2004 First Series Refunding to a high of 6.996% in the 1990 Fourth Series. The tax-exempt TIC for the most recent issuance of General Obligation bonds on July 26, 2006 was 4.18%. The TICs on the three taxable issues issued in 2005 and 2006 ranged from 3.86% to 4.98%.

Graph 1
General Obligation Debt Authorized and Outstanding at June 30

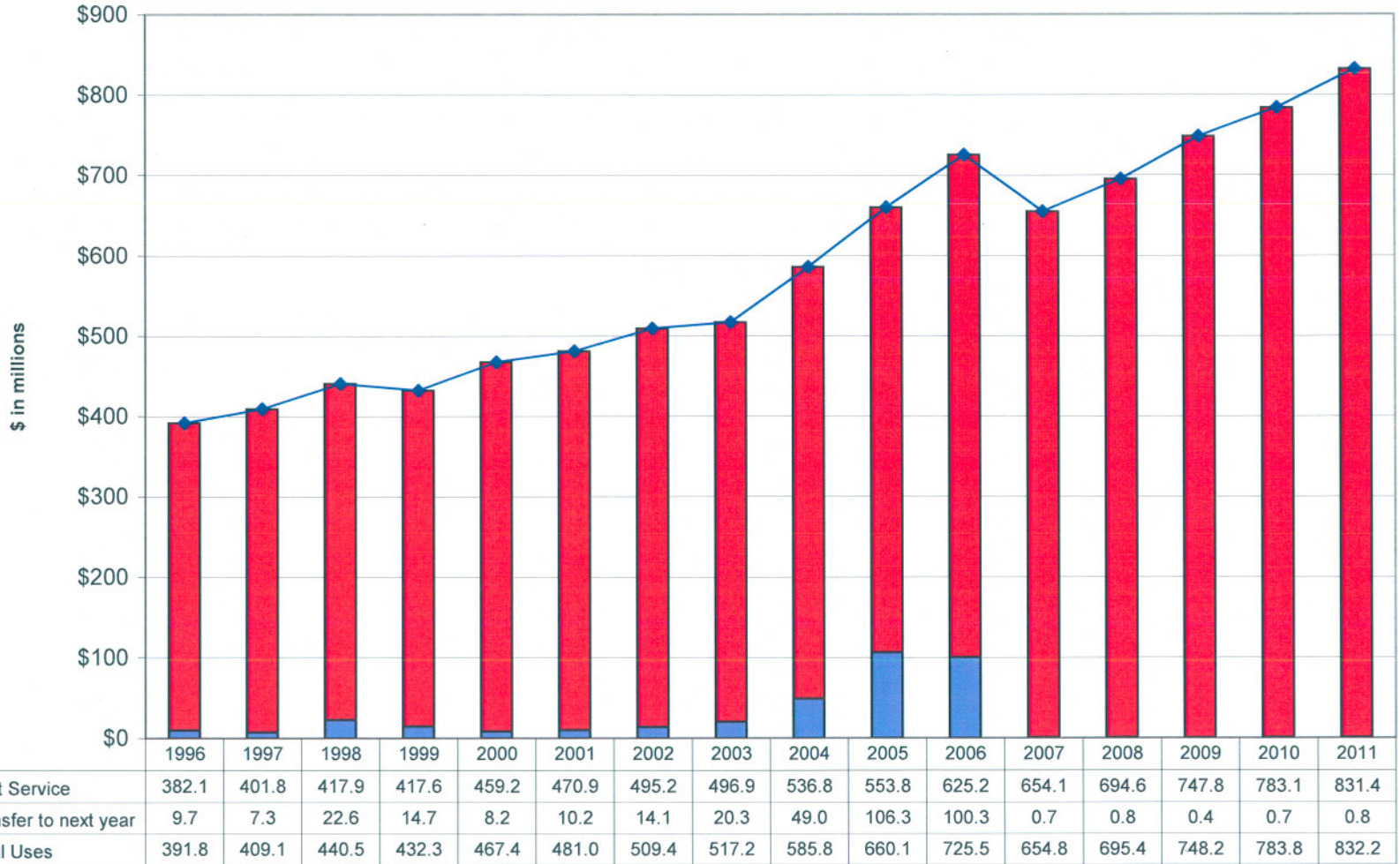


	'75	'76	'77	'78	'79	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06
Authorized but Unissued	1.48	1.25	0.97	0.94	0.91	0.93	0.82	0.80	0.59	0.65	0.83	0.88	0.93	0.87	1.00	0.99	1.02	1.03	1.14	1.14	1.19	1.12	1.12	1.05	1.02	1.36	1.47	1.77	1.79	1.95	1.84	1.77
Total Outstanding	1.40	1.71	2.06	2.17	2.15	2.10	2.20	2.20	2.41	2.31	2.23	2.11	2.03	2.09	2.00	1.98	2.03	2.17	2.27	2.50	2.61	2.86	3.02	3.27	3.50	3.34	3.45	3.54	3.93	4.1	4.51	4.86
Total Authorized	2.88	2.95	3.03	3.10	3.06	3.03	3.02	3.00	2.99	2.96	3.06	2.98	2.96	2.96	3.00	2.98	3.06	3.21	3.41	3.64	3.81	3.98	4.15	4.32	4.52	4.71	4.92	5.31	5.72	6.04	6.34	6.64

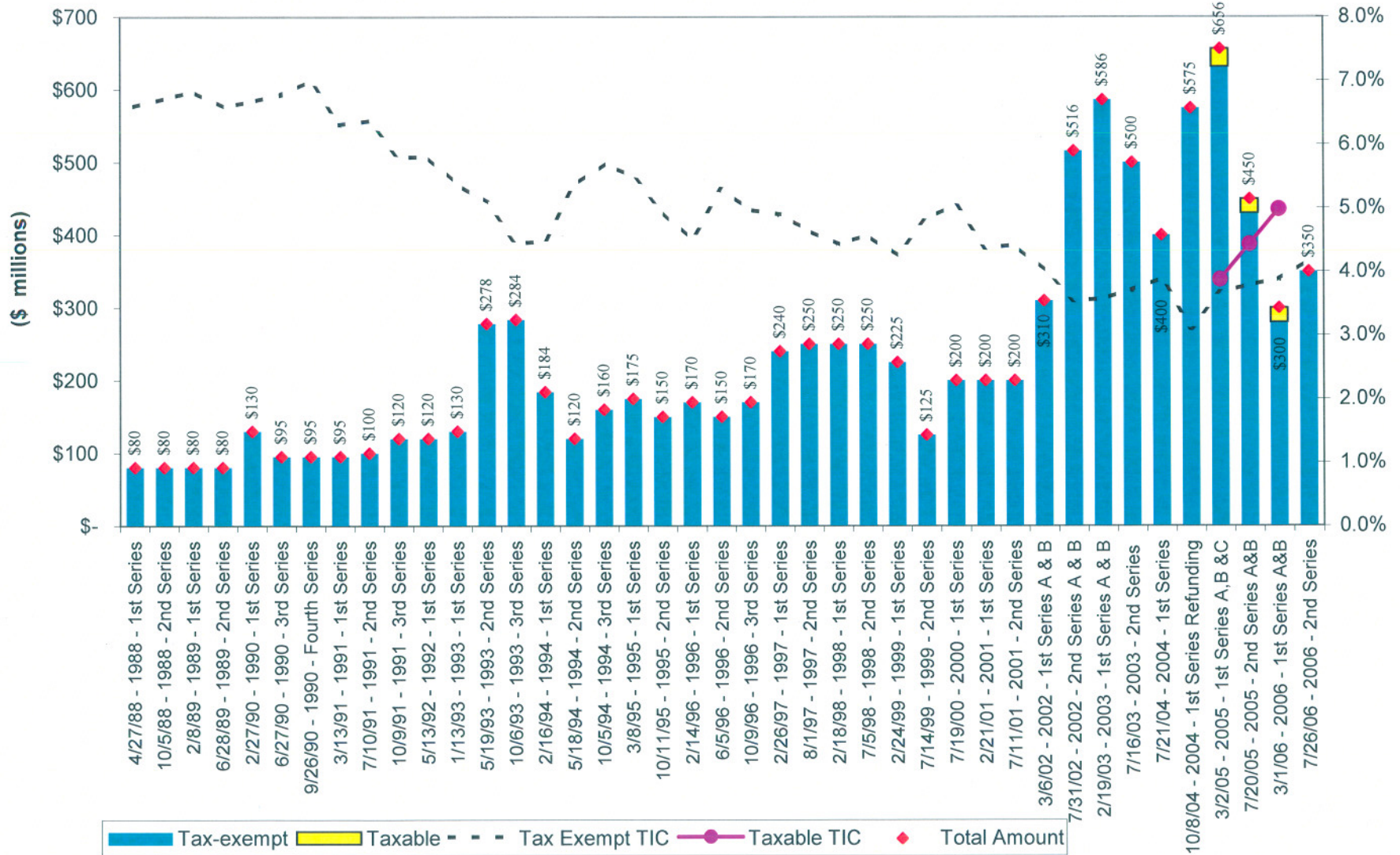
Graph 2.1
Sources of Annuity Bond Fund
1996-2005 Actual, 2006-2011 Projections



Graph 2.2
Uses of Annuity Bond Fund
1996-2005 Actual, 2006-2011 Projections



Graph 3
Issuances of General Obligation Bonds



TIC - True Interest Cost

B. Transportation Debt

Consolidated Transportation Bonds. Consolidated Transportation Bonds, like State general obligation bonds, are limited 15-year obligations, issued by the Department of Transportation for highway and other transportation projects. The gross outstanding aggregate principal amount of Consolidated Transportation Bonds is limited by statute to \$2.0 billion. The General Assembly may set a lower limit each year, and for fiscal year 2007 the limit is \$1.249 billion. Debt service on Consolidated Transportation Bonds is payable from the Department's shares of the motor vehicle fuel tax, the motor vehicle titling tax, all mandatory motor vehicle registration fees, sales tax on rental cars, and a portion of the corporate income tax, plus all Departmental operating revenues and receipts. The holders of such bonds are not entitled to look to other sources for payment.

The Department has covenanted with the holders of outstanding Consolidated Transportation Bonds not to issue additional bonds unless: (1) the excess of Transportation Trust Fund revenues over Department of Transportation operational expenses in the preceding fiscal year, the amount available for debt service, is equal to at least twice the maximum amount of debt service for any future fiscal year, including debt service on the additional bonds to be issued; and (2) total proceeds from taxes pledged to debt service for the past fiscal year equal at least twice such maximum debt service.

Prior to 1993, the Department also issued County Transportation Bonds (CTBs) on behalf of the counties and Baltimore City for local transportation projects. The debt service on these bonds is recovered from the counties by the State through deduction from amounts otherwise due them from their local share of State-collected highway user revenues, such as the corporate income tax, titling tax, motor fuel taxes, and vehicle registration fees.

In 1993, however, legislation was enacted that provides for a non-State tax supported County Transportation Revenue Bond (CTRB) program; subsequent issuances under this program, not constituting State tax supported debt, are not subject to the affordability calculations. Additionally, the Department refunded outstanding bonds under the new program, which eliminated all but two prior series of CTBs from State tax supported debt. Since fiscal year 1994, the Department has issued only one new CTRB series, when it issued \$30 million for Baltimore City in fiscal year 2005. The Department has been contacted by Baltimore City to participate in a County Transportation Revenue Bond issue of approximately \$30 million during fiscal year 2007.

Graph 4 depicts outstanding Consolidated and County Transportation Bonds (after being reduced by any amounts in sinking funds) for fiscal years 1983 through 2006, as well as the Department's current projections for fiscal years 2007 through 2012. Prior to 1989, Departmental revenues were of a magnitude sufficient to necessitate only a modest level of debt to be issued. This situation reflected, among other factors, the impact of several gas tax increases (from 9 cents per gallon in fiscal 1982, to 13.5 cents per gallon in fiscal year 1984 and to 18.5 cents per gallon effective June 1, 1987) and of permanent allocations to the Transportation Trust Fund of a portion of corporate income tax receipts and the balance of the titling tax. However,

the capital program, including the Baltimore light rail project, Interstate 97, Route 32, and Route 50 required the level of new issuances to increase to \$100 million in 1989, \$260 million in 1990, and \$310 million in 1991. The statutory cap of \$950 million in outstanding bonds limited new issuances in 1992 to \$120 million.

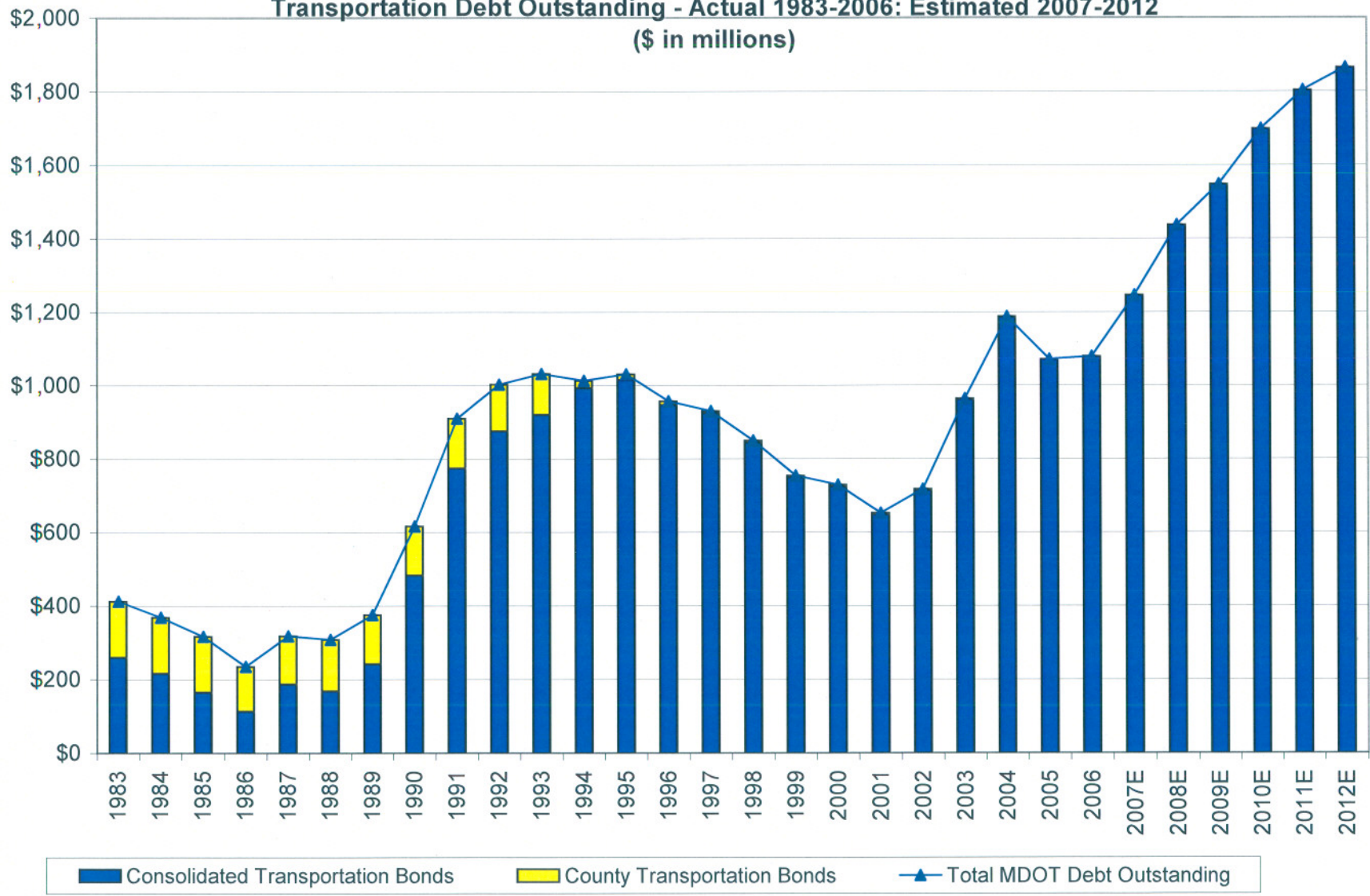
At its 1992 Session, the General Assembly enacted legislation that increased motor fuel taxes from 18.5 cents to 23.5 cents per gallon and, at the same time, raised the statutory limit on outstanding Consolidated Transportation Bonds from \$950 million to \$1.2 billion, specifying that a limit of less than \$1.2 billion could be imposed for the next fiscal year in the annual State operating budget. The General Assembly, in fact, has annually used this budget authority to limit outstanding debt significantly below the statutory limit. At its 2002 Session, the General Assembly raised the statutory limit to \$1.5 billion and in 2004 again to \$2.0 billion. Since fiscal year 1996, a ten year period, the new money issuances of Consolidated Transportation Bonds totaled \$1.040 billion. The fiscal year 2007 budget set an overall cap of \$1.249 billion.

Summary of MDOT Consolidated Transportation Bonds				
<i>(\$ in millions)</i>				
Fiscal Year	Consolidated Issues	Refunding Issues	Debt Outstanding	Required Debt Service
2001	-	-	\$648	\$110
2002	\$150	-	\$714	\$113
2003	\$345	\$262	\$961	\$129
2004	\$320	\$75	\$1,186	\$135
2005	-	-	\$1,070	\$154
2006	\$100	-	\$1,078	\$141
2007E	\$235	-	\$1,245	\$124
2008E	\$260	-	\$1,436	\$134
2009E	\$185	-	\$1,548	\$149
2010E	\$225	-	\$1,698	\$160
2011E	\$175	-	\$1,802	\$173
2012E	\$170	-	\$1,865	\$199

(E = Estimate)

(Required debt service does not include the redemption of \$265 and \$78 of refunded bonds in 2003 and 2004 respectively.)

Graph 4
Transportation Debt Outstanding - Actual 1983-2006: Estimated 2007-2012
 (\$ in millions)



GARVEE Bonds. GARVEEs, or Grant Anticipation Revenue Vehicles, are bonds for which debt service is paid using federal transportation funds received by the State. Maryland's use of GARVEEs is authorized under Title 3, Subtitle 6, and Title 4, Subtitle 3 of the Transportation Article, and it is anticipated that the first GARVEE bonds will be issued in fiscal year 2007 by the Maryland Transportation Authority. As noted earlier, legislation enacted by the 2005 General Assembly specified that GARVEE bonds be considered tax supported debt in the Capital Debt Affordability process.

GARVEEs will be used as one of several components of a funding plan for the Inter-County Connector ("ICC") project, in addition to Maryland Transportation Authority funds, Transportation Trust Fund and General Funds, and other sources. Use of GARVEEs on the ICC is intended to allow the project to be implemented sooner than otherwise would be possible and with less reliance on the State's available funds in the short term.

As a result of the recently enacted re-authorization of the federal highway and transit programs, Maryland will receive an average of \$583 million per year in federal highway funds through fiscal year 2009. This is \$53 million per year more than earlier estimates (up to \$530 million per year for the current period through fiscal year 2009), and nearly \$120 million more per year than the average of \$465 million received per year in the previous authorization period (fiscal years 1998 – 2003). The annual debt service for the GARVEE bonds will use approximately 15% of the current average annual federal highway funding received by Maryland.

During the 2005 Session of the General Assembly, Chapters 471, 472, Laws of Maryland, 2005, were enacted authorizing (and limiting) the issuance of GARVEEs to \$750 million, with maximum maturity of 12 years, to be used only for the ICC. This superseded legislation enacted in the 2004 Session of the General Assembly. As of August 2006, the schedule for issuance of GARVEEs anticipates \$380 million to be issued during fiscal year 2007 and \$370 million to be issued during fiscal year 2009. The timing and amounts of these individual issuances may be modified, as the funding plan is refined.

Nontraditional Transportation Debt. The 2006 General Assembly has established a limit of \$762.2 million at June 30, 2007, for total aggregate outstanding and unpaid principal balance of nontraditional debt, defined as any debt instrument that is not a Consolidated Transportation Bond or a GARVEE bond. This includes Certificates of Participation and other forms of capital leases.

As of June 30, 2006, the Department had certificates of participation outstanding in the total principal amount of \$86,815,000. See Section II, Part C. "Lease and Conditional Purchase Financings."

C. Lease and Conditional Purchase Financings

Capital Leases. The State's capital funding program over the past several years has included the increased use of capital lease financings in which the State builds an equity interest in the leased property and gains title to such property at the end of the leasing period. Such capital leases are considered debt of the State by financial analysts and under generally accepted accounting principles (GAAP).

According to GAAP, leases that are in essence a vehicle for financing assets must be "capitalized" - i.e., reflected on the balance sheet. To the extent that meaningful financial reporting requires this, rating agencies and credit evaluators will incorporate leases of this nature into their overall calculation of the State's debt burden.

Under GAAP, if a lease financing meets one or more of the following four criteria at its inception, the lease should be classified as a capital lease:

- The lease transfers ownership of the property to the lessee (user) by the end of the lease term.
- The lease allows the lessee (user) to purchase the property at a bargain price at fixed points in the term of the lease and for fixed amounts.
- The term of the lease is 75% or more of the estimated useful economic life of the property.
- The present value of the lease payments is 90% or more of the fair value of the property.

The additional State liability and debt service resulting from capital leases is not large in relation to the State's general obligation debt liability and debt service at this time. Only those capital leases which are tax supported are incorporated in the affordability analysis; revenue-backed leases, while capitalized, are not.

Capital leases are used for the acquisition of both real property and equipment. Under current practice, capital leases for equipment, primarily data processing and telecommunications equipment, are generally for periods less than five years. It is assumed that new equipment leases in the future will be reasonably consistent over time, averaging about \$22 to \$24 million a year except in fiscal year 2007 when new leases are expected to total \$28 million.

Real property capital leases are longer term (in the range of 20 to 30 years) and have been used to acquire a wide variety of facilities, including the Towson and Hyattsville District Courts, the Prince George's County Justice Center, Multi-Service office buildings in southern Maryland, the Department of Transportation headquarters office building, and, most recently, a new parking garage in Annapolis. Historical analysis indicates that in years of economic downturns the reliance on capital leasing has been higher than in other years.

At the end of fiscal year 2006, the principal outstanding on tax supported capital leases for equipment and real property amounted to \$191.9 million.

In another instance of the use of the capital lease structure, in March 1994, the State began using lease-purchase agreements to provide financing for energy conservation projects at State facilities. Lease payments will be made from the agencies' annual utility appropriations using savings achieved through the implementation of energy performance contracts. The State had \$35.0 million outstanding under these energy lease agreements as of June 30, 2006.

Other Conditional Purchase Financings. The Department of Transportation has also made significant use of Certificates of Participation (COPs), another form of conditional purchase debt financing. In October 2004, the Department entered into \$15.5 million in tax supported COPs to purchase 50 clean diesel shuttle buses for use at Baltimore/Washington International Thurgood Marshall Airport (BWI). The debt is tax supported and is incorporated into the analysis; it falls under the “non-traditional debt” limit, as do the Department’s other lease financings.

The Department also sold COPs in fiscal years 1999 (\$42,750,000) and 2001 (\$33,000,000), to provide financing for capital improvements at BWI and to expand parking at the Maryland Rail Commuter (MARC) BWI rail station. Additionally, in June 2006, the Department entered into \$26.5 million in COPs to construct a warehouse at the Maryland Port Administration’s South Locust Point Terminal. Revenues from these projects are pledged to the payment of principal and interest on the certificates; therefore, these are not considered tax supported and are not included in the capital lease component in *Tables 1* and *Tables 2a* and *2b* of this report.

In April 2003, MEDCO issued lease revenue bonds in the amount of \$223.7 million to finance the expansion and renovation of Piers A and B and the terminal building at BWI. The Department records this financing as a capital lease, which is subject to annual appropriation by the General Assembly. Airline rentals and concession revenues are pledged to the payment of principal and interest on the bonds and, therefore, this financing is also not considered tax supported.

D. Maryland Stadium Authority

The Maryland Stadium Authority was created in 1986 as an instrumentality of the State responsible for financing and directing the acquisition and construction of professional sports facilities in Maryland. Since then, the Authority’s responsibility has been extended to include convention centers in Baltimore City, Ocean City and in Montgomery County, and the Hippodrome Performing Arts Center in Baltimore, Maryland. The Authority projects \$300.1 million in debt outstanding and \$32.7 million for debt service in fiscal year 2008.

Oriole Park at Camden Yards. Currently the Authority operates Oriole Park at Camden Yards, which opened in 1992. In connection with the construction of that facility, the Authority

issued \$155.0 million in notes and bonds. In October 1993, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of the sports facility bonds using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, savings of \$15.5 million was paid to the Authority on April 1, 1996. In accordance with this agreement and in consideration for the prior payment of the savings, the Authority issued its \$17.9 million Sports Facilities Lease Revenue Refunding Bonds in December 1998, to refund its outstanding Sports Facility Lease Revenue Bonds Series 1989C, and issued its \$121.0 million Sports Facilities Lease Revenue Refunding Bonds in December 1999, to refund its Sports Facilities Lease Revenue Bonds Series 1989D.

The Authority's notes and bonds are lease-backed revenue obligations, the payment of which is secured by, among other things, an assignment of revenues received under a lease of Oriole Park at Camden Yards from the Authority to the State. The rental payments due from the State under that lease are subject to annual appropriation by the General Assembly. Revenues to fund the lease payments are generated from a variety of sources, including in each year revenues from sports lotteries, the net operating revenues of the Authority, and \$1.0 million from the City of Baltimore.

In November 2001, the Authority issued \$10.25 million in bond anticipation notes, which were refunded in July 2002 with \$10.25 million in taxable lease-backed revenue bonds. The 2001 bond anticipation notes were used to fund a \$10.0 million deposit to the "Supplemental Improvements Fund" under the Baltimore Orioles Lease in accordance with the order of the panel of Arbitrators in American Arbitration Association Case No. 16Y1150005500. Annual net debt service on the Authority's total bonds obligation for Oriole Park at Camden Yards is \$15.25 million.

Baltimore City Convention Center. The Authority also constructed an expansion of the Baltimore City Convention Center. The Convention Center expansion cost \$167.0 million and was financed through a combination of funding from Baltimore City revenue bonds (\$50.0 million), Authority revenue bonds (\$55.0 million), State general obligation bonds (\$58.0 million) and other State appropriations. As required, the City sold its revenue bonds before the Authority's sale of lease-backed revenue bonds on August 25, 1994. The State sold \$58.0 million in general obligation bonds designated for the Convention Center in sales from October 1993 to October 1996. The agreement between the City and the Authority provides that: (i) the City and the Authority each make equal annual contributions to a capital improvements reserve fund; (ii) after completion of construction through fiscal year 2008, the Authority and the City contribute toward operating deficits in the proportion Authority (2/3), City (1/3); and (iii) the City be solely responsible for operating deficits and capital improvements prior to completion of the expansion and after fiscal year 2008.

The State's and Authority's debt service for the Convention Center in fiscal year 2006 was approximately \$9.8 million. The 2006 contribution to operating deficits and the project's capital improvements fund was approximately \$2.9 million. Through direct and indirect benefits, the project has covered its costs (debt service, operating deficit contributions, deposits to the capital improvements fund, and that portion of the Authority's budget that is allocable to the

Convention Center project) since 1999.

In June 1998, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of its revenue bonds for the Baltimore City Convention Center using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, a savings of \$587,500 was paid to the Authority on June 10, 1998. The Authority is scheduled to call and reissue the Series 1994 bonds on December 15, 2006.

Ocean City Convention Center. The Authority also constructed an expansion of the Convention Center in Ocean City; the expansion cost \$33.2 million and was financed through a matching grant from the State to Ocean City and a combination of funding from Ocean City and the Authority. In October 1995, the Authority issued \$17.3 million in revenue bonds to provide State funding; as required, Ocean City sold \$15.0 million of its special tax and general obligation bonds before the sale by the Authority. Authority debt service in connection with the revenue bonds for the Convention Center in Ocean City was \$1.48 million in fiscal year 2006. The Authority will also continue to pay one-half of any annual operating deficits of the facility through December 15, 2015, after which time Ocean City will be solely responsible for operating deficits.

Ravens Stadium. The Authority currently operates Ravens Stadium, which opened in 1998. In connection with the construction of that facility, the Authority sold \$87.6 million in lease-backed revenue bonds on May 1, 1996, for Ravens Stadium. The proceeds from the Authority's bonds, along with cash available from State lottery proceeds, investment earnings, contributions from the Ravens and other sources were used to pay project design and construction expenses of approximately \$229.0 million. The bonds are solely secured by an assignment of revenues received under a lease of the project from the Authority to the State. In June 1998, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of the football lease-backed revenue bonds using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, savings of \$2.6 million were paid to the Authority on June 10, 1998.

On December 15, 1997, the Authority issued \$4.6 million in Sports Facilities Lease Revenue Bonds, Series 1997. The proceeds from these bonds were used toward the construction of Ravens Stadium. Amortization began in fiscal year 2001 and the Authority's combined debt service on the revenue bonds is \$7.3 million annually.

Montgomery County Conference Center. In January 2003, the Authority issued \$23.2 million in lease-backed revenue bonds in connection with the construction of a Conference Center in Montgomery County. The Conference Center is adjacent and physically connected with a Marriott Hotel, which has been privately financed. The center cost \$33.5 million and is financed through a combination of funding from Montgomery County and the Authority. The Authority has no responsibility for operating decisions. The average annual debt service for these bonds is \$1.75 million.

Hippodrome Theater. In July 2002, the Authority issued \$20.25 million in taxable lease-backed revenue bonds in connection with the renovation and construction of the Hippodrome Theater as part of Baltimore City's West Side Development. The cost of renovating the theater is \$63.0 million and is financed by various public and private sources. The Authority will not have any operating risk for the project which was completed in February, 2004. The average annual debt service for these bonds is \$1.8 million.

Camden Station Renovation. In February 2004, the Authority issued \$8.73 million in taxable lease-backed revenue bonds in connection with the renovation of the historic Camden Station located at the Camden Yards Complex in Baltimore, Maryland. The cost of the renovation is projected to be \$8.0 million. The Authority has executed lease agreements for the entire building, with the Babe Ruth Museum leasing approximately 22,600 square feet and The Geppi Entertainment Museum leasing the balance of the building. The Babe Ruth Museum opened on May 12, 2005, and the Geppi Entertainment Museum is scheduled to open in September 2006. The average annual debt service for these bonds is \$750,000.

Future Issuances. The Authority is currently projecting the issuance of debt in the amount of \$8.0 million and \$25.0 million in fiscal years 2007 and 2008 respectively. The 2007 issuance will be used to make improvements to Oriole Park at Camden Yards and the 2008 issuance will partially fund an expansion of the Ocean City Convention Center.

The Authority is also currently exploring the feasibility of building a horse park complex that will have facilities for non-racing competition (including show jumping, dressage, steeplechase riding) and other equestrian activities (breed demonstrations, jousting, trail riding). The complex may include an indoor arena, an outdoor pavilion for concerts and other activities, stalls, show rings, sales pavilion, cross country and steeplechase courses, campground, meeting facilities, and visitors center. If the economic impact and cost studies indicate proceeding with the project, the Authority could propose legislation that will provide the necessary financing authorization by the General Assembly. The cost of the project is estimated in the \$75 - \$100 million range.

E. Bay Restoration Bonds

Legislation enacted by the 2004 General Assembly (Chapter 428, Laws of Maryland 2004) establishes a Bay restoration fee as a funding source for upgrades to the State's wastewater treatment plants (WWTPs). The Department of the Environment (MDE) estimates that the State's 66 largest WWTPs account for over 95% of the wastewater discharge to the Chesapeake Bay. Nutrient removal upgrades to those facilities would reduce nitrogen loading to the Chesapeake Bay and its tributaries by an estimated 7.5 million pounds annually.

The legislation sets the fee at \$2.50 per month (\$30 annually) for each residential dwelling that receives an individual sewer bill and for each user of a septic system or sewage holding tank that receives a water bill. For nonresidential users as well as buildings or groups of buildings under single ownership or management that contain multiple residential dwellings which do not receive individual sewer bills, the legislation establishes a sliding fee scale based

on the volume of wastewater generated. These fees, which took effect January 1, 2005, will be collected through water and sewer bills. The fee for each user of a septic system or sewage holding tank that does not receive a water bill is \$30 annually; this fee, which took effect October 1, 2005, will be collected by local governments.

Fee revenue will be deposited in the Bay Restoration Fund, which will be administered by the Water Quality Financing Administration within MDE. Fee revenue from WWTP users will support the issuance of bonds to provide the additional revenue needed for grants to WWTP owners for nutrient removal upgrades. Fee revenue from users of septic systems and sewage holding tanks will be used for other purposes.

The Committee considered in 2004 the question of whether Bay Restoration Bonds constitute a new component of State tax supported debt for purposes of debt affordability calculations. The Bay restoration fee is applied broadly across the State and is not directly tied to the use of a specific WWTP. There is a consensus among counsel that the maturity of the bonds must be limited to 15 years, the maximum for "State debt." As a result, the Committee concluded that the Bay Restoration Bonds are State tax supported debt.

The timing and amount of bonds issued will vary depending on the fee revenue attained and the need for funding as upgrade projects proceed. For purposes of the calculations, it is assumed that the bonds will be limited to 15-year maturities with a total issuance of \$530 million. The estimated issuance stream (in millions) is \$50, \$130, \$200, and \$150 in fiscal years 2008-2011, respectively.

III. CAPITAL PROGRAMS

A. State of Maryland Capital Program

Capital Program Structure. The State's annual capital program includes projects funded from general obligation bonds; general tax revenues, dedicated tax or fee revenues, federal grants, and auxiliary revenue bonds issued by State agencies.

The general obligation bond-financed portion of the capital program consists of an annual Maryland Consolidated Capital Bond Loan (MCCBL), and individually sponsored legislative initiatives. The MCCBL is a consolidation of projects authorized as general construction projects and various Administration-sponsored capital programs for capital grants for non-State owned projects.

General obligation bond funds have occasionally been supplemented with State general fund capital appropriations (PAYGO) authorized in the annual operating budget. The amount of funds available to fund capital projects with operating funds varies from year to year. For example, FY 2002 general fund PAYGO appropriations totaled \$643.9 million, the FY 2006 general fund PAYGO appropriation totaled \$5.5 million, and the FY 2007 general fund PAYGO appropriation totaled \$147.7 million.

The operating budget also traditionally includes capital programs funded with (i) a broad range of dedicated taxes, loan repayments, and federal grants such as the State's Drinking Water Revolving Loan Program and the Water Quality Revolving Loan Program, (ii) individual dedicated revenue sources such as the property transfer tax which supports the State's land preservation programs, and (iii) specific federal grants which provide funds for armory construction projects, veteran cemetery expansion projects, and housing programs.

State-Owned Facilities. Requests for improvements to State-owned facilities are expected to reach almost \$3.4 billion during the next five years. Higher Education, prisons, courts, and health facilities comprise the bulk of these requests.

Capital Grants and Loans. State capital grants and loans are allocated to local governments and non-profit organizations. These grants and loans are primarily used to improve existing, and construct new public schools and community colleges. Grants and loans are also used to restore the Chesapeake Bay, improve and expand access to quality health care, and revitalize existing communities.

Authorizations for capital grants and loans have increased in recent years to accommodate the need to improve the State's public elementary and secondary schools. Future requests for funding are expected to remain high for public schools and community colleges, and environmental programs. The need for funding environmental programs reflects the State's efforts to restore the Chesapeake Bay.

Anticipated requests for non-State owned Administration-sponsored programs to be

funded with general obligation bonds are expected to exceed \$4.5 billion over the next five years.

Legislative Initiatives. Funding requests are also submitted each year by members of the General Assembly to provide financial support for local programs or projects of statewide interest. These bond requests include capital grants to local governments and private non-profit sponsors to support construction of local public and private facilities. These requests are estimated to total \$575 million over the next five years. This is based on the past five-year average of \$115 million per year. For the past two years, the requests have been closer to \$150 million per year.

Summary of Capital Program: FY 2008 - 2012. The total capital requests are estimated at almost \$8.5 billion for the next five years. By contrast, the Department of Budget and Management anticipates recommending a five-year capital improvement program of approximately \$3.8 billion in general obligation bonds (based on the authorization levels recommended by the 2005 CDAC report). The total capital program will depend on the amount of general funds and other non-general obligation bond sources available for capital funding.

**FY 2008 – FY 2012
Requests Versus Anticipated Funding
(\$ in millions)**

	Total Current and Anticipated Requests	Anticipated Bond Funded Capital Program*	Difference Between Current and Anticipated Requests and Anticipated Funding
State-Owned Facilities	3,377.9	1,811.2	1,566.7
Administration Capital Programs	4,504.7	1,863.8	2,640.9
Legislative Initiatives	575.0	75.0	500.0
Totals	8,457.6	3,750.0	4,707.6

* The FY 2008 – FY 2012 anticipated funding totals \$3.75 billion. Of this amount \$2.955 billion was projected in the 2005 Capital Debt Affordability Committee Report for FY 2008 – FY 2011. An additional \$795 million is anticipated in FY 2012. This amount is based on a 3% increase over the amount anticipated for FY 2011. This assumption is based on the incremental annual increase from the 2005 CDAC report.

B. Capital Improvement and School Construction Needs during the Next 5 Fiscal Years, as Projected by the Interagency Committee on School Construction

At the request of the Task Force to Study Public School Facilities, the Maryland State Department of Education conducted a survey to determine the extent to which public school facilities Statewide meet current federal, State, and local facility standards and can support required programs and expected enrollment. The results, reported in November 2003, indicated that more than one-third of public schools were deficient in at least one facility standard and that the cost of the necessary improvements was \$3.85 billion in 2003 dollars. The Public School Construction Program (PSCP) determined in February 2005 that this figure would be approximately \$4.32 billion (or a 12% increase) in 2005 dollars, due to increases in the cost of steel, cement, other material components, and labor. The PSCP has estimated that costs will increase further, by approximately 12% annually, in fiscal 2007 and 2008. For discussion purposes, this Report will continue to refer to the documented \$3.85 billion, while acknowledging the impacts of inflation. The Task Force recommended that the State assume \$2 billion of this cost, with the remainder the responsibility of local government.

The 2004 General Assembly passed the Public School Facilities Act of 2004 (Chapters 306 and 307, Laws of Maryland, 2004) incorporating many of the recommendations of the Task Force. The law declared the intent that the State pursue a goal of fully funding by fiscal year 2013 the school facility needs identified by the 2003 School Facility Assessment Survey. Achieving this goal would require a commitment by the State to provide approximately \$2 billion for school construction projects over the next 8 years or approximately \$250 million per year.

The Public School Facilities Act, in uncodified Section 11, directs the Capital Debt Affordability Committee to review the additional school construction funding needs identified in the Task Force report and make a specific recommendation regarding additional funding for school construction when recommending the State's annual debt limit.

In 2004, the Committee considered the Task Force study and survey findings and noted the documented need for an increase of \$1.2 billion in State funds over the amount projected in the current Capital Improvements Plan (CIP), which then anticipated funding school construction at \$100 million annually. A \$2 billion commitment in State funding for public school construction over the next 8 years, therefore, would require an additional \$150 million per year for 8 years over and above the amount incorporated in the CIP – a total of \$1.2 billion.

The Committee noted in its 2004 report that one alternative would be simply to authorize the entire additional \$1.2 billion in general obligation bonds. At that time, it was estimated that an additional authorization of \$150 million annually would result in absorbing a significant amount of debt capacity, but, though close in certain years, would not breach the affordability criteria, even with increased transportation authorizations factored into the analysis. However, in 2005, a similar analysis found that an additional authorization of something less than \$100 million annually was all that was affordable.

The advantages and drawbacks to authorizing additional debt have been noted in the Committee's reports in both 2004 and 2005. The advantage is that it's simple and (relatively) cheap. The drawback is that it would virtually eliminate increases in other components of State tax supported debt, either planned or unplanned, and, by absorbing unused capacity, would increase the risk that the affordability criteria would be exceeded if growth in personal income was less than projected.

Another alternative is to absorb some or all of the additional funds needed for school construction within the existing capital budget. This would, by necessity, entail postponing or eliminating other projects. Finally, a third alternative that the Committee considered is identification of a new revenue stream, such as video lottery terminals, a portion of which could be dedicated to school construction.

Given the magnitude of the additional funding needed for school construction, the Committee in 2004 recommended fully exploring these alternative funding mechanisms, new revenue streams, or shifting other capital projects before considering an additional \$1.2 billion in general obligation bond authorizations.

In the fiscal 2006 and 2007 capital budgets, the Governor and the General Assembly utilized several of the alternatives recommended by the Committee to achieve (and in fiscal 2007, exceed) the \$250 million annual funding goal set in the 2004 Public School Facilities Act. The State provided \$250 million for school construction projects in fiscal 2006 and \$322.7 million in fiscal 2007 using a combination of general obligation debt which involved both reducing and delaying funds for some capital projects; unspent school construction funds from prior years available in the contingency fund; and PAYGO. In fiscal 2007, \$16 million from anticipated bond premiums was also allocated for school construction projects. The Committee's 2005 report noted that relying solely on capital debt is neither sufficient nor necessary and that the Committee's proposed out-year authorization estimates, including a 3% increase per year and no drop in authorizations in 2009, as had been projected in the past, provides additional debt capacity.

The fiscal 2007 CIP projected \$150 million annually in GO bonds for public school construction. Increasing this amount to \$250 million annually, as recommended by the Administration, would provide a base annual funding amount that meets the annual funding goal. It is important to recognize, however, that escalation in building costs since 2004 has made the overall funding goal of the Public School Facilities Act, to bring all public schools up to minimum standards by fiscal 2013, a moving target.

IV. CRITERIA USED BY BOND RATING AGENCIES

A. Moody's Investors Service

Moody's issued a report in July 2006 titled U.S. State Credit Scorecard – New Quantitative Tool Introduced to Enhance Consistency of State Government General Obligation Analysis which was reviewed by the Committee.

Purpose of the Report. Moody's ranked the 50 states on four variables - Financial, Economic, Debt and Management. Moody's noted some limitations in this methodology; namely, it is backward-looking, it does not identify trends, and there may be insignificant differences in the ranking between the states. Nevertheless, the scorecard provides the reader with important information on the ratings process and the relative ranking of each state. Moody's expects to update the report annually.

Rankings. Maryland's overall ranking was in the top quintile for 2005 and 2006. Specifically, in the Financial and Debt Rankings, Maryland was in the second quintile. In the Economic and Management Rankings, Maryland was in the top quintile. Moody's provided information to Maryland that was not in the report regarding Maryland's performance in each of the variables as follows.

Moody's Scorecard Results for Maryland		Maryland Compared to the Median for 50 States
Finance Variable		
5 year Average Fund Balance		Higher
5 year tax revenue growth		Higher
5 year expenditure growth		Higher
Borrowing for operations		No
Debt Variable		
10 year growth in net tax-supported debt as a percent of personal income		Lower
Net tax-supported debt to state tax revenues		Higher
State Pension Funding Ratio		Higher
Economic Variable		
10 year growth in state per capita income		Higher
5 year state employment growth		Higher
5 year domestic net migration		Higher
State poverty rate		Lower

Moody's Scorecard Results for Maryland (continued)	
Management Variable	Yes or No
Financial Flexibility:	
Significant fiscal policy uncertainties	No
Delays in budget adoption	No
Fiscal Best Practices:	
Consensus revenue forecasting	Yes
Multi-year financial planning	Yes
Executive branch mid-year spending reduction powers	Yes
Debt affordability analysis	Yes
Timely audited financial reporting	Yes

B. Standard and Poor's

In June 2006, Standard and Poor's (S&P) released a report titled Public Finance Criteria: Financial Management Assessment which was also evaluated by the Committee. According to the report, "A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is a primary determinant of near-term changes in credit quality."

S&P will review the following management practices and policies as part of their evaluations of credit ratings:

- Revenue and expenditure assumptions
- Budget amendments and updates
- Long term financial planning
- Long term capital planning
- Investment management policies
- Debt management policies
- Reserve and Liquidity policies

In the affirmation of the State's AAA rating on July 21, 2006, just prior to the issuance of the General Obligation Bonds 2006 Second Series, S&P stated, "Maryland's management practices are considered strong under Standard & Poor's Financial Management Assessment. Maryland has made continuing efforts to institutionalize sound financial management practices."

C. Fitch Ratings

In November 2002, Fitch published a report titled, “The 12 Habits of Highly Successful Finance Officers” after concluding that issuers’ management practices were critical in the credit rating evaluation. The best practices and the importance that Fitch has assigned to these practices follow in the chart below. Fitch has recognized Maryland’s sound financial operations and policies to keep debt issuance within affordability guidelines when it affirmed the State’s AAA rating in July 2006.

Best Practice	Value
Fund balance reserve policy/working capital reserves	Very significant
Debt affordability reviews and policies	Very significant
Superior debt disclosure practices	Very significant
Multi-year financial forecasting	Significant
Monthly or quarterly financial reporting and monitoring	Significant
Pay-as-you-go capital funding policies	Significant
Rapid debt retirement policies (greater than 65% in 10 years)	Significant
Five-year capital improvement plan integrating operating costs of new facilities	Influential
Contingency planning policies	Influential
Policies regarding nonrecurring revenue	Influential
Financial reporting awards	Influential
Budgeting awards	Influential

V. AFFORDABILITY ANALYSIS

The objective of an affordability analysis is to draw a proper balance between two basic interests: the State's capital needs and its ability and/or willingness to repay the debt issued to finance those capital needs.

A. The Concept of Affordability

The ultimate test of affordability is the willingness and ability of the State to pay the resulting debt service when due. Apart from revenue sources which are dedicated by law, the allocation of future resources between debt repayment and other program needs is a matter of judgment. The whole issue of affordability is, therefore, a judgmental one, dependent upon complex considerations such as perceived needs, the relationship between debt authorization and debt issuance, available and potential funding mechanisms, overall budgetary priorities, and revenues.

The Committee believes that the crux of the concept of affordability is not merely whether or not the State can pay the debt service; rather affordability implies the ability to manage debt over time to achieve certain goals. Maryland has a long tradition of effectively managing its finances and debt. The challenge of debt management is to provide sufficient funds to meet growing capital needs within the framework of the State's debt capacity, thereby maintaining the AAA credit rating.

B. History of Affordability Criteria

Based upon an analysis of available material and consultation with a number of financial experts, the following affordability criteria were developed by the Committee in 1979:

- Outstanding debt should be no more than 3.2% of State personal income;
- Adjusted debt service should be no more than 8% of State revenues; and
- New authorizations should be kept in the range of redemptions of existing debt over the near term.

These criteria were adopted by the Committee solely for the analysis of general obligation debt.

Criteria 1 and 2 represented traditional measures and criterion 3 reflected a discretionary policy position that the State should "get out of debt." The Committee at that time declared that, given the high debt level of the mid-late 1970's, the first two criteria were goals to be achieved over time, and the final criterion became controlling over the short term.

In 1987, while retaining the first and second criteria for evaluating the expanded

definition of debt and debt service, the Committee concluded that the third criterion was no longer an applicable guideline. The basis for its conclusion was threefold. First, the high ratings of the State's general obligation and transportation bonds indicated that the existing level of debt and the planned increases were acceptable to the rating agencies. Second, pressing legislative and executive commitments required an increase in the level of bonded debt to finance needed transportation and other projects. Third, adherence to the criterion tied yearly authorizations to events of 15 years before, thereby producing highly variable bond authorizations inconsistent with either good debt management or a stable capital program.

In 1988, a detailed survey of credit analysts was undertaken to obtain their views on the Committee's comprehensive approach to reviewing debt and to the criteria the Committee had been using for 10 years. The survey affirmed the Committee's decision to take an expanded view of debt. In addition, criteria 1 and 2 were almost universally approved. This position was reinforced in discussion with investment banks and bond rating agencies as recently as July 2005. Indeed, the rating agencies have repeatedly cited the Capital Debt Affordability process and criteria as major reasons for awarding Maryland AAA status.

The current affordability criteria are: State tax supported debt outstanding should be no more than 3.2% of State personal income; and debt service on that debt should be no more than 8% of revenues. Schedules of Personal Income and Revenues are in *Appendix A-1 and A-2* respectively. These schedules report historical data from 1995 through 2005 and projections from 2006 through 2012.

C. 2006 Affordability Recommendation

The Committee recommends an \$810 million limit for new general obligation debt authorizations enacted by the 2007 General Assembly for the fiscal 2008 capital program and an annual increase of 3% for the following years. The \$810 million represents a 3% increase over the fiscal year 2007 authorization, plus an additional \$100 million. The \$810 million also includes \$3 million previously authorized for the Southern Maryland Regional Strategy-Action Plan for Agriculture.

In its 1992 report, while reaffirming its belief in the theories underlying its prior recommendations, the Committee recommended that the six-year program originally recommended in 1988 be reduced, due principally to the severe national and state economic downturn. The 1992 recommendation acknowledged that the persistent recession had depressed the levels of personal income and that the structural changes in Maryland's economy would deter near term resumption of the State's rapid growth in personal income. The 1992 program also recognized that, while there had been no abatement in the population growth and need for services, cost inflation and, therefore, total need had been lower than originally projected in the years between 1988 and 1991. Considering all of these factors, the Committee recommended limiting authorization increases to 3% based at that time on the prevailing inflation rate plus 1%. In earlier years, the recommended out-year increases had varied between 3-5%, usually incorporating some estimate of inflation plus need.

In the years between 1993 and 2002, the State's economy and personal income recovered significantly but, due to the availability of general PAYGO funds, the guideline increase of 3% was generally observed and incorporated in future year projections. As debt authorizations grew at a slower rate than personal income, the level of "unused" debt capacity increased. The recent inclusion of Bay Bonds and GARVEEs as State tax supported debt and the greater than projected issuance of general obligation bonds coupled with the re-alignment of the out-year authorization levels absorb much of the previously unused debt capacity. In past recommendations, the Committee adhered to the 3% annual increase in authorizations.

Assuming just a 3% increase between the 2005 and 2006 recommendations, the recommended authorization would have been \$710 million, which was projected in the 2005 CDAC report. The committee increased the 2006 recommendation by \$100 million to \$810 million and continued the 3% annual increase in authorizations. The following table illustrates the change in total authorizations when the \$100 million was added to the 2006 recommendation. The increased authorizations are expected to be used for school construction.

CDAC Report	Year					
	2005	2006	2007	2008	2009	2010
Legislative Session	2006	2007	2008	2009	2010	2011
FY of Authorization	2007	2008	2009	2010	2011	2012
	<i>(\$ in millions)</i>					
Rate of Annual Increases 3%	\$690	\$710	\$730	\$745	\$770	\$795
Authorize additional \$100 million in FY 08, 3% rate of annual increases through 2012	\$690	\$810	\$835	\$860	\$890	\$920

Current personal income and revenue estimates both support an increased level of debt while maintaining basic affordability criteria. As indicated by **Table 3**, Tax Supported Debt Outstanding and Debt Service Stress Test, if the projections for debt outstanding and debt service are held constant, declines in personal income and revenues can still be absorbed and affordability ratios maintained. Similarly, there is still some capacity for increases in debt outstanding and debt service if the personal income and revenue projections are held constant and the affordability ratios are not changed.

D. Comparison of Recommendation and Criteria

To analyze the relationship of the Committee's recommendation for general obligation debt to the affordability criteria, each component of tax supported debt and debt service is projected.

The assumptions regarding non-general obligation components of tax supported debt and debt service are as described in Part II. The Department of Transportation's debt is expected to rise consistently over the next several years; the issuance of GARVEE bonds, supported by increased federal revenue, is projected at the statutory limit. The Stadium Authority is considering the possibility of financing a horse park, as discussed above, which because of its

uncertainty, has not been included. However, issuances for improvements at Oriole Park at Camden Yards and for the Ocean City Convention Center have been included. The issuance of Bay Restoration Bonds is anticipated beginning in fiscal year 2008. The utilization of tax supported capital lease and energy financing has been declining in recent years. Consequently, the projections for future lease purchase financings are lower than prior year estimates.

Regarding general obligation debt, it is necessary to project the pattern of issuance of both new and existing authorizations. Newly authorized bonds are not immediately issued; in fact, approximately half of the bonds authorized in a year are typically issued within the ensuing two fiscal years. Consequently, the impact of a change in any year's debt authorizations translates slowly into issuances and affects the outstanding level of debt with a substantial lag. *Appendix B-1*, Proposed General Obligation Authorizations and Estimated Issuances converts the recommended levels of new general obligation bond authorizations into a projected level of annual issuances; it is assumed that all authorized debt will be issued.

While some projects currently authorized will be abandoned or completed for less than authorized, it is assumed that any such unnecessary authorization will be de-authorized and re-appropriated into other approved projects. Although some authorizations may ultimately be cancelled rather than re-appropriated, such cancellations are expected to be immaterial to the analysis.

General obligation bond sales in fiscal year 2006 totaled \$750 million in new money and there were no refunding bonds issued. Bond sales in fiscal 2007 are projected to total \$675 million. The acceleration of the issuances of general obligation bonds (an additional \$234 million in new money bonds issued in fiscal year 2005 and fiscal year 2006 compared with the 2004 projections) is unlikely to recur. The State has "caught up" with the cash deficits in bond proceeds available for capital projects, and the current planned issuance levels are sufficient to provide adequate capital cash levels. No acceleration of amounts sold is anticipated during the forecast period over the amounts projected.

Projected general obligation debt service, displayed in *Appendix B-4*, assumes a pattern of future interest rates consistent with current forecasts and also assumes that the level of 3% increases in authorizations continues beyond 2012.

Based on the Committee's projections (*Table 1*), outstanding general obligation debt rises rather consistently. Total general obligation debt rises steadily from \$4.868 billion as of June 30, 2006 to \$6.765 billion as of June 30, 2012. The rapid rise in tax supported debt reflects the inclusion of Bay Bonds, GARVEEs and CDAC's 2006 recommendation to increase the authorization of general obligation bonds by \$100 million as described previously in Section V, Part C.

Department of Transportation debt is projected to rise from \$1.078 billion to \$1.864 billion as of June 30, 2006 and 2012 respectively. Stadium Authority debt will decline from \$296 million as of June 30, 2006 to \$228 million as of June 30, 2012 even with the inclusion of the improvements at Oriole Park at Camden Yards and the Ocean City Convention Center.

However, the Stadium Authority debt levels do not include any other financings. The ratio of State tax supported debt outstanding to personal income (*Table 1*) rises from 2.63% in fiscal year 2006 to 3.13 % in fiscal year 2011 and 3.09% in 2012. The ratio remains below the affordability criterion of 3.2%

The ratio of annual debt service to revenues (*Table 2a*), which is a proxy for the burden of the debt on the operating budget, increases from 5.57% in fiscal year 2006 to 6.65% in fiscal year 2012. As in the past, the ratio remains significantly below the affordability criterion of 8.0%.

The Committee's recommendation is expected to result in a pattern of debt issuances, debt outstanding, and debt service payments that are within the affordability standards and criteria. The State has met and continues to meet the accepted affordability standards, and the current goal is to maintain those standards with a margin for contingencies, while recognizing the need to sufficiently invest in Maryland's infrastructure and communities. Finally, the virtue of the annual CDAC meetings is the ability, if necessary, to adjust authorizations in future years should forecasts of personal income and revenues decline or if projections for debt service rise because of increases in interest rates. *Appendix B-4* highlights the effect of the maturity limit of 15 years on the State's General Obligation bonds and the resulting rapid amortization of current outstanding debt which provides additional financial flexibility. Therefore, any reductions in projected future authorizations would rapidly improve the debt affordability ratios.

**STATE TAX SUPPORTED DEBT OUTSTANDING
COMPONENTS AND RELATIONSHIP TO PERSONAL INCOME**
(\$ in thousands)

TABLE 1

with \$100 million in '08 plus 3% increase

Fiscal Year	Department of Transportation (b)					Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt	Fiscal Year
	General Obligation Bonds	Consolidated Transportation Bonds	County Transportation Bonds	Total DOT							
	(a)					(c) (d)					
2002	\$3,544,178	\$714,150	\$3,155	\$717,305	\$186,238	\$277,995				\$4,725,716	2002
2003	\$3,932,493	\$961,245	\$2,440	\$963,685	\$193,136	\$323,240				\$5,412,554	2003
2004	\$4,102,278	\$1,185,650	\$1,675	\$1,187,325	\$198,585	\$320,955				\$5,809,143	2004
2005	\$4,511,826	\$1,069,945	\$865	\$1,070,810	\$175,062	\$309,195				\$6,066,893	2005
2006	\$4,868,471	\$1,078,475	\$0	\$1,078,475	\$226,897	\$296,280				\$6,470,123	2006
2007	\$5,147,140	\$1,245,475	\$0	\$1,245,475	\$230,627	\$290,340		\$380,000		\$7,293,582	2007
2008	\$5,418,830	\$1,436,475	\$0	\$1,436,475	\$220,950	\$300,065	\$50,000	\$356,125		\$7,782,445	2008
2009	\$5,714,105	\$1,547,475	\$0	\$1,547,475	\$207,438	\$283,740	\$177,769	\$701,055		\$8,631,582	2009
2010	\$6,042,277	\$1,698,475	\$0	\$1,698,475	\$196,476	\$266,370	\$369,613	\$652,145		\$9,225,356	2010
2011	\$6,393,351	\$1,802,475	\$0	\$1,802,475	\$186,829	\$247,875	\$502,084	\$600,680		\$9,733,294	2011
2012	\$6,765,273	\$1,864,475	\$0	\$1,864,475	\$179,162	\$228,160	\$476,897	\$546,525		\$10,060,493	2012

State Tax Supported Debt Outstanding as a Percent of Personal Income
(Affordability criteria standard = 3.2%)

2002	1.78%	0.36%	0.00%	0.36%	0.09%	0.14%				2.38%	2002
2003	1.91%	0.47%	0.00%	0.47%	0.09%	0.16%				2.62%	2003
2004	1.86%	0.54%	0.00%	0.54%	0.09%	0.15%				2.64%	2004
2005	1.93%	0.46%	0.00%	0.46%	0.07%	0.13%				2.59%	2005
2006	1.98%	0.44%	0.00%	0.44%	0.09%	0.12%				2.63%	2006
2007	1.99%	0.48%	0.00%	0.48%	0.09%	0.11%		0.15%		2.83%	2007
2008	2.01%	0.53%	0.00%	0.53%	0.08%	0.11%	0.02%	0.13%		2.88%	2008
2009	2.02%	0.55%	0.00%	0.55%	0.07%	0.10%	0.06%	0.25%		3.05%	2009
2010	2.03%	0.57%	0.00%	0.57%	0.07%	0.09%	0.12%	0.22%		3.10%	2010
2011	2.05%	0.58%	0.00%	0.58%	0.06%	0.08%	0.16%	0.19%		3.13%	2011
2012	2.08%	0.57%	0.00%	0.57%	0.06%	0.07%	0.15%	0.17%		3.09%	2012

(a) Reflects presumed new authorizations as follows:

General Assembly Session:	2006	2007	2008	2009	2010	2011
For Fiscal Year:	2007	2008	2009	2010	2011	2012
(millions)	\$690	\$810	\$835	\$860	\$890	\$920

Includes issuance of \$18.098 million in Qualified Zone Academy Bonds (QZAB's) in November of 2001, a \$9.043 million in November of 2004, and \$9.364 in Fall 2006.

(b) Net of sinking funds or debt service reserve funds.

(c) Includes financings for multi-agency office buildings in St. Mary's and Calvert Counties, district court facilities in Baltimore and Prince George's Counties, headquarters building for MDOT, shuttle buses at BWI, water and waster water facility at ECI, and the state office parking facility.

(d) includes equipment and energy leases

Assumptions: (\$ in millions)	2007	2008	2009	2010	2011	2012
G.O. issues (Includes Tobacco buyout)	\$675.0	\$700.0	\$760.0	\$810.0	\$860.0	\$900.0
DOT issues	\$235.0	\$260.0	\$185.0	\$225.0	\$175.0	\$170.0
Stadium Authority issues	\$8.0	\$25.0	\$0.0	\$0.0	\$0.0	\$0.0
Capital Leases - Equip. & EPC	\$34.0	\$28.0	\$28.0	\$30.0	\$30.0	\$30.0
Garvee Bond Sales	\$380.0		\$370.0			
Bay Bonds		\$50.0	\$130.0	\$200.0	\$150.0	\$0.0
Personal Income (billions) (Appendix A-1)	\$258.1	\$270.1	\$283.4	\$297.2	\$311.4	\$325.4

TABLE 2A

STATE TAX SUPPORTED DEBT SERVICE
STATE TAX SUPPORTED DEBT SERVICE AS A PERCENT OF REVENUES
(Affordability criteria standard = 8%)
(\$ in thousands)
with \$100 million in '08 plus 3% increase

Fiscal Year	General Obligation Bonds	DOT Consolidated Bonds	Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Service	Total Revenues	Total Tax Supported Debt Service as a % of Revenues	Fiscal Year
	(a)	(b)			(c) (d)					
2002	\$495,217	\$113,178	\$37,979	\$27,383			\$673,757	\$11,482,700	5.87%	2002
2003	\$496,870	\$128,694	\$46,152	\$27,035			\$698,751	\$11,356,300	6.15%	2003
2004	\$536,819	\$134,910	\$52,117	\$27,333			\$751,179	\$12,671,955	5.93%	2004
2005	\$553,783	\$153,655	\$52,239	\$30,480			\$790,157	\$14,269,034	5.54%	2005
2006	\$625,208	\$141,172	\$43,532	\$31,115			\$841,028	\$15,102,639	5.57%	2006
2007	\$654,055	\$124,000	\$41,025	\$31,407			\$850,487	\$15,630,588	5.44%	2007
2008	\$694,642	\$134,000	\$47,655	\$32,667		\$46,037	\$955,001	\$16,352,007	5.84%	2008
2009	\$747,773	\$149,000	\$51,319	\$33,436	\$4,981	\$52,425	\$1,038,933	\$17,074,377	6.08%	2009
2010	\$783,114	\$160,000	\$50,301	\$33,474	\$17,933	\$84,534	\$1,129,355	\$17,839,999	6.33%	2010
2011	\$831,366	\$173,000	\$48,618	\$33,539	\$37,858	\$84,463	\$1,208,844	\$18,614,927	6.49%	2011
2012	\$871,521	\$199,000	\$46,382	\$33,687	\$52,802	\$84,390	\$1,287,781	\$19,378,837	6.65%	2012

Assumptions: See Table 1

- (a) Payments for 2001, 2004 and projected 2006 Qualified Zone Academy Bonds (QZAB's) have been included for fiscal years 2003 through 2022.
(b) Does not include debt service on county transportation bonds. Highway user revenues from counties exceed debt service requirements.
(c) Includes debt service on financings for multi-agency office buildings in St. Mary's and Calvert Counties, district court facilities in Baltimore and Prince George's Counties, headquarters building for MDOT, shuttle buses at BWI, water and waster water facility at ECI, and the state office parking facility.
(d) Includes debt service on equipment and energy leases

TABLE 2B

STATE TAX SUPPORTED DEBT SERVICE AS A PERCENT OF DEDICATED REVENUES

Fiscal Year	General Obligation Bonds	DOT Consolidated Bonds	Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds
2002	5.06%	6.81%	0.40%			
2003	5.11%	8.03%	0.49%	100.00%		
2004	4.99%	7.16%	0.51%	100.00%		
2005	4.56%	7.37%	0.45%	100.00%		
2006	4.82%	6.68%	0.35%	100.00%		
2007	4.86%	5.81%	0.32%	100.00%		
2008	4.91%	6.26%	0.35%	100.00%		100.00%
2009	5.05%	6.82%	0.36%	100.00%	100.00%	100.00%
2010	5.06%	7.18%	0.34%	100.00%	100.00%	100.00%
2011	5.14%	7.53%	0.31%	100.00%	100.00%	100.00%
2012	5.16%	8.61%	0.29%	100.00%	100.00%	100.00%

Note: Unlike Table 2A, Table 2B ratios are serviced by separate and specific revenue sources and have different denominators; therefore, ratios cannot be added across to provide a sum of combined ratio totals. Refer to "Appendix A-2, Revenue Projections."

Table 3

Tax Supported Debt Outstanding and Debt Service Stress Test

(\$ in thousands)
with \$100 million in '08 plus 3% increase

State Tax Supported Debt Outstanding as a Percent of Personal Income Under "Stress" Scenarios

Fiscal Year	Debt Outstanding	Personal Income	Current Ratios	Fiscal Year	Maximum Ratio	Minimum Personal Income	(a)	(c)
							Difference	Additional Affordable Debt Outstanding
2007	\$7,293,582	\$258,139,000	2.83%	2007	3.20%	\$227,924,437	\$30,214,563	\$966,866
2008	\$7,782,445	\$270,123,000	2.88%	2008	3.20%	\$243,201,405	\$26,921,595	\$861,491
2009	\$8,631,582	\$283,391,000	3.05%	2009	3.20%	\$269,736,935	\$13,654,065	\$436,930
2010	\$9,225,356	\$297,223,000	3.10%	2010	3.20%	\$288,292,385	\$8,930,615	\$285,780
2011	\$9,733,294	\$311,445,000	3.13%	2011	3.20%	\$304,165,447	\$7,279,553	\$232,946
2012	\$10,060,493	\$325,402,000	3.09%	2012	3.20%	\$314,390,397	\$11,011,603	\$352,371

State Tax Supported Debt Service as a Percent of Revenues Under "Stress" Scenarios

Fiscal Year	Debt Service	Revenues	Current Ratios	Fiscal Year	Maximum Ratio	Minimum Revenues	(b)	(c)
							Difference	Additional Affordable Debt Service
2007	\$ 850,487	\$15,630,588	5.44%	2007	8.00%	\$10,631,082	\$4,999,507	\$399,961
2008	\$ 955,001	\$16,352,007	5.84%	2008	8.00%	\$11,937,510	\$4,414,497	\$353,160
2009	\$ 1,038,933	\$17,074,377	6.08%	2009	8.00%	\$12,986,666	\$4,087,712	\$327,017
2010	\$ 1,129,355	\$17,839,999	6.33%	2010	8.00%	\$14,116,941	\$3,723,059	\$297,845
2011	\$ 1,208,844	\$18,614,927	6.49%	2011	8.00%	\$15,110,554	\$3,504,372	\$280,350
2012	\$ 1,287,781	\$19,378,837	6.65%	2011	8.00%	\$16,097,262	\$3,281,575	\$262,526

This table demonstrates the minimum levels to which personal income and revenues could fall without violating the 3.2% and 8.0% criteria on projected debt and debt service levels.

- (a) Holding debt outstanding constant, personal income could decline by indicated amounts and affordability ratios would not exceed the 3.2% maximum.
 (b) Holding debt service constant, revenues could decline by indicated amounts and affordability ratios would not exceed the 8.0% maximum.
 (c) Holding personal income and revenues constant, these figures indicate additional debt outstanding and debt service affordable without exceeding current maximum affordability ratios.

E. Comparison of Recommendation and Capital Program

The current recommendation of \$810 million for fiscal year 2008 and an annual rate of increase of 3% results in an increase of more than \$100 million per year in general obligation bond authorization as noted in the chart in Part C of this section. Governor Erlich has indicated his intent to use the additional \$100 million of authorizations for public school construction. As a result, this recommendation would provide \$250 million in GO bond funds for public school construction in each of the fiscal years 2008-2012, meeting the annual funding goal set by the 2004 Public School Facilities Act in those years.

The Committee's projections of tax supported debt fully incorporates the most current capital program proposed by the Department of Transportation, the major non-general obligation debt issuer. The Committee's recommendation of general obligation authorizations provides the Governor with \$4.3 billion for the FY 2008 – FY 2012 Capital Improvement Program, although the program and the recommendations fall far short of total funding requests.

The Committee has recognized the documented need for increased school construction and renovation, the need to increase funding over time to meet the goal set forth in the Public School Facilities Act of 2004, and the challenge of meeting these goals with the escalation in building costs.

The Committee recognizes that allocation decisions will have to be made by the Governor and General Assembly, and that the affordable amount may fall short if new capital demands occur, either as new programs emerge or as the federal government reduces its support for state and local programs.

F. Affordability Risk Analysis

Background. In its 1989 report, the Committee observed that the previous year's general obligation bond authorization plan, deemed barely affordable in its 1988 analysis, was not only "affordable" one year later but provided a significant margin for expansion. This improvement was almost entirely the result of new, higher personal income numbers. Also in the same report, the Committee observed that capital needs changed from year to year. Hence, a capital program undertaken within the Committee's recommended limit might need to be cut back if a subsequent new program were to be authorized that was not factored into the Committee's analysis.

As a result of the experience in 1988-89 and prior years, the Committee has included in its subsequent reports an *affordability risk analysis*: the analysis of the risk that a particular five-year general obligation bond authorization plan, if followed over time, might lead to a violation of the Committee's affordability criteria, even though the plan was deemed affordable at the time it was proposed. The concept of affordability risk arose because of the need to assess what appeared to be substantial "unused" affordability capacity and the understandable urge to use that capacity to fund needed projects in the short term, resulting in unintended adverse impact over the longer term. The Committee was equally aware of the dangers of the opposite alternative, that is, consistently funding low in order to avoid approaching the criteria ceilings

and, thereby, slowly undermining the State's infrastructure.

Components of Risk. Four basic risk components have been identified in making a judgment about the ultimate affordability of a five-year general obligation program of authorizations:

- Changes in personal income;
- Changes in the definition of tax supported debt;
- Changes within the general obligation bond program; and
- Changes in the bond issuance plans of other, including new, components of tax supported debt.

Changes in Personal Income. In the past, there have been significant adjustments to the estimates of personal income. These changes result from: (1) after-the-fact measurement changes by federal statisticians; and (2) revised projections by the State's Bureau of Revenue Estimates, which are used by the Committee. The former risk is clearly beyond the Committee's control. Although the federal estimates of personal income for a year may change by material amounts in the first two years after the close of the year, subsequent adjustments generally have been small.

Clearly, there is always a risk of reductions in projected levels of personal income, particularly in an uncertain economic climate, with threats of oil shortages, increasingly fierce global competition and an unsettled political situation. In fact, in *Appendix A-1*, the current personal income growth rate projections of 4.77% and 4.64% for 2007 and 2008 have decreased from last year's projections of 5.43% and 5.34% for the same years. Even with these reductions in personal income growth since last year's report and the increased 2006 recommendation, the affordability ratios are still met. Although the risk of a further downward revision in personal income sufficient to severely reduce affordability capacity is possible, it is not likely and may be deemed small if the Committee maintains its tradition of conservative long-term projections. In fact, the growth rate projections in *Appendix A-1* for 2007 through 2012 are all below the 10 year average for 1996 through 2006, which was 5.75%.

Changes in the Definition of Tax Supported Debt. Changes in the definition of tax supported debt will typically only occur if an outside authoritative group changes the definition. While there may be State-level reviews of individual transactions that prompt the reclassification of a specific transaction or set of transactions such as the recent determination regarding GARVEE and Bay Bonds, the impact of such internally initiated reclassifications are apt to be minor. On the other hand, there would be a major impact if, for example, the bond rating agencies would decide to count State housing agency debt as tax supported debt or if the Governmental Accounting Standards Board were to require long term operating leases to be included on the State's balance sheet. Although changes in standards used by outside authoritative groups might have a major impact on measured affordability, such changes are likely to be implemented with ample lead time and would either only affect the out years of the program or provide the Committee with time to adjust its program.

Changes within the General Obligation Bond Program. Changes within the general obligation bond program may arise because of changes in: (1) the types and costs of facilities and other projects financed by general obligation bonds; or (2) changes in the speed with which authorized bonds are issued.

Changes of the first variety do not of themselves necessarily affect total authorizations and, therefore, affordability but, rather, may lead to a re-allocation of resources. The Committee's recommendations are made in terms of a total dollar amount of bonds and not in terms of specific set facilities, grants, or other capital projects. Changes in construction costs, the availability of PAYGO funding, the need for unanticipated new projects, changes in federal tax laws, and a host of other variables influence both the need for general obligation bonds and the share of the affordability limit allocated to particular uses; such changes affect assets that can be acquired within a specific dollar amount of the program. Such changes by themselves, however, affect neither the dollar amount of the Committee's five year assumed program nor the ratio of debt outstanding for that specific program compared to personal income. Therefore, without Committee or General Assembly action to alter the total dollars to be authorized in the five-year plan, there is no affordability risk resulting from such changes within the general obligation plan. If the General Assembly were to conclude, for instance, that meeting the goal established by the Public School Facilities Act of 2004 warranted increasing general obligation bond authorizations beyond the level of \$810 million in this 2006 Recommendation, the remaining debt capacity in *Table 3* might be fully absorbed, unless such increase was explicitly taken out of the CDAC process.

Changes in the speed with which authorized bonds are issued, however, may affect affordability. Bonds authorized by the General Assembly at any session are not immediately sold. Rather the bonds are sold over an extended period of time as the projects are developed and cash is required to pay property owners, consultants, contractors, and equipment manufacturers. Any systematic force that would accelerate or retard the speed with which bonds are brought to market would increase or decrease the amount of debt outstanding and affect the ratio of debt outstanding to personal income. The increase in the amount issued in recent fiscal years reflects the sale of G.O. bonds authorized for projects previously authorized to be funded with operating funds (PAYGO). For example, actual issuances were \$784 million in Fiscal Year 2005 and \$750 Million in Fiscal Year 2006 compared to the projected issuances in the 2004 CDAC Report of \$650 million in each of these two years. Issuances in fiscal year 2007 reflect a return to normal issuance patterns with the corresponding restored use of operating funds (PAYGO) for capital projects.

Changes in the Bond Issuance Plans of Other Components of State Tax Supported

Debt. Changes in the bond issuance plans for other components of tax supported debt can take the form of expansion of existing programs, as was the case with the expanded Consolidated Transportation debt issuance associated with the 1992 gas tax increase, or a totally new program, such as the Maryland Stadium Authority in 1987 or the Bay Restoration Bond program to be initiated in fiscal year 2008.

There are basically four classes of changes:

(1) Changes in existing programs associated with external events. For example, Baltimore received a commitment for a football franchise much later than anticipated; hence, the sale of bonds for the football stadium, originally projected for fiscal 1993, occurred in fiscal 1997.

(2) Anticipated proposals to alter existing programs or create new programs that the Committee may believe to have a high probability of enactment, but the exact timing of the enactment and the amount of new debt are less certain. For example, the 1994 General Assembly authorized design funding for a conference facility in Montgomery County. Although it was probable at that time that the 1996 General Assembly would authorize State tax supported bonds for the State share of construction costs, the amount and timing of the issuance of those bonds were less certain, and, therefore, difficult to work into affordability analyses.

(3) Known proposals that the Committee may believe to have an uncertain probability of enactment. For example, in both 1990 and 1991, the General Assembly considered a large bond authorization for accelerating land purchases under Program Open Space and directed a study of the proposal. The proposal was similar to the original design of Program Open Space, which was abandoned when transfer tax receipts were more than adequate to meet the cash needs of the program's acquisition plan. Such proposals, again, are difficult to work into projections. The Stadium Authority's consideration of financing a horse park falls into this category.

(4) Bond programs that are not known at the time the Committee develops its plan and conducts its affordability analysis. Most recently, the Bay Restoration Bond program falls into this category; this program was not envisioned when the Committee met in 2003 and, therefore, could not be factored into the analysis. Clearly, this fourth type of risk is more likely to affect the latter part of any five-year period as opposed to the first two or three years.

Fiscal Years 2008 - 2012 Risks. In considering the affordability risk associated with the 2008-2012 plan in this year's report, the major risks appear to be any uncertainty regarding the rate of growth in personal income in a time of some economic instability, continued acceleration in the issuance of general obligation bonds, the remote possibility of increased authorizations of general obligation bonds for school construction outside of the \$810 million recommended, and/or an authorization for tax supported debt to finance projects such as a horse park. Interest rate risk is of some concern, especially in 2006. However, the recent TIC for the 2006 Second Series that was sold on 7/26/2006 was 4.18% and projections for future debt service assume a TIC of 5.25% in March 2007 and 5.5% thereafter. See **Graph 3** for the history of TICS from

1988 to the present.

There do not appear to be any federal regulatory changes that might lead to an acceleration of general obligation debt issuances and the effect of any federal budget actions are unclear and not apparent near term. Indeed, the on-going process of military base-closings potentially will bring a significant number of higher level jobs to Maryland. There is no evidence that the rating agencies or the Governmental Accounting Standards Board are contemplating changes in standards that would expand the definition of tax supported debt.

The acceleration of the issuances of general obligation bonds (an additional \$234 million in new money bonds issued in fiscal year 2005 and fiscal year 2006 compared with the 2004 projections) is unlikely to recur. The State has “caught up” with the cash deficits in bond proceeds available for capital projects, and the current planned issuance levels are sufficient to provide adequate capital cash levels.

The changes in the issuance plans of other components of tax supported debt appear to pose limited risk at this time. A survey of state agencies for expected capital lease financings in the next three fiscal years was done in the Spring of 2006 and is reflected in the projections in this report. However, given the size of the capital lease component compared with other components, a change to it is unlikely to have a material affect on affordability. There is one project under consideration that would result in increased tax supported debt issued by the Stadium Authority. This would happen if the horse park project estimated to cost between \$75 – 100 million, is deemed feasible and statutory authority is provided. (See Section II. Part D.)

The assumed issuances by the Department of Transportation are consistent with current statutory limits, revenue forecasts and debt service coverage criteria. GARVEE bonds are now included as a component of State tax supported debt and are incorporated into the analysis.

Conclusion. The analysis suggests that the Committee's projection of general obligation bond authorizations is currently affordable and that the risks of exceeding the affordability criteria are limited. None of the potential risks – limited growth of personal income, accelerated sales of G.O bonds, increased authorizations of either G.O. bonds or other components, or interest rate risk – pose a serious threat to breaching the affordability criteria. Projections used by the Committee for personal income growth are below the average actual income growth for the last ten years, the need for accelerated sales of G.O. bonds has subsided, and authorizations of tax supported debt components (either G.O. or other) are wholly within the State’s control. The Committee believes that the \$810 million authorization recommendation in the first year of the current five year program and 3% annual increases for the next four is prudent and within current projections of capacity. Within these levels, relying upon prudent timing of authorization and issuances, and including the use of available PAYGO general funds, the Committee believes that the current projected needs in school construction, transportation, higher education and other essential areas can be substantially met.

VI. HIGHER EDUCATION DEBT

A. Background

Chapter 93, Laws of Maryland, 1989, now codified in Title 19 of The Education Article (the "Statute"), altered the revenue bonding framework and authority of the University System of Maryland (USM), Morgan State University, and St. Mary's College of Maryland and also assigned certain duties relevant to those alterations to the Capital Debt Affordability Committee. Chapter 673, Laws of Maryland, 1994, required the Capital Debt Affordability Committee also to review the size and condition of any debt of the Baltimore City Community College.

The Statute provided a framework for the issuance of higher education debt. Specifically, the Statute distinguished between auxiliary facilities (which generate fees or income arising from the use of the facility) and academic facilities (which are primarily instructional but can include any facilities not defined as auxiliary). The statute also authorized institutions to issue bonds to finance either auxiliary or academic facilities (maximum terms of 33 and 20 years, respectively) with the stipulation that any academic facilities so financed must first be expressly approved by an act of the General Assembly as to both project and amount.

Furthermore, the Statute specified fund sources that could be pledged as security as well as those that could be used for debt service payments. Specifically available to be pledged as security are auxiliary fees (fees and rents arising from the use of the auxiliary facility) and academic fees (tuition and student fees). The systems specifically cannot pledge: (1) a State appropriation; (2) contracts, grants, or gifts; or (3) any other source not expressly authorized by the General Assembly. Debt service on bonds is payable solely from auxiliary fees, academic fees, a State appropriation expressly authorized for that purpose, or revenues from contracts, gifts, or grants, as appropriate.

Legislation limits the aggregate principal amount of revenue bonds outstanding and the present value of capital lease payments, less the amount of any reserves established therefore, for academic or auxiliary facilities; effective June 1, 2006 the limits are \$1,050.0 million for the University System of Maryland, \$77.0 million for Morgan State University, \$60.0 million for St. Mary's College of Maryland, and \$15.0 million for Baltimore City Community College. Debt for both academic and auxiliary facilities, including capital leases for real property, is subject to the maximum. Baltimore City Community College is authorized to issue debt only for auxiliary facilities.

Since 1989, the General Assembly has authorized bonds totaling \$581.2 million for various academic facilities for the University System of Maryland. Of this amount, \$25.0 million was authorized by the 2006 General Assembly (Chapter 415, Laws of Maryland, 2006).

In addition to defining higher education bond authority and authorizing certain projects, the Statute directs the Capital Debt Affordability Committee to:

1. "...review on a continuing basis the size and condition of any debt of the University System of Maryland, Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College;"
2. "In preparing an estimate with respect to the authorization of any new State debt" [i.e., general obligation debt] to "take into account as part of the affordability analysis any debt for academic facilities to be issued by a System;" and
3. "...submit to the Governor and the General Assembly the Committee's estimate of the amount of new bonds for academic facilities that prudently may be authorized in the aggregate for the next fiscal year by the University System of Maryland, Morgan State University, and St. Mary's College of Maryland."

Charges #2 and #3 pose two basic questions for the Committee. How is higher education debt to be "taken into account" in the Committee's affordability analysis? How is the Committee to determine a "prudent" amount of new academic debt that may be authorized? These charges are discussed in Sections B, C and D below. Charge #1 was met during the meetings of CDAC when representatives from all four institutions presented debt information to the Committee. A summary of the data presented is on *Appendix C-6*.

B. Incorporating Higher Education Academic Debt into the Affordability Analysis

The language in the statute expanding the Committee's charge states: "In preparing an estimate with respect to the authorization of any new State debt [i.e., general obligation debt], the Committee shall take into account as part of the affordability analysis any debt for academic facilities to be issued by a system." This language, however, is not explicit regarding the meaning of "take into account."

On its face, the statute does not explicitly direct the Committee to include higher education debt as a component of State tax supported debt for purposes of the capacity criteria or affordability analysis or the Committee's recommendation relating to new authorization of general obligation debt. This ambiguity is heightened by three complicating factors.

First, during their February, 1989, presentation to the joint fiscal committees, both attending rating agencies were quite explicit, when describing their approach to debt measurement, that they did not consider debt issued by institutions of higher education to be State tax supported debt. The debt of the systems, either currently outstanding or related to future issuances, would not, under their policies, be included by the rating agencies in determining the rating of the State's general obligation bonds.

Second, both the statutory structure of higher education debt and the current budgetary policies related to higher education debt underscore the separation of higher education debt and tax supported debt. The Statute provides that higher education debt may not be secured by a pledge of the issuer's general fund appropriation. The Statute further provides that no general funds may be used to pay debt service unless specifically authorized in the budget. Third, the

revenue sources that secure the bonds are under the direct control of the systems and not directly subject to the approval of either the Governor or the General Assembly.

There appears, therefore, to be no standard of analysis commonly used by rating agencies that would suggest that higher education debt should be included as a component of State tax supported debt. At the same time, however, the Committee must in some way "take into account" higher education academic debt. The Committee believes that its analysis, discussions, and deliberations of higher education debt levels, capacity, and needs addresses legislative intent.

C. University System of Maryland Debt Capacity Study

In 1994, USM requested their financial advisor, Public Financial Management, Inc. (PFM), to prepare an analysis of USM's debt capacity. PFM used 1993 data to compare USM to a group of 26 peer public universities that were rated either AA-, AA, or AA+ by Standard and Poor's Ratings Group. (Standard and Poor's rating of USM debt was AA+). PFM's analysis showed USM to be favorably comparable in seven out of ten criteria and recommended that debt service not exceed 5.5% of unrestricted current fund expenditures and mandatory transfers (UCF+MT). The remaining three criteria identified as areas to monitor in the future were: (1) endowment (low in comparison to peers); (2) debt to endowment (comparatively high); and, (3) unrestricted monies as a percent of debt (comparatively low).

On March 25, 1995, the Board of Regents of the University System of Maryland approved a debt capacity policy which required that debt service not exceed 5.5% of current UCF+MT, unless the debt to endowment ratio decreased or the ratio of unrestricted available funds to total debt increased. The policy also required that the Capital Improvement Plan must be consistent with the debt capacity policy and provided criteria to determine which projects should be financed.

A report published by Moody's Investors Service in June 2006 ranked 196 Colleges and Universities by ratings. Three universities were rated AAA, four were rated Aa1 and the University System of Maryland was one of 15 universities that was ranked Aa2. St Mary's College of Maryland was rated A2 and Morgan State University was rated A1. Morgan State University reported to the Committee that Moody's has the University on watch due to a downturn in freshman enrollment in the Fall of 2005.

While the USM is strong in many rating criteria, there are two areas where the USM needs improvement when compared to other top-rated public colleges and universities. These areas are (1) liquidity, defined as a relationship between expendable resources and debt, and (2) endowment.

USM's financial advisor, Public Financial Management, is working with the Chancellor's Office to develop a new debt capacity policy as a result of the rating agency concerns regarding liquidity and, also, financial reporting changes mandated by Government Accounting Standards Board Statement No. 35 – *Basic financial Statements and Management Discussion and Analysis*

for Public Colleges and Universities.

The USM has routinely monitored the relationship between expendable resources and debt and is committed to maintaining expendable resources that are no less than 50% of outstanding debt. Expendable resources include unrestricted net assets of the USM and its affiliated foundation with adjustments for certain long term liabilities. As recommended by the Spending Affordability Committee, this Committee will include a review of the University System's ratio of expendable resources to debt outstanding. The following table includes actual data for fiscal years 2002 through 2005 and projections for fiscal years 2006 through 2007:

University System of Maryland			
Ratio of Expendable Resources to Debt Outstanding			
(\$ in thousands)			
FY	Expendable Resources	Debt Outstanding	Ratio of Expendable Resources to Debt Outstanding
2002	\$500,352	\$797,000	62.78%
2003	\$514,726	\$960,000	53.62%
2004	\$646,927	\$998,073	55.94%
2005	\$743,000	\$1,000,000	74.30%
2006	\$758,000	\$935,000	81.06%
2007	\$777,000	\$954,000	81.44%

Source: University System of Maryland

D. Recommending a Prudent Level of New Higher Education Academic Debt to be Authorized

The Committee's charge is to submit an "estimate of the amount of new bonds for academic facilities that prudently may be authorized in the aggregate for the next fiscal year by the University System of Maryland, Morgan State University, and St. Mary's College of Maryland." This charge, therefore, requires the Committee to distinguish between burdens imposed by academic debt and those imposed by auxiliary debt in arriving at a recommendation for academic debt alone. From a credit analyst's point of view, however, the aggregate level of a system's debt is critical, while the type of debt (academic versus auxiliary) has no relevance to the credit analysis.

One approach to determining a prudent amount of new academic debt to be authorized is to start with the aggregate level of debt that each system anticipates issuing. If it is estimated that the level of debt is prudent over time, then it is reasonable for the Committee to accept the aggregate total and also to accept the breakdown (between academic and auxiliary) proposed by a system.

This approach does not address the issue of the maximum level of debt outstanding allowed by statute for each system. While the Committee recognizes that the "caps" on the

amount of debt outstanding are beyond the statutory charge of this Committee, the analysis of system debt capacity may prove useful to the Governor and General Assembly in setting limits for debt outstanding.

The guidelines initially adopted by the Committee to judge debt manageability are those contained in the rating methodology used by one of the major rating agencies. Standard and Poor's uses five factors to rate a public institution's debt (over a time frame of several years): (1) the rating of the State; (2) the State's general financial support for higher education as a whole; (3) the State's financial support for the particular institution; (4) the institution's demand and financial factors; and (5) the security pledge. The first, second, and fifth factors are the same for all four systems. All systems benefit from the State's AAA rating; all are part of public higher education in Maryland; and all can offer the same types of security.

The third factor is only relevant to Morgan State University, St. Mary's College of Maryland and Baltimore City Community College, since the University System of Maryland receives approximately 89% of the State general funds appropriated to the four systems.

The fourth factor, the institution's demand and financial factors, encompasses a host of data dealing with the student body, financial performance, and components of debt. The specific guideline related to debt burden is twofold. First, the most accurate measure of debt burden is judged to be debt service as a percent of the sum of unrestricted current fund expenditures plus mandatory transfers. Second, if that ratio exceeds 10%, the institution is considered highly leveraged. Comparisons of public institutions in one state to those in another state may not be meaningful, since the level of state support varies so widely. The ratios range from below 2% to over 10% and do not necessarily correlate to ratings, since many other factors are taken into account in evaluating credit worthiness.

Table 4 displays various components of debt for each of the four higher education systems. In analyzing the data, it is important to recognize that there are two levels of higher education debt measurement. One consists of the sum of the components that count toward the statutory ceiling, and the other measure consists of the sum of the components that count for the purpose of credit analysis. It is presumed for purposes of this analysis that the relevant measure is the one that encompasses all components of debt - one that mirrors the measure used by credit analysts - and *Table 4* reflects that.

As can be seen from the final column in *Table 4*, each system is well within the criteria suggested by Standard & Poor's for measuring debt burden. The USM, moreover, is within its 5.5% debt capacity limit. All of the institutions show generally lower debt burden ratios compared to last year's estimates.

The following are the projected issuances for the University System of Maryland through 2012.

University System of Maryland			
Projected Issuances			
	Auxiliary	Academic	Total
FY	(\$ in thousands)		
2007	\$55,000	\$25,000	\$80,000
2008	\$60,000	\$30,000	\$90,000
2009	\$75,000	\$25,000	\$100,000
2010	\$75,000	\$25,000	\$100,000
2011	\$75,000	\$25,000	\$100,000
2012	\$75,000	\$25,000	\$100,000

Because each of the system's debt issuance plans would result in a debt burden level well below the 10% "highly leveraged" threshold established by Standard & Poor's, there appears to be no basis for the Committee's recommendation to differ from the systems' plans at this time. The Committee recommends a limit of \$30 million of new bonds for USM academic facilities to be authorized in the aggregate for the next fiscal year. Morgan State University and St. Mary's College of Maryland do not propose to issue debt in fiscal year 2008.

E. Baltimore City Community College

The Committee's responsibility for reviewing higher education debt was originally enacted in 1989 and specified the debt of the three systems then in existence.

In 1990, the General Assembly enacted legislation transferring management responsibility for the Community College of Baltimore to the State, renaming the institution the New Community College of Baltimore. The legislation did not grant the institution the authority to issue debt. Legislation enacted in 1992, however, granted the institution, renamed the Baltimore City Community College (BCCC), authority to issue debt for auxiliary facilities only, limiting the aggregate principal amount of bonds outstanding to \$15 million. Chapter 673, Laws of Maryland, 1994, required the Committee to review the size and condition of any debt of BCCC.

BCCC has no plans to issue bonds in fiscal year 2008. In any case, BCCC would not be included in the Committee's estimate of the amount of new bonds for academic facilities that prudently may be authorized for the next fiscal year, because BCCC does not have the authority to issue bonds for academic facilities but only for auxiliary facilities.

BCCC is currently exploring the feasibility and desirability of various projects that might be funded by the issuance of auxiliary bonds or through capital leases during the next several fiscal years. In fiscal year 2002, BCCC entered into a \$1.2 million, 5-year capital lease for a network upgrade through the State's master equipment lease purchase financing program.

TABLE 4

HIGHER EDUCATION DEBT
Total Auxiliary and Academic
(\$ in thousands)

Fiscal Year	Projected Issuances		Projected Debt Outstanding as of June 30	Projected Debt Service for fiscal year	Unrestricted Current Fund Expenditures plus Mandatory Transfers	Ratio of Debt Service to UCF Expenditures plus Mandatory Transfers
	Auxiliary	Academic				
University Systems Of Maryland						
2007	\$55,000	\$ 25,000	\$954,634	\$107,638	\$2,800,000	3.84%
2008	\$60,000	\$ 30,000	\$978,012	\$115,936	\$3,000,000	3.86%
2009	\$75,000	\$ 25,000	\$1,006,067	\$123,993	\$3,100,000	4.00%
2010	\$75,000	\$ 25,000	\$1,032,941	\$127,794	\$3,300,000	3.87%
2011	\$75,000	\$ 25,000	\$1,059,073	\$131,183	\$3,500,000	3.75%
2012	\$75,000	\$ 25,000	\$1,084,948	\$133,904	\$3,700,000	3.62%
Morgan State University						
2007			\$64,803	\$6,039	\$137,727	4.39%
2008			\$63,141	\$6,160	\$143,924	4.28%
2009	\$20,000		\$81,324	\$6,267	\$150,401	4.17%
2010			\$79,213	\$7,672	\$157,169	4.88%
2011			\$75,756	\$7,701	\$164,242	4.69%
2012			\$72,113	\$7,712	\$171,633	4.49%
St. Mary's College of Maryland						
2007			\$42,750	\$2,807	\$54,502	5.15%
2008			\$41,530	\$2,831	\$56,682	4.99%
2009			\$40,275	\$3,057	\$58,949	5.19%
2010			\$38,970	\$3,059	\$61,307	4.99%
2011			\$37,620	\$3,050	\$63,759	4.78%
2012			\$36,400	\$3,048	\$66,310	4.60%
Baltimore City Community College						
2007			\$776	\$344	\$53,951	0.64%
2008			\$432	\$108	\$56,908	0.19%
2009			\$324	\$108	\$61,021	0.18%
2010			\$216	\$108	\$64,654	0.17%
2011			\$108	\$108	\$67,877	0.16%
2012			\$0	\$0	\$71,595	0.00%

Standard & Poor's criteria is, if a ratio is greater than 10%, the institution is considered highly leveraged. USM has a debt capacity limit of 5.5%

(a) Includes \$277 for mainframe upgrade and lease payment of \$67 for modular unit financed through the Treasurers Office.

(b) Includes lease payment of \$108 for modular unit financed through the Treasurers Office.

VII. OTHER ISSUES

A. Maintenance of Public School Facilities in Maryland

In the 2005 CDAC Report, the Committee noted that it would “continue to monitor the issue of school maintenance, particularly in light of the contemplated substantial increases in school construction funding in each of the next seven years.” At its July 28, 2006 meeting, Dr. David Lever discussed this issue with the Committee and presented the following report.

STATUS REPORT TO THE CAPITAL DEBT AFFORDABILITY COMMITTEE

By Interagency Committee on School Construction

BACKGROUND

On August 26, 2005, the Interagency Committee on School Construction (IAC) reported to the Capital Debt Affordability Committee (CDAC), chaired by Treasurer Nancy K. Kopp, on the status of public school maintenance in Maryland and on initiatives to strengthen maintenance at the local level. Attached is a summary of the initiatives proposed by the IAC to improve the maintenance of public schools. This report will explain the actions taken in the last year to implement the initiatives, as well as further actions that will take place in the coming year.

OUTREACH

Following dissemination of the IAC initiatives in September 2005, there was great concern among the superintendents of Maryland’s 24 school districts that the State would implement a program of capital funding consequences that would be punitive to school systems that had older facilities with a greater number of maintenance deficiencies. There was also apparently some uncertainty about the term “effort” as applied to maintenance of school facilities: this term became confused with “Maintenance of Effort”, a budgeting concept that ensures that local governments will maintain and enhance overall operational budgeting for their school districts from year to year (of which the maintenance of facilities is one component). This confusion of terminology is understandable, and will lead to the search for an alternative term to describe the facilities maintenance “effort” that was included in several of the IAC initiatives.

To address these concerns, Dr. Nancy S. Grasmick, as Chair of the IAC and State Superintendent of Schools, and David Lever, Executive Director of the Public School Construction Program (PSCP), met with the superintendents on September 9, 2005, in Hagerstown to explain the initiatives and particularly the proposed linkage between maintenance and capital funding. This meeting appears to have been successful in addressing the superintendents’ concerns.

In addition, Dr. Lever met in early November with Maintenance Supervisors from the school districts to explain the initiatives and respond to questions. This meeting reinforced the importance that the LEAs place on the State’s maintenance survey process. In November Dr. Lever also presented on the maintenance initiatives at the annual fall ASBO (Association of School Business Officials – MD/DC) conference.

Based on these communications, the PSCP believes that the school systems understand the IAC

initiatives and particularly welcome the improvement of the maintenance survey process. The PSCP will continue this outreach process by formally introducing the new PSCP Maintenance Inspectors to the LEA Maintenance Supervisors at their annual meeting on October 5, 2006, in Anne Arundel County.

MAINTENANCE INITIATIVES

1. Improve the State's annual maintenance surveys in order to enhance the State's ability to monitor the maintenance of public schools

The Public School Construction Program was approved for two new Maintenance Inspector positions in FY 2007. More than 40 applications were received for the two positions, the majority of them from qualified individuals. The two candidates selected bring to the task a wealth of experience in the management, day-to-day operations, and maintenance of large public facilities, including the Meyerhoff Symphony Hall and several State courthouses. Both are experienced in conducting facility surveys. These individuals are charged immediately with:

- Surveying at least 230 schools between September 2006 and March 2007. If this rate proves realistic and feasible, the average survey cycle for schools will decrease from the current 14 years to approximately six years, a time interval that corresponds to the replacement schedule for many building items.
 - During the transition and orientation period, the Inspectors will work with staff from the PSCP and the MSDE Facilities Branch to develop the list of schools to be surveyed.
 - The surveys will not begin until after mock surveys have been conducted on at least three school buildings of various ages and conditions in the Baltimore region, in company with the PSCP Executive Director and Deputy Director, in order to ensure consistency of observations and ratings.
- Testing and improving the survey instrument. In fiscal 2007, the current instrument will be used and its performance will be noted by the Inspectors. The survey instrument for fiscal year 2008 inspections will incorporate the factor of local effort, as well as other improvements required by the inspectors. The PSCP Information Technologies officer will convert the instrument to a database-format that will be compatible with the PSCP Facilities Inventory, so that current survey information will be available to qualified users, particularly the staff of the PSCP, who need to assess all aspects of a school building's history, funding, capacity, and current condition as they review requests for planning and funding.

As an aspect of improving the survey instrument, the inspectors will work with PSCP staff to develop clear and objective criteria for each of the ratings (Superior, Good, Adequate, Not Adequate, Poor) for each category of work that is surveyed (Life Safety Systems, Interior Conditions, Roofing, etc.)

2. Strengthen the relationship between maintenance and State funding provided through the Capital Improvement Program

Strengthening the linkage between the Comprehensive Maintenance Plan, the maintenance surveys, and the Capital Improvement Program. In reviewing the FY 2007 Capital Improvement Program requests for planning approval and funding, the PSCP compared the maintenance priority projects shown in the LEA Comprehensive Maintenance Plans (CMP) submitted on October 15, 2005, to the priority projects in the CIP submissions. In general, the two documents were found to be coordinated and consistent. This process will be intensified in the fall of 2006:

- The Maintenance Inspectors will review the consistency of the CMP and the FY 2008 CIP requests, particularly for systemic renovation projects. The Inspectors will discuss with LEA facility planners other funding alternatives, e.g. the Aging School Program and QZAB, if a priority maintenance item does not appear in the CIP.
- The Inspectors will review the list of FY 2008 CIP requests for major renovation projects in existing schools and will determine if these schools have received a maintenance survey in the last few years. For schools not recently surveyed, the inspectors will conduct surveys in the month of October. With the information obtained from recent maintenance surveys, the PSCP can ensure that requests for major renovation are not prematurely driven by a past history of poor maintenance.
- The Inspectors will propose ways to improve the content and format of the CMPs.

Definitions. The workgroup of LEA Maintenance Supervisors and others that met last summer to develop initiatives for the IAC also outlined draft definitions of maintenance categories. Work on these definitions continued this spring. The PSCP Maintenance Inspectors will take on this task, working with Maintenance Supervisors from the school districts.

Descriptions of Maintenance Conditions in the Annual Report to the Board of Public Works. Because of inconsistencies found in the surveys conducted in fiscal year 2006, the PSCP will propose to the IAC in September that the annual report to the BPW contain descriptions of overall findings from the surveys, but not descriptions of maintenance conditions in each school district. The district descriptions will be of the greatest importance to the LEAs, in that any negative reports will affect the perception of the school system by the local government and the community; consequently, it is essential that these descriptions be scrupulously accurate and complete. While the FY 2006 surveys do not meet this standard, they still provide valuable information on which maintenance items, e.g. roofs or mechanical systems, are being rated most consistently as Not Adequate or Poor. Correlated with other information, e.g. region, demographic profile, age of building stock, or local wealth, this information may provide insight into the best future application of State and local funding. Descriptions of findings from the 2007 surveys for each school district will be provided in the 2007 report to the Board of Public Works.

Short Term Actions. The specific tasks under this initiative - defining a set of objective metrics

to determine whether school facilities are being adequately maintained and funded; determining how Thornton funds are being used for maintenance; defining the criteria and conditions under which the IAC would recommend funding consequences related to the results of the maintenance survey; disseminating maintenance best practices; and publicly disseminating the results of the maintenance surveys - will be discussed with the PSCP Maintenance Inspectors during and following the fiscal year 2007 surveys. It is necessary to defer these tasks until the Inspectors are fully familiar with the procedures, requirements and purposes of the maintenance survey.

- | |
|---|
| 3. Develop an incentive program of State funding to assist the local school systems with their maintenance tasks. |
|---|

Since this remains by far the most consequential and controversial of all the IAC initiatives, it will be further discussed with the IAC in September 2006. With the exception of Baltimore City Public Schools (BCPSS), Maryland's school districts have had a strong culture of school maintenance within tight budget constraints. BCPSS has shown clear progress since May 2005 in implementing a preventive maintenance program, with additional progress still needed in order to have an adequate program in place. BCPSS has reduced the backlog of outstanding work orders, and most important, has improved the institutional structures that ensure accountability and quick response to maintenance issues. Based on improvements to maintenance throughout the state, the IAC will continue to evaluate the need for a program of funding incentives.

CONCLUSION

The high level of FY 2007 funding for the capital program (\$322 million) and the Aging School Program (\$15 million) have been met with enthusiasm by the school districts, not least because it permits the State to fund fully 140 systemic renovation projects and an estimated 275 ASP projects. These projects are clearly related to the long-term performance of school buildings. Concurrently, the renewed interest in school maintenance that the State has demonstrated through the IAC report of August 2005, and the pending implementation of a strong maintenance survey process, have been welcomed by the school districts as reinforcements to their local maintenance efforts. The IAC is appreciative of the support that the Capital Debt Affordability Committee has demonstrated for school construction funding, and of their interest in enabling the IAC to implement a fully valid maintenance inspection program. In the last year, progress has been substantial. We anticipate that when we report to this Committee in the summer of 2007, considerable further progress will have been made in the arena of school maintenance.

PERSONAL INCOME AND POPULATION

Historical Data through 2005
Projections 2006-2012

Calendar Year	Personal Income (\$ in millions)	% Change	Population (thousands)	% Change
1995	\$ 133,815		5,070	
1996	\$ 140,035	4.65%	5,112	0.83%
1997	\$ 147,843	5.58%	5,157	0.88%
1998	\$ 157,784	6.72%	5,204	0.91%
1999	\$ 167,075	5.89%	5,255	0.98%
2000	\$ 181,958	8.91%	5,312	1.08%
2001	\$ 191,657	5.33%	5,380	1.28%
2002	\$ 198,824	3.74%	5,442	1.15%
2003	\$ 206,292	3.76%	5,512	1.29%
2004	\$ 220,402	6.84%	5,561	0.89%
2005	\$ 233,874	6.11%	5,600	0.70%
2006	\$ 246,395	5.35%	5,640	0.71%
2007	\$ 258,139	4.77%	5,681	0.73%
2008	\$ 270,123	4.64%	5,721	0.70%
2009	\$ 283,391	4.91%	5,766	0.79%
2010	\$ 297,223	4.88%	5,818	0.90%
2011	\$ 311,445	4.78%	5,865	0.81%
2012	\$ 325,402	4.48%	5,901	0.61%

5.75% Average rate of personal income growth for 10 year period 1996 through 2005
5.73% Median rate of personal income growth for 10 year period 1996 through 2005

Sources: Personal Income
1995-2005 Bureau of Economic Analysis, U.S. Dept. of Commerce
2006-2012 Forecast : Economy.com

Population
1995-2005 Census Bureau, U.S. Dept. of Commerce
2006-2012 Forecast : Economy.com

MARYLAND STATE REVENUE PROJECTIONS
(\$ in millions)

Fiscal Year	General Fund Revenue	Property Taxes	Use of Premium	Total	Transportation Revenues	Stadium Related Revenues	Garvee Bonds	Bay Restoration Fund	Total Revenues
1995	\$7,095.0	\$224.5		\$7,319.5	\$1,239.4	\$16.2			\$8,575.1
1996	\$7,211.0	\$228.3		\$7,439.3	\$1,261.4	\$17.4			\$8,718.1
1997	\$7,617.0	\$235.6	\$1.7	\$7,854.3	\$1,293.8	\$22.0			\$9,170.1
1998	\$8,051.0	\$242.2	\$14.4	\$8,307.6	\$1,341.5	\$24.6			\$9,673.7
1999	\$8,524.0	\$246.9	\$6.3	\$8,777.2	\$1,462.6	\$24.5			\$10,264.3
2000	\$9,220.0	\$250.8	\$5.2	\$9,476.0	\$1,568.4	\$21.2			\$11,065.6
2001	\$9,802.0	\$257.1	\$5.5	\$10,064.6	\$1,615.0	\$27.6			\$11,707.2
2002	\$9,504.0	\$270.0	\$18.4	\$9,792.4	\$1,663.0	\$27.3			\$11,482.7
2003	\$9,409.8	\$286.0	\$30.5	\$9,726.3	\$1,603.0	\$27.0			\$11,356.3
2004	\$10,204.3	\$468.4	\$88.0	\$10,760.7	\$1,884.0	\$27.3			\$12,672.0
2005	\$11,548.0	\$516.5	\$89.0	\$12,153.5	\$2,085.0	\$30.5			\$14,269.0
2006	\$12,343.4	\$573.3	\$41.8	\$12,958.5	\$2,113.0	\$31.1			\$15,102.6
2007	\$12,914.7	\$547.5	\$3.0	\$13,465.2	\$2,134.0	\$31.4			\$15,630.6
2008	\$13,523.1	\$611.2	\$0.0	\$14,134.3	\$2,139.0	\$32.7	\$46.0		\$16,352.0
2009	\$14,164.5	\$633.1	\$0.0	\$14,797.6	\$2,186.0	\$33.4	\$52.4	\$5.0	\$17,074.4
2010	\$14,807.9	\$669.1	\$0.0	\$15,477.0	\$2,227.0	\$33.5	\$84.5	\$17.9	\$17,840.0
2011	\$15,453.9	\$707.2	\$0.0	\$16,161.1	\$2,298.0	\$33.5	\$84.5	\$37.9	\$18,614.9
2012	\$16,161.1	\$735.8	\$0.0	\$16,896.9	\$2,311.0	\$33.7	\$84.4	\$52.8	\$19,378.8

General Fund:

1995 -2012: Bureau of Revenue Estimates, DBM 2006-2007

Property Tax and Use of Premium Revenues:

1995 - 1996: Supplemental Financial Data of the Comptroller

1997 - 2005: State Budget Books

2006 - 2012 : Dept. of Budget and Management, STO

Transportation Revenues:

1995-2012: Department of Transportation, Office of Finance

Garvee Bond Revenues:

are assumed to be just sufficient to meet Garvee debt service requirements.

Stadium Revenues:

are assumed to be just sufficient to meet stadium debt service requirements.

Bay Restoration Fund Revenues:

are assumed to be just sufficient to meet Bay Restoration debt service requirements.

Proposed General Obligation Authorizations and Estimated Issuances
Authorize additional \$100 million in FY 2008, rate of annual increases 3% indefinitely
 (\$ in millions)

Legislative Session	Fiscal Year	Proposed Authorizations	Crop Conversions	(a)		Estimated Issuances During Fiscal Year (b)												
				Total Proposed Authorizations	Rate of Increase	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 and beyond	Total Issued	
				\$690														
2007	2008	\$807	\$3	\$810	17%		251	203	162	122	73							\$810
2008	2009	\$832	\$3	\$835	3%			259	209	167	125	75						\$835
2009	2010	\$855	\$5	\$860	3%				267	215	172	129	77					\$860
2010	2011	\$890		\$890	3%					276	223	178	134	80				\$890
2011	2012	\$920		\$920	3%						285	230	184	138	83			\$920
2012	2013	\$950		\$950	3%							295	238	190	143	85		\$950
2013	2014	\$980		\$980	3%								304	245	196	235		\$980
2014	2015	\$1,010		\$1,010	3%									313	253	444		\$1,010
2015	2016	\$1,040		\$1,040	3%										322	718		\$1,040
2016	2017	\$1,070		\$1,070	3%											1,070		\$1,070
Projected Issuance of New Authorizations				\$9,365			251	461	637	779	878	907	936	966	996	2,552		\$9,364
Current Authorized but Unissued				\$1,774		\$675	\$449	\$299	\$173	\$81	\$22	\$33	\$24	\$14	\$4	\$0		\$1,774
Total Projected Issuances				\$11,139		\$675	\$700	\$760	\$810	\$860	\$900	\$940	\$960	\$980	\$1,000	\$2,552		\$11,138
Projected Bond Sales		<i>Fiscal Year</i>				<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>			
		1st sale				\$350	\$350	\$375	\$375	\$410	\$425	450	460	475	500			
		2nd sale				\$325	\$350	\$385	\$435	\$450	\$475	490	500	505	500			
		Total sales				\$675	\$700	\$760	\$810	\$860	\$900	\$940	\$960	\$980	\$1,000			

(a) Assumes that projected authorizations continue to increase at a rate of 3% beyond 2012.

(b) Percentage Issuance assumptions by fiscal years:

Fiscal year following year of authorization:	1st	2nd	3rd	4th	5th
Percent of original authorization issued	31%	25%	20%	15%	9%

PROJECTED GENERAL OBLIGATION DEBT - AUTHORIZED BUT UNISSUED

Appendix B-2

(\$ in thousands)

Fiscal Year	Authorized but Unissued Debt at Beginning of FY	New Debt Authorizations	Bond Issues	Authorized but Unissued Debt at End of FY
		(a)	(a)	
2007	\$1,774,484	\$690,000	(\$675,000)	\$1,789,484
2008	\$1,789,484	\$810,000	(\$700,000)	\$1,899,484
2009	\$1,899,484	\$835,000	(\$760,000)	\$1,974,484
2010	\$1,974,484	\$860,000	(\$810,000)	\$2,024,484
2011	\$2,024,484	\$890,000	(\$860,000)	\$2,054,484
2012	\$2,054,484	\$920,000	(\$900,000)	\$2,074,484
2013	\$2,074,484	\$950,000	(\$940,000)	\$2,084,484
2014	\$2,084,484	\$980,000	(\$960,000)	\$2,104,484
2015	\$2,104,484	\$1,010,000	(\$980,000)	\$2,134,484
2016	\$2,134,484	\$1,040,000	(\$1,000,000)	\$2,174,484
		<u>\$8,985,000</u>	<u>(\$8,585,000)</u>	

Summary:

Authorized at 7/1/2006	\$1,774,484
Total Authorizations	\$8,985,000
Total Issuances	<u>(\$8,585,000)</u>
Total Authorized at 6/30/2016	<u>\$2,174,484</u>

(a) As projected in Appendix B-1; assumes that projected authorizations continue to increase at a rate of 3% beyond 2012.

PROJECTED GENERAL OBLIGATION DEBT OUTSTANDING

APPENDIX B - 3

(\$ in thousands)

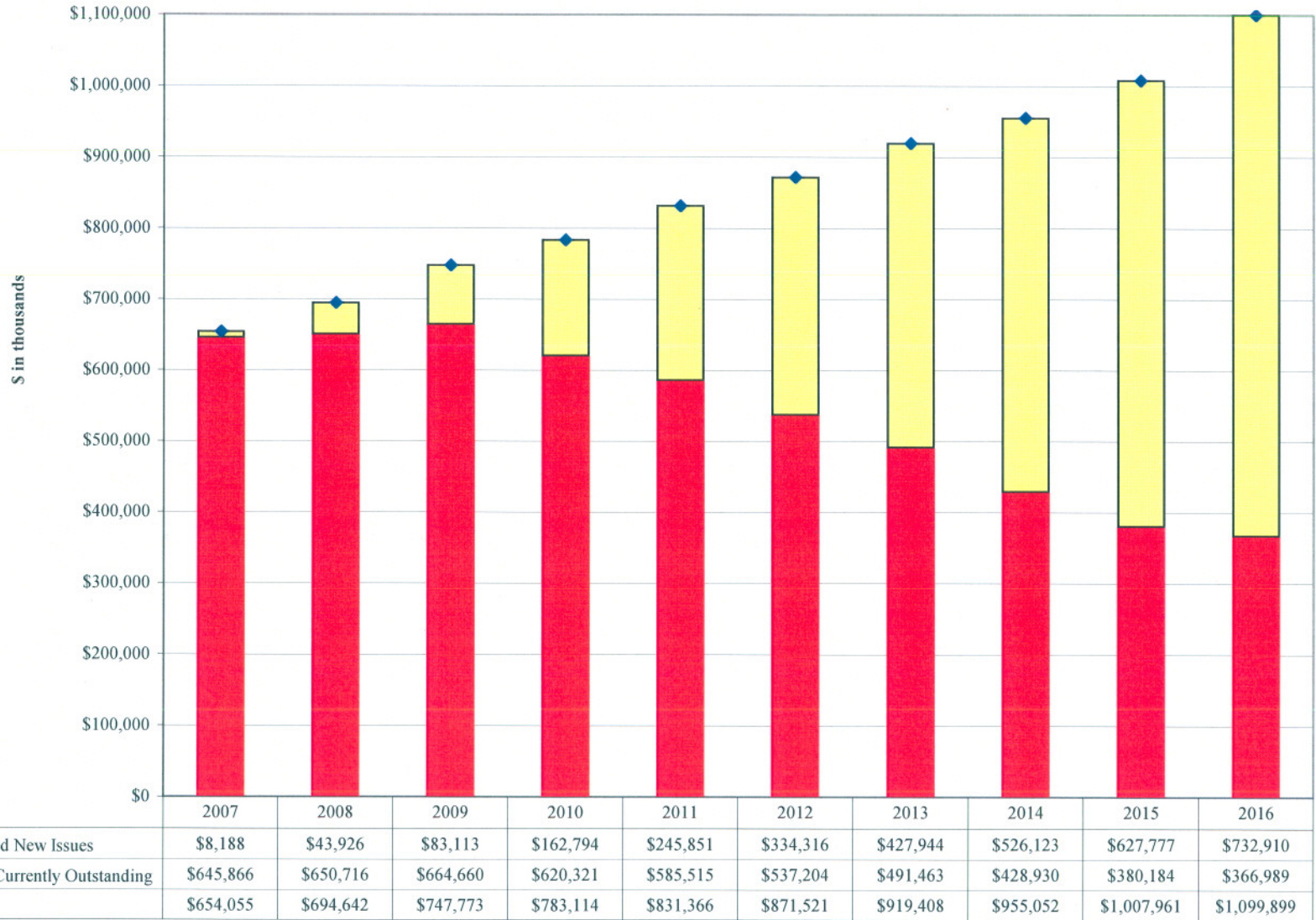
Fiscal Year	Outstanding at Beginning of FY	New Issues	Redemptions	Outstanding at End of FY
		(a)		
2007	\$4,868,471	\$684,364	(\$405,695)	\$5,147,140
2008	\$5,147,140	\$700,000	(\$428,310)	\$5,418,830
2009	\$5,418,830	\$760,000	(\$464,725)	\$5,714,105
2010	\$5,714,105	\$810,000	(\$481,828)	\$6,042,277
2011	\$6,042,277	\$860,000	(\$508,925)	\$6,393,351
2012	\$6,393,351	\$900,000	(\$528,079)	\$6,765,273
2013	\$6,765,273	\$940,000	(\$553,580)	\$7,151,693
2014	\$7,151,693	\$960,000	(\$566,930)	\$7,544,763
2015	\$7,544,763	\$980,000	(\$597,467)	\$7,927,296
2016	\$7,927,296	\$1,000,000	(\$667,604)	\$8,259,692
		<u>\$8,594,364</u>	<u>(\$5,203,143)</u>	

Summary:

Outstanding at 7/1/2006	\$4,868,471
Total issued	\$8,594,364
Total Redeemed	<u>(\$5,203,143)</u>
Outstanding at 6/30/2016	<u>\$8,259,692</u>

(a) New issues as projected in Appendix B-1, plus in FY 2007, \$9,364 of QZAB bonds (Qualified Zone Academy Bonds) will also be issued.

Appendix B-4 Projected General Obligation Debt Service



Appendix B-4 is the projected debt service corresponding to debt outstanding on Appendix B-3

APPENDIX C-1

Historical Data - General Obligation Debt
(\$ in thousands)

Fiscal Year	Summary of Authorizations				Summary of Debt Activity					Summary of Debt Service				
	Authorized	Cancelled	New Issuances	Authorized but Unissued	New Issuances	Refunding	Redeemed	Refunded	Outstanding at Fiscal Year End	Adjustment (b)			Adjusted Debt Service	
										Gross Total	Repayable	Assumed		Net
	(a)													
1972	\$470,786	\$17,065	\$204,040	\$995,251	\$204,040		\$48,696		\$876,176	\$80,138	(\$7,309)	\$46,608	\$39,299	\$119,437
1973	\$463,565	\$9,152	\$193,505	\$1,256,159	\$193,505		\$51,017		\$1,018,664	\$88,836	(\$9,912)	\$45,766	\$35,854	\$124,690
1974	\$412,827	\$16,058	\$162,150	\$1,490,778	\$162,150		\$59,823		\$1,120,991	\$105,394	(\$9,405)	\$45,684	\$36,279	\$141,673
1975	\$375,956	\$35,267	\$353,615	\$1,477,852	\$353,615		\$72,452		\$1,402,154	\$125,787	(\$11,581)	\$44,674	\$33,094	\$158,881
1976	\$180,181	\$20,465	\$391,605	\$1,245,963	\$391,605		\$83,416		\$1,710,343	\$155,462	(\$11,072)	\$44,186	\$33,114	\$188,576
1977	\$169,908	\$653	\$448,200	\$967,018	\$448,200		\$92,633		\$2,065,910	\$184,751	(\$11,963)	\$43,425	\$31,462	\$216,213
1978	\$190,896	\$4,577	\$218,145	\$935,192	\$218,145		\$111,095		\$2,172,960	\$216,797	(\$14,066)	\$42,459	\$28,393	\$245,190
1979	\$155,887	\$61,422	\$115,350	\$914,307	\$115,350		\$134,235		\$2,154,075	\$244,653	(\$14,503)	\$39,599	\$25,096	\$269,749
1980	\$205,510	\$72,819	\$117,310	\$929,688	\$117,310		\$162,255		\$2,109,130	\$269,054	(\$15,052)	\$37,425	\$22,373	\$291,427
1981	\$182,418	\$16,335	\$271,065	\$824,706	\$271,065		\$176,140		\$2,204,055	\$286,003	(\$15,946)	\$35,841	\$19,895	\$305,898
1982	\$184,998	\$22,391	\$188,180	\$799,133	\$188,180		\$184,575		\$2,207,660	\$311,372	(\$16,253)	\$33,947	\$17,694	\$329,066
1983	\$190,250	\$8,851	\$392,230	\$588,301	\$392,230		\$190,000		\$2,409,890	\$330,491	(\$14,062)	\$28,328	\$14,266	\$344,757
1984	\$203,150	\$24,467	\$116,700	\$650,284	\$116,700		\$212,275		\$2,314,315	\$361,279	(\$12,750)	\$27,209	\$14,459	\$375,738
1985	(c) \$331,387	\$11,187	\$138,990	\$831,495	\$138,990		\$222,010		\$2,231,295	\$380,089	(\$11,809)	\$24,146	\$12,337	\$392,426
1986	\$219,034	\$49,892	\$124,585	\$876,052	\$124,585		\$245,805		\$2,110,075	\$396,768	(\$9,204)	\$20,227	\$11,023	\$407,791
1987	\$230,950	\$7,575	\$164,645	\$934,782	\$164,645		\$244,305		\$2,030,415	\$394,568	(\$5,104)	\$16,441	\$11,337	\$405,905
1988	\$254,228	\$13,601	\$304,860	\$870,549	\$304,860		\$244,455		\$2,090,820	\$389,993	(\$4,649)	\$13,635	\$8,986	\$398,979
1989	\$294,997	\$3,545	\$160,000	\$1,002,000	\$160,000		\$245,460		\$2,005,360	\$393,388	(\$4,240)	\$10,293	\$6,053	\$399,441
1990	(c) \$328,219	\$103,063	\$234,227	\$992,930	\$234,227		\$252,681		\$1,986,906	\$395,118	(\$4,260)	\$8,317	\$4,057	\$399,175
1991	\$329,200	\$2,570	\$296,787	\$1,022,773	\$296,787		\$245,256		\$2,038,437	\$388,400	(\$1,349)	\$6,547	\$5,198	\$393,598
1992	\$349,979	\$1,000	\$340,000	\$1,031,752	\$340,000		\$200,238		\$2,178,199	\$345,897	(\$1,353)	\$5,648	\$4,295	\$350,192
1993	\$369,995	\$2,320	\$260,410	\$1,139,018	\$260,410	\$147,740	\$176,479	\$130,475	\$2,279,395	\$322,251	(\$1,358)	\$3,156	\$1,798	\$324,049
1994	\$379,889	\$1,417	\$380,365	\$1,137,125	\$380,365	\$207,390	\$183,106	\$180,040	\$2,504,004	\$323,618	(\$654)	\$2,146	\$1,492	\$325,110
1995	\$389,960	\$1,111	\$335,000	\$1,190,958	\$335,000		\$219,936		\$2,619,069	\$373,485	(\$653)	\$1,357	\$704	\$374,189
1996	\$412,088	\$12,425	\$470,000	\$1,119,919	\$470,000		\$229,134		\$2,859,935	\$382,125	(\$652)	\$1,360	\$708	\$382,833
1997	\$416,133	\$2,114	\$410,000	\$1,124,656	\$410,000		\$244,541		\$3,025,394	\$401,799	(\$647)	\$347	(\$300)	\$401,499
1998	\$442,999	\$15,142	\$500,000	\$1,052,513	\$500,000		\$254,869		\$3,270,525	\$417,900	(\$642)	\$64	(\$578)	\$417,322
1999	\$448,745	\$5,764	\$475,000	\$1,020,898	\$475,000		\$245,297		\$3,500,238	\$417,646	(\$124)	\$0	(\$124)	\$417,522
2000	\$471,786	\$3,659	\$125,000	\$1,363,620	\$125,000		\$276,362		\$3,348,872	\$459,156	\$0	\$0	\$0	\$459,156
2001	\$513,250	\$3,612	\$400,000	\$1,473,258	\$400,000		\$297,966		\$3,450,900	\$470,869	\$0	\$0	\$0	\$470,869
2002	\$731,058	\$12,614	\$418,098	\$1,773,604	\$418,098	\$109,935	\$322,320	\$112,435	\$3,544,178	\$495,217	\$0	\$0	\$0	\$495,217
2003	\$756,513	\$11,634	\$725,000	\$1,793,483	\$725,000	\$376,950	\$326,695	\$386,940	\$3,932,493	\$496,870	\$0	\$0	\$0	\$496,870
2004	\$663,663	\$10,692	\$500,000	\$1,946,454	\$500,000		\$330,215		\$4,102,278	\$536,819	\$0	\$0	\$0	\$536,819
2005	\$679,807	\$6,730	\$784,043	\$1,835,488	\$784,043	\$855,840	\$348,180	\$882,155	\$4,511,826	\$553,783	\$0	\$0	\$0	\$553,783
2006	\$690,000	\$1,004	\$750,000	\$1,774,484	\$750,000	\$0	\$393,355	\$0	\$4,868,471	\$625,208	\$0	\$0	\$0	\$625,208

50

- (a) Authorizations for a fiscal year represent those authorizations effective for that fiscal year; therefore, authorizations for FY 1988 exclude \$15 million for the Salisbury Multi-Service Center which authorization is effective 7/1/88.
- (b) Adjustment to debt service: "repayable" represents debt service on loans the repayment of which is received by the State, from non-State entities, concurrently with, or prior to, debt service payment dates. "Assumed" debt represents payments made by the State for debt service on non-State debt.
- (c) Includes \$100 million authorized in the Special Session of 1985 for the savings and loan crisis; no bonds were issued and the authorization was cancelled in 1990.

**STATE PUBLIC SCHOOL CONSTRUCTION
AND CAPITAL IMPROVEMENT LOANS**

(\$ in thousands)

APPENDIX C - 2

Fiscal Year	Authorized	Issued	Redeemed	Outstanding	Authorized but Unissued	Debt Service
	(a)					
1972	\$300,000		\$0		\$359,660	
1973	\$220,000	\$73,000	\$0	\$163,340	\$506,660	\$5,218
1974	\$212,000	\$114,400	\$0	\$277,740	\$604,260	\$9,154
1975	\$160,000	\$186,000	\$5,170	\$458,570	\$578,260	\$20,623
1976	\$50,000	\$162,700	\$9,685	\$611,585	\$465,560	\$34,242
1977	\$69,000	\$230,900	\$16,590	\$825,895	\$303,660	\$52,119
1978	\$57,000	\$121,650	\$27,240	\$920,305	\$239,010	\$70,941
1979	\$62,000	\$70,750	\$37,285	\$953,770	\$230,260	\$85,335
1980	\$45,000	\$48,210	\$52,195	\$949,785	\$227,050	\$99,952
1981	\$45,000	\$111,200	\$61,860	\$999,125	\$160,850	\$111,679
1982	\$32,000	\$65,500	\$69,120	\$995,505	\$127,350	\$124,968
1983	\$22,000	\$86,350	\$75,410	\$1,006,445	\$63,000	\$134,258
1984	\$36,000	\$36,500	\$87,025	\$955,920	\$62,500	\$146,099
1985	\$34,600	\$24,000	\$94,685	\$885,235	\$73,100	\$153,339
1986	\$44,300	\$38,000	\$103,545	\$819,690	\$79,400	\$149,417
1987	\$57,400	\$34,040	\$111,190	\$742,540	\$102,760	\$163,947
1988	\$53,000	\$55,750	\$109,295	\$688,995	\$100,010	\$157,696
1989	\$44,000	\$52,000	\$110,090	\$630,905	\$92,010	\$155,959
1990	\$53,000	\$35,300	\$106,395	\$559,810	\$109,710	\$148,422
1991	\$60,000	\$57,000	\$94,910	\$521,900	\$112,710	\$133,620
1992	\$69,000	\$76,510	\$76,725	\$521,685	\$105,200	\$113,813
1993	\$80,000	\$95,000	\$58,520	\$558,165	\$90,200	\$93,822
1994	\$82,000	\$52,856	\$52,715	\$558,306	\$119,344	\$84,168
1995	\$83,000	\$76,700	\$54,394	\$580,613	\$125,644	\$83,919
1996	\$118,000	\$77,131	\$55,410	\$602,334	\$166,513	\$84,563
1997	\$122,000	\$129,438	\$55,670	\$676,102	\$159,075	\$85,440
1998	\$129,500	\$158,819	\$55,145	\$779,776	\$129,756	\$86,366
1999	\$90,000	\$150,906	\$51,230	\$879,454	\$68,850	\$89,838
2000	\$96,728	\$60,000	\$54,866	\$795,015	\$30,200	\$96,543
2001	\$119,369	\$75,397	\$58,675	\$812,296	\$170,900	\$98,983
2002	\$224,100	\$64,098	\$62,703	\$813,691	\$330,902	\$104,369
2003	\$113,115	\$230,816	\$63,364	\$981,144	\$213,201	\$103,235
2004	\$114,226	\$82,912	\$59,631	\$1,004,425	\$244,515	\$109,066
2005	\$234,400	\$106,965	\$87,401	\$1,023,989	\$371,950	\$143,782
2006	\$284,669	\$210,593	\$99,582	\$1,135,000	\$446,026	\$157,991

(a) FY 1987 authorizations include \$3,500,000 for Systemic Renovations

**Comparison of Total GO Bond Authorizations with Total
Authorized for School Construction**

(\$ in thousands)

Appendix C-2a

	Total Authorizations less Cancellations	Authorized for School Construction	% for School Construction
	(a)	(b)	
1972	\$453,721	\$300,000	66%
1973	\$454,413	\$220,000	48%
1974	\$396,769	\$212,000	53%
1975	\$340,689	\$160,000	47%
1976	\$159,716	\$50,000	31%
1977	\$169,255	\$69,000	41%
1978	\$186,319	\$57,000	31%
1979	\$94,465	\$62,000	66%
1980	\$132,691	\$45,000	34%
1981	\$166,083	\$45,000	27%
1982	\$162,607	\$32,000	20%
1983	\$181,399	\$22,000	12%
1984	\$178,683	\$36,000	20%
1985	\$320,200	\$34,600	11%
1986	\$169,142	\$44,300	26%
1987	\$223,375	\$57,400	26%
1988	\$240,627	\$53,000	22%
1989	\$291,452	\$44,000	15%
1990	\$225,156	\$53,000	24%
1991	\$326,630	\$60,000	18%
1992	\$348,979	\$69,000	20%
1993	\$367,675	\$80,000	22%
1994	\$378,472	\$82,000	22%
1995	\$388,849	\$83,000	21%
1996	\$399,663	\$118,000	30%
1997	\$414,019	\$122,000	29%
1998	\$427,857	\$129,500	30%
1999	\$442,981	\$90,000	20%
2000	\$468,127	\$96,728	21%
2001	\$509,638	\$119,369	23%
2002	\$718,444	\$224,100	31%
2003	\$744,879	\$113,115	15%
2004	\$652,971	\$114,226	17%
2005	\$673,077	\$234,400	35%
2006	\$688,996	\$284,669	41%
Totals	\$12,498,020	\$3,616,407	29%

(a) Refer to Appendix C-1

(b) Refer to Appendix C-2

APPENDIX C - 3

HISTORICAL DATA - DEPARTMENT OF TRANSPORTATION DEBT

Consolidated Transportation Bonds
(\$ in thousands)

Fiscal Year	Summary of Debt Activity				Summary of Debt Activity			Summary of Debt Service (d)			
	Gross Debt Outstanding Beginning of Year	Issued	Defeased	Redeemed	Gross Debt Outstanding End of Year	Sinking Fund(s) Balance (c)	Net Debt Outstanding End of Year	Deposits to Refunding Sinking Fund	Principal Redeemed	Interest	Total
1983	\$ 519,865	\$ 40,000	-	\$ 60,000	\$ 499,865	\$ 240,601	\$ 259,264	\$ 20,924	\$ 60,000	\$ 32,884	\$ 113,808
1984	\$ 499,865	-	-	-	\$ 499,865	\$ 283,617	\$ 216,248	\$ 20,924	-	\$ 29,219	\$ 50,143
1985	\$ 499,865	-	-	-	\$ 499,865	\$ 335,241	\$ 164,624	\$ 20,924	-	\$ 29,219	\$ 50,143
1986	\$ 499,865	-	\$ 354,865 (b)	\$ 3,000	\$ 142,000	\$ 29,299	\$ 112,701	\$ 10,462	\$ 3,000	\$ 19,547	\$ 33,009
1987	\$ 142,000	\$ 100,000	-	\$ 7,000	\$ 235,000	\$ 48,317	\$ 186,683	-	\$ 7,000	\$ 12,919	\$ 19,919
1988	\$ 235,000	-	-	\$ 8,000	\$ 227,000	\$ 58,953	\$ 168,047	-	\$ 8,000	\$ 15,685	\$ 23,685
1989	\$ 227,000	\$ 100,000	-	\$ 17,000	\$ 310,000	\$ 68,162	\$ 241,838	-	\$ 17,000	\$ 18,195	\$ 35,195
1990	\$ 310,000	\$ 260,000	-	\$ 20,000	\$ 550,000	\$ 67,309	\$ 482,691	-	\$ 20,000	\$ 28,842	\$ 48,842
1991	\$ 550,000	\$ 310,000	-	\$ 18,000	\$ 842,000	\$ 68,329	\$ 773,671	-	\$ 18,000	\$ 46,261	\$ 64,261
1992	\$ 842,000	\$ 120,000	-	\$ 21,000	\$ 941,000	\$ 66,230	\$ 874,770	-	\$ 21,000	\$ 59,211	\$ 80,211
1993	\$ 941,000	\$ 75,000	-	\$ 56,200	\$ 959,800	\$ 39,901	\$ 919,899	-	\$ 56,200 (e)	\$ 61,445	\$ 117,645
1994	(f) \$ 959,800	\$ 543,745	\$ 457,800	\$ 25,455	\$ 1,020,290	\$ 27,570	\$ 992,720	-	\$ 25,455	\$ 56,423	\$ 81,878
1995	\$ 1,020,290	\$ 75,000	-	\$ 47,785	\$ 1,047,505	\$ 32,338	\$ 1,015,167	-	\$ 47,785	\$ 52,841	\$ 100,626
1996	\$ 1,047,505	-	-	\$ 69,880	\$ 977,625	\$ 30,940	\$ 946,685	-	\$ 69,880	\$ 51,526	\$ 121,406
1997	\$ 977,625	\$ 50,000	-	\$ 88,245	\$ 939,380	\$ 15,495	\$ 923,885	-	\$ 88,245	\$ 47,448	\$ 135,693
1998	\$ 939,380	\$ 93,645 (g)	\$ 91,200	\$ 97,810	\$ 844,015	-	\$ 844,015	-	\$ 97,810	\$ 44,959	\$ 142,769
1999	\$ 844,015	-	-	\$ 94,885	\$ 749,130	-	\$ 749,013	-	\$ 94,885	\$ 38,025	\$ 132,910
2000	\$ 749,130	\$ 75,000	-	\$ 99,360	\$ 724,770	-	\$ 724,770	-	\$ 99,360	\$ 35,873	\$ 135,233
2001	\$ 724,770	-	-	\$ 76,720	\$ 648,050	-	\$ 648,050	-	\$ 76,720	\$ 32,954	\$ 109,674
2002	\$ 648,050	\$ 150,000	-	\$ 83,900	\$ 714,150	-	\$ 714,150	-	\$ 83,900	\$ 29,278	\$ 113,178
2003	\$ 714,150	\$ 607,405 (h)	\$ 46,500	\$ 313,810	\$ 961,245	-	\$ 961,245	-	\$ 313,810	\$ 34,204	\$ 348,014
2004	\$ 961,245	\$ 395,900 (i)	\$ 77,500	\$ 93,995	\$ 1,185,650	-	\$ 1,185,650	-	\$ 93,995	\$ 40,915	\$ 134,910
2005	\$ 1,185,650	-	-	\$ 115,705	\$ 1,069,945	-	\$ 1,069,945	-	\$ 115,705	\$ 53,950	\$ 169,655
2006	\$ 1,069,945	\$ 100,000	-	\$ 91,470	\$ 1,078,475	-	\$ 1,078,475	-	\$ 91,470	\$ 49,702	\$ 141,172

(a) Includes \$60 million Consolidated Transportation Bonds plus a one-year Bond Anticipation Note for \$60 million. The one-year BAN was re-issued the following year.

(b) Represents a defeasance of the balance remaining of the series 1978 refunding bonds.

(c) For those bonds issued prior to 7/1/89, sinking fund balances reflect the net effect of: deposits into the fund, one calendar year in advance, of debt service; fund earnings; and payments, from the sinking fund, to bondholders. Bonds issued after 7/1/89 do not require such a sinking fund.

(d) Represents payments to the refunding bond sinking fund plus payments of principal and interest to the bondholders. Amounts may differ from budgetary amounts (budgetary amounts represent payment to sinking funds).

(e) Includes early redemptions of \$30 million.

(f) DOT sold two issues of refunding bonds in FY 94:
\$211.985 million to refund \$204.0 million
\$291.760 million to refund \$253.8 million

(g) The Depart issued \$93.645 mil refunding bonds to refund \$91.2 million during fiscal year 1998.

(h) The Depart issued \$262.405 mil refunding bonds to refund \$265.820 million during fiscal year 2003.

(i) The Depart issued \$75.9 mil refunding bonds to refund \$77.5 million during fiscal year 2004.

APPENDIX C - 4

HISTORICAL DATA - DEPARTMENT OF TRANSPORTATION DEBT

County Transportation Bonds
(\$ in thousands)

Fiscal Year	Summary of Debt Activity						Summary of Debt Service (d)				
	Gross Debt Outstanding Beginning of Year	Issued	Defeased or Refunded	Redeemed	Gross Debt Outstanding End of Year	Sinking Fund Balance (c)	Net Debt Outstanding End of Year	Deposits to Refunding Sinking Fund	Principal Redeemed	Interest	Total
1983	\$ 225,085	\$ 34,875	-	\$ 2,625	\$ 257,335	\$ 104,373	\$ 152,962	\$ 9,216	\$ 2,625	\$ 15,681	\$ 27,522
1984	\$ 257,335	\$ 22,270	-	\$ 2,985	\$ 276,620	\$ 124,619	\$ 152,001	\$ 8,749	\$ 2,985	\$ 18,061	\$ 29,795
1985	\$ 276,620	\$ 24,210	-	\$ 4,435	\$ 296,395	\$ 144,595	\$ 151,800	\$ 7,214	\$ 4,435	\$ 19,591	\$ 31,240
1986	\$ 296,395	\$ 8,795	-	\$ 5,720	\$ 299,470	\$ 177,185	\$ 122,285	-	\$ 5,720	\$ 12,099	\$ 17,819
1987	\$ 299,470	\$ 40,590	(a) \$ 180,405	(b) \$ 7,090	\$ 152,565	\$ 21,479	\$ 131,086	-	\$ 7,090	\$ 12,336	\$ 19,426
1988	\$ 152,565	\$ 18,255	-	\$ 8,920	\$ 161,900	\$ 21,599	\$ 140,301	-	\$ 8,920	\$ 11,766	\$ 20,686
1989	\$ 161,900	\$ 7,285	-	\$ 9,895	\$ 159,290	\$ 26,024	\$ 133,266	-	\$ 9,895	\$ 11,931	\$ 21,826
1990	\$ 159,290	\$ 9,950	-	\$ 11,535	\$ 157,705	\$ 23,978	\$ 133,727	-	\$ 11,535	\$ 11,695	\$ 23,230
1991	\$ 157,705	\$ 16,550	-	\$ 12,875	\$ 161,380	\$ 25,539	\$ 135,841	-	\$ 12,875	\$ 11,619	\$ 24,494
1992	\$ 161,380	\$ 8,300	-	\$ 14,440	\$ 155,240	\$ 27,314	\$ 127,926	-	\$ 14,440	\$ 11,383	\$ 25,823
1993	\$ 155,240	-	-	\$ 16,405	\$ 138,835	\$ 27,294	\$ 111,541	-	\$ 16,405	\$ 10,454	\$ 26,859
1994	\$ 138,835	-	\$ 94,955	(e) \$ 18,035	\$ 25,845	\$ 5,954	\$ 19,891	-	\$ 18,035	\$ 5,662	\$ 23,697
1995	\$ 25,845	-	-	\$ 4,640	\$ 21,205	\$ 6,007	\$ 15,198	-	\$ 4,640	\$ 1,314	\$ 5,954
1996	\$ 21,205	-	-	\$ 4,950	\$ 16,255	\$ 6,055	\$ 10,200	-	\$ 4,950	\$ 1,057	\$ 6,007
1997	\$ 16,255	-	-	\$ 5,280	\$ 10,975	\$ 5,338	\$ 5,637	-	\$ 5,280	\$ 775	\$ 6,055
1998	\$ 10,975	-	-	\$ 4,845	\$ 6,130	\$ 525	\$ 5,605	-	\$ 4,845	\$ 493	\$ 5,338
1999	\$ 6,130	-	-	\$ 525	\$ 5,605	\$ 555	\$ 5,050	-	\$ 525	\$ 344	\$ 869
2000	\$ 5,605	-	-	\$ 555	\$ 5,050	\$ 590	\$ 4,460	-	\$ 555	\$ 314	\$ 869
2001	\$ 5,050	-	-	\$ 590	\$ 4,460	\$ 630	\$ 3,830	-	\$ 590	\$ 283	\$ 873
2002	\$ 4,460	-	-	\$ 630	\$ 3,830	\$ 675	\$ 3,155	-	\$ 630	\$ 248	\$ 878
2003	\$ 3,830	-	-	\$ 675	\$ 3,155	\$ 715	\$ 2,440	-	\$ 675	\$ 211	\$ 886
2004	\$ 3,155	-	-	\$ 715	\$ 2,440	\$ 765	\$ 1,675	-	\$ 715	\$ 170	\$ 885
2005	\$ 2,440	-	-	\$ 765	\$ 1,675	\$ 810	\$ 865	-	\$ 765	\$ 126	\$ 891
2006	\$ 1,675	-	-	\$ 810	\$ 865	\$ 865	-	-	\$ 810	\$ 78	\$ 888

(a) Represents the Ninth Series issue of \$11.415 million plus a refunding series of \$29.175 million issued to refund \$24.680 million. The \$29.175 million was fully retired on 10/01/97.

(b) Represents the defeasance of a 1978 refunding bond issue in the amount of \$155.725 million, and the refunded \$24.680 million (see (a) above).

(c) Sinking fund balances reflect the net effect of: deposits into the fund, one fiscal year in advance, of debt service; fund earnings; and payments, from the sinking fund, to bondholders.

(d) Represents payments to the refunding bond sinking fund plus payments of principal and interest to bondholders. Amounts may differ from budgetary amounts (budgetary amounts represent payments to sinking funds).

(e) In FY 94 DOT refunded the 3rd and 6th thru 13th Series. The refunding debt is not classified as State tax supported debt.

Summary of Tax-Supported Debt
(\$ in millions)
6/30/2006

Appendix C-5

Type of Financing	Issuer	Limits		Issued FY 2006	Outstanding at 6/30/2006	Moody's, S+P, Fitch Ratings	Projected issuances							
		Limit to Debt Outstanding	Maximum Maturity (in years)				FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	Totals	
General Obligation Bonds	State of Maryland	\$6,643	(A)	15	\$750	\$4,868.5	Aaa, AAA, AAA	\$700	\$0	\$0	\$0	\$0	\$0	\$700
Consolidated Transportation Bonds	MDOT	\$1,333	(B)	15	\$100	\$1,078.5	Aa2, AA, AA	\$235	\$260	\$185	\$225	\$175	\$170	\$1,250
GARVEE Bonds	MdTA	\$750		12	\$0	\$0.0	n/a	\$380		\$370				\$750
Bay Restoration Bonds	MD Water Quality Financing Administration		(C)	15	\$0	\$0.0	n/a		\$50	\$130	\$200	\$150		\$530
Maryland Stadium Authority	Maryland Stadium Authority	\$360		40	\$0	\$296.3	AA (G)	\$8	\$25					\$33
Capital Leases:														
Capital Equipment Leases	State of Maryland	\$149	(F)	10	\$23	\$80.7	n/r	\$28	\$22	\$22	\$24	\$24	\$24	\$144
Energy Leases	State of Maryland	\$57	(F)	15	\$0	\$35.0	n/r	\$6	\$6	\$6	\$6	\$6	\$6	\$36
Real Estate Leases	DGS	none		20-30	\$0	\$41.4	n/r							
MDOT Nontraditional Debt:														
MAA Shuttle Buses	MDOT		included in non-traditional debt limits (D,E)	12	\$0	\$14.2	Aa2, AA+, AA-							
MDOT Headquarters Building	MEDCO		included in non-traditional debt limits (D,E)	20	\$0	\$31.9	Aa2, AA+, n/r							
State Office Parking Facility	MdTA			27	\$23.8	\$23.8	underlying Aa1, AA+, AA							
					<u>\$896.8</u>	<u>\$6,470.1</u>								

n/a not applicable, bonds are not yet issued

n/r not rated

(A) The maximum amount that may be outstanding as of 6/30/2006 is the amount currently outstanding (\$4,868.5) plus the authorized but unissued amount of \$1,774.4.

(B) For FY 2006, the aggregate amount of Consolidated Transportation Bonds that may be outstanding as of June 30, 2006.

(C) No statutory limit but debt outstanding cannot exceed amount that can be serviced from sewerage fee revenues.

(D) Any debt of the Department of Transportation that is not a Consolidated Transportation Bond or Grant Anticipation Revenue Vehicle (GARVEE) is nontraditional debt.

(E) On 9/28/2005, the Senate Budget and Taxation Committee and the House Committee on Appropriations concurred with the Department's request to increase the budgetary limit of \$754,100,000 to allow for the financing of the Locust Point Warehouse.

(F) Lease is subject to approval by Legislative Policy Committee, lease payments subject to appropriation. As of 6/30/06, Capital Lease is currently limited to \$70 million of new lease contract plus leases currently outstanding. As of 6/30/06, Energy Lease is currently limited to remaining \$22.0 of current lease plus leases currently outstanding.

(G) \$8 million for Camden Yards, \$25 million for Ocean City Convention Center

Summary of Debt of Higher Education Institutions

(\$ in millions)
6/30/2006

Appendix C-6

Issuer	Limit to Debt Outstanding effective June 1, 2006		Issued Fiscal Year 2006	Outstanding at 6/30/2006	Ratings - Moody's, S+P, Fitch	Projected issuances							
	(F)	(A)				FY 07	FY 08	FY 09	FY10	FY 11	FY 12	Totals	
University System of Maryland	\$1,050	(A)	\$0	\$935	(B)	Aa2, AA, Aa2, Stable	\$80	\$90	\$100	\$100	\$100	\$100	\$570
Morgan State University	\$77		\$0	\$73.5		A1, A+, N/R (C)	-	-	\$20	-	-	-	\$20
St. Mary's College	\$60		\$4.2	\$43.7		A2, N/R, N/R (D)	-	-	-	-	-	-	\$0
Baltimore City Community College	\$15		\$0	\$0.8		N/R	-	(E)	(E)	(E)	(E)	(E)	\$0

N/R - Not Rated

- (A) Debt includes Revenue Bonds, Equipment Loan Program Obligations, Certificates of Participation, Capital Leases and other debt.
- (B) After USM issued \$80 million in July 2006, total debt outstanding rose to \$1,015 million.
- (C) Moody's has Morgan University on watch due to a downturn in freshman enrollment in Fall of 2005.
- (D) This is the underlying rating. All revenue bonds issued by St. Mary's College are insured and therefore the rating is AAA to the investor.
- (E) BCCC is currently exploring the feasibility of various projects that might be funded by the issuance of auxiliary bonds or capital leases.
- (F) For all institutions, the maximum term is 33 years for auxiliary facilities and 20 years for academic facilities.