REPORT OF THE

CAPITAL DEBT AFFORDABILITY COMMITTEE

ON

RECOMMENDED DEBT AUTHORIZATIONS

FOR FISCAL YEAR 2012

SUBMITTED TO

THE GOVERNOR AND GENERAL ASSEMBLY

OF MARYLAND

September 2010

September 22, 2010

The Honorable Martin J. O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21401

The Honorable Thomas V. M. Miller, Jr.
President of the Senate
Maryland General Assembly
State House
Annapolis, Maryland 21401

The Honorable Michael E. Busch
Speaker of the House
Maryland General Assembly
State House
Annapolis, Maryland 21401

Gentlemen:

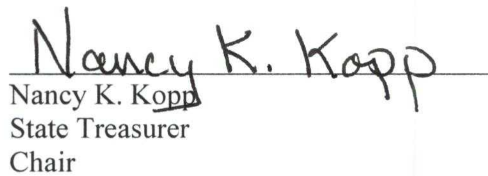
The Capital Debt Affordability Committee, created pursuant to Section 8-104, *et seq*., of the State Finance and Procurement Article, is required to submit to the Governor and the General Assembly each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized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

At this time, the Committee recommends a $925 million limit for new general obligation authorizations by the 2011 General Assembly to support the 2012 capital program. The Committee's projections for future authorizations assume level authorizations through 2016 of between $925 million and $955 million. In 2017 the projected authorization is $1,200 million and it increases by approximately 3% through 2020. With these authorization levels, the debt affordability ratios remain within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues.

The motion to adopt this level specifically recognized that authorization levels proposed in the Governor's 2012 capital budget could be adjusted to reflect up-to-date economic and fiscal information and the Board of Revenue Estimate's December revenue estimates. Accordingly, the Capital Debt Affordability Committee will review its authorization in December 2010 and make any necessary modifications to its recommendation.

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee recommends a limit of $27 million for new academic facilities bonds for the University System of Maryland for fiscal year 2012.

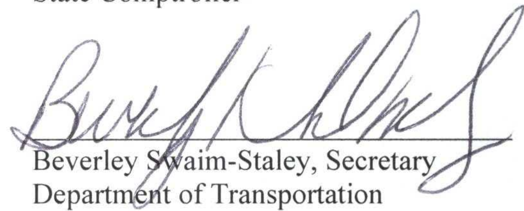
We are pleased to present to you the Committee's Annual Report, with the recommendations relating to the fiscal 2012 capital program.



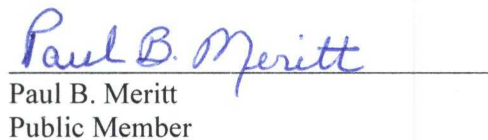
Nancy K. Kopp
State Treasurer
Chair

Peter Franchot
State Comptroller

T. Eloise Foster, Secretary
Budget and Management



Beverley Swaim-Staley, Secretary
Department of Transportation



Paul B. Meritt
Public Member

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EXECUTIVE SUMMARY

The Capital Dept Affordability Committee ("CDAC" or "the Committee"), established under Section 8-104 *et seq*. of the State Finance and Procurement Article, is charged with reviewing:

1. The size and condition of State tax-supported debt on a continuing basis, 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;
2. 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, St. Mary's College of Maryland and Baltimore City Community College;

To develop its recommendations, the Committee met on June 9, July 19, August 11 and September 22, 2010. In the first 2010 meeting, The Committee updated the 2009 affordability ratios, discussed the implications of bonds authorized by the American Recovery and Reinvestment Act (ARRA), and reviewed actions by the 2010 Legislature.

At the July 19 meeting, the Committee reviewed the size, condition and projected issuances of tax-supported debt including General Obligation Bonds, Consolidated Transportation Bonds, Grant Anticipation Revenue Vehicle (GARVEE) Bonds, Maryland Stadium Authority Bonds and Bay Restoration Fund Revenue Bonds (Bay Restoration Bonds). The Committee conducted a similar annual review of the debt of higher education institutions at the August 11 meeting. Also at the August meeting, the Committee reviewed the State of Maryland Capital Program and school construction needs during the next five fiscal years.

Chapter 641 of the Laws of 2010 requires the Committee to analyze and report on the aggregate impact of Public-Private Partnership agreements on the total amount of new State debt that prudently may be authorized for the next fiscal year. At the September 22 meeting, the Committee reviewed the Public-Private Partnership known as State Center. Because the State Center form of leases approved by the Board of Public Works on July 28, 2010 currently meet the criteria for operating leases, the Committee concluded that the State Center Public-Private Partnership would have no impact on the total amount of new State debt that may be authorized for the next fiscal year. However, on the advice of the State's external auditor, the final determination of the classification of the occupancy leases at State Center should be done at the time the State actually occupies the space, which is expected to be fiscal year 2014 for Phase I.

At the September 22 meeting, the Committee unanimously recommended a $925 million limit for new general obligation authorizations by the 2011 General Assembly to support the 2012 capital program. The Committee's projections for future authorizations assume generally level authorizations through 2016 of between $925 million and $955 million. In 2017 the projected authorization is $1,200 million and it increases by approximately 3% through 2020.

With these authorization levels, the debt affordability ratios remain within the CDAC benchmarks of 4% debt outstanding to personal income and 8% debt service to revenues. The

affordability analysis presented at the September 22 meeting indicates that the Committee's projection of General Obligation Bond authorizations is currently affordable. The personal income criterion peaks at 3.50% in 2013 and is at 2.87% in 2020. The debt service criterion increases annually to 7.92% in 2017 but declines to 7.29% in 2020.

The Committee reviewed its assumptions on interest rates, revenues, personal income, debt issuance and bond authorizations. The personal income and revenue estimates reflect the most recent projections by the Bureau of Revenue Estimates in September 2010. The Committee believes that all of these variables have been estimated conservatively but financial conditions in the recent recession have resulted in volatile revenues, personal income and interest rates. Because the affordability ratio for debt service to revenues is near the benchmark of 8.0%, any variation in these assumptions would impact directly the amount of future general obligation authorizations and issuances.

The motion to recommend $925 million specifically recognized that authorization levels proposed in the Governor's 2012 capital budget could be adjusted to reflect up-to-date economic and fiscal information and the Board of Revenue Estimate's December revenue estimates. Accordingly, the Capital Debt Affordability Committee will review its authorization in December 2010 and make any necessary modifications to its recommendation.

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee unanimously recommended a limit of $27 million for new academic facilities bonds for the University System of Maryland for fiscal year 2012. The Committee did not receive any requests for new issuances for Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and therefore made no recommendations for these institutions.

The 2010 Capital Debt Affordability Report and the 2010 meeting materials are available on the State Treasurer's website at www.treasurer.state.md.us/CDAC_Reports_Page.htm

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I. INTRODUCTION

A. Membership

The members of the Capital Debt Affordability Committee (“CDAC” or “Committee”) are the State Treasurer (Chair), the Comptroller, the Secretaries of Budget and Management and Transportation, one public member appointed by the Governor, and as non-voting members, the Chairs of the Capital Budget Subcommittees of the Senate Budget and Taxation Committee and the House Appropriations Committee.

B. Duties

The Committee is required to review the size and condition of State debt on a continuing basis and to submit to the Governor and to the General Assembly by October 1 of each year,[1] 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[2] that will be
  - Outstanding, and
  - Authorized but unissued during the next fiscal year;
- The capital program prepared by the Department of Budget and Management and the capital improvement and school construction needs during the next five fiscal years, as projected by the Interagency Committee on School Construction;
- Projected debt service requirements for the next ten years;
- Criteria used by recognized bond rating agencies to judge the quality of State bond issues;
- The aggregate impact of public-private partnership agreements on the total amount of new State debt that prudently may be authorized for the next fiscal year[3];
- 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.

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[1] Chapter 695, Laws of Maryland 2010 changed the date from September 10 to October 1 of each year to allow the Committee to consider updated projections from the Board of Revenue Estimates made in September of each year.
[2] See Appendix A for the Committee’s definition of tax-supported debt.
[3] Chapter 641 of the Laws of 2010 requires the State Treasurer to analyze the impact of each public-private partnership agreement proposed by a unit of State government on the State’s Capital Debt Affordability limits and submit that analysis to the Budget Committees within 30 days of receiving a copy of the proposed agreement from a unit of State government. Chapter 641 also requires the Committee to analyze the aggregate impact of public-private partnership agreements on the Committee’s recommended authorization for the next fiscal year.

The Committee also reviews 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; takes 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, submits to the Governor and the General Assembly a recommendation of the amount of new bonds for academic facilities that prudently may be authorized in the aggregate for the next fiscal year by these institutions of higher education.

A history of the Committee's membership, duties, debt affordability criteria, definition of tax-supported debt, and authorization increases can be found in Appendix A.

C. 2009 Recommendations and Subsequent Events

The recommendations of the Committee to the Governor and the General Assembly for the fiscal year 2011 capital program and the subsequent events related to those recommendations are summarized below.

2009 Recommendations of the Capital Debt Affordability Committee

The Committee made a conditional recommendation of $990.0 million in new debt for fiscal year 2011 in its September 2009 report. However, in its letter dated September 3, 2009 to the Governor, President of the Senate and the Speaker of the House, the Committee noted its intention to reconvene in late December to reexamine the authorization after considering the following:

1. Board of Revenue Estimate's December revenue estimates.
2. Options to provide operating budget relief by transferring appropriate expenditures to the capital budget.
3. Debt service projections subsequent to the projected refunding and new money bond issuances in the Fall of 2009.
4. Possible extension of federal authorizations incorporated in the American Recovery and Reinvestment Act ("ARRA"), such as qualified school construction bonds and Build America Bonds.
5. Any other appropriate issues.

The Committee met on December 18, 2009 to consider these issues and circumstances. A recommendation was made to increase the original recommended authorization by $150.0 million for a revised total of $1,140.0 million in new general obligation authorizations by the 2010 General Assembly to support the 2011 capital program. This included $2.0 million for the Southern Maryland Regional Strategy-Action Plan for Agriculture Loan of 2010.

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee recommended a limit of $27.0 million for new academic facilities for the University System of Maryland for fiscal year 2011.

2010 Authorizations

- The net general obligation debt authorized for the fiscal year 2011 capital program (effective June 1, 2010) totaled $1,140.0 million:

(in millions)	
$ 1,033.8	New general obligation debt authorized by the 2010 General Assembly
145.9	Authorized by separate legislation for fiscal year 2011
(39.7)	Reductions in previously authorized debt
$1,140.0	

- The 2010 General Assembly authorized the University System of Maryland to issue $27.0 million in new academic facility bonds - $10.0 million to finance specific capital projects and $17.0 million to finance capital facility renewal projects.
- The 2010 General Assembly also increased the total amount of debt authorized for the University System from $1,050.0 million to $1,200.0 million.

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II. TAX-SUPPORTED DEBT - TRENDS AND OUTLOOK

The State of Maryland has issued six types of tax-supported debt in recent years:

- General obligation debt, which pledges the full faith and credit of the State;
- Bonds, notes and other obligations issued by the Department of Transportation and backed by the operating revenues and pledged taxes of the Department;
- Bonds for transportation projects supported by anticipated federal highway aid (GARVEE Bonds) and issued by the Maryland Transportation Authority;
- Lease and Conditional Purchase Financings;
- Revenue bonds issued by the Maryland Stadium Authority secured by leases with the State;
- Bonds for the purpose of Chesapeake Bay restoration secured by the revenue from a Statewide fee and issued by the Maryland Water Quality Financing Administration.

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.

A. General Obligation ("G.O.") Bonds

Purpose

General Obligation Bonds, which are limited to a maximum maturity of 15 years, are authorized and issued to:

- Provide funds for State-owned capital improvements, including institutions of higher education, and the construction of locally owned public schools;
- Fund local government improvements, including grants and loans for water quality improvement projects and correctional facilities; and
- Provide funds for repayable loans or outright grants to private, nonprofit, cultural, or educational institutions.

Security

The State has pledged its full faith and credit as security for its G.O. Bonds.

Current Status:

Debt Outstanding as of June 30, 2010

$ 6,523,222,417

Amount Authorized but Unissued at June 30, 2010

$2,394,984,586

Ratings

Fitch Ratings, Moody's Investors Service and Standard and Poor's all rate Maryland's General Obligation Bonds AAA. Maryland has continuously had this rating dating back to S&P's first rating in 1961, Moody's in 1973 and Fitch's in 1993.

Use of Variable Rate Debt, Bond Insurance, Interest Rate Exchange Agreements and Guaranteed Investment Contracts

The State is authorized to issue variable interest rate bonds in an amount no more than 15% of the outstanding general obligation indebtedness. The State has not issued any variable

rate debt as of June 30, 2010 and has not executed any interest rate exchange agreements. Because the State is a "natural" AAA credit, there has been no need for bond insurance. To invest the sinking funds paid on certain Qualified Zone Academy Bonds, the State has entered into guaranteed investment contracts.

Trends in Outstanding General Obligation Debt

Authorizations and Issuances

Graph 1 depicts the growth between 1980 and 2010 in the State's total general obligation debt. Since 1991, the level of new authorizations and issuances has increased significantly, resulting in an increased level of outstanding general obligation debt. ***Appendix C-1*** includes data on the authorizations, issuances and debt service of General Obligation Bonds since 1973.

Annuity Bond Fund ("ABF")

Debt service for General Obligation Bonds is paid from the Annuity Bond Fund ("ABF"). The State constitution requires the collection of an annual tax to pay debt service and State statute requires that, after considering the balance in the ABF and other revenue sources, the Board of Public Works set an annual property tax rate sufficient to pay debt service in the following fiscal year.

Graphs 2.1 and 2.2 depict the sources and uses, respectively, for the ABF for the actual years 1997 through 2009 and the projections for fiscal years 2010 – 2015. As depicted in ***Graph 2.1***, the payment of general obligation debt service (i.e., principal and interest) relies on the State property tax and general funds. Prior to fiscal year 2004, 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. A general fund appropriation to the Annuity Bond Fund was required to meet debt service in 2008 and, if the fiscal year 2011 tax rate remains constant, additional general fund appropriations may be necessary beginning in fiscal year 2013.

In the period between 2003 and 2010, the growth in debt service (***Graph 2.2***) reflects the increase in debt outstanding ***(Graph 1)*** since this period has seen the lowest interest rates since 1988 as demonstrated in ***(Graph 3).***

True Interest Costs

Graph 3 depicts the true interest costs ("TIC") on tax-exempt and taxable State general obligation debt beginning in 1988 through the 2010 General Obligation Bonds Second Series issued on August 10, 2010. During the time period analyzed in this chart, the TICs on general obligation debt ranged from a low of 2.082% in the 2010 Second Series A, Series B and Series C to a high of 6.996% in the 1990 Fourth Series.

The TICs for the 2009 Second Series A, B and C, 2009 Third Series A and B and 2010 Second Series A, B and C are a blend of tax-exempt bonds and taxable Build America Bonds (BABs) adjusted for a 35% federal interest subsidy on the BABs. All of the 2010 First Series issue was taxable Build America Bonds and the TIC was also adjusted for a 35% federal interest subsidy.

The State issued taxable Qualified School Constructions Bonds ("QSCBs") in two issues – the 2009 Qualified School Construction Bonds and the 2010 Second Series D Qualified School Construction Bonds. The TIC reflects the 100% federal subsidy. The TICs on the three taxable issues in 2005 and 2006 (unsubsidized) ranged from 3.86% to 4.98%.

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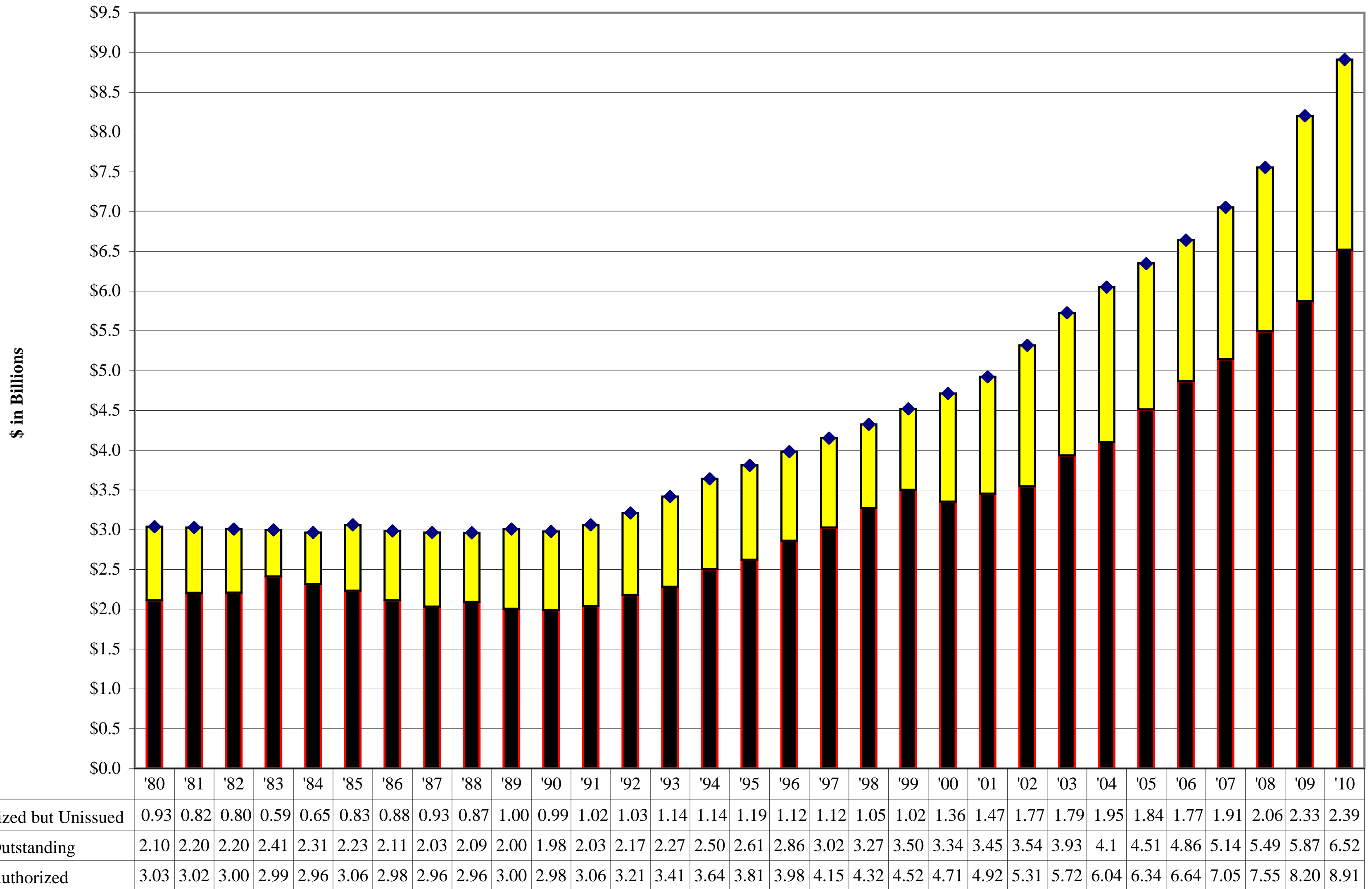
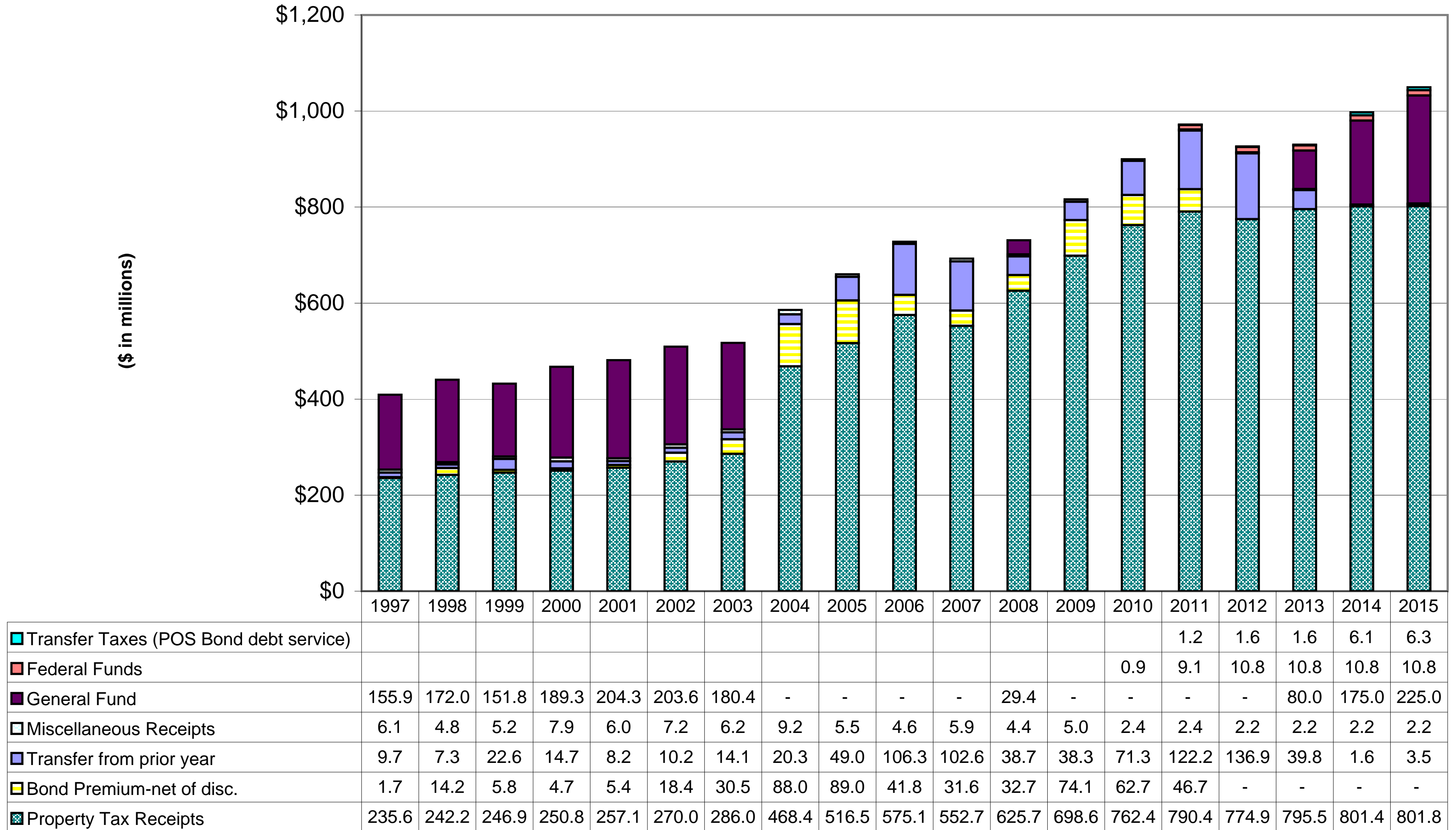
Graph 1
History of General Obligation Debt Outstanding and Unissued Authorizations



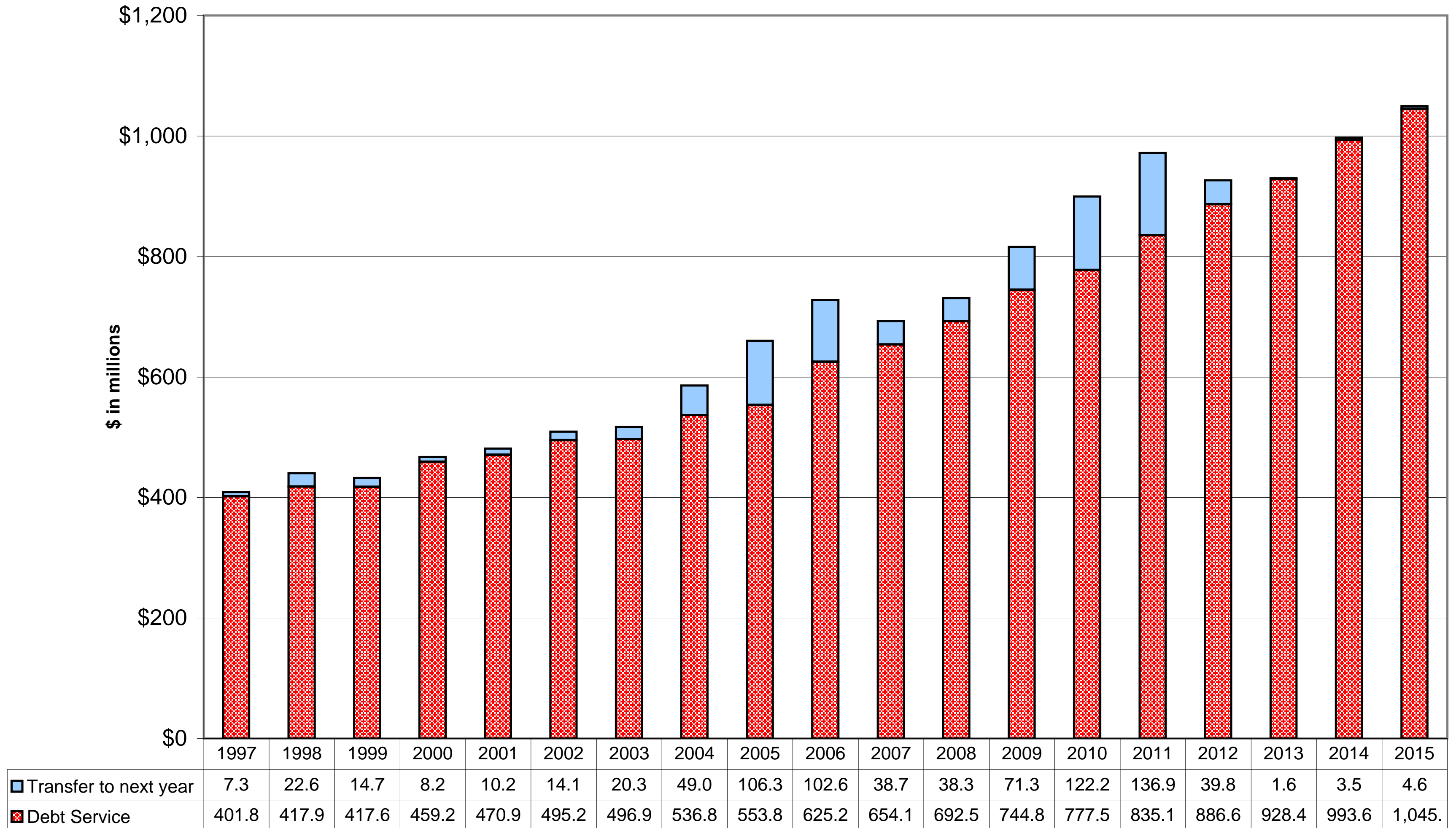
	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10
Authorized but Unissued	0.93	0.82	0.80	0.59	0.65	0.83	0.88	0.93	0.87	1.00	0.99	1.02	1.03	1.14	1.14	1.19	1.12	1.12	1.05	1.02	1.36	1.47	1.77	1.79	1.95	1.84	1.77	1.91	2.06	2.33	2.39
Total Outstanding	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	5.14	5.49	5.87	6.52
Total Authorized	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	7.05	7.55	8.20	8.91

Graph 2.1
Annuity Bond Fund Sources
1997-2009 Actual, 2010-2015 Projections
as of September 2010



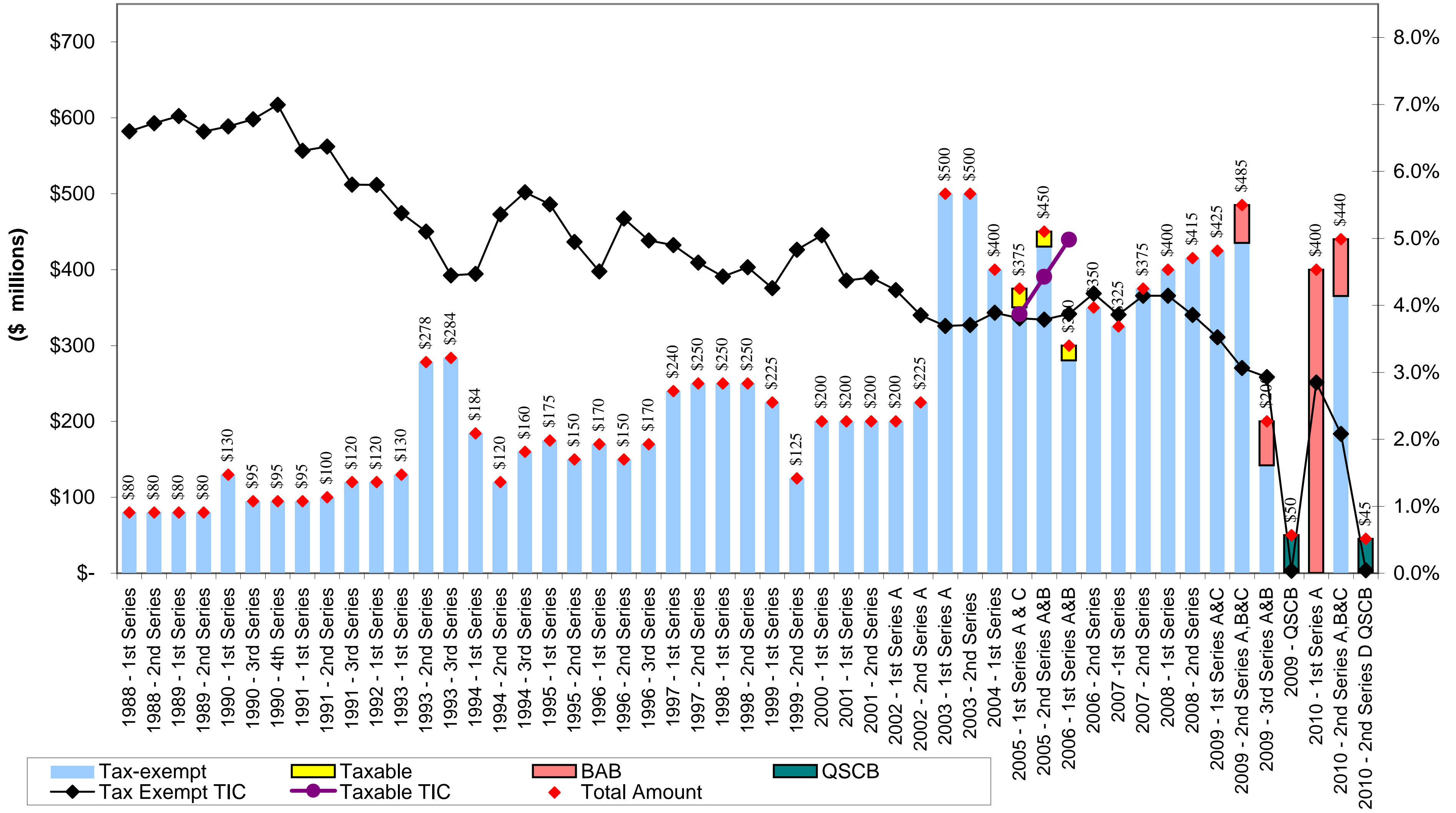
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Transfer Taxes (POS Bond debt service)															1.2	1.6	1.6	6.1	6.3
Federal Funds														0.9	9.1	10.8	10.8	10.8	10.8
General Fund	155.9	172.0	151.8	189.3	204.3	203.6	180.4	-	-	-	-	29.4	-	-	-	-	80.0	175.0	225.0
Miscellaneous Receipts	6.1	4.8	5.2	7.9	6.0	7.2	6.2	9.2	5.5	4.6	5.9	4.4	5.0	2.4	2.4	2.2	2.2	2.2	2.2
Transfer from prior year	9.7	7.3	22.6	14.7	8.2	10.2	14.1	20.3	49.0	106.3	102.6	38.7	38.3	71.3	122.2	136.9	39.8	1.6	3.5
Bond Premium-net of disc.	1.7	14.2	5.8	4.7	5.4	18.4	30.5	88.0	89.0	41.8	31.6	32.7	74.1	62.7	46.7	-	-	-	-
Property Tax Receipts	235.6	242.2	246.9	250.8	257.1	270.0	286.0	468.4	516.5	575.1	552.7	625.7	698.6	762.4	790.4	774.9	795.5	801.4	801.8

Graph 2.2
Annuity Bond Fund Uses
1997-2009 Actual, 2010-2015 Projections
as of September 2010



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Transfer to next year	7.3	22.6	14.7	8.2	10.2	14.1	20.3	49.0	106.3	102.6	38.7	38.3	71.3	122.2	136.9	39.8	1.6	3.5	4.6
Debt Service	401.8	417.9	417.6	459.2	470.9	495.2	496.9	536.8	553.8	625.2	654.1	692.5	744.8	777.5	835.1	886.6	928.4	993.6	1,045.

Graph 3
Issuance Amounts and True Interest Costs of General Obligation Bonds



The blended yield for 2010 1st and 2nd is 2.35%

B. Transportation Debt

Consolidated Transportation Bonds.

Purpose

Consolidated Transportation Bonds ("CTB"), like State General Obligation Bonds are 15-year obligations, issued by the Maryland Department of Transportation ("MDOT") for highway and other transportation projects.

Limitations to Debt Outstanding

The gross outstanding aggregate principal amount of Consolidated Transportation Bonds is limited by statute to $2.6 billion. The General Assembly may set a lower limit each year, and for fiscal year 2011 the limit is $1.792 billion. In addition, 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 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 or, conversely, total debt service cannot exceed 50% of total proceeds from taxes pledged using the debt service divided by revenues convention.

Security

Debt service on Consolidated Transportation Bonds is payable from the Department's shares of the motor vehicle fuel tax, the motor vehicle titling tax, sales tax on rental vehicles, a portion of the corporate income tax, and a portion of the State sales and use tax. In addition, other receipts of the Department (including motor vehicle licensing and registration fees and operating revenue of the Department) are available to meet debt service if these tax proceeds should become insufficient. The holders of Consolidated Transportation Bonds are not entitled to look to other sources for payment including the federal highway capital grants that are pledged to GARVEE Bonds.

Current Status:

Debt Outstanding as of June 30, 2010
$1,645,000,000
Ratings
S&P, AAA
Moody's, Aa1
Fitch, AA+

Use of Variable Rate Debt, Bond Insurance, Interest Rate Exchange Agreements and Guaranteed Investment Contracts

MDOT does not have variable rate debt or bond insurance on CTBs nor does MDOT use interest rate exchange agreements or guaranteed investment contracts.

Transportation Debt Outstanding

The following chart summarizes the activity in Consolidated Transportation Bonds from 2004 to 2010 and the projected activity through 2016.

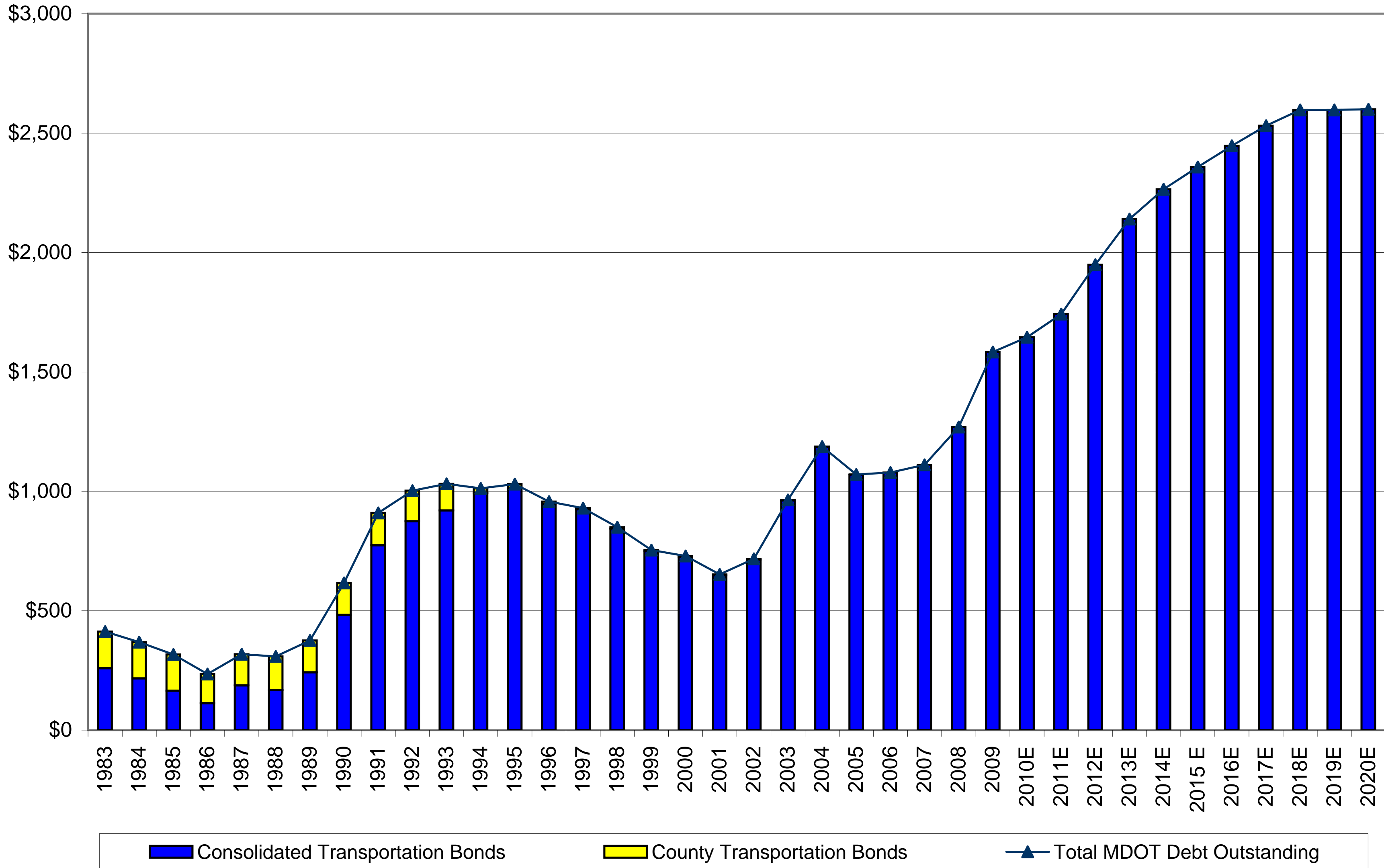
Summary of Debt Activity MDOT Consolidated Transportation Bonds								
($ in millions)								
Fiscal Year	**Debt Outstanding at Beginning of Year**	**New Issues**	**Refunding Issues**	**Defeased or Refunded**	**Redeemed**	**Debt Outstanding at End of Year**		**Required Debt Service**
2004	$961	$320	$75	$77	$93	$1,186		$135
2005	$1,186	$0			$116	$1,070		$154
2006	$1,070	$100			$92	$1,078		$141
2007	$1,078	$100			$67	$1,111		$118
2008	$1,111	$227			$69	$1,269		$121
2009	$1,269	$390			$76	$1,583		$142
2010	$1,583	$140			$78	$1,645		$151
2011E	$1,645	$180			$83	$1,742		$159
2012E	$1,742	$310			$103	$1,949		$190
2013E	$1,949	$300			$109	$2,140		$206
2014E	$2,140	$260			$135	$2,265		$240
2015E	$2,265	$250			$157	$2,358		$269
2016E	$2,358	$265			$176	$2,447		$294

E=Estimate and preliminary.

Graph 4 depicts outstanding Consolidated and County Transportation Bonds [1] (after being reduced by any amounts in sinking funds) for fiscal years 1983 through 2010, as well as the Department's current projections for fiscal years 2011 through 2020. Prior to 1989, Department revenues were sufficient to meet the demands of the capital program so that only a modest level of debt was issued. This situation reflected, among other factors, the impact of several gas tax increases and of permanent allocations to the Transportation Trust Fund of a portion of corporate income tax receipts and the balance of the titling tax. From 1989 until 1995, even with a 1992 increase of the motor fuel tax, increased use of bond financing was necessary to fund several major projects in the capital program. From 1996 until 2002, only a limited amount of new debt was necessary as revenues were sufficient to fund the capital program. From 2002 through 2004, with Department revenues flat, increased use of bond financing was necessary to fund the capital program. From 2005 through 2007 revenues increased and a limited amount of debt was necessary to fund the capital program. Since 2008, with revenues affected by the slowing economy, the Department has had to increase reliance on debt to support capital projects.

[1] Prior to 1993, the Department also issued County Transportation Bonds ("CBs") on behalf of the counties and Baltimore City for local transportation projects. The State recovered the tax-supported debt service on these bonds from the counties through deductions 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 sales and use tax on rental vehicles. As of June 30, 2007 all CBs were paid in full. In 1993, legislation was enacted that provides for a non-State tax supported County Transportation Revenue Bond ("CTRB") program; subsequent issuances under this program do not constitute State tax-supported debt and are not subject to the affordability calculations.

Graph 4
Transportation Debt Outstanding - Actual 1983-2010: Estimated 2011-2020
($ in millions)



C. Grant Anticipation Revenue Vehicles ("GARVEE") Bonds

Purpose

Grant Anticipation Revenue Vehicles ("GARVEE") Bonds are being used as part of the funding plan for the Intercounty Connector ("ICC") project, in addition to Maryland Transportation Authority funds, revenue bonds and a federal loan under the Transportation Infrastructure Finance and Innovation Act ("TIFIA") Program, Maryland Transportation Trust Funds, State General Funds, State General Obligation Bonds, 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.

Limitations

The Statute limits the total amount that can be issued for GARVEEs at $750 million, with a maximum maturity of 12 years. Legislation enacted by the 2005 General Assembly specified that GARVEE bonds should be considered tax-supported debt in the Capital Debt Affordability analysis.

Security

GARVEEs are bonds for which debt service is paid using a portion of federal transportation funds received by the State. In addition, there is a subordinate pledge of certain Maryland State Transportation Trust Fund ("TTF") tax sources. There are also debt service reserve funds.

Current Status:

GARVEE bonds issued: $750,000,000
Debt Outstanding as of June 30, 2010: $651,795,000
Ratings: Standard & Poor's AAA
Moody's Investor's Service Aa1
Fitch Ratings AA
Annual Debt Service Payments: Approximately $87.5 million per year for fiscal years 2011-2019 and $51.4 million for fiscal year 2020
Final Maturity: March 1, 2020
Pledged Revenue: $432.8 million per year in federal aid

Issuances

In May 2007, the Maryland Transportation Authority sold $325 million of GARVEE bonds at a true interest cost of 3.99%. In December 2008, the Authority sold the remaining $425 million of GARVEE bonds at a true interest cost of 4.31%.

Use of Variable Rate Debt, Bond Insurance, Derivatives and Guaranteed Investment Contracts

The GARVEE bonds are fixed rate bonds, and were issued without bond insurance due to the TTF back up pledge and the availability of debt service reserve funds. The Authority has not used derivatives or guaranteed investment contracts.

D. Lease and Conditional Purchase Financings

The State has financed assets using leases; specifically capital leases, energy leases and conditional purchase financings using Certificates of Participation ("COPs").

Leases

Purpose

The State's capital funding program has included the use of capital lease financings in which the State builds an equity interest in the leased property over time and gains title to such property at the end of the leasing period. In accordance with SF&P §8-104(c), these leases are considered tax-supported debt when the lease or unit of State government is "supported directly or indirectly by State tax revenues." Capital leases are used for the acquisition of both real property and equipment.

Security

Payments from the State are subject to appropriation. The State has represented to the lessors that it will do all things lawfully within its power to obtain, maintain, and pursue funds to make the Lease Payments. In the event of non-appropriation, the State will surrender the secured property to the lessor. The additional State liability and debt service resulting from capital leases is not large in relation to the State's general obligation debt outstanding and debt service at this time but it is a growing component of tax-supported debt as indicated in Table 1.

Ratings

Equipment and energy leases are not rated. However, Certificates of Participation may have ratings.

Lease Terms

Under current practice, capital leases for equipment, primarily computers and telecommunications equipment, are generally for periods of five years or less. 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 courts, office buildings and, most recently, a new parking garage in Annapolis. In all leases, the term of the lease does not exceed the economic life of the property.

In another instance of the use of the capital lease structure, the State began using lease-purchase agreements to provide financing for energy conservation projects at State facilities in March 1994. Lease payments are made from the agencies' annual utility appropriations using savings achieved through the implementation of energy performance contracts. The term of the energy leases cannot exceed 15 years.

Projections of Future Lease Activity

The State Treasurer's Office ("STO") periodically surveys State agencies about their plans to finance equipment and energy performance contracts using capital leases. The following assumptions were used in the affordability analysis.

Equipment Leases: As a result of the survey done in the spring of 2010 and recent lease activity, the STO is projecting the financing of $15 million of equipment in each future fiscal year 2011 through 2020.

Video Lottery Terminal ("VLT") Leases: The Video Lottery Facility Location Commission has approved three facility licenses to date. Two of these facilities (Worcester and Cecil Counties) are scheduled to open in fiscal year 2011, while the third facility (Anne Arundel County) may open in late fiscal year 2011 or fiscal year 2012, pending the outcome of a county zoning referendum. As a result, the CDAC analysis projects the following five year VLT leases:

$29,000,000 – Penn National – closing on 1/15/11
$12,500,000 – Ocean Downs – closing on 2/15/11
First Payment due 7/1/11

$68,000,000 – Anne Arundel County
First Payment due 1/1/12 – closes 6/15/11
$66,300,000 – Anne Arundel County
First Payment due 1/1/13 – closes 7/15/12

A request for proposal for the Rocky Gap facility was issued on July 21, 2010 and responses are due in November. As of the date of this report, there is litigation pending before the Board of Contract Appeals regarding the Baltimore City site. Until the litigation is resolved, the status of this license is unknown. It is estimated that equipment leases totaling $110 million for Baltimore City and $45 million for Rocky Gap will be necessary, however due to the uncertainty on the timing of these financings no projection was made in the CDAC analysis.

Energy Leases: The Department of General Services indicates $75 million in tax-supported leases in fiscal year 2011 and none thereafter.

Conditional Purchase Financings

Purpose

State Agencies have also made significant use of Certificates of Participation (COPs), another form of conditional purchase debt financing. Some COPs are not considered to be tax supported and are not included in the capital lease component in Table 1 and Tables 2a and 2b of this report because revenues associated with the project are pledged to the payment of principal and interest. Examples of such projects include: the Department of Transportation's financing for capital improvements at Baltimore-Washington International Thurgood Marshall Airport ("BWI"); the expansion of parking at the Maryland Rail Commuter BWI rail station; and the construction of a warehouse at the Maryland Port Administration's South Locust Point Terminal.

Limitations to Nontraditional Transportation Debt

The 2009 General Assembly established a limit of $661.8 million at June 30, 2010 for total aggregate outstanding and unpaid principal balance of nontraditional debt issued by the Department of Transportation. Nontraditional debt is 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 transportation capital leases both tax and non-tax supported. As of June 30, 2010, the Department had nontraditional debt outstanding in the total principal amount of $662.1 million. The amount over the limit was the result of refunding some of the maturities of the MEDCO bonds for the MDOT Department Headquarters. The additional amount was reported to the budget chairs.

The following table summarizes the current tax-supported leases and tax-supported Conditional Purchase Financings as of June 30, 2010.

Tax-Supported Lease and Conditional Purchase Financings Outstanding as of June 30, 2010		
State Agency	**Facilities Financed**	**Principal Amount Outstanding as of June 30, 2010**
State Treasurer's Office	Capital Equipment Leases Various communications, computers and other equipment	$57,344,030
State Treasurer's Office	Energy Performance Projects	103,957,311
Department of Transportation	Headquarters Office Building	26,090,000
	MAA Shuttle Buses - BWI	9,000,000
Department of General Services	Multi-service office buildings: St. Mary's County	2,020,000
	Hilton Street Facility	1,635,000
	Prince George's County Justice Center	20,600,113
Maryland Environmental Service	Water and Wastewater Facility at Eastern Correctional Institution	665,000
Maryland Transportation Authority	State office parking facility	21,325,000
Total Tax Supported Leases and COPS		**$242,636,454**

Public-Private Partnerships –"P-3s"

Chapter 641 of the Laws of 2010 requires the Capital Debt Affordability Committee to analyze and report on the aggregate impact of Public-Private Partnership agreements on the total amount of new State debt that prudently may be authorized for the next fiscal year. The focus of this analysis is on tax-supported State leases and, particularly, a determination of the leases as

capital or operating.

Currently, capital leases are considered debt of the State by financial analysts, rating agencies 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 as both an asset and debt and the annual payments are considered as debt service. Operating leases, on the other hand, are not recorded as debt and the annual payments are recorded as operating expenses. The Capital Debt Affordability Committee currently considers tax-supported capital leases ***but not operating leases*** in its affordability analysis. Consequently, the determination of whether a proposed lease is capital or operating is critical to determine the impact of the lease on CDAC limits. Two leases were brought to the attention of the committee during its meetings and a summary of the discussion follows.

State Center

Since the enactment of Chapter 641 of the Laws of 2010, the State has entered a Public-Private Partnership for the development of State Center. The State Treasurer analyzed the impact of this P3 on the State's Capital Debt Affordability limits after consulting with the State's accounting professionals and requesting an opinion by the State's external auditor on the classification of the State Center occupancy lease.

As pointed out in a letter from the Treasurer to the Budget Committees on July 23, 2010, the leases currently meet the criteria for operating leases but this conclusion only gives an indication of the lease classification as of July 2010. The State's external auditor's letter emphasized that "the calculation to determine whether the lease would be an operating or capital lease would occur when the State actually enters into the lease." If the assumptions used in July 2010 are different from the actual terms of the lease, if the discount rate is less than 7% at the time the lease is entered into, or if the estimated fair value of the project is different from the actual amounts, the calculation may result in a different conclusion.

As a result, the Treasurer concluded and recommended that the State Center occupancy lease ***not*** be considered a capital lease in CDAC's affordability analysis. However, on the advice of the State's auditor, the final determination of the classification of the occupancy lease at State Center should be done at the time the State actually occupies the space, which is expected to be fiscal year 2014 for Phase I. In summary, because the State Center leases approved by the Board of Public Works on July 28, 2010 currently meet the criteria for an operating lease, they have no impact on the total amount of new State debt that may be authorized for the next fiscal year.

Charles County Courthouse

This lease will begin in fiscal year 2011 and the General Accounting Division ("GAD") will review the terms of the financing and advise the State Treasurer's Office of the classification of the lease. If GAD determines it is a capital lease, the lease will be included in the CDAC analysis in the next report.

E. Maryland Stadium Authority

Purpose

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 a conference center in Montgomery County, and the Hippodrome Theater in Baltimore, Maryland. A history of the Stadium Authority's financings is in Appendix B.

Security

Lease rental payments subject to annual appropriation by the State are pledged to pay debt service on the bonds. Revenues from certain select lottery games are transferred to the Stadium Authority for operations and to cover the State's capital leases payments to the Stadium Authority.

Ratings

Long-Term Ratings are: S&P, AA+; Moody's, Aa2; Fitch, AA
Short-Term Ratings are: S&P, A1+; Moody's, VMIG1; Fitch, F1+

Use of Variable Rate Debt, Bond Insurance, Interest Rate Exchange Agreements and Guaranteed Investment Contracts

The Stadium Authority has issued variable rate debt that has been swapped to fixed rate. The counterparties on the swaps are AIG-FP and Barclay's.

Current Debt at June 30, 2010

	Debt Outstanding as of June 30, 2010	***FY 2010 Debt Service***	***Revenue Sources for FY 2010 Debt Service***
Oriole Park at Camden Yards	$108,928,214 (a)	$14,805,389	Lottery
Baltimore City Convention Center	21,395,000	5,056,444	General Fund
Ocean City Convention Center	7,605,000	1,485,244	General Fund
Ravens Stadium	72,736,730 (b)	6,465,170	Lottery
Montgomery County Conference Center	17,970,000	1,758,838	General Fund
Hippodrome Theater	15,435,000	1,791,973	General Fund and $2 ticket charge
Camden Station Renovation	7,870,000	690,563	Lottery
Totals	**$251,939,944**	**$32,053,621**	

(a) Includes bonds outstanding of $99,950,000 and capital leases of $8,978,214
(b) Includes bonds outstanding of $66,260,000 and capital leases of $6,476,730

2010 Issuances/ Projections of Future Issuances

In fiscal year 2010, the Maryland Stadium Authority ("MSA") issued Series 2010 Sports Facilities Taxable Revenue Bond in the amount of $10 million. The proceeds from this bond were used to renovate the lower and upper levels in the seating bowl at Oriole Park. This bond will mature on December 15, 2013. The $10 million Revenue bond is not included in the tax-supported debt in the affordability analysis.

MSA borrowed $8.31 million from the State's energy performance contract lease-purchase program, $5.88 million is taxable and $2.43 million is tax-exempt. These funds were used to complete various energy projects at the Camden Yards Complex. MSA also borrowed $4.0 from the State's equipment lease-purchase program to fund MSA's commitment to the video and audio upgrades at M&T Bank Stadium.

There are no current plans to issue new debt in fiscal year 2011.

F. Bay Restoration Fund Revenue Bonds (Bay Restoration Bonds)

Purpose

Proceeds of these bonds will fund grants to waste water treatment plants ("WWTP") for upgrades to remove nutrients thereby reducing nitrogen loads in the Chesapeake Bay and its tributaries.

Security

Legislation enacted by the 2004 General Assembly established a Bay restoration fee which will be deposited in the Bay Restoration Fund and administered by the Water Quality Financing Administration of the Maryland Department of the Environment. Fee revenue from WWTP users will support the debt service on these bonds.

Current Status:

Debt Outstanding as of June 30, 2010
$44,185,000
Ratings
Moody's: Aa2 - Series 2008

Use of variable rate debt, bond insurance, derivatives and Guaranteed Investment Contracts (GIC)

The indenture permits the issuance of variable rate debt. The structure for the Series 2008 issue was fixed rate only, with no debt service reserve that may have required guaranteed investment contracts and no bond insurance.

Projections of Future Issuances

The timing and amount of bonds issued will depend on the fee revenue attained and the need for funding as upgrades of WWTP proceed. For purposes of the CDAC calculations, it is assumed that the bonds will be limited to 15-year maturities with a total issuance of $530 million. Future estimated issuance is projected (in millions) at $180, $205 and $95 in fiscal years 2012-2014, respectively.

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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"). The MCCBL is a consolidation of projects authorized as general construction projects and various Administration-sponsored capital programs, capital grants for non-State-owned projects, and separate individual legislative initiatives.

General Obligation Bond funds are often 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, fiscal year 2002 general fund PAYGO appropriations totaled $643.9 million, the fiscal year 2006 general fund PAYGO appropriation totaled $2.5 million, and the fiscal year 2010 general fund PAYGO appropriation totaled $60.0 thousand.

The operating budget also traditionally includes PAYGO 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 exceed $3.4 billion over the next five years. Higher Education, juvenile services facilties, correctional facilities, and information technology improvements comprise the bulk of these requests.

State 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 college buildings. 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, community

colleges, and environmental programs. The need for funding environmental programs reflects the State's efforts to restore the Chesapeake Bay.

Requests for State capital grant and loan programs to be funded with General Obligation Bonds are expected to exceed $5.5 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 $415.3 million over the next five years based on the past five-year average of $83.06 million per year.

Summary of Capital Program: FY 2012 – 2016

The total capital requests are estimated at $9.40 billion for the next five years. By contrast, the Department of Budget and Management anticipates recommending a five-year capital improvement program of approximately $4.66 billion in General Obligation Bonds (based on the authorization levels recommended by the Committee in December, 2009). The total capital program will depend on the amount of general funds and other non-General Obligation Bond sources available for capital funding.

FY 2012 – FY 2016
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	$3,413.4	$2,225.5	$1,187.9
State Capital Grants and Loans	5,570.9	2,354.5	3,216.4
Legislative Initiatives	415.3	75.0	340.3
Totals	$9,399.6	$4,655.0	$4,744.6

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

Fiscal year 2011 marks the sixth consecutive year that the Governor and General Assembly have met or exceeded the $250.0 million annual funding goal set in the 2004 Public School Facilities Act. Since fiscal year 2006, the State has invested a total of $1.856 billion in public school construction, including a record-setting $401.8 million in fiscal year 2008, the highest amount for the program since its creation in 1971.

The General Assembly passed the Public School Facilities Act of 2004 (Chapters 306 and 307, Laws of Maryland, 2004) which, among other provisions, 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 $2.0 billion for school construction projects over 8 years (fiscal year 2006 to fiscal year 2013) or approximately $250.0 million per year.

In 2003, 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 estimated that costs increased by approximately 12% annually in fiscal years 2007 and 2008. School construction costs have since stabilized, with costs actually decreasing in fiscal year 2011 and projected to hold steady in fiscal year 2012. PSCP monitors actual costs based on final contracts throughout the year and may make adjustments to the State reimbursement rate if warranted by market conditions. For discussion purposes, this Report refers to the documented $3.85 billion, but the Committee acknowledges the impacts of inflation. The Task Force recommended that the State assume $2.0 billion of this cost with the remainder the responsibility of local government under the State-local cost share formula for school construction.

In fiscal year 2011 public school construction received $263.7 million from general obligation bonds and previously-authorized contingency funds. The Governor and the General Assembly have utilized several of the alternatives recommended by the Committee in 2004 to increase State school construction funding: using a combination of general obligation debt which involves both reducing and delaying funds for some other State capital projects; using unspent school construction funds from prior years available in the contingency fund; and to a very limited extent, using PAYGO. In fiscal 2011, about one-quarter ($250.0 million) of the $1.144 billion general obligation debt authorization was allocated to public school construction.

The fiscal year 2011 Capital Improvement Program projects $200.0 million annually in general obligation bonds for public school construction in fiscal years 2012 through 2015. Allocating $200.0 million for school construction in fiscal years 2012 and 2013 will bring State funding to $2.25 billion for fiscal years 2006 through 2013, surpassing the $2.0 billion overall funding goal identified by the Public School Facilities Act of 2004 for this eight year period. It is important to recognize, however, that escalation in building costs since 2004 has significantly raised the actual cost of the basic goal of the Public School Facilities Act - to bring all public schools up to minimum standards by fiscal year 2013.

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IV. BOND RATING AGENCY REPORTS

A. Excerpts from Rating Agency Reports Issued in Conjunction with the Sale of $485 Million of General Obligation Bonds State and Local Facilities Loan of 2010, Second Series

In the affirmation of the State's AAA General Obligation Bond rating in July 2010, the rating agencies reported on the status of Maryland's financial condition and economy. Implicit in their analyses are the criteria that the rating agencies consider in evaluating a state's credit. Included below are salient points from each of the rating agency reports. The State Treasurer's Office provided copies of the complete reports to the Committee members.

Standard and Poor's

In assigning its 'AAA' long-term rating and stable outlook, Standard & Poor's said: "The stable outlook reflects our view of Maryland's economic strength and historically strong financial and debt management policies. We believe that the state has proactively responded to the recent budget structural imbalance and we would expect continued focus on achieving structural budget balance. Maryland has made steady commitment to funding reserves, which we believe enhances its flexibility in the current economic environment."

With regard to the State's pension system, Standard & Poor's stated: "Maryland's reduced funding ratio and failure to fully fund its ARC payment reflect the continued fiscal pressure it is under that, if not addressed, could result in the continued weakening of the state's pension system, which at one point (before the recession) was considered adequately funded."

"In Standard & Poor's opinion, Maryland has consistently had well-defined financial management policies and a commitment to reserves despite budget challenges."

Moody's Investors Service

Moody's, in explaining its Aaa rating and stable credit outlook, said: "The outlook for Maryland's general obligation debt is stable. The state faces significant budget pressure and pressure from declines in retirement system funded levels that will test the state's financial management abilities. The stable outlook reflects Moody's expectation that the state, with its history of strong financial management, will appropriately address its structural budget gap and pension funding concerns." Moody's also stated: "While the state has taken significant action to address budget deficits, it still faces serious challenges for out-year budgets." and "Maryland has a good history of managing its finances through periods of fiscal stress. Moody's expects that, like other Aaa-rated, states, and in keeping with Maryland's historically conservative financial management and aggressive approach to dealing with budget shortfalls, the state will soon stabilize its finances."

Regarding the economy, Moody's said: "Maryland's economy has diversified in recent years, but continues to be proportionally more affected by the activities of the federal government than any other state…the ongoing Base Realignment and Closure Commission (BRAC) reorganization is expected to result in a significant increase in new jobs."

Fitch Ratings

Fitch Ratings, in assigning its AAA rating and stable outlook, said: "The state's 'AAA' rating reflects its sound financial operations, a wealthy, diversified economy, and solid management of debt. The state's economy is stabilizing after a severe recession during which widespread job losses and a deep housing market downturn affected state revenue collections. After severe revenue declines that required the state to take repeated balancing actions, revenues have begun to stabilize; the state now expects fiscal 2010 revenues through June to be slightly below fiscal 2009 revenues, but slightly above forecast levels." Fitch further said: "The state's financial operations are conservative, and the state continues to demonstrate a commitment to maintaining budgetary balance."

Fitch concluded: "The state is wealthy, and its diverse economy benefits from proximity to the nation's capital."

B. 2010 State Debt Medians

Moody's issued a report in May 2010 titled 2010 State Debt Medians Report which was reviewed by the Committee.

Purpose of the Report

Every year, Moody's releases an analysis of state debt medians to evaluate debt burden - one of many factors that Moody's uses to determine state credit quality. The 2010 Debt Medians Report shows net state tax-supported debt as of calendar year-end 2009 compared to personal income as of 2008. Two measures of state debt burden – debt per capita and debt as a percentage of personal income – are commonly used by analysts to compare one state to another. Tables 1 and 2 in the Moody's 2010 State Debt Medians Report show these measures for the states and are included in the following page.

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TABLE 1

Net Tax-Supported Debt

PER CAPITA

			Moody's RATING
1	Connecticut	$4,859	Aa2
2	Massachusetts	$4,606	Aa1
3	Hawaii	$3,996	Aa1
4	New Jersey	$3,669	Aa2
5	New York	$3,135	Aa2
6	Delaware	$2,489	Aaa
7	California	$2,362	A1
8	Washington	$2,226	Aa1
9	Rhode Island	$2,127	Aa2
10	Oregon	$1,859	Aa1
11	Illinois	$1,856	Aa3
12	Wisconsin	$1,720	Aa2
13	Kentucky	$1,685	Aa1*
14	Maryland	$1,608	Aaa
15	Mississippi	$1,478	Aa2
16	New Mexico	$1,398	Aaa
17	Alaska	$1,345	Aa1
18	Louisiana	$1,271	Aa2
19	Kansas	$1,140	Aa1*
20	Florida	$1,123	Aa1
21	Georgia	$1,120	Aaa
22	West Virginia	$1,079	Aa2
23	Minnesota	$1,037	Aa1
24	Utah	$957	Aaa
25	Pennsylvania	$938	Aa1
26	Ohio	$933	Aa1
27	Nevada	$925	Aa1
28	South Carolina	$917	Aaa
29	Virginia	$895	Aaa
30	Alabama	$796	Aa1
31	Missouri	$780	Aaa
32	North Carolina	$765	Aaa
33	Maine	$760	Aa2
34	Michigan	$748	Aa2
35	Arizona	$736	Aa2
36	Vermont	$709	Aaa
37	New Hampshire	$665	Aa1
38	Oklahoma	$570	Aa2
39	Idaho	$538	Aa1*
40	Texas	$520	Aaa
41	Indiana	$492	Aaa*
42	Colorado	$400	Aa1*
43	Montana	$358	Aa1
44	North Dakota	$327	Aa1*
45	Tennessee	$318	Aaa
46	Arkansas	$312	Aa1
47	South Dakota	$135	NGO**
48	Wyoming	$77	NGO**
49	Iowa	$73	Aaa*
50	Nebraska	$15	NGO**
	MEAN:	$1,297	
	MEDIAN:	$936	
	Puerto Rico	$10,167	A3***

* Issuer Rating (No G.O. Debt)

** No General Obligation Debt

*** This figure is not included in any totals, means, or median calculations but is provided for comparison

TABLE 2

Net Tax-Supported Debt

AS A % OF 2008 PERSONAL INCOME

1	Hawaii	9.9%
2	Massachusetts	9.2%
3	Connecticut	8.7%
4	New Jersey	7.2%
5	New York	6.5%
6	Delaware	6.2%
7	California	5.6%
8	Kentucky	5.4%
9	Washington	5.3%
10	Oregon	5.2%
11	Rhode Island	5.2%
12	Mississippi	5.0%
13	Wisconsin	4.6%
14	Illinois	4.4%
15	New Mexico	4.4%
16	Louisiana	3.6%
17	West Virginia	3.5%
18	Maryland	3.4%
19	Georgia	3.3%
20	Alaska	3.2%
21	Utah	3.2%
22	Kansas	3.0%
23	Florida	2.9%
24	South Carolina	2.9%
25	Arizona	2.6%
26	Ohio	2.4%
27	Alabama	2.4%
28	Minnesota	2.4%
29	Pennsylvania	2.3%
30	Nevada	2.3%
31	North Carolina	2.3%
32	Maine	2.2%
33	Missouri	2.2%
34	Michigan	2.1%
35	Virginia	2.1%
36	Vermont	1.8%
37	Idaho	1.7%
38	New Hampshire	1.6%
39	Oklahoma	1.6%
40	Indiana	1.5%
41	Texas	1.4%
42	Montana	1.1%
43	Arkansas	1.0%
44	Colorado	1.0%
45	Tennessee	0.9%
46	North Dakota	0.8%
47	South Dakota	0.4%
48	Iowa	0.2%
49	Wyoming	0.2%
50	Nebraska	0.0%
	MEAN:	3.2%
	MEDIAN:	2.5%
	Puerto Rico	75.7%**

** This figure is based on 2008 Personal Income. It is not included in any totals, means, or median calculations but is provided for comparison purposes only.

o Eight states are rated AAA by all 3 rating agencies.

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 the State's ability, as measured by the Committee's self-imposed affordability criteria, to repay the debt issued to finance those capital needs.

A. The Concept of Affordability

The ultimate test of debt affordability is the willingness and ability of the State to pay the 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. A careful and comprehensive determination of affordability should take into consideration the demand for capital projects, 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. Affordability Criteria

The Committee has self-imposed affordability criteria which are: State tax-supported debt outstanding should be no more than 4.0% of State personal income; and debt service on State tax-supported debt should require no more than 8.0% of revenues.

C. 2010 Affordability Recommendation

At its meeting on September 22, the Committee recommended a $925.0 million limit for new general obligation authorizations by the 2011 General Assembly to support the 2012 capital program. The Committee's projections for future authorizations assume generally level authorizations through 2016 of between $925.0 million and $955.0 million. In 2017 the projected authorization is $1,200.0 million and it increases by approximately 3% annually through 2020. With these authorization levels, the debt affordability ratios remain within the CDAC benchmarks of 4.0% debt outstanding to personal income and 8.0% debt service to revenues.

The motion to adopt this level specifically recognized that authorization levels proposed in the Governor's 2012 capital budget could be adjusted to reflect up-to-date economic and fiscal information and the Board of Revenue Estimate's December revenue estimates. Accordingly, the Committee will review its assumptions in December 2010 and make any necessary modifications to its recommendation.

Current personal income and revenue estimates were updated in September 2010 after the September meeting of the Board of Revenue Estimates and both support the recommended authorization while adhering to the affordability criteria. Schedules of Personal Income and Revenues are in ***Appendix A-1 and Appendix A-2,*** respectively. These schedules report

historical data from 2000 through 2009 and projections for 2010 through 2020.

The Committee reviewed its assumptions for interest rates, revenues, personal income, authorizations, and issuances at its September 22 meeting. The Committee believes that revenues, personal income and interest rates have been estimated conservatively, but the volatile financial conditions in the last few years have resulted in downward revisions to previous estimates of revenues and personal income. Revenue declines have particularly pressured the debt service to revenues benchmark. Bond yields have also declined in recent years to historical lows but increases in interest rates are expected as the economy recovers.

In its review of the affordability assumptions, the Committee noted that certain financings were not included in the analysis. Specifically, these include: the DHMH Public Health Lab and the Charles County Courthouse (assuming these are capital leases), and video lottery terminals in future slots facilities at Rocky Gap and in Baltimore City. Because the affordability ratio for debt service to revenues is near the 8.0% benchmark, any variation to the assumptions for revenues, interest rates, and projected activity in tax-supported debt issuance would impact directly the amount of future general obligation authorizations and issuances.

As indicated by ***Table 3***, Tax-Supported Debt Outstanding and Debt Service Stress Test, if the projections for debt service are held constant, very limited declines in revenues can still be absorbed and affordability ratios maintained. Similarly, there is limited capacity for increases in debt service if the revenue projections are held constant and the affordability criteria is 8.0%. Based on the estimates and assumptions in September 2010, the Committee's recommendation is expected to result in a pattern of debt issuances and debt service payments that just remain within this 8.0% affordability benchmark.

The virtue of the annual CDAC process is the ability, if needed, 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. However, these reductions to authorizations can be severe. For example, primarily as a result of declining revenues, the projected legislative authorizations of general obligation bonds in the five year period of 2012 - 2016 declined from $5.6 billion in the 2008 CDAC Report to $4.7 billion in the 2010 CDAC Report. See the history of projected authorizations on page 50. ***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 financial flexibility.

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 has been examined.

Debt Outstanding

The rapid rise in total tax-supported debt in ***Table 1*** reflects the inclusion of GARVEE Bonds beginning in fiscal year 2007, Bay Restoration Bonds beginning in fiscal year 2008, the increased authorizations and issuances of General Obligation Bonds, and the increased authorization of Transportation Bonds from $2.0 billion to $2.6 billion as a result of the 2007 1st Special Session. Total general obligation debt rises steadily from $6.523 billion as of June 30,

2010 to $9.556 billion as of June 30, 2020. Department of Transportation debt is projected to rise from $1.645 billion to $2.600 billion during this same period. Stadium Authority debt will decline from $251.9 million to $47.5 million assuming no future financings.

Debt Outstanding as a Percent of Personal Income

This criterion of debt outstanding to personal income reflects the State's reliance on revenues (sales tax and income tax) that are primarily based on consumption and income. The debt outstanding is as of the end of a fiscal year and the personal income is as of the end of the calendar year. For example, the debt outstanding is as of June 30, 2010 and the personal income is projected as of December 31, 2010.

The ratio of State tax-supported debt outstanding to personal income (***Table 1***) rises from 3.30% in fiscal year 2010, peaks at 3.50% in fiscal year 2013 and is at 2.87% in fiscal year 2020. Due to the rapid amortization of most tax-supported debt in 15 years and the even faster amortization of GARVEE Bonds in 12 years, the ratio declines .63% from 2013 to 2020. At all times, the ratio remains below the affordability criterion of 4.0%.

Debt Service

Projected general obligation debt service (***Appendix B-4)*** assumes that future interest rates are consistent with current forecasts and also assumes authorizations are $925.0 million for the 2011 session/2012 capital program. Projected authorizations for the 2012 Session/2013 Capital Program through the 2020 Session/2021 Capital Program are in ***Appendix B-1***.

Debt Service as a Percent of Revenues

Compared to the prior criterion, debt service as a percent of revenues is a better measure for State financial management purposes, i.e., the legislature has control of both variables – revenues through the enactment of taxes and fees and debt service through the authorization of debt. It also reflects the State's ability to repay its debt.

The ratio of annual debt service to revenues (***Table 2a)*** increases from 6.85% in fiscal year 2010 to a peak of 7.92% in fiscal year 2017. It then declines to 7.29% in 2020. This decline reflects the maximum 5 year amortization for VLT equipment leases and the maturity of the first issue of GARVEE bonds in 2020.

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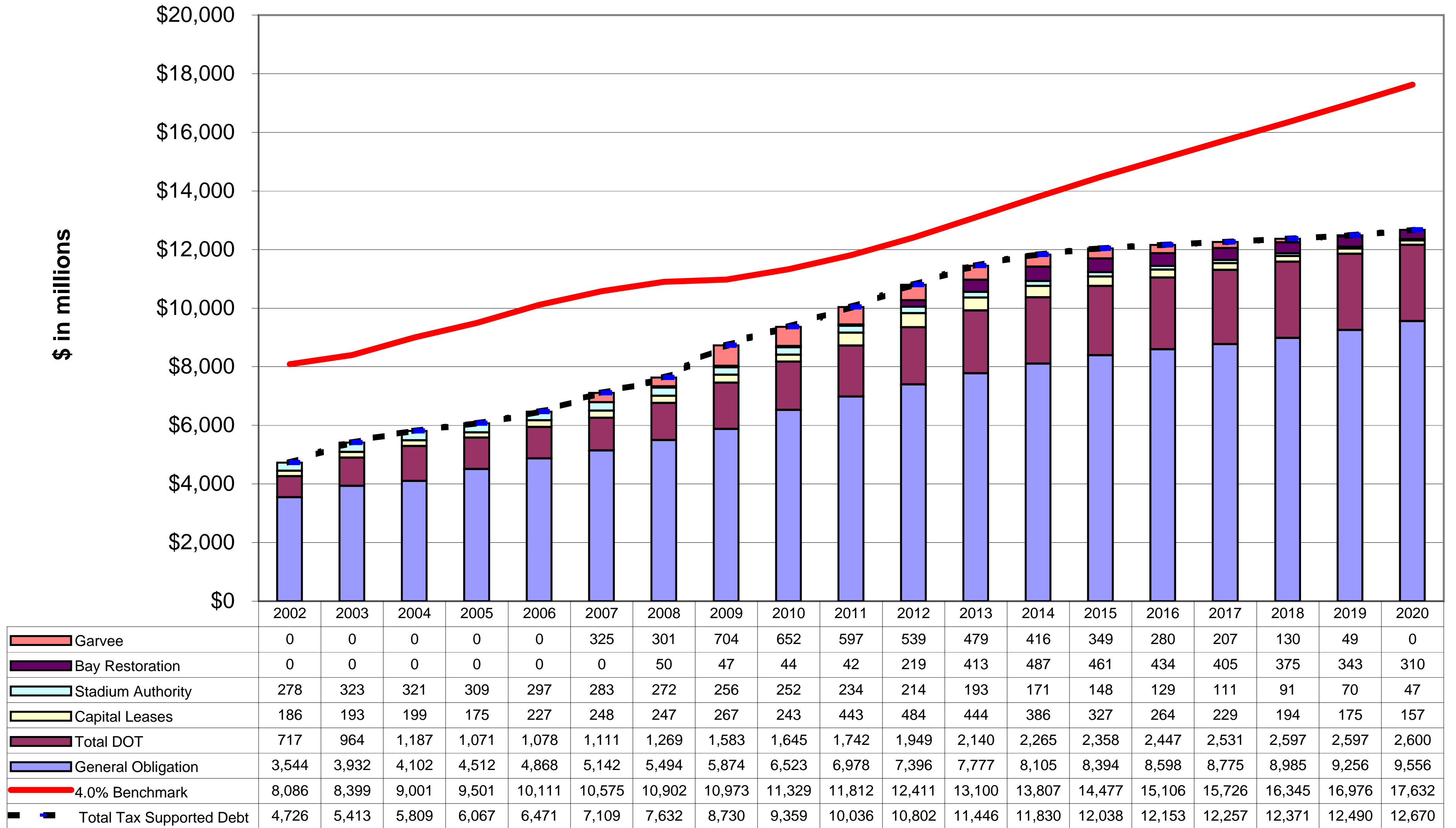
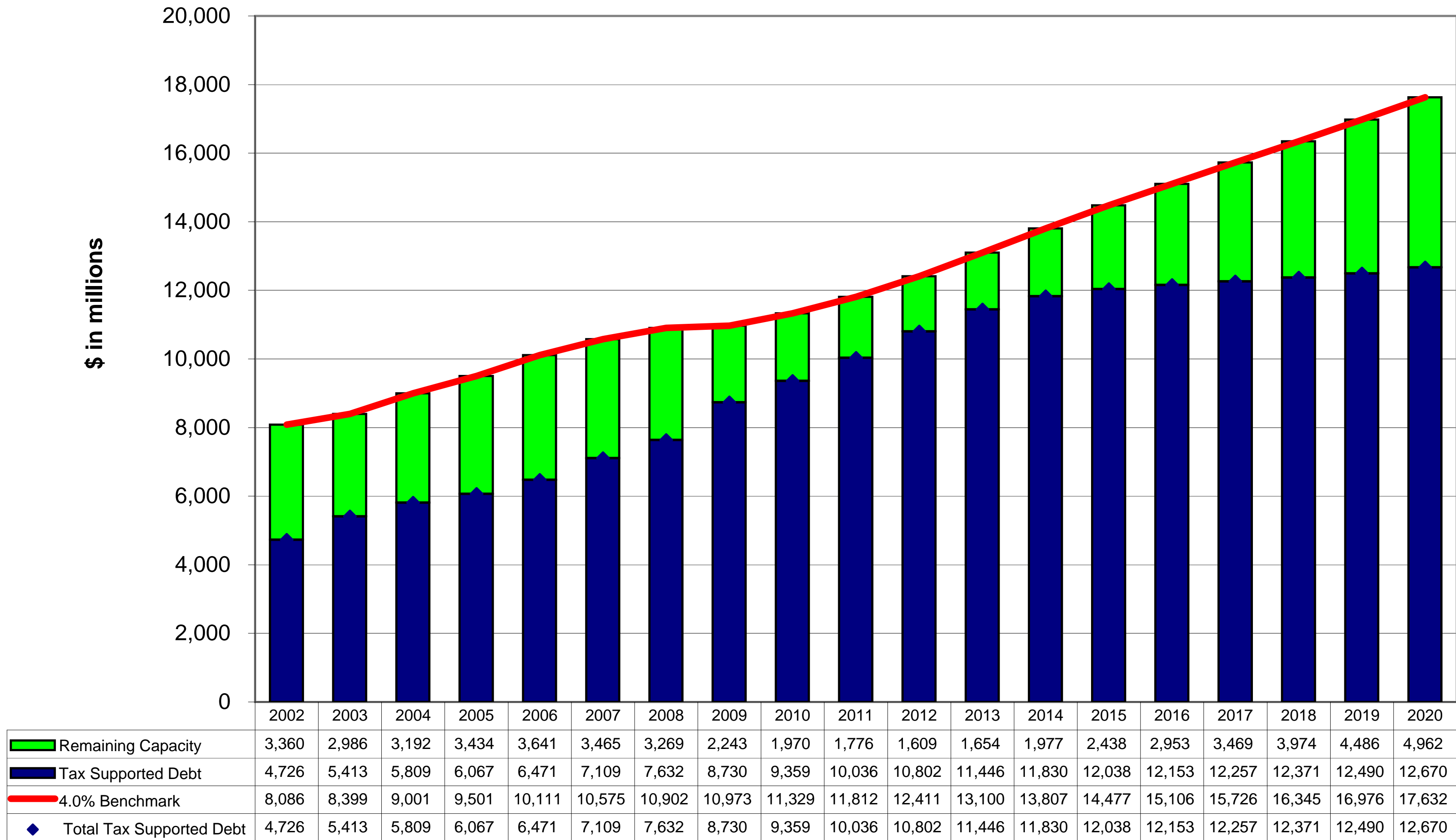
Tax Supported Debt Outstanding to Personal Income as of SEPTEMBER 2010



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Garvee	0	0	0	0	0	325	301	704	652	597	539	479	416	349	280	207	130	49	0
Bay Restoration	0	0	0	0	0	0	50	47	44	42	219	413	487	461	434	405	375	343	310
Stadium Authority	278	323	321	309	297	283	272	256	252	234	214	193	171	148	129	111	91	70	47
Capital Leases	186	193	199	175	227	248	247	267	243	443	484	444	386	327	264	229	194	175	157
Total DOT	717	964	1,187	1,071	1,078	1,111	1,269	1,583	1,645	1,742	1,949	2,140	2,265	2,358	2,447	2,531	2,597	2,597	2,600
General Obligation	3,544	3,932	4,102	4,512	4,868	5,142	5,494	5,874	6,523	6,978	7,396	7,777	8,105	8,394	8,598	8,775	8,985	9,256	9,556
4.0% Benchmark	8,086	8,399	9,001	9,501	10,111	10,575	10,902	10,973	11,329	11,812	12,411	13,100	13,807	14,477	15,106	15,726	16,345	16,976	17,632
Total Tax Supported Debt	4,726	5,413	5,809	6,067	6,471	7,109	7,632	8,730	9,359	10,036	10,802	11,446	11,830	12,038	12,153	12,257	12,371	12,490	12,670

Source: Table 1 as of September 2010

Available Debt Capacity Using the 4.0% Criterion as of SEPTEMBER 2010



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Remaining Capacity	3,360	2,986	3,192	3,434	3,641	3,465	3,269	2,243	1,970	1,776	1,609	1,654	1,977	2,438	2,953	3,469	3,974	4,486	4,962
Tax Supported Debt	4,726	5,413	5,809	6,067	6,471	7,109	7,632	8,730	9,359	10,036	10,802	11,446	11,830	12,038	12,153	12,257	12,371	12,490	12,670
4.0% Benchmark	8,086	8,399	9,001	9,501	10,111	10,575	10,902	10,973	11,329	11,812	12,411	13,100	13,807	14,477	15,106	15,726	16,345	16,976	17,632
Total Tax Supported Debt	4,726	5,413	5,809	6,067	6,471	7,109	7,632	8,730	9,359	10,036	10,802	11,446	11,830	12,038	12,153	12,257	12,371	12,490	12,670

source: Table 1 as of September 2010

TABLE 1

STATE TAX SUPPORTED DEBT OUTSTANDING
COMPONENTS AND RELATIONSHIP TO PERSONAL INCOME

($ in thousands)

Sep-10

Fiscal Year	General Obligation Bonds	Department of Transportation			Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Outstanding	Fiscal Year
		Consolidated Transportation Bonds	County Transportation Bonds (b)	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	$226,898	$296,820			$6,470,664	2006
2007	$5,142,154	$1,111,050	$0	$1,111,050	$247,939	$283,090		$325,000	$7,109,233	2007
2008	$5,493,830	$1,268,815	$0	$1,268,815	$247,427	$271,570	$50,000	$300,655	$7,632,297	2008
2009	$5,873,643	$1,582,605	$0	$1,582,605	$266,757	$256,013	$46,825	$704,365	$8,730,208	2009
2010	$6,523,222	$1,645,000	$0	$1,645,000	$242,636	$251,940	$44,185	$651,795	$9,358,779	2010
2011	$6,978,303	$1,742,000	$0	$1,742,000	$442,947	$233,871	$41,560	$596,915	$10,035,596	2011
2012	$7,396,124	$1,949,000	$0	$1,949,000	$484,298	$214,183	$218,820	$539,355	$10,801,780	2012
2013	$7,776,824	$2,140,000	$0	$2,140,000	$443,697	$193,196	$412,962	$479,035	$11,445,714	2013
2014	$8,105,304	$2,265,000	$0	$2,265,000	$385,601	$170,832	$487,399	$415,775	$11,829,911	2014
2015	$8,393,891	$2,358,000	$0	$2,358,000	$327,139	$148,357	$461,493	$349,440	$12,038,321	2015
2016	$8,598,128	$2,447,000	$0	$2,447,000	$264,497	$129,447	$434,201	$279,780	$12,153,053	2016
2017	$8,774,822	$2,531,000	$0	$2,531,000	$228,517	$110,763	$405,474	$206,590	$12,257,166	2017
2018	$8,984,654	$2,597,000	$0	$2,597,000	$193,690	$90,785	$375,224	$129,680	$12,371,032	2018
2019	$9,255,804	$2,597,000	$0	$2,597,000	$175,323	$69,864	$343,371	$48,865	$12,490,227	2019
2020	$9,555,754	$2,600,000	$0	$2,600,000	$156,746	$47,483	$309,707	$0	$12,669,689	2020

State Tax Supported Debt Outstanding as a Percent of Personal Income
(Affordability criteria standard = 4.0%)

Fiscal Year	General Obligation Bonds	Consolidated Transportation Bonds	County Transportation Bonds	Total DOT	Capital Leases	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Outstanding	Fiscal Year
2002	1.75%	0.35%	0.00%	0.35%	0.09%	0.14%			**2.34%**	2002
2003	1.87%	0.46%	0.00%	0.46%	0.09%	0.15%			**2.58%**	2003
2004	1.82%	0.53%	0.00%	0.53%	0.09%	0.14%			**2.58%**	2004
2005	1.90%	0.45%	0.00%	0.45%	0.07%	0.13%			**2.55%**	2005
2006	1.93%	0.43%	0.00%	0.43%	0.09%	0.12%			**2.56%**	2006
2007	1.95%	0.42%	0.00%	0.42%	0.09%	0.11%		0.12%	**2.69%**	2007
2008	2.02%	0.47%	0.00%	0.47%	0.09%	0.10%	0.02%	0.11%	**2.80%**	2008
2009	2.14%	0.58%	0.00%	0.58%	0.10%	0.09%	0.02%	0.26%	**3.18%**	2009
2010	2.30%	0.58%	0.00%	0.58%	0.09%	0.09%	0.02%	0.23%	**3.30%**	2010
2011	2.36%	0.59%	0.00%	0.59%	0.15%	0.08%	0.01%	0.20%	**3.40%**	2011
2012	2.38%	0.63%	0.00%	0.63%	0.16%	0.07%	0.07%	0.17%	**3.48%**	2012
2013	2.37%	0.65%	0.00%	0.65%	0.14%	0.06%	0.13%	0.15%	**3.50%**	2013
2014	2.35%	0.66%	0.00%	0.66%	0.11%	0.05%	0.14%	0.12%	**3.43%**	2014
2015	2.32%	0.65%	0.00%	0.65%	0.09%	0.04%	0.13%	0.10%	**3.33%**	2015
2016	2.28%	0.65%	0.00%	0.65%	0.07%	0.03%	0.11%	0.07%	**3.22%**	2016
2017	2.23%	0.64%	0.00%	0.64%	0.06%	0.03%	0.10%	0.05%	**3.12%**	2017
2018	2.20%	0.64%	0.00%	0.64%	0.05%	0.02%	0.09%	0.03%	**3.03%**	2018
2019	2.18%	0.61%	0.00%	0.61%	0.04%	0.02%	0.08%	0.01%	**2.94%**	2019
2020	2.17%	0.59%	0.00%	0.59%	0.04%	0.01%	0.07%	0.00%	**2.87%**	2020

(a) Reflects presumed authorizations as follows:

General Assembly Session:	2010	2011	2012	2013	2014
Fiscal Year/Capital Budget:	**2011**	**2012**	**2013**	**2014**	**2015**
(in millions)	$1,140	$925	$925	$925	$935

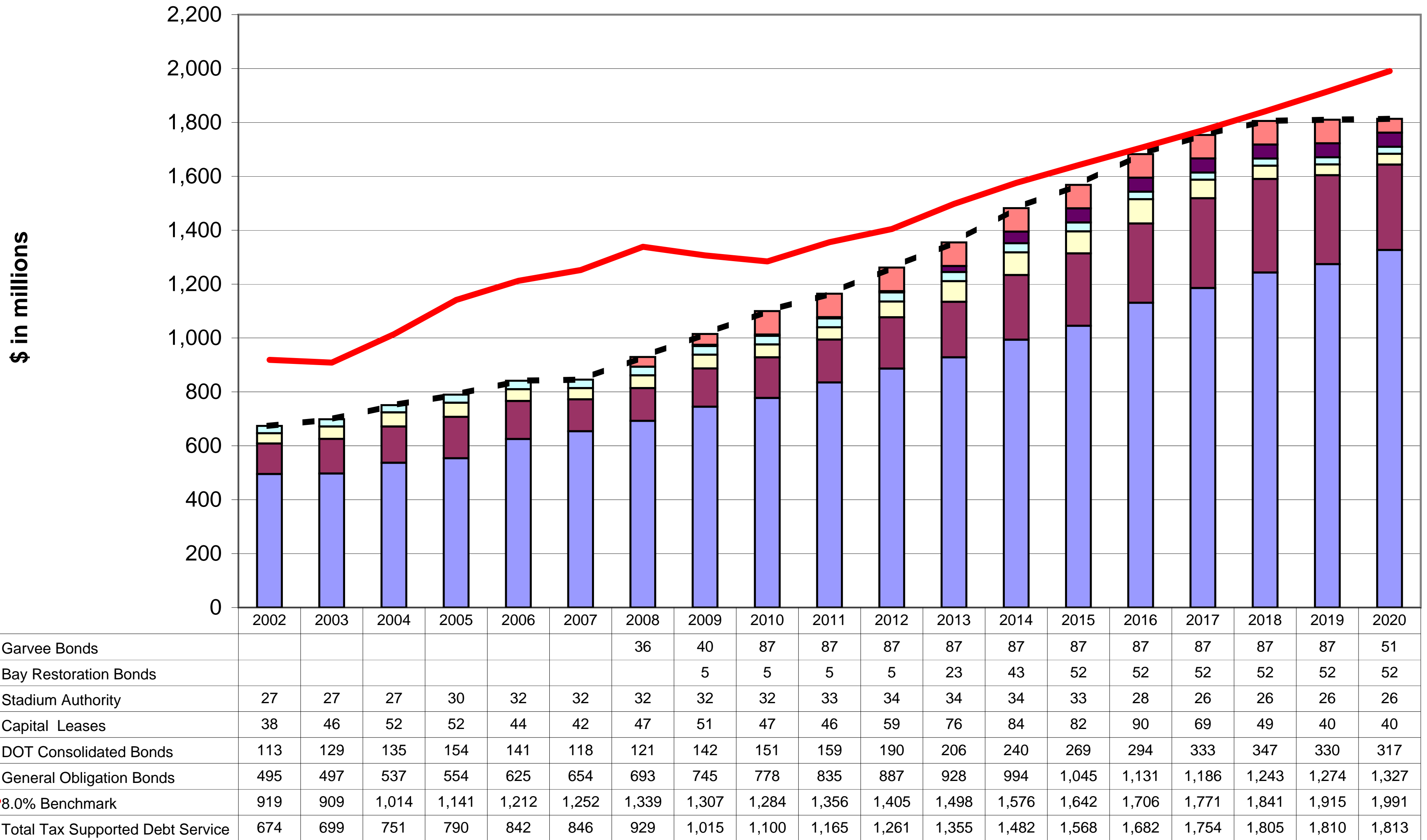
(b) Net of sinking funds or debt service reserve funds.

(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 waste water facility at ECI, the state office parking facility, and State Center garage.

(d) Equipment leases including video lottery terminals and energy leases including energy performance contracts for higher education facilities.

Issuance Assumptions: ($ in millions)	**2011**	**2012**	**2013**	**2014**	**2015**
G.O. issues (Includes 2009 Program Open Space)	$970	$960	$945	$940	$935
DOT issues	$180.0	$310.0	$300.0	$260.0	$250.0
Stadium Authority issues	$0.0	$0.0	$0.0	$0.0	$0.0
New Capital Leases - Equip. & EPC	$90.0	$15.0	$15.0	$15.0	$15.0
New Capital leases - VLTs	$109.5		$66.3		
Garvee Bond Issues	$0.0	$0.0	$0.0	$0.0	$0.0
Bay Bonds Issues	$0.0	$180.0	$205.0	$95.0	$0.0
Personal Income (billions) (Appendix A-1)	$295.3	$310.3	$327.5	$345.2	$361.9

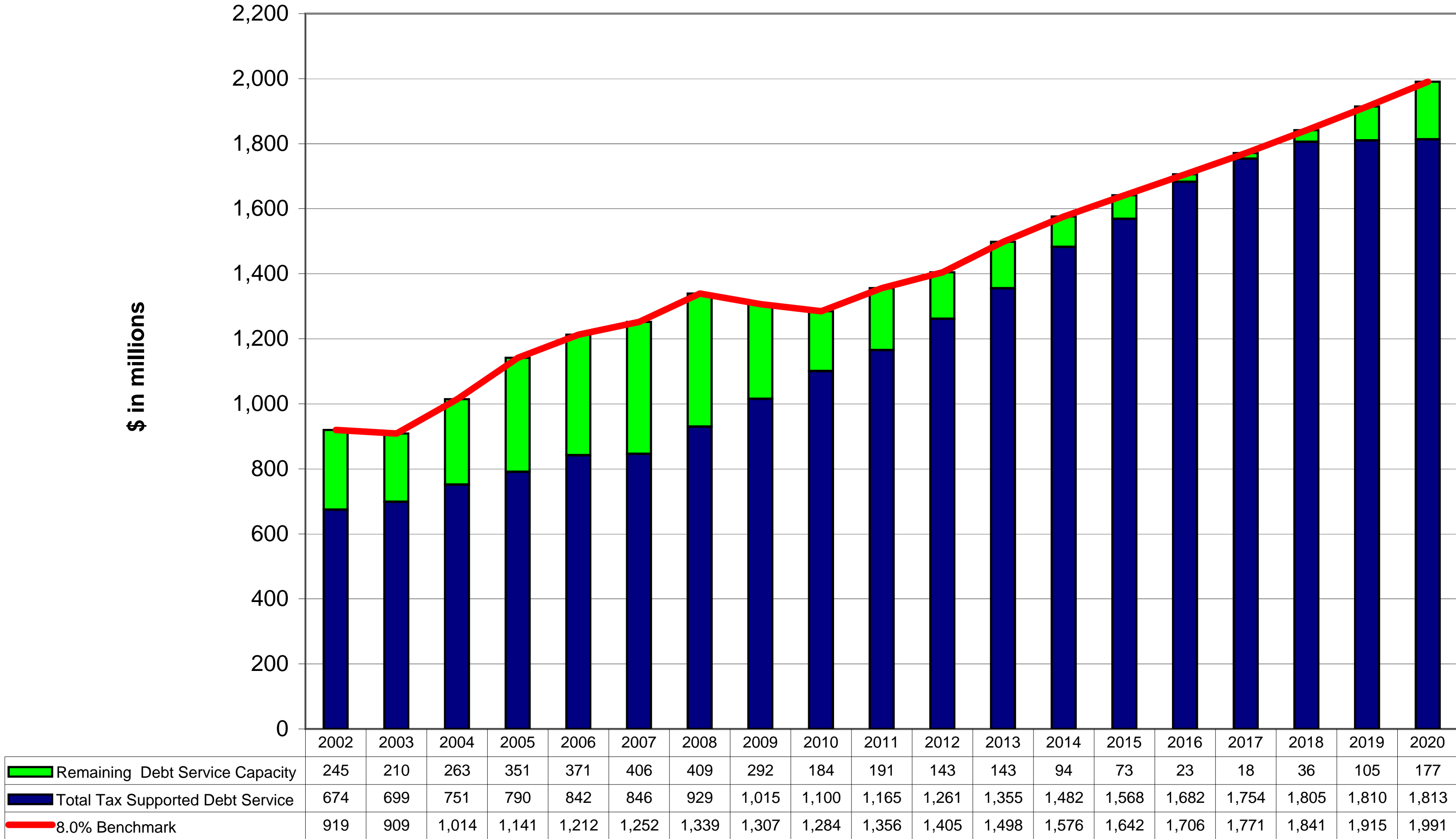
Tax Supported Debt Service to Revenues
as of SEPTEMBER 2010



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Garvee Bonds							36	40	87	87	87	87	87	87	87	87	87	87	51
Bay Restoration Bonds								5	5	5	5	23	43	52	52	52	52	52	52
Stadium Authority	27	27	27	30	32	32	32	32	32	33	34	34	34	33	28	26	26	26	26
Capital Leases	38	46	52	52	44	42	47	51	47	46	59	76	84	82	90	69	49	40	40
DOT Consolidated Bonds	113	129	135	154	141	118	121	142	151	159	190	206	240	269	294	333	347	330	317
General Obligation Bonds	495	497	537	554	625	654	693	745	778	835	887	928	994	1,045	1,131	1,186	1,243	1,274	1,327
8.0% Benchmark	919	909	1,014	1,141	1,212	1,252	1,339	1,307	1,284	1,356	1,405	1,498	1,576	1,642	1,706	1,771	1,841	1,915	1,991
Total Tax Supported Debt Service	674	699	751	790	842	846	929	1,015	1,100	1,165	1,261	1,355	1,482	1,568	1,682	1,754	1,805	1,810	1,813

Source: Table 2A as of Sept 2010

Available Debt Service Capacity Using the 8.0% Criterion
as of SEPTEMBER 2010



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Remaining Debt Service Capacity	245	210	263	351	371	406	409	292	184	191	143	143	94	73	23	18	36	105	177
Total Tax Supported Debt Service	674	699	751	790	842	846	929	1,015	1,100	1,165	1,261	1,355	1,482	1,568	1,682	1,754	1,805	1,810	1,813
8.0% Benchmark	919	909	1,014	1,141	1,212	1,252	1,339	1,307	1,284	1,356	1,405	1,498	1,576	1,642	1,706	1,771	1,841	1,915	1,991

Source: Table 2A as of Sept 2010

TABLE 2A

STATE TAX SUPPORTED DEBT SERVICE
STATE TAX SUPPORTED DEBT SERVICE AS A PERCENT OF REVENUES
(Affordability criteria standard = 8%)
($ in thousands)

as of September 2010

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)					*(Appendix A-2)*		
2002	$495,217	$113,178	$37,979	$27,383			$673,757	$11,489,682	**5.86%**	2002
2003	$496,870	$128,694	$46,152	$27,035			$698,751	$11,357,434	**6.15%**	2003
2004	$536,819	$134,910	$52,117	$27,333			$751,179	$12,676,056	**5.93%**	2004
2005	$553,783	$153,655	$52,239	$30,480			$790,157	$14,265,771	**5.54%**	2005
2006	$625,208	$141,172	$43,532	$31,713			$841,625	$15,155,236	**5.55%**	2006
2007	$654,055	$118,424	$41,636	$31,725			$845,840	$15,651,623	**5.40%**	2007
2008	$692,539	$121,390	$47,357	$32,108		$36,091	$929,484	$16,734,909	**5.55%**	2008
2009	$744,799	$142,355	$50,783	$31,935	$4,655	$40,364	$1,014,892	$16,334,382	**6.21%**	2009
2010	$777,523	$150,954	$47,460	$32,054	$4,710	$87,458	$1,100,158	$16,054,708	**6.85%**	2010
2011	$835,079	$159,000	$45,593	$32,954	$4,616	$87,455	$1,164,697	$16,946,266	**6.87%**	2011
2012	$886,583	$190,000	$58,836	$33,832	$4,614	$87,457	$1,261,321	$17,558,413	**7.18%**	2012
2013	$928,368	$206,000	$76,429	$33,836	$22,550	$87,451	$1,354,634	$18,723,337	**7.24%**	2013
2014	$993,650	$240,000	$84,154	$33,915	$42,970	$87,458	$1,482,146	$19,697,238	**7.52%**	2014
2015	$1,045,073	$269,000	$81,805	$32,683	$52,436	$87,454	$1,568,451	$20,520,950	**7.64%**	2015
2016	$1,130,717	$294,000	$90,127	$27,720	$52,434	$87,450	$1,682,448	$21,319,603	**7.89%**	2016
2017	$1,185,523	$333,000	$68,935	$26,382	$52,405	$87,452	$1,753,696	$22,140,802	**7.92%**	2017
2018	$1,242,993	$347,000	$49,212	$26,422	$52,364	$87,457	$1,805,447	$23,017,410	**7.84%**	2018
2019	$1,273,909	$330,000	$40,213	$26,079	$52,322	$87,452	$1,809,975	$23,931,854	**7.56%**	2019
2020	$1,326,593	$317,000	$39,715	$26,097	$52,434	$51,365	$1,813,204	$24,882,994	**7.29%**	2020

Assumptions: See Table 1

(a) Includes payments for 2001, 2004, 2006, 2007, 2008, and 2009 Qualified Zone Academy Bonds (QZAB's).
(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, the state office parking facility, and State Center garage.
(d) Debt service on equipment leases including video lottery terminals and energy leases including energy performance contracts for higher education facilities.

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	5.05%	6.81%	0.40%	100.56%		
2003	5.11%	8.03%	0.49%	123.17%		
2004	4.98%	7.16%	0.51%	122.93%		
2005	4.55%	7.37%	0.45%	140.40%		
2006	4.80%	6.65%	0.35%	147.99%		
2007	4.83%	5.64%	0.32%	149.65%		
2008	4.87%	6.04%	0.35%	149.34%		8.18%
2009	5.45%	6.65%	0.39%	159.68%	8.73%	9.15%
2010	5.79%	7.14%	0.38%	160.27%	8.74%	19.82%
2011	5.86%	7.23%	0.35%	173.44%	8.48%	20.21%
2012	6.03%	8.11%	0.43%	178.06%	8.40%	20.21%
2013	5.90%	8.34%	0.53%	178.08%	40.63%	20.21%
2014	5.99%	9.22%	0.56%	178.50%	76.65%	20.21%
2015	6.03%	10.09%	0.52%	172.02%	92.61%	20.21%
2016	6.25%	10.82%	0.55%	145.90%	91.69%	20.21%
2017	6.28%	12.08%	0.40%	138.85%	90.73%	20.21%
2018	6.31%	12.31%	0.27%	139.06%	89.76%	20.21%
2019	6.20%	11.45%	0.21%	137.26%	88.80%	20.21%
2020	6.19%	10.76%	0.20%	137.35%	88.11%	11.87%

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)
as of September 2010

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) Difference	(c) Additional Affordable Debt Outstanding
2011	$10,035,596	$295,296,000	3.40%	**2011**	4.00%	$250,889,895	$44,406,105	$1,776,244
2012	$10,801,780	$310,266,000	3.48%	**2012**	4.00%	$270,044,499	$40,221,501	$1,608,860
2013	$11,445,714	$327,488,000	3.50%	**2013**	4.00%	$286,142,854	$41,345,146	$1,653,806
2014	$11,829,911	$345,176,000	3.43%	**2014**	4.00%	$295,747,769	$49,428,231	$1,977,129
2015	$12,038,321	$361,917,000	3.33%	**2015**	4.00%	$300,958,013	$60,958,987	$2,438,359
2016	$12,153,053	$377,660,000	3.22%	**2016**	4.00%	$303,826,336	$73,833,664	$2,953,347
2017	$12,257,166	$393,145,000	3.12%	**2017**	4.00%	$306,429,144	$86,715,856	$3,468,634
2018	$12,371,032	$408,634,000	3.03%	**2018**	4.00%	$309,275,812	$99,358,188	$3,974,328
2019	$12,490,227	$424,408,000	2.94%	**2019**	4.00%	$312,255,676	$112,152,324	$4,486,093
2020	$12,669,689	$440,790,000	2.87%	**2020**	4.00%	$316,742,223	$124,047,777	$4,961,911

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) Difference	(c) Additional Affordable Debt Service
2011	$1,164,697	$16,946,266	6.87%	**2011**	8.00%	$14,558,712	$2,387,553	$191,004
2012	$1,261,321	$17,558,413	7.18%	**2012**	8.00%	$15,766,513	$1,791,900	$143,352
2013	$1,354,634	$18,723,337	7.24%	**2013**	8.00%	$16,932,924	$1,790,413	$143,233
2014	$1,482,146	$19,697,238	7.52%	**2014**	8.00%	$18,526,819	$1,170,418	$93,633
2015	$1,568,451	$20,520,950	7.64%	**2015**	8.00%	$19,605,640	$915,310	$73,225
2016	$1,682,448	$21,319,603	7.89%	**2016**	8.00%	$21,030,604	$288,999	$23,120
2017	$1,753,696	$22,140,802	7.92%	**2017**	8.00%	$21,921,200	$219,602	$17,568
2018	$1,805,447	$23,017,410	7.84%	**2018**	8.00%	$22,568,090	$449,320	$35,946
2019	$1,809,975	$23,931,854	7.56%	**2019**	8.00%	$22,624,684	$1,307,170	$104,574
2020	$1,813,204	$24,882,994	7.29%	**2020**	8.00%	$22,665,047	$2,217,947	$177,436

This table demonstrates the minimum levels to which personal income and revenues could fall without violating the 4.0% 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 4.0% 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 that is affordable without exceeding current maximum affordability ratios.

Source: Tables 1, 2a
Appendices A-1 and A-2

E. Comparison of Recommendation and Capital Program

The Committee's recommendation of $925.0 million in general obligation authorizations provides a commitment for the fiscal year 2012 Capital Improvement Program. However, the program and the recommendations fall short of total funding needs and the Committee recognizes that allocation decisions will have to be made by the Governor and General Assembly.

F. Affordability Risk Analysis

Background

Since 1989, the Committee has included in its 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. Beginning in its 2007 review, the Committee has examined this risk over a ten-year horizon.

Components of Risk

The Committee identified and reviewed the following risks in making a judgment about the ultimate affordability of its 2010 recommended authorization and the projected future authorizations as described above in paragraph C.

- Changes in personal income;
- Changes in and sources of revenues;
- Interest rate risk;
- Changes in the definition of tax-supported debt;
- Changes in the bond issuance plans of non-general obligation issuers of tax-supported debt;
- Changes within the General Obligation Bond program.

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 future personal income. The risk is significant as the nation and the State struggle to recover from the worst recession in post-war history. However, the risk has also been mitigated by the expectation that the Base Realignment and Closure (BRAC) will bring significant high-wage employment to Fort Meade and Aberdeen Proving Grounds by 2011. Offsetting this boom over the next ten years is the expected slower population growth and the aging of the population; both indicators for slower job growth.

Table 3 demonstrates that at current projections for debt outstanding through 2020, personal income could decline by no more than $40.2 billion in 2012 without the affordability

ratio exceeding the 4.0% maximum. A decline of $40.2 billion is 13.0% of the projected personal income in 2012 of $310.3 billion. Consequently, the possibility of exceeding the 4.0% threshold seems remote. For most years, the personal income growth rate used to develop projections in ***Appendix A-1*** for 2010 through 2020 are below the 10-year average for 2000 through 2009, which was 4.97%. The exceptions are in 2012, 2013 and 2014 when the growth rates are 5.07%, 5.55% and 5.40% respectively.

Changes in and Sources of Revenues

Appendix A-2 details the total revenues and its components from fiscal year 2000 to fiscal year 2020. Total revenues are comprised of general fund revenues, property taxes, bond premiums, US Treasury subsidies for Build America Bonds and Qualified School Construction Bonds, Educational Trust Fund revenues (Video Lottery Terminals), Transportation Trust Fund revenues plus revenues attributed to GARVEE Bonds, Bay Restoration Bonds, Stadium Authority Bonds and transfer taxes as a result of the 2009 authorization for Program Open Space. These projections do not take into account any possible changes in future tax rates or structures.

General Funds were projected by the Bureau of Revenue Estimates. Growth in General Funds ranged from -2.4% in fiscal year 2010 to 5.8% in fiscal year 2013. Beginning in 2016, growth was assumed at 4.5%; (2.5% real growth and 2.0% inflation).

Estimates were obtained for property tax revenue from the Department of Assessments and Taxation ("DAT") for fiscal years 2011-2015. In 2012, property tax revenue is expected to decline 2% compared to 2011 and property tax revenues remain flat through 2015. After consultation with DAT, the Department of Budget and Management and the State Treasurer's Office, the growth in property taxes was projected at a conservative 2.5% for fiscal years 2016 through 2020. Bond premiums and Annuity Bond Fund miscellaneous receipts are also included as revenues. Because bond premiums can be volatile, they are only projected through the current calendar year and miscellaneous receipts are relatively insignificant. The US Treasury subsidy is also a source of revenue for the 35% interest subsidy for Build America Bonds and the 100% subsidy for the 2010 Qualified School Construction Bonds.

The referendum authorizing Video Lottery Terminals ("VLTs") passed in November 2008. The source of the revenue projections for VLT on ***Appendix A-2*** through 2015 was from the 90 Day Report, A Review of the 2010 Legislative Session. From 2016 through 2020, growth in the Education Trust Fund is projected at 2%.

The Committee began to recognize transfer taxes as a revenue source after the issuance of general obligation bonds for Program Open Space ("POS") in July 2010. Chapter 419 Acts of 2009 authorized $70.0 million in bond funds for the Department of Natural Resource's ("DNR") POS land acquisition program and the use of property transfer tax revenue to pay principal and interest on the POS bonds prior to any other distribution.

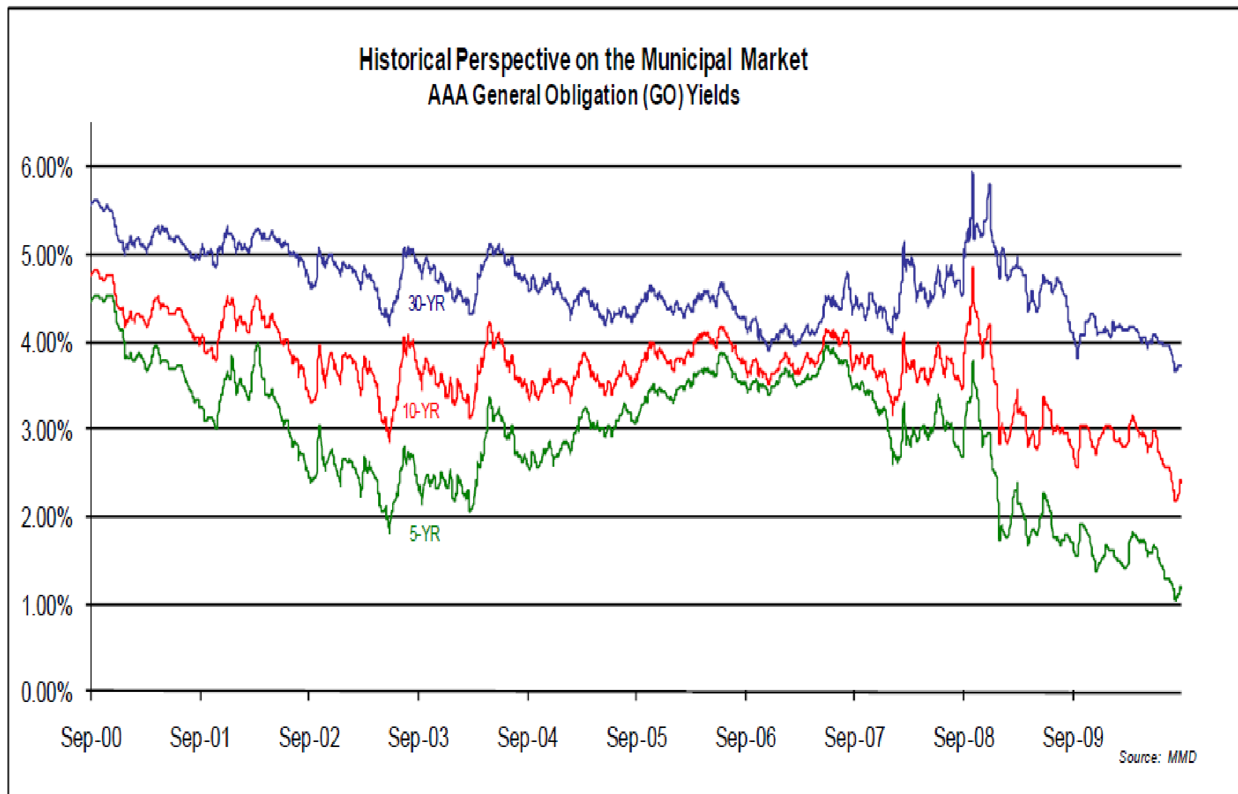
Transportation Revenues in ***Appendix A-2*** represent the Transportation Trust Fund revenues. Lottery revenues that are transferred to the Stadium Authority are the source of Stadium revenues plus a ticket charge at the Hippodrome Theater. The lottery revenues are net of the debt service on the 2010 Sports Facilities Revenue Bonds.

Interest Rate Risk

Debt service is calculated for future General Obligation Bonds assuming coupon interest rates of 5.0%. This is a change from interest rate assumptions in prior CDAC Reports which assumed 5.5% for all but the first two future issues.

The State Treasurer's Office, the Department of Budget and Management, and the State's financial advisor reviewed historical indices for municipal debt including the Municipal Market Data (MMD) for 15 year, AAA general obligation bonds. This index had daily rates from 1993 through September 2010. For this time period, the average rate was 4.53% and the median was 4.66%.

The following graphs depict the historical trends for 5 year and 10 year AAA bonds.



Source: Raymond James' Municipal Bond Investor Weekly
September 17, 2010

Based on this review and after consideration for expected future inflation trends in rates, 5.0% was the assumed rate for all future issues.

For leases, the analysis estimates tax-exempt rates at 2.0% for the shorter term capital equipment leases and 5.5% for assumed 15 year energy leases. The most recent rates on capital equipment leases were 1.86% and 2.17% for a three year and five year lease, respectively. The rate for the most recent energy lease financing was 3.06% for an 11.5 year lease. Because of the economic conditions and investors' preference for Treasuries, the rates since the fall of 2008 have been extraordinarily low but are expected to rise as financial conditions improve.

The interest rate used by Maryland Water Quality Financing Administration for the Bay Restoration Bonds was 5.5% for issuances in fiscal year 2009 and beyond. Maryland Department of Transportation used 4.2% for the 2011 sale; 4.8% for the 2012 sale; 4.9% for sales in 2013 and 2014; and 5.0% thereafter.

Changes in the Definition of Tax-Supported Debt

Changes in the definition of tax-supported debt dictated by an outside authoritative group could have a major impact on the affordability ratios. The Committee was advised that one such change has been suggested. On March 19, 2009, the U.S. Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board released a joint paper on accounting by lessees in operating lease arrangements. The contemplated changes, which are not expected to be finalized before 2011, would require all lease arrangements to be reported on the balance sheet. Consequently, all leases would be considered debt. The State's financial statements conform to Governmental Accounting Standards Board ("GASB") which may not necessarily follow FASB or its timetable for the implementation of any accounting changes.

The State's 2009 Comprehensive Annual Financial Report ("CAFR") indicates that the State's governmental funds pay for office space under various agreements that are accounted for as operating leases. Rent expenditures for operating leases for the year ended June 30, 2009 were approximately $64 million. Clearly, if there is a change to GASB accounting standards and operating leases are capitalized in the future, an adjustment to the CDAC affordability ratios may be necessary.

The State's Financial Advisor has reported that Fitch and Moody's will not focus on any possible accounting change for leases until a change is formally adopted and incorporated by GASB. The rating agencies only include the capital leases reported in the State's CAFR in their financial ratios.

Since the outcome of any GASB lease accounting change is so uncertain, the 2010 CDAC report does not include operating leases in its affordability analysis. CDAC will continue to monitor this accounting issue at future meetings and CDAC may review the affordability benchmarks if the accounting standards change.

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

Changes in the bond issuance plans for other issuers 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 financings by the Maryland Stadium Authority or the Bay Restoration Bond program. In 2010, the Committee recognized significant new debt that had not been accounted for in prior years: $185.3 million for video lottery terminals, $70 million for Program Open Space and $31.6 million for the State Center Garage.

The assumptions regarding non-general obligation components of tax-supported debt and debt service are as described in Section II. The Department of Transportation's debt is expected to rise consistently over the next several years, especially because their authorization limit was raised from $2.0 billion to $2.6 billion in the 2007 1st Special Session. There are no plans for further GARVEE bond issuances. The projections for future equipment and energy lease

purchase financings are based on surveys of State agencies.

The issuance of Bay Restoration Bonds began in fiscal year 2008 and is limited to the availability of Bay Restoration (wastewater) Fund revenues. The Director of the Water Quality Financing Administration advised the Committee that no further Bay Restoration Bonds beyond the existing plan of $530 million will be issued unless fee revenues increase. The Director informed the Committee that current Bay Restoration Fund revenues are not sufficient to complete enhanced nutrient removal capital improvement projects that are currently estimated to cost $1.5 billion.

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 at which authorized bonds are issued.

Changes in the types and costs of facilities do not necessarily affect total authorizations but may lead to a re-allocation of resources. The Committee's recommendations are made in terms of a total dollar amount of bonds, not in specific 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 total allocation allotted to each use. Such changes affect which assets can be acquired within a specific dollar amount of the program. These changes by themselves, however, affect neither the dollar amount of the Committee's assumed authorizations nor the affordability ratios. Therefore, without Committee or General Assembly action to alter the total dollars to be authorized in the plan, there is no affordability risk resulting from such changes within the general obligation plan.

Changes in the timing of issuance of authorized bonds, however, may affect the affordability criteria. Bonds authorized at a General Assembly session are not immediately issued. In fact, only half of the bonds authorized each year are typically issued within the ensuing two fiscal years and the remaining issuances occur over the next three years. 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, equipment manufacturers, etc. 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. In addition to projecting issuances at prescribed levels, the State Treasurer's Office monitors the disbursement pace of bond proceeds and has adjusted issuance amounts as necessary.

While some projects currently authorized will be abandoned or completed for less than authorized, it is assumed that 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, the amount of such cancellations are expected to be immaterial to the analysis.

Any systematic change that would accelerate or retard the speed with which bonds are

issued would increase or decrease the amount of debt outstanding and debt service and consequently affect both of the affordability ratios. The Committee reviewed the issuance projections for the 2010 Report in light of the pattern of recent authorizations and issuances. The following chart compares projected issuances in CDAC Reports from 2003 to 2010 to actual issuances. Timing can explain some of the differences between projections and issuances in a specific fiscal year, especially since the 2009 and 2010 MCCBL authorized significant amounts for the Intercounty Connector ("ICC") which had construction well underway.

Projected Issuances in CDAC Reports ($ in millions)					
CDAC Reports	**FY2007**	**FY2008**	**FY2009**	**FY 2010**	**FY 2011**
2003	$600	$625	$700	$725	$750
2004	$650	$675	$700	$700	$725
2005	$675	$700	$725	$725	$750
2006	$675	$700	$760	$810	$860
2007	XXXX	$725	$810	$885	$955
2008	XXXX	XXXX	$810	$910	$970
2009	XXXX	XXXX	XXXX	$960	$970
2010	XXXX	XXXX	XXXX	XXXX	$970
Actual Issuances	$675.0	$775.0	$840.0	$1,135.3	$970.2 (as of September 2010)

* Issuances are for new money only, amounts do not include refundings.

However, the most important reason for accelerated issuances is the increase in authorizations greater than the typical projection of 3% growth. The history of projected authorizations is depicted in the following chart.

Projected General Assembly Authorizations in Fiscal Years:										
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
CDAC Reports										
2010	x	x	x	x	x	x	x	x	**$925**	**$925**
2009	x	x	x	x	x	x	**x**	**$1,140**[1]	**$1,020**	**$1,050**
2008	x	x	x	x	x	x	**$1,110**	**$990**	**$1,020**	**$1,050**
2007	x	x	x	x	x	**$935**	**$960**	**$990**	**$1,020**	**$1,050**
2006	x	x	x	x	**$810**	**$835**	**$860**	**$890**	**$920**	**$950**
2005	x	x	x	$690	$710	$730	**$745**	**$770**	**$795**	**$820**
2004	x	x	$670	$685	$700	$715	$630	$645	$660	$675
2003	x	**$650**	**$665**	**$680**	**$695**	**$710**	$630	$645	$660	$675

Gray indicates those years where the increase in authorization from the prior year was approximately $100 million or more.

[1] In September 2009, the Committee made a conditional recommendation of $990 million for general obligation bond authorizations by the 2010 General Assembly. In December, the Committee revised the recommendation to $1,140 million.

Fiscal Years 2012 - 2020 Risks

In considering the affordability risk associated with the 2012-2020 projected authorizations in this year's report, the major risks appear to be:

- Uncertainty regarding the rate of growth in personal income and revenues when financial markets are volatile and the economy is still recovering from some of the worst economic conditions since the 1930s;
- Authorizations of General Obligation Bonds greater than the 2010 recommendation and out year projections;
- Potential authorization of tax-supported debt to finance projects that are presently unknown to the Committee;
- Acceleration in the issuance of General Obligation Bonds;
- Interest rate risk. While rates are currently quite low, many expect interest rates to rise once the economy recovers.

There do not appear to be any federal regulatory changes that might lead to an acceleration of general obligation debt issuances. Regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds or the market value thereof would be impacted thereby. Therefore, we have not considered this to be a risk to our interest rate assumptions. The effect of any federal budget action is unclear and not apparent in the near term, although there are economists who predict that the federal deficit will eventually result in higher interest rates.

There was an acceleration of issuance in calendar year 2010 to provide sufficient proceeds for projects like the ICC which had construction underway, to take advantage of historically low interest rates and to keep the cash flow of bond proceeds positive and minimize liquidity pressures on the State's cash accounts. Future substantial acceleration of the issuances of General Obligation Bonds appears unlikely at this time. The current amount of authorizations that are unissued appears reasonable and the amount of bond issuances appears sufficient to avoid "red balances."

The changes in the issuance plans of other components of tax-supported debt also appear to pose limited risk at this time. The assumed issuances by the Department of Transportation are consistent with current statutory limits, revenue forecasts and debt service coverage criteria. GARVEE Bonds and Bay Restoration Bonds are included as components of State tax-supported debt and are incorporated into the analysis.

Conclusion

The Committee believes that its $925.0 million recommendation for the 2011 legislative session/2012 capital program is prudent and within current projections of capacity. The Committee's projections for future authorizations assume generally level authorizations through 2016 of between $925.0 million and $955.0 million. In 2017 the projected authorization is $1,200.0 million and it increases by approximately 3% through 2020. With these authorization levels, the debt affordability ratios remain within the CDAC benchmarks of 4.0% debt

outstanding to personal income and 8.0% debt service to revenues. At these levels, and relying upon prudent timing of authorization and issuances, the Committee believes that many of the current projected needs in school construction, transportation, higher education and other essential areas can be met, but the Committee also acknowledges that the recommendation falls far short of total funding requests.

The Committee reviewed its interest rate, revenue, personal income, issuance and authorization assumptions and believes that all of these variables have been estimated conservatively. Nevertheless, the volatile financial conditions in the last few years have resulted in revisions to revenue estimates and personal income and uncertainty in the financial markets. Because the affordability ratio for debt service to revenues is near the 8.0% benchmark, any variation to the assumptions for revenues, interest rates, and projected activity in tax-supported debt issuance would impact directly the amount of future general obligation authorizations and issuances.

The motion to recommend $925.0 million in authorizations to the 2011 General Assembly recognized that the Governor's 2012 capital budget could be adjusted to reflect up-to-date economic and fiscal information and the Board of Revenue Estimate's December revenue estimates. Accordingly, the Capital Debt Affordability Committee will review its authorization in December 2010 and make any necessary modifications to its recommendation.

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VI. HIGHER EDUCATION DEBT

A. Background

Title 19 of The Education Article (the "Statute"), establishes the revenue bonding framework and authority of the University System of Maryland ("USM"), Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. The Committee is assigned certain duties relevant to higher education debt, as described below.

The Statute provides a framework for the issuance of higher education debt. Specifically, the Statute distinguishes 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 authorizes 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 specifies fund sources that can be pledged as security as well as those that can 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.

B. CDAC Duties

The Committee is directed 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, St. Mary's College of Maryland, and the Baltimore City Community College."

Charge #1 was met during the August 11, 2010 meeting of the Committee when representatives from all four institutions presented debt information to the Committee. A summary of the data presented is in Section C below. Charges #2 and #3 are discussed in Sections D, E and F below.

C. Size and Condition of Debt of the University System of Maryland, Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College

University System of Maryland

Bond Activity

Since 1989, the General Assembly has authorized bonds totaling $698.2 million for various academic facilities for USM. Of this amount, $27.0 million was authorized by the 2010 General Assembly for academic facilities (Chapter 631, Laws of Maryland, 2010).

In fiscal year 2010, the total issuance for academic and auxiliary facilities was $120.0 million. USM reports its bond debt outstanding at $1,032,180,539 at June 30, 2010. Of this outstanding amount, USM has $50.0 million of variable rate bonds outstanding with a three year interest reset. The University System has not used interest rate exchange agreements or guaranteed investment contracts. Projected issuances through fiscal year 2016 for USM are shown in Table 4.

The bonds are rated as follows: Fitch Ratings, AA; S&P, AA+ (upgraded from AA in 2008); and Moody's, Aa1 (recalibrated from Aa2). All ratings have a stable outlook. Credit strengths include strong student demand, sound financial operations and a large, diverse revenue base. Credit challenges noted by the rating agencies include potential increases in capital spending to meet enrollment growth and limited liquidity. According to a 2008 Moody's report, the median rating for public universities is A1, with the average climbing to Aa3 when weighted by the amount of rated debt.

Other Debt and Capital Lease Activity

There are $49,558,483 of Other Debt and Capital Lease Obligations outstanding as of June 30, 2010: $37,687,741 has been financed through the State Treasurer's Office primarily for energy performance contracts and $11,870,742 has been financed directly by USM to lease a facility and finance certain equipment acquisitions.

St. Mary's College of Maryland

Bond Activity

Debt outstanding at June 30, 2010 includes: $38.9 million in revenue bonds and a $3.9 million bond anticipation note. Moody's has rated the bonds A2 with a stable outlook. Currently, there are no projections for future bond issuances.

St. Mary's College of Maryland does not have any interest rate exchange agreements, variable rate bonds or guaranteed investment contracts. Except for the bond anticipation note, substantially all of the bonds are insured by AMBAC.

Lease Activity

There is a capital lease through the State Treasurer's Office for $1.7 million related to an energy performance contract.

Morgan State University

Bond Activity

Morgan State University bonds are rated A+ by Standard and Poor's, and rated A1 with a negative outlook by Moody's Investors Service. Moody's retained the negative outlook originally assigned in November, 2005 primarily due to concerns about Morgan State University's low levels of financial resources for the rated category. Moody's also indicated that debt and operating coverage ratios are thin and a significant increase in liquidity is needed to improve the rating. Standard and Poor's also completed their routine review in April 2009 and affirmed the A+ rating with a stable outlook.

$58.8 million of bonds are outstanding as of June 30, 2010. Morgan State University does not have immediate plans for the issuance of additional bonds.

Morgan State University does not have any interest rate exchange agreements, variable rate bonds or guaranteed investment contracts nor are any of their bonds insured.

Lease Activity

There are capital leases in the amount of $5.5 million outstanding as of June 30, 2010. Morgan State University estimates that the lease balance will remain relatively unchanged due future borrowing plans for building equipment and information technology infrastructure upgrades which will replace retired leases.

Baltimore City Community College ("BCCC")

Bond Activity

In 2009 the General Assembly increased the total amount of debt authorized for BCCC from $15.0 million to $65.0 million and expanded the authorization to include academic as well as auxiliary facilities.

BCCC has no bonds outstanding and has no plans to issue bonds in fiscal year 2011 or fiscal year 2012.

BCCC is currently exploring the feasibility and desirability of various projects that might be funded by the issuance of academic and/or auxiliary bonds, capital leases, public-private partnerships and/or by BCCC. Current projects include a parking garage at the Bon Secours location.

Lease Activity
BCCC has $1.2 million in capital leases outstanding as of June 30, 2010.

D. Incorporating Higher Education Academic Debt into the Affordability Analysis

The statutory language of 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."

The statute does not direct, nor has the Committee elected to include higher education debt as a component of State tax-supported debt for purposes of the capacity criteria or affordability analysis. Consequently, the Committee's recommendations relating to new authorizations of general obligation debt and higher education academic debt are made independently for the following reasons:

1. The rating agencies do not consider debt issued by institutions of higher education as State tax-supported debt. The debt of the systems, either currently outstanding or related to future issuances, is not included by the rating agencies in determining the rating of the State's General Obligation Bonds.

2. 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.

3. 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.

The Committee believes that its analysis, discussions, and deliberations of higher education debt levels, capacity, and needs address the legislative intent to take into account higher education academic debt.

E. University System of Maryland Debt Management Policy

Working with Public Financial Management, USM's financial advisor, the Chancellor's Office developed a new policy on debt management as a result of rating agency concerns regarding liquidity, financial reporting changes mandated by Government Accounting Standards Board Statement 35 – *Basic Financial Statements and Management Discussion and Analysis for Public Colleges and Universities,* and the complexities of "off-balance sheet" financing.

In February, 2008 the Board of Regents approved a policy on debt management that remains unchanged in 2010. The policy provides:

- Criteria to protect the bond ratings;
- Interest rate management strategies;
- Definitions of all types of debt and its impact on debt capacity; and
- A process to assess a project's impact on debt capacity.

As a result of this policy, USM is committed to maintaining:

1. Debt service that does not exceed 4.5% of operating revenues plus State Appropriations
   - The debt service burden is presented in Table 4 and USM debt complies with this policy.
2. Available resources that are not less than 55% of direct debt
   - Available resources include net assets of USM and its affiliated foundations with adjustments for certain long term liabilities. An analysis of the ratio of available resources to debt outstanding follows. The table includes actual data for fiscal years 2006 through 2009 and projections for fiscal years 2010 through 2011:

University System of Maryland Ratio of Available Resources to Debt Outstanding *($ in thousands)*			
FY	**Available Resources**	**Debt Outstanding**	**Ratio of Available Resources to Debt Outstanding**
2006	$758,000	$935,000	81.07%
2007	$992,147	$954,846	103.91%
2008	$1,141,812	$969,923	117.72%
2009	$1,130,100	$1,028,524	109.88%
2010 Projected	$1,100,000	$1,080,665	101.79%
2011 Projected	$816,000	$1,117,257	73.04%

Source: University System of Maryland

F. 2010 Recommended Authorization for Higher Education Academic Debt

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, St. Mary's College of Maryland and the Baltimore City Community College." 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.

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 USM 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.

Table 4 displays information on the debt of each of the four higher education systems, compliance with statutory limitations, and financial performance.

1. 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 both academic and auxiliary facilities. The current statutory limits are $1,200.0 million for the University System of Maryland, $88.0 million for Morgan State University, $60.0 million for St. Mary's College of Maryland, and $65.0 million for Baltimore City Community College. All four higher education systems are within the statutory limits as of June 30, 2010.

2. A key measurement of financial performance frequently used by credit analysts is debt burden; that is, debt service as a percent of operating revenues plus State appropriations. USM’s ratio does not exceed 4.5%, which is the limit established in the USM debt policy.

For purposes of this analysis and for the CDAC recommendation, the relevant measure is debt burden. As can be seen from the final column in ***Table 4***, USM’s debt issuance plan would result in a debt burden level well below the 4.5% maximum mandated by USM’s debt management policy. There appears to be no need for the Committee's recommendation to differ from USM’s plans at this time. Therefore, the Committee recommends a limit of $27.0 million of new bonds for USM academic facilities to be authorized in the aggregate for the next fiscal year. Morgan State University, St. Mary’s College of Maryland, and Baltimore City Community College do not propose to issue bonds for academic facilities in fiscal year 2012.

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TABLE 4

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

	Projected Issuances		Outstanding Debt		Debt Service				
			Bonds	Leases	Bonds	Leases			
Fiscal Year	Auxiliary	Academic	Projected Debt Outstanding as of June 30	Projected Debt Outstanding as of June 30	Projected Debt Service for Fiscal Year	Projected Debt Service for Fiscal Year	Total Debt Service	Operating Revenues Plus State Appropriations	Ratio of Debt Service to Operating Revenues Plus State Appropriations
University Systems Of Maryland									
2011	$88,000	$27,000	$1,017,274	$99,984	$113,763	$8,496	$122,259	$3,698,641	3.31%
2012	$88,000	$27,000	$1,061,442	$94,481	$113,254	$11,296	$124,550	$3,735,627	3.33%
2013	$88,000	$27,000	$1,106,576	$87,349	$116,401	$11,283	$127,684	$3,772,983	3.38%
2014	$88,000	$27,000	$1,153,434	$81,156	$118,554	$10,116	$128,670	$3,810,713	3.38%
2015	$88,000	$27,000	$1,194,023	$76,851	$128,555	$8,044	$136,599	$3,848,820	3.55%
2016	$88,000	$27,000	$1,227,595	$73,000	$138,726	$7,447	$146,173	$3,887,309	3.76%
Morgan State University									
2011			$55,800	$3,351	$6,116	$1,884	$8,000	$169,689	4.71%
2012			$52,605	$3,204	$6,127	$1,250	$7,377	$177,325	4.16%
2013			$49,240	$5,255	$6,124	$1,084	$7,208	$185,305	3.89%
2014			$45,690	$4,283	$6,125	$1,742	$7,867	$197,350	3.99%
2015			$41,965	$5,464	$6,115	$1,553	$7,668	$210,177	3.65%
2016			$38,035	$6,066	$6,124	$2,221	$8,345	$223,839	3.73%
St. Mary's College of Maryland									
2011			$41,550	$1,555	$3,204	$205	$3,409	$63,589	5.36%
2012			$40,160	$1,407	$3,202	$205	$3,407	$65,179	5.23%
2013			$38,710	$1,253	$3,207	$205	$3,412	$66,808	5.11%
2014			$37,205	$1,093	$3,204	$205	$3,409	$68,478	4.98%
2015			$35,645	$927	$3,200	$205	$3,405	$70,190	4.85%
2016			$34,020	$756	$3,202	$205	$3,407	$71,945	4.74%
Baltimore City Community College									
2011				$1,157		$207	$207	$65,869	0.31%
2012				$1,018		$99	$99	$66,454	0.15%
2013				$985		$99	$99	$69,777	0.14%
2014				$949		$99	$99	$73,266	0.14%
2015				$911		$99	$99	$76,929	0.13%
2016				$870		$99	$99	$80,775	0.12%

The University System's criteria is debt service may not exceed 4.5% of operating revenues plus State Appropriations.

Appendix A
History of the Capital Debt Affordability Committee

Duties

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 due to the creation of the State's school construction program 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 and Capital Debt Affordability process.

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). The statute requires 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 and the 2009 General Assembly expanded the debt authorization for Baltimore City Community College to academic as well as auxiliary facilities.

The 2004 General Assembly added to the duties of the Committee in 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 directed that the Committee "include a multiyear funding recommendation that will provide stability in the annual funding for school construction." The 2009 General Assembly repealed this requirement that the Committee annually review the school construction needs and make a specific recommendation regarding additional funding (Chapter 485, Laws of Maryland 2009).

Chapter 641 of the Laws of 2010 requires the Capital Debt Affordability Committee to analyze and report on the aggregate impact of Public-Private Partnership agreements on the total amount of new State debt that prudently may be authorized for the next fiscal year.

Membership

Since 1979, the members have been the State Treasurer (Chair), the Comptroller, the Secretaries of Budget and Management and Transportation, and one public member appointed by the Governor. Chapter 445, Laws of Maryland, 2005 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.

Definition of Tax-Supported Debt

In addition to the duties previously noted, 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 issued by the Maryland Stadium Authority for the Baltimore stadium are 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 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.

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 8.0% 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.

History of Debt 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 8.0% 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 in 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 2007 Capital Debt Affordability Committee Report (Section VII) documented the Committee's review of its affordability criteria, initiated at the request of the General Assembly. The Committee concluded the 2007 Report with a recommendation for the continued study and evaluation of the criteria in 2008. That recommendation was followed and, after thorough analysis by the Committee and staff, and following consultation with the rating agencies and the State's financial advisor, the Committee voted to retain the 8.0% debt service to revenues criterion and to change the debt outstanding to personal income criterion from 3.2% to 4.0%. A complete report of the process undertaken by the Committee to change the criterion is in Section V of the 2008 CDAC Report.

In 2008, as part of the 2007 and 2008 review of variables incorporated in the affordability criteria, the Committee standardized the calculation of revenues for all components of tax-supported debt. Beginning in the 2008 analysis, revenues for GARVEE Bonds and Bay Restoration Bonds are no longer limited to their respective debt service as had been the prior practice. Revenues for GARVEE Bonds and Bay Restoration Bonds include all federal capital highway revenues and bay restoration fees respectively. This adjustment matches the convention that has been used by CDAC for all other tax-supported debt. For instance, debt service on General Obligation Bonds is measured using all available revenues from the general fund, bond premiums and real property taxes and revenues were not restricted solely to debt service on G.O. Bonds.

Actual affordability ratios for 1960 through 2010 are in Appendix C-2.

History of Authorization Increases and Rate of Increases

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. Between 2002 and 2008, the inclusion of Bay Restoration Bonds and GARVEEs as State tax-supported debt and the increases in the authorizations of General Obligation Bonds absorbed virtually all of the previously unused debt capacity. The recommendations for General Obligation Bond authorizations in 2006, 2007, 2008 and 2009 were over the amount that would have been recommended had the 3.0% growth rate been maintained. In 2006 and 2007, the $100 million increases extended to future years. In 2008 and 2009, $150 million was projected as a one-time increase for each year.

In its September 2010 meeting, CDAC recommended an authorization of $925 million which was $215 million below the December 2009 recommendation. The 2010 Committee adjusted future authorization levels to remain within the CDAC self-imposed affordability benchmarks. The authorization levels that were projected at the September 2010 meeting and that are in the 2010 CDAC Report represent one of many authorization options that could be used to achieve adherence to the CDAC affordability criteria.

For a history of recent authorizations and issuances, see Section V of the 2010 CDAC Report, "Changes within the General Obligation Bond Program" for further discussion.

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Appendix B
History of Stadium Authority Financings
Oriole Park at Camden Yard

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 with AIG-FP 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.

In early 2007 the Baltimore Orioles filed for arbitration over the selection and installation of a new video board at Oriole Park at Camden Yards. In September 2007, the Authority and the Baltimore Orioles reached a settlement agreement, agreeing to purchase and install $9.0 million of new audio and video equipment funded by $5.5 million from the "Supplemental Improvements Fund" and $3.5 million from the Authority. The Authority's share is financed under the State's equipment lease-purchase program and amortized over 10 years.

In November 2009, the Maryland Stadium Authority entered into a contract with Pepco Energy Services to provide energy upgrades and enhancements to Oriole Park at Camden Yards and the warehouse. The energy upgrades and enhancements will cost approximately $6.0 million. The Authority is financing these under the State's energy performance contract lease-purchase agreement over 12 years. The outstanding balance as of March 31, 2010 is $6.0 million.

In fiscal year 2010, the Maryland Stadium Authority issued Series 2010 Sports Facilities Taxable Revenue Bond in the amount of $10 million. The proceeds from this bond were used to renovate the lower and upper levels in the seating bowl at Oriole Park. This bond will mature on December 15, 2013. The $10 million Revenue bond is not included in the tax-supported debt in

the affordability analysis.

Net debt service for Oriole Park at Camden Yards was $14.8 million in 2010.

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 (⅔), City (⅓); and (iii) the City be solely responsible for operating deficits and capital improvements prior to completion of the expansion and after fiscal year 2008. During the 2008 General Assembly Session, a bill was passed that extends the State's obligation of funding ⅔ of the operating deficit until December 15, 2014.

The Authority's debt service for the Convention Center in fiscal year 2010 was approximately $5.1 million. The 2010 contribution to operating deficits and the project's capital improvements fund was approximately $6.4 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 with Ambac 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 called and reissued the Series 1994 bonds on December 15, 2006. The amount issued as the Baltimore Convention Center Lease Revenue Refunding Bonds, Series 2006 is $31.6 million which included $375,000 to be used for closing costs. In December 2008, the Authority terminated the synthetic fixed rate agreement with Ambac and entered into a new agreement with Barclay's without any fiscal impact to the Authority.

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 $1.5 million in fiscal year 2010. 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. The 2010 contribution to operating deficits and the project's capital improvements fund was approximately $1.5 million.

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 with Ambac 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. The Authority called and reissued the Series 1996 bonds in March 1, 2007. The amount issued as the Sports Facilities Lease Revenue Refunding Bonds Football Stadium Issue, Series 2007 is $73.5 million which included $375,000 to be used for closing costs. In December 2008, the Authority terminated the synthetic fixed rate agreement with Ambac and entered into a new agreement with Barclay's without any fiscal impact to the Authority.

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. The Series 1997 bonds matured on December 15, 2007.

In November 2009, the Maryland Stadium Authority entered into a contract with Pepco Energy Services to provide energy upgrades and enhancements to M & T Bank Stadium at a cost of approximately $2.4 million. The Authority is financing the upgrades and enhancements under the State's energy performance contract lease-purchase agreement over 12 years. The outstanding balance as of June 30, 2010 is $2.4 million.

The Authority and the Baltimore Ravens agreed to purchase and install $9.6 million of new audio and video equipment funded by $5.6 million from the Baltimore Ravens and $4.0 million from the Authority. The Authority's share was financed under the State's equipment lease-purchase program in April 2010 and amortized over 10 years. The outstanding balance as of June 30, 2010 is $4.0 million.

The Authority's combined debt service on the revenue bonds is $6.5 million in 2010.

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 to 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 does not have any operating risk. The

2010 debt service for these bonds was $1.8 million.

Hippodrome Theater

In July 2002, the Authority issued $20.3 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 was $63.0 million and was financed by various public and private sources. The Authority did not have any operating risk for the project, which was completed in February, 2004. The 2010 debt service for these bonds was $1.8 million

Camden Station Renovation

In February 2004, the Authority issued $8.7 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 was $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 Geppi's Entertainment Museum leasing the balance of the building. The Babe Ruth Museum opened on May 12, 2005 and the Geppi's Entertainment Museum opened in fall 2006. The 2010 debt service for these bonds was $.7 million.

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APPENDIX A - 1

MARYLAND PERSONAL INCOME AND POPULATION

Historical Data through 2009
Projections 2010-2020

Updated September 2010

Calendar Year	Personal Income *($ in millions)*	% Change	Population *(thousands)*	% Change
2000	$ 184,174	8.80%	5,342	1.66%
2001	$ 194,986	5.87%	5,408	1.23%
2002	$ 202,148	3.67%	5,470	1.14%
2003	$ 209,974	3.87%	5,521	0.93%
2004	$ 225,023	7.17%	5,564	0.79%
2005	$ 237,522	5.55%	5,599	0.63%
2006	$ 252,781	6.42%	5,623	0.43%
2007	$ 264,368	4.58%	5,646	0.40%
2008	$ 272,542	3.09%	5,676	0.54%
2009	$ 274,326	0.65%	5,726	0.89%
2010	$ 283,227	3.24%	5,793	1.16%
2011	$ 295,296	4.26%	5,836	0.74%
2012	$ 310,266	5.07%	5,870	0.59%
2013	$ 327,488	5.55%	5,902	0.54%
2014	$ 345,176	5.40%	5,932	0.52%
2015	$ 361,917	4.85%	5,962	0.50%
2016	$ 377,660	4.35%	5,992	0.50%
2017	$ 393,145	4.10%	6,022	0.50%
2018	$ 408,634	3.94%	6,051	0.49%
2019	$ 424,408	3.86%	6,080	0.48%
2020	$ 440,790	3.86%	6,109	0.47%

4.97% Average rate of personal income growth for 10 year period 2000 through 2009
5.07% Median rate of personal income growth for 10 year period 2000 through 2009

Sources: Personal Income
- 1999-2008 Bureau of Economic Analysis, U.S. Dept. of Commerce
- 2009 - 2014 BRE
- 2015-2020 BRE from growth rates of Economy.com September 2010 forecast

Population
- 1999-2009 Census Bureau, U.S. Dept. of Commerce
- 2009-2020 Forecast: Economy.com September forecast

MARYLAND STATE REVENUE PROJECTIONS
($ in millions)

updated September 2010

Fiscal Year	General Fund Revenue	% Growth of GF	Property Taxes	% Growth of Prop. Taxes	Use of Premium and Misc. ABF Receipts	US Treasury Subsidy - Build America Bonds	Educational Trust Fund (VLT revenues)	Transfer Taxes	Total	Transportation Revenues	Stadium Related Revenues	Garvee Bonds	Bay Restoration Fund	Total Revenues	Percent Change of Total Revenues
1999	$8,524.0	5.9%	$246.9		$11.0				$8,781.9	$1,462.6	$24.5			$10,269.0	6.11%
2000	$9,220.0	8.2%	$250.8		$12.6				$9,483.4	$1,568.4	$21.2			$11,073.0	7.83%
2001	$9,802.0	6.3%	$257.1		$11.4				$10,070.5	$1,615.0	$27.6			$11,713.1	5.78%
2002	$9,504.0	-3.0%	$270.0		$25.5				$9,799.5	$1,663.0	$27.2			$11,489.7	-1.91%
2003	$9,409.8	-1.0%	$286.0		$36.7				$9,732.5	$1,603.0	$21.9			$11,357.4	-1.15%
2004	$10,204.3	8.4%	$468.4		$97.2				$10,769.8	$1,884.0	$22.2			$12,676.1	11.61%
2005	$11,548.0	13.2%	$516.5	10.3%	$94.5				$12,159.1	$2,085.0	$21.7			$14,265.8	12.54%
2006	$12,390.3	7.3%	$575.1	11.3%	$46.4				$13,011.8	$2,122.0	$21.4			$15,155.2	6.23%
2007	$12,940.2	4.4%	$552.7	-3.9%	$37.6				$13,530.4	$2,100.0	$21.2			$15,651.6	3.28%
2008	$13,545.6	4.7%	$625.7	13.2%	$37.1				$14,208.4	$2,009.0	$21.5	$441.3	$55.0	$16,735.2	6.92%
2009	$12,900.0	-4.8%	$698.6	11.6%	$79.2				$13,677.7	$2,142.0	$20.0	$441.3	$53.3	$16,334.4	-2.40%
2010	$12,587.1	-2.4%	$762.4	9.1%	$65.2	$0.9	$11.0		$13,426.5	$2,113.0	$20.0	$441.3	$53.9	$16,054.7	-1.71%
2011	$13,127.6	4.3%	$790.4	3.7%	$49.0	$9.1	$114.0	$149.9	$14,240.1	$2,200.0	$19.0	$432.8	$54.4	$16,946.3	5.55%
2012	$13,606.5	3.6%	$774.9	-2.0%	$2.2	$10.8	$145.0	$169.2	$14,708.7	$2,343.0	$19.0	$432.8	$55.0	$17,558.4	3.61%
2013	$14,390.3	5.8%	$795.5	2.7%	$2.2	$10.8	$372.0	$176.2	$15,747.0	$2,469.0	$19.0	$432.8	$55.5	$18,723.3	6.63%
2014	$15,102.1	4.9%	$801.4	0.7%	$2.2	$10.8	$479.0	$190.8	$16,586.4	$2,603.0	$19.0	$432.8	$56.1	$19,697.2	5.20%
2015	$15,806.4	4.7%	$801.8	0.0%	$2.2	$10.8	$523.0	$201.3	$17,345.5	$2,667.0	$19.0	$432.8	$56.6	$20,521.0	4.18%
2016	$16,517.8	4.5%	$821.9	2.5%	$2.2	$10.8	$533.5	$208.4	$18,094.6	$2,716.0	$19.0	$432.8	$57.2	$21,319.6	3.89%
2017	$17,261.0	4.5%	$842.5	2.5%	$2.2	$10.8	$544.1	$213.6	$18,874.2	$2,757.0	$19.0	$432.8	$57.8	$22,140.8	3.85%
2018	$18,037.7	4.5%	$863.5	2.5%	$2.2	$10.8	$555.0	$219.0	$19,688.3	$2,819.0	$19.0	$432.8	$58.3	$23,017.4	3.96%
2019	$18,849.4	4.5%	$885.1	2.5%	$2.2	$10.8	$566.1	$224.4	$20,538.1	$2,883.0	$19.0	$432.8	$58.9	$23,931.9	3.97%
2020	$19,697.7	4.5%	$907.2	2.5%	$2.2	$10.1	$577.4	$230.0	$21,424.7	$2,947.0	$19.0	$432.8	$59.5	$24,883.0	3.97%

General Fund:
- 1999 - 2010: Bureau of Revenue Estimates
- 2011 - 2015: BRE
- 2016 - 2020: Projected at growth rate of 4.5%

Property Tax and Use of Premium Revenues:
- 1999 - 2009: State Budget Books
- 2010 - 2020 : Dept. of Budget and Management, STO, Department of Assessments and Taxation

US Treasury Subsidy - Build America Bonds
- actual subsidy for 2009 2nd, 2009 3rd, 2010 1st and 2010 2nd Series

Educational Trust Fund (slots revenues)
- through 2015 - 90 Day Report, A Review of the 2010 Legislative Session, page A-15
- 2016 through 2020, projected at 2% growth

Transfer Taxes
- 2011 - 2016: Bureau of Revenue Estimates
- 2017 - 2020: Projected at growth rate of 2.5%

Transportation Revenues:
- 1999-2020: Department of Transportation, Office of Finance, updated September 2010
- Revenues consist of Taxes and Fees, Operating Revenue, Other Revenue, (including investment revenue) and federal funds for operations; MdTA transfers are deducted.

Garvee Bond Revenues:
- 2008-2020: Federal highway capital revenues; source MdTA, September 2010

Stadium Revenues:
- represents lottery revenues transferred to the Stadium Authority net of debt service on the 2010 Sports Facilities Revenue Bonds, updated September 2010

Bay Restoration Fund Revenues:
- 2008-2020 total program revenues; source MDE, MWQFA, updated September 2010

Appendix B-1

Proposed General Obligation Authorizations and Estimated Issuances
CDAC 2010 Recommendation

($ in millions)

Legislative Session	Fiscal Year	Total Proposed Authorizations	Rate of Increase	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 and beyond	Total Issued
2011	2012	$925	-19%		287	231	185	139	83						$925
2012	2013	$925	0%			287	231	185	139	83					$925
2013	2014	$925	0%				287	231	185	139	83				$925
2014	2015	$935	1%					290	234	187	140	84			$935
2015	2016	$945	1%						293	236	189	142	85		$945
2016	2017	$955	1%							296	239	191	143	$86	$955
2017	2018	$1,200	26%								372	300	240	$288	$1,200
2018	2019	$1,240	3%									384	310	$546	$1,240
2019	2020	$1,280	3%										397	$883	$1,280
2020	2021	$1,320	3%											$1,320	$1,320
Projected Issuance of New Authorizations		**$10,650**		**0**	**287**	**518**	**703**	**845**	**934**	**941**	**1,023**	**1,101**	**1,175**	**3,123**	**$10,650**
Current Authorized but Unissued		**$2,395**		**970**	**673**	**427**	**237**	**90**	**6**	**-1**	**($3)**	**($1)**	**($0)**		**$2,398**
Total Projected Issuances		**$13,045**		**$970**	**$960**	**$945**	**$940**	**$935**	**$940**	**$1,130**	**$1,020**	**$1,180**	**$1,175**	**$3,123**	**$13,048**

Projected Bond Sales	*Fiscal Year*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*
	1st sale	$485	$495	$485	$485	$485	$485	$485	$525	$565	$600
	2nd sale	$485	$465	$460	$455	$450	$455	$455	$495	$535	$575
	Total sales	$970	$960	$945	$940	$935	$940	$940	$1,020	$1,100	$1,175

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 (a)	**Authorized but Unissued Debt at Beginning of FY**	**New Debt Authorizations (net)**	**Bond Issues**	**Authorized but Unissued Debt at End of FY**
		(b)	(b)	
2011	$2,394,984	$925,000	($970,000)	$2,349,984
2012	$2,349,984	$925,000	($960,000)	$2,314,984
2013	$2,314,984	$925,000	($945,000)	$2,294,984
2014	$2,294,984	$935,000	($940,000)	$2,289,984
2015	$2,289,984	$945,000	($935,000)	$2,299,984
2016	$2,299,984	$955,000	($940,000)	$2,314,984
2017	$2,314,984	$1,200,000	($940,000)	$2,574,984
2018	$2,574,984	$1,240,000	($1,020,000)	$2,794,984
2019	$2,794,984	$1,280,000	($1,100,000)	$2,974,984
2020	$2,974,984	$1,320,000	($1,175,000)	$3,119,984
		$10,650,000	($9,925,000)	

Summary:

Authorized but Unissued at 7/1/2010	$2,394,984
Total Authorizations	$10,650,000
Total Issuances	($9,925,000)
Total Authorized but Unissued at 6/30/2020	$3,119,984

(a) Debt authorizations are shown in the fiscal year of the legislative session to support the capital program of the following fiscal year.

(b) As projected in Appendix B-1

PROJECTED GENERAL OBLIGATION DEBT OUTSTANDING

APPENDIX B - 3

($ in thousands)

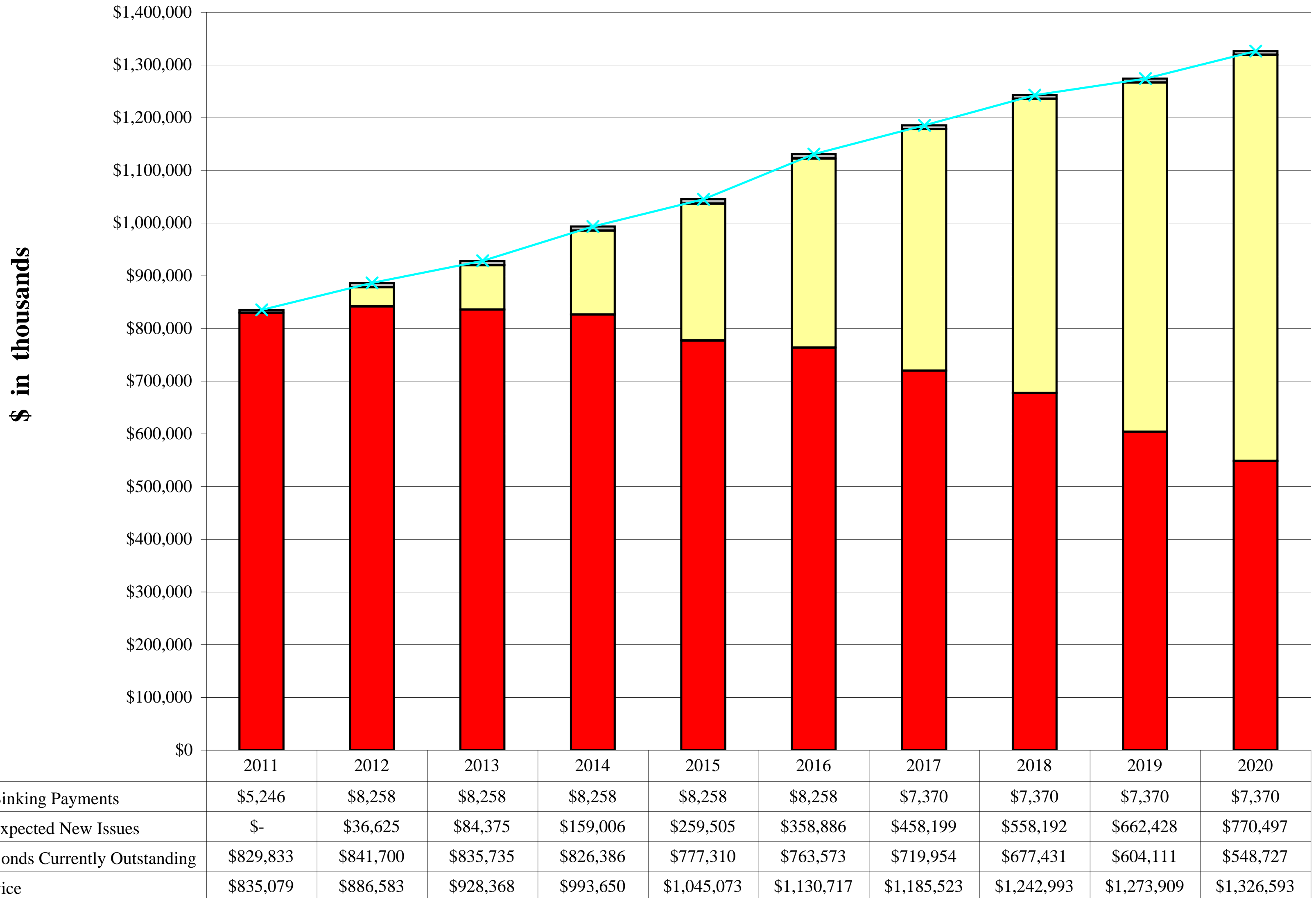
Fiscal Year	Outstanding at Beginning of FY	GO New Issues (a)	Redemptions	QZAB Redemptions	Outstanding at End of FY
2011	$6,523,222	$970,175	($515,094)		$6,978,303
2012	$6,978,303	$960,000	($542,179)		$7,396,123
2013	$7,396,123	$945,000	($564,299)		$7,776,824
2014	$7,776,824	$940,000	($611,520)		$8,105,303
2015	$8,105,303	$935,000	($646,412)		$8,393,891
2016	$8,393,891	$940,000	($717,665)	($18,098)	$8,598,128
2017	$8,598,128	$940,000	($763,306)		$8,774,822
2018	$8,774,822	$1,020,000	($810,169)		$8,984,653
2019	$8,984,653	$1,100,000	($828,850)		$9,255,803
2020	$9,255,803	$1,175,000	($866,006)	($9,043)	$9,555,754
		$9,925,175	($6,865,502)	($27,141)	

Summary:

Outstanding at 7/1/2010	$6,523,222
Total GO issued	$9,925,175
Total GO Redeemed	($6,865,502)
QZAB Redemptions	($27,141)
Outstanding at 6/30/2020	$9,555,754

(a) New issues as projected in Appendix B-1

Appendix B-4
Projected General Obligation Debt Service



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
QZAB/QSCB Sinking Payments	$5,246	$8,258	$8,258	$8,258	$8,258	$8,258	$7,370	$7,370	$7,370	$7,370
Debt Service: Expected New Issues	$-	$36,625	$84,375	$159,006	$259,505	$358,886	$458,199	$558,192	$662,428	$770,497
Debt Service: Bonds Currently Outstanding	$829,833	$841,700	$835,735	$826,386	$777,310	$763,573	$719,954	$677,431	$604,111	$548,727
Total Debt Service	$835,079	$886,583	$928,368	$993,650	$1,045,073	$1,130,717	$1,185,523	$1,242,993	$1,273,909	$1,326,593

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

Historical Data - General Obligation Debt

($ in thousands)

	Summary of Authorizations				Summary of Debt Activity					Summary of Debt Service				
											Adjustment (b)			
Fiscal Year	Authorized (a)	Cancelled	New Issuances	Authorized but Unissued	New Issuances	Refunding	Redeemed	Refunded	Outstanding at Fiscal Year End	Gross Total	Repayable	Assumed	Net	Adjusted Debt Service
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	$470,868	$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		$393,355		$4,868,471	$625,208	$0	$0	$0	$625,208
2007	$821,126	$4,645	$679,378	$1,911,587	$679,378		$405,695		$5,142,154	$654,055	$0	$0	$0	$654,055
2008	$935,000	$2,749	$779,986	$2,063,852	$779,986		$428,310		$5,493,830	$692,539	$0	$0	$0	$692,539
2009 (d)	$1,112,000	$1,939	$845,563	$2,328,350	$845,563	$65,800	$464,725	$66,825	$5,873,643	$744,799	$0	$0	$0	$744,799
2010 (e)	$1,214,543	$7,026	$1,140,883	$2,394,984	$1,140,883	$798,080	$482,754	$806,630	$6,523,222	$777,523	$0	$0	$0	$777,523

(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.

(d) $1,110 million for G.O bonds and $2.0 million for Local Government Infrastructure program

(e) $1,140 million for 2010 MCCBL, $70 million 2009 Program Open Space and $4.543 million for QZAB authorization

History of Affordability Ratios

Appendix C-2

	Year	(1) Debt as a % of Personal Income: GO Debt Only	(1) Debt as a % of Personal Income: Tax-Supported includes GO, DOT, Cap Leases & Stadium Auth. (3) (4)	(2) Debt Service as a % of Revenues: GO Debt Service as a % of State Revenues (5) (6)	(2) Debt Service as a % of Revenues: Tax-Supported includes GO, DOT, Cap Leases & Stadium Auth. (3) (4)
	1960	3.11%		5.23%	
	1965	3.12%		5.10%	
	1970	3.34%		3.35%	
	1975	5.26%		9.78%	
	1976	5.87%		10.17%	
	1977	6.53%		10.55%	
	1978	6.11%		10.60%	
	1979	5.41%		10.55%	
	1980	4.76%		10.46%	
	1981	4.48%		10.63%	
	1982	4.24%		10.60%	
	1983	4.43%		10.32%	
(7)	1984		4.15%		10.16%
(7)	1985		3.63%		9.61%
(7)	1986		3.12%		8.80%
	1987		2.87%		7.77%
	1988		2.71%		6.99%
	1989		2.51%		6.78%
	1990		2.64%		6.85%
	1991		2.90%		6.74%
	1992		3.01%		6.25%
	1993		2.97%		6.13%
	1994		3.00%		5.50%
	1995		3.04%		6.09%
	1996		3.01%		6.46%
	1997		2.93%		6.45%
	1998		2.85%		6.45%
	1999		2.78%		5.84%
	2000		2.50%		5.73%
	2001		2.36%		5.45%
	2002		2.34%		5.86%
	2003		2.58%		6.15%
	2004		2.58%		5.93%
	2005		2.55%		5.54%
	2006		2.56%		5.55%
(3)	2007		2.69%		5.40%
(4)	2008		2.80%		5.55%
	2009		3.18%		6.21%
	2010		3.30%		6.85%

For more history on affordability criteria, see also
Section VII in 2007 CDAC Report and Section V in 2008 CDAC Report.

(1) The criterion for debt outstanding to personal income was 3.2% from 1979 through 2007. CDAC changed it to 4.0% in 2008.
(2) The criterion for debt service to revenues has been 8.0% since 1979.
(3) GARVEE Bonds are first issued in 2007and consequently are considered tax-supported debt beginning in 2007.
(4) Bay Restoration Bonds are first issued in 2008 and consequently are considered tax-supported debt beginning in 2008.
(5) Gross GO debt service plus debt service on assumed local school debt minus
debt service on loans repayable by local governments, State agencies and others.
(6) Revenues include general fund revenues plus property tax revenues.
(7) Various components of tax-supported debt begin in the 1988 report which recalculates the ratios beginning in 1984.

APPENDIX C - 3

HISTORICAL DATA - DEPARTMENT OF TRANSPORTATION DEBT

Consolidated Transportation Bonds

($ in thousands)

	Summary of Debt Activity							Summary of Debt Service (d)			
Fiscal Year	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
1981	$ 399,865	$ 120,000 (a)	-	$ -	$ 519,865						
1982	$ 519,865	$ 60,000		$ 60,000	$ 519,865						
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	$ 959,800	$ 543,745 (f)	$ 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
2007	$ 1,078,475	$ 100,000	-	$ 67,425	$ 1,111,050	-	$ 1,111,050	-	$ 67,425	$ 50,999	$ 118,424
2008	$ 1,111,050	$ 226,755	-	$ 68,990	$ 1,268,815	-	$ 1,268,815	-	$ 68,990	$ 52,400	$ 121,390
2009	$ 1,268,815	$ 390,000	-	$ 76,210	$ 1,582,605	-	$ 1,582,605	-	$ 76,210	$ 66,145	$ 142,355
2010	$ 1,582,605	$ 140,000	-	$ 77,595	$ 1,645,010	-	$ 1,645,010	-	$ 77,595	$ 73,358	$ 150,953

(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 Department issued $93.645 million refunding bonds to refund $91.2 million during fiscal year 1998.

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

(i) The Department issued $75.9 million 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)

	Summary of Debt Activity							Summary of Debt Service (d)			
Fiscal Year	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
2007	$ 865	-	-	$ 865	$ -	$ -	$ -	$ -	$ 865	$ 27	$ 892
2008	$ -	-	-	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2009	$ -	-	-	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2010	$ -	-	-	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(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.