Capital Debt Affordability Committee

Treasury Building Assembly Room
80 Calvert St.
Annapolis, MD

Agenda

June 9, 2010
2:00 PM

Treasurer's Opening Comments

Background:

2010 Legislative Session General Assembly Actions
Patrick Frank, Manager - Debt Policy, Department of Legislative Services

Status of Affordability Ratios:
Updates from 2009 CDAC Report and from the December 2009 CDAC Meeting
Patti Konrad, Director of Debt Management, State Treasurer's Office

Annuity Bond Fund Projections
Patti Konrad, Director of Debt Management, State Treasurer's Office

Bonds Authorized by American Recovery and Reinvestment Act of 2009 (ARRA)

Bonds Issued by Maryland in 2009
Federal Legislative Changes in 2010
Projected Issuance in 2010
Build America Bonds
Qualified School Construction Bonds (QSCBs)
Qualified Zone Academy Bonds (QZABS)
Qualified Energy Conservation Bonds
Recovery Zone Economic Development Bonds
Patti Konrad, Director of Debt Management, State Treasurer's Office

Other Pending Federal Legislation and Regulation

Melissa Moye, Deputy Treasurer for Financial Policy, State Treasurer's Office

Capital Debt Affordability Committee

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80 Calvert St.
Annapolis, MD

Agenda (continued)

June 9, 2010
2:00 PM

Report on MDOT Sale

Rating Agency Comments, Review of Sale

David Fleming, Director of Office of Finance, MDOT

Upcoming General Obligation Sale – July 23 - 28

Cindy Reese, Financial Analyst, State Treasurer's Office

Work Group

1. **Proposed Staff**

2. **Proposed Scope:**
   - Debt issuance constraints for tax supported debt
   - Financing plans for video lottery terminals and discussion of possible alternatives
   - Comparison of financing Energy Performance Contracts with bonds versus leases
   - Operating and Capital Leases
     - P3 Legislation (H.B. 1370)
     - Rating agency considerations
     - FASB/GASB accounting standards

3. **Proposed Timeline**

CDAC Summer Calendar and Preliminary Agendas

2010 Legislative Session
General Assembly Actions

2010 Legislative Session General Assembly Highlights

Setting Debt Limits

- ***Limited New General Obligation (GO) Bond Debt to $1,140 Million:*** The Capital Debt Affordability Committee (CDAC) and Spending Affordability Committee (SAC) recommended that net GO bond debt be limited to $1,140 million. Consistent with recommendations, Senate Bill 142 (Chapter 483) authorized $1,140 million in net GO debt, $1,178 million in new GO debt offset by deauthorizing $38 million in previously authorized GO debt.

- ***New Academic Revenue Debt Limited to $27 Million:*** CDAC and SAC recommended that academic revenue bond debt issued in fiscal 2011 be limited to $27 million. Senate Bill 897 (Chapter 631) authorized $27 million in academic revenue bond debt, consistent with the SAC recommendation. The legislation also increased the University System of Maryland's total maximum debt outstanding from $1,050 million to $1,200 million.

Operating Budget Relief

In December 2009, the Committee revised the fiscal 2011 recommendation by increasing the limit from $990 million to $1,140 million. The justification for the revised limit included providing operating budget relief through additional debt to support capital costs funded with operating budget revenues. Specific action taken includes:

- $89 million in GO bonds to support the Intercounty Connector;

- $177 million in GO bonds to replace fund balances transferred to the general fund;

- $102 million in GO bonds to replace projected fiscal 2011 special fund revenues transferred to the general fund; and

- $44 million in debt to provide debt financing for capital projects previously funded with operating revenues.

Out-year Commitments

- ***GO Bonds Preauthorized:*** The General Assembly authorized $260 million in GO bonds that take effect in fiscal 2012 and $72 million that take effect in fiscal 2013. The funds support Program Open Space, education, and public safety projects.

Reporting Requirements

- ***Delay CDAC Recommendation:*** The committee is required to submit to the Governor and General Assembly an estimate of the total amount of debt that may prudently be issued each year. House Bill 766 (Chapter 695) delayed the due date from September 10 to October 1.

- ***Governor's Preliminary Allocation:*** Section 8-113 of the State Finance and Procurement Article also requires the Governor to provide a preliminary allocation of State debt among general construction, public school construction, and other (such as grants) projects. This letter is now due on November 1, instead of October 15.

Proposed Legislation That Was Not Enacted

- ***State Providing Self-liquidity for Variable Rate Bonds:*** Section 8-123 of the State Finance and Procurement Article authorizes the State Treasurer to issue variable-rate bonds. Variable-rate bonds do not have fixed interest rates throughout the life of the bond. Instead, variable-rate bonds are issued with long nominal maturities that are constantly resold to lenders paying short-term interest rates. Variable-rate bonds also require a liquidity provider. Typically, variable-rate debt is remarketed every week. If the remarketing agent cannot find another buyer for the debt, a liquidity provider is responsible for paying principal and interest for the bonds. An alternative to procuring a liquidity provider is to provide self-liquidity. Under such an arrangement, the State would need to pay the principal of the bonds if a remarketing fails. By providing self-liquidity, the State may be forced to purchase its own variable-rate GO bonds if a remarketing fails. The State may be required to purchase variable-rate bonds at a time that is unfavorable to the State. Senate Bill 205/House Bill 765 authorized the State Treasurer to provide liquidity for the purchase or redemption of variable rate State GO bonds. **The Department of Legislative Services (DLS) recommended against the bill.**

- ***State Authorizing GO Bonds to Support Energy Performance Contracts:*** For years, the State has been awarding multi-year master lease contracts to finance capital projects that provide savings through reduced energy costs. Because of the recent disruptions in financial markets, the State is no longer able to continue to procure multi-year financing at favorable rates. Senate Bill 939/House Bill 835 authorized the issuance of $200 million in GO bonds to finance State energy performance contracts. While issuing $200 million in GO bonds provides inexpensive financing it could push debt service costs above the affordability limit set by CDAC. **DLS recommended that CDAC review Energy Performance Contracts in the context of total State debt.**

- ***Authorizing State to Issue ARRA Bonds on Behalf of Local Jurisdictions:*** The American Recovery and Reinvestment Act authorized new types of bonds to benefit local jurisdictions, including Qualified School Construction Bonds, Recovery Zone Economic Development Bonds, and Recovery Zone Facility Bonds. Not all local jurisdictions have the financial and administrative infrastructure to issue this debt. It is also unclear if a market for small issuances exists. Senate Bill 1046/House Bill 1446 authorized the State to act as a conduit issuer of local ARRA bonds. This could result in larger issuances, improved marketability, and minimized issuance costs. The legislation was introduced late and did not pass.

Status of Affordability Ratios: Updates from 2009 CDAC Report and from the December 2009 CDAC Meeting

Assumptions
for
Affordability Analysis
Capital Debt Affordability Committee Meeting
June 9, 2010

ASSUMPTIONS AND ANALYSES ARE PRELIMIMINARY
AND
SUBJECT TO CHANGE PRIOR TO FINAL ANALYSIS AND CDAC RECOMMENDATIONS ON OCTOBER 1, 2010

PROJECTED AUTHORIZATIONS:

Leg. Session	December 2009 CDAC GO Authorization Projections (in millions)
2009 (Actual)	$1,110
2010 (Actual)	$1,140
2011	$925
2012	$925
2013	$925
2014	$935
2015	$945
2016	$955
2017	$1,200
2018	$1,240
2019	$1,280
2020	$1,320

There are innumerable authorization options that could be used to achieve adherence to affordability criteria. This chart reflects one plan that was also used at the December 2009 CDAC meeting.

Assumptions (cont.)

PROJECTED ISSUANCES:

(The chart below includes $70 million for Program Open Space bonds authorized in 2009. Revenues also include transfer taxes in an amount equal to POS debt service).

Projected Bond Issuance in Fiscal Years	GO Issuances (in millions)
2009 (Actual)	$845.6
2010 (Actual)	$1,141.9
2011	$970
2012	$960
2013	$945
2014	$940
2015	$935
2016	$940
2017	$940
2018	$1,020
2019	$1,100
2020	$1,175

CAPITAL LEASES

VLTs financings:

5 year leases
$29,000,000 – Penn National – closing on 1/15/2011
$22,000,000 – Ocean Downs – closing on 2/15/11
First Payment due 7/1/11

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

Not included in projected financing:
Baltimore City ($110 million) and Rocky Gap ($45 million)

Assumptions (cont.)

CAPITAL LEASES (cont.)

Equipment Leases
Agency Surveys indicates $15 million per year

Energy Leases
DGS indicates $80 million in tax-supported leases in FY 11 and none thereafter. (Not included as tax-supported are energy leases for the universities and for MAA)

REVENUES AND PERSONAL INCOME
See assumptions at bottom of page A-1 and A-2

OTHER TAX-SUPPORTED DEBT
Assumed issuances are at the bottom of Table 1

Updates received from all issuers are subject to change as financial plans are further developed during the summer.

Debt Outstanding to Personal Income
As of June 2010

Preliminary, Subject to Change

TABLE 1

STATE TAX SUPPORTED DEBT OUTSTANDING
COMPONENTS AND RELATIONSHIP TO PERSONAL INCOME

($ in thousands)

Jun-10

Preliminary, Subject to Change

		Department of Transportation								
Fiscal Year	**General Obligation Bonds**	**Consolidated Transportation Bonds**	**County Transportation Bonds (b)**	**Total DOT**	**Capital Leases**	**Stadium Authority**	**Bay Restoration Bonds**	**Garvee Bonds**	**Total Tax Supported Debt Outstanding**	**Fiscal Year**
	(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	$196,974	$271,570	$50,000	$300,655	$7,581,844	2008
2009	$5,873,643	$1,582,605	$0	$1,582,605	$219,123	$256,013	$46,825	$704,365	$8,682,574	2009
2010	$6,523,222	$1,660,000	$0	$1,660,000	$197,892	$261,940	$44,185	$651,795	$9,339,035	2010
2011	$6,979,577	$1,792,000	$0	$1,792,000	$383,579	$243,871	$41,560	$596,915	$10,037,502	2011
2012	$7,394,080	$2,069,000	$0	$2,069,000	$428,383	$223,428	$218,820	$539,355	$10,873,066	2012
2013	$7,721,783	$2,259,000	$0	$2,259,000	$389,873	$201,671	$412,962	$479,035	$11,464,324	2013
2014	$8,050,029	$2,314,000	$0	$2,314,000	$334,707	$170,832	$487,399	$415,775	$11,772,743	2014
2015	$8,339,920	$2,369,000	$0	$2,369,000	$278,810	$148,357	$461,493	$349,440	$11,947,019	2015
2016	$8,547,300	$2,503,000	$0	$2,503,000	$218,586	$129,447	$434,201	$279,780	$12,112,314	2016
2017	$8,728,424	$2,600,000	$0	$2,600,000	$186,809	$110,763	$405,474	$206,590	$12,238,060	2017
2018	$8,943,946	$2,595,000	$0	$2,595,000	$155,913	$90,785	$375,224	$129,680	$12,290,548	2018
2019	$9,223,312	$2,596,000	$0	$2,596,000	$141,193	$69,864	$343,371	$48,865	$12,422,604	2019
2020	$9,528,926	$2,596,000	$0	$2,596,000	$126,338	$47,483	$309,707	$0	$12,608,454	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 (b)	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%	0.07%	0.10%	0.02%	0.11%	**2.78%**	2008
2009	2.13%	0.58%	0.00%	0.58%	0.08%	0.09%	0.02%	0.26%	**3.15%**	2009
2010	2.32%	0.59%	0.00%	0.59%	0.07%	0.09%	0.02%	0.23%	**3.33%**	2010
2011	2.40%	0.62%	0.00%	0.62%	0.13%	0.08%	0.01%	0.21%	**3.45%**	2011
2012	2.43%	0.68%	0.00%	0.68%	0.14%	0.07%	0.07%	0.18%	**3.57%**	2012
2013	2.41%	0.70%	0.00%	0.70%	0.12%	0.06%	0.13%	0.15%	**3.58%**	2013
2014	2.37%	0.68%	0.00%	0.68%	0.10%	0.05%	0.14%	0.12%	**3.46%**	2014
2015	2.34%	0.67%	0.00%	0.67%	0.08%	0.04%	0.13%	0.10%	**3.36%**	2015
2016	2.30%	0.67%	0.00%	0.67%	0.06%	0.03%	0.12%	0.08%	**3.26%**	2016
2017	2.25%	0.67%	0.00%	0.67%	0.05%	0.03%	0.10%	0.05%	**3.16%**	2017
2018	2.22%	0.64%	0.00%	0.64%	0.04%	0.02%	0.09%	0.03%	**3.05%**	2018
2019	2.20%	0.62%	0.00%	0.62%	0.03%	0.02%	0.08%	0.01%	**2.96%**	2019
2020	2.19%	0.60%	0.00%	0.60%	0.03%	0.01%	0.07%	0.00%	**2.89%**	2020

(a) Reflects presumed authorizations as follows:

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

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

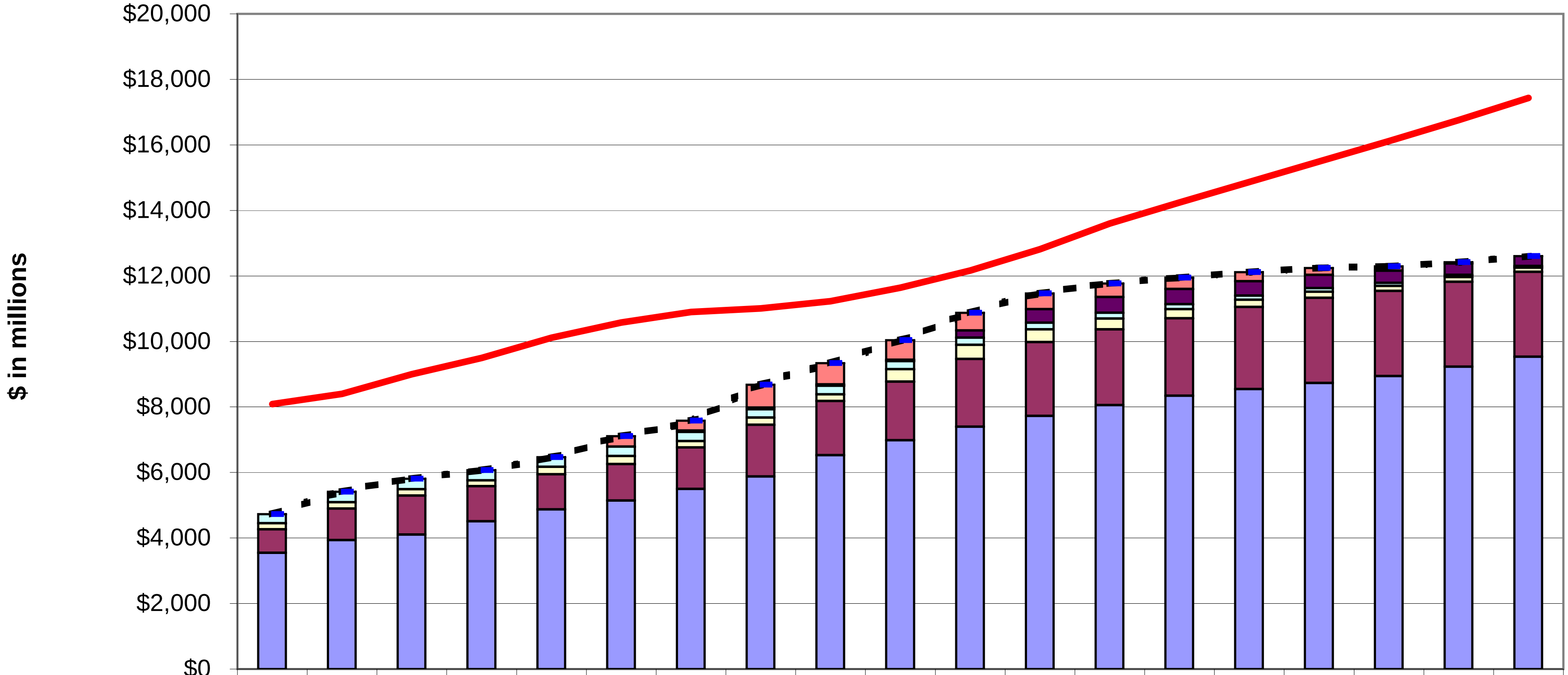
(c) Includes financings for multi-agency office buildings in St. Mary's and Calvert Counties, district court facilities in Baltimore and Prince George's Counties, headquarters building for MDOT, shuttle buses at BWI, water and waste water facility at ECI, and the state office parking facility.

(d) Includes equipment and energy leases.

Issuance Assumptions: ($ in millions)	**2011**	**2012**	**2013**	**2014**	**2015**
G.O. issues (Includes 2009 Program Open Space)	$970	$960	$945	$940	$935
Qualified Zone Academy Bonds (QZAB's)	$4.5				
DOT issues	$215.0	$280.0	$300.0	$190.0	$215.0
Stadium Authority issues	$0.0	$0.0	$0.0	$0.0	$0.0
New Capital Leases - Equip. & EPC	$95.0	$15.0	$15.0	$15.0	$15.0
New Capital leases - VLTs	$119.0	$66.3			
Garvee Bond Issued	$0.0	$0.0	$0.0	$0.0	$0.0
Bay Bonds Issued	$0.0	$180.0	$205.0	$95.0	$0.0
Personal Income (billions) (Appendix A-1)	$291.1	$304.2	$320.4	$339.9	$356.1

Tax Supported Debt Outstanding to Personal Income
as of JUNE 2010

Preliminary, Subject to Change

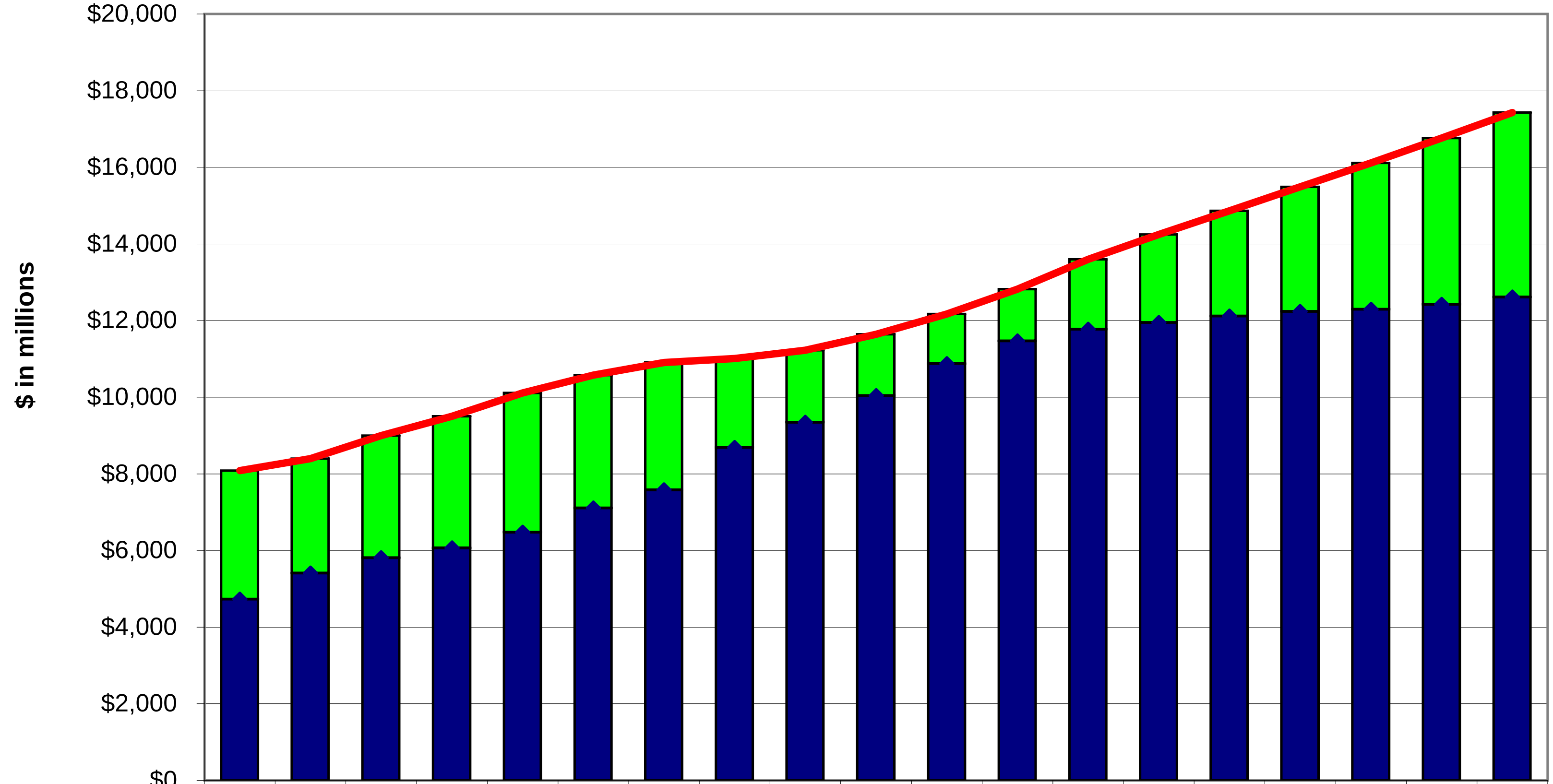


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Garvee	$0	$0	$0	$0	$0	$325	$301	$704	$652	$597	$539	$479	$416	$349	$280	$207	$130	$49	$0
Bay Restoration	$0	$0	$0	$0	$0	$0	$50	$47	$44	$42	$219	$413	$487	$461	$434	$405	$375	$343	$310
Stadium Authority	$278	$323	$321	$309	$297	$283	$272	$256	$262	$244	$223	$202	$171	$148	$129	$111	$91	$70	$47
Capital Leases	$186	$193	$199	$175	$227	$248	$197	$219	$198	$384	$428	$390	$335	$279	$219	$187	$156	$141	$126
Total DOT	$717	$964	$1,187	$1,071	$1,078	$1,111	$1,269	$1,583	$1,660	$1,792	$2,069	$2,259	$2,314	$2,369	$2,503	$2,600	$2,595	$2,596	$2,596
General Obligation	$3,544	$3,932	$4,102	$4,512	$4,868	$5,142	$5,494	$5,874	$6,523	$6,980	$7,394	$7,722	$8,050	$8,340	$8,547	$8,728	$8,944	$9,223	$9,529
4.0% Benchmark	$8,086	$8,399	$9,001	$9,501	$10,111	$10,575	$10,902	$11,008	$11,229	$11,644	$12,169	$12,817	$13,598	$14,243	$14,867	$15,489	$16,115	$16,759	$17,431
Total Tax Supported Debt	$4,726	$5,413	$5,809	$6,067	$6,471	$7,109	$7,582	$8,683	$9,339	$10,038	$10,873	$11,464	$11,773	$11,947	$12,112	$12,238	$12,291	$12,423	$12,608

Source: Table 1 as of June 2010

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

Preliminary, Subject to Change



	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	$3,320	$2,325	$1,890	$1,607	$1,296	$1,353	$1,825	$2,296	$2,755	$3,251	$3,824	$4,337	$4,823
Tax Supported Debt	$4,726	$5,413	$5,809	$6,067	$6,471	$7,109	$7,582	$8,683	$9,339	$10,038	$10,873	$11,464	$11,773	$11,947	$12,112	$12,238	$12,291	$12,423	$12,608
4.0% Benchmark	$8,086	$8,399	$9,001	$9,501	$10,111	$10,575	$10,902	$11,008	$11,229	$11,644	$12,169	$12,817	$13,598	$14,243	$14,867	$15,489	$16,115	$16,759	$17,431
Total Tax Supported Debt	$4,726	$5,413	$5,809	$6,067	$6,471	$7,109	$7,582	$8,683	$9,339	$10,038	$10,873	$11,464	$11,773	$11,947	$12,112	$12,238	$12,291	$12,423	$12,608

source: Table 1 as of June 2010

Debt Service to Revenues
As of June 2010

Preliminary, Subject to Change

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 June 2010

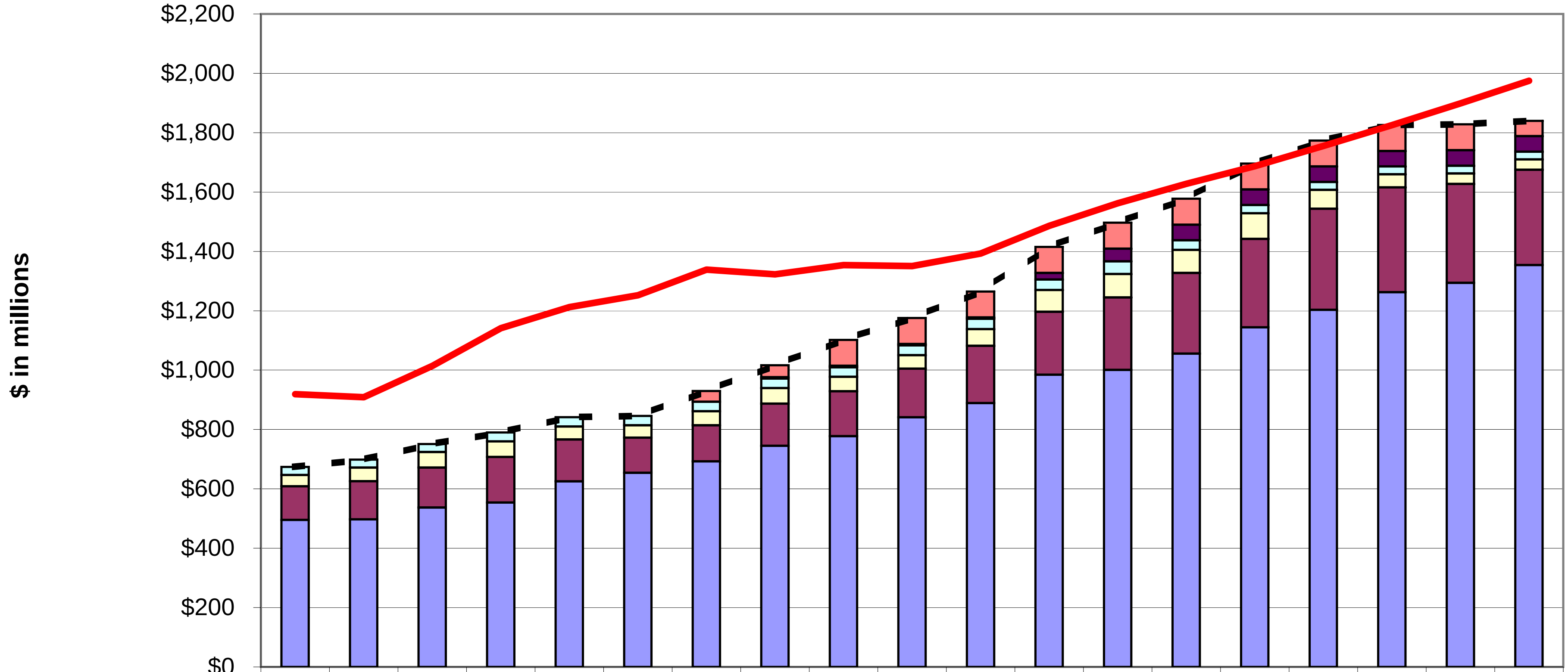
Preliminary, Subject to Change

Fiscal Year	General Obligation Bonds (a)	DOT Consolidated Bonds (b)	Capital Leases (c) (d)	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Service	Total Revenues *(Appendix A-2)*	Total Tax Supported Debt Service as a % of Revenues	Fiscal Year
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	$52,414	$31,935	$4,655	$40,364	$1,016,523	$16,537,382	**6.15%**	2009
2010	$777,523	$151,000	$49,100	$32,054	$4,710	$87,458	$1,101,845	$16,923,208	**6.51%**	2010
2011	$840,836	$164,000	$45,338	$33,248	$4,616	$87,455	$1,175,493	$16,884,800	**6.96%**	2011
2012	$888,807	$193,000	$56,095	$34,871	$4,614	$87,457	$1,264,844	$17,412,436	**7.26%**	2012
2013	$984,428	$212,000	$73,630	$34,866	$22,550	$87,451	$1,414,926	$18,574,942	**7.62%**	2013
2014	$1,000,814	$244,000	$79,001	$42,515	$42,970	$87,458	$1,496,757	$19,526,842	**7.67%**	2014
2015	$1,055,653	$272,000	$77,185	$32,683	$52,436	$87,454	$1,577,412	$20,348,355	**7.75%**	2015
2016	$1,144,248	$298,000	$86,327	$27,720	$52,434	$87,450	$1,696,180	$21,091,507	**8.04%**	2016
2017	$1,202,925	$341,000	$63,376	$26,382	$52,405	$87,452	$1,773,539	$21,940,335	**8.08%**	2017
2018	$1,262,587	$353,000	$44,020	$26,422	$52,364	$87,457	$1,825,850	$22,820,378	**8.00%**	2018
2019	$1,294,138	$333,000	$35,383	$26,079	$52,322	$87,452	$1,828,373	$23,732,159	**7.70%**	2019
2020	$1,353,917	$321,000	$34,884	$26,097	$52,434	$51,365	$1,839,696	$24,683,374	**7.45%**	2020

Assumptions: See Table 1

(a) Payments for 2001, 2004, 2006, 2007, 2008, 2009 and 2010 Qualified Zone Academy Bonds (QZAB's) have been included for fiscal years 2002 through 2020.
(b) Does not include debt service on county transportation bonds. Highway user revenues from counties exceed debt service requirements.
(c) Includes debt service on financings for multi-agency office buildings in St. Mary's and Calvert Counties, district court facilities in Baltimore and Prince George's Counties, headquarters building for MDOT, shuttle buses at BWI, water and waster water facility at ECI, and the state office parking facility.
(d) Includes debt service on equipment and energy leases.

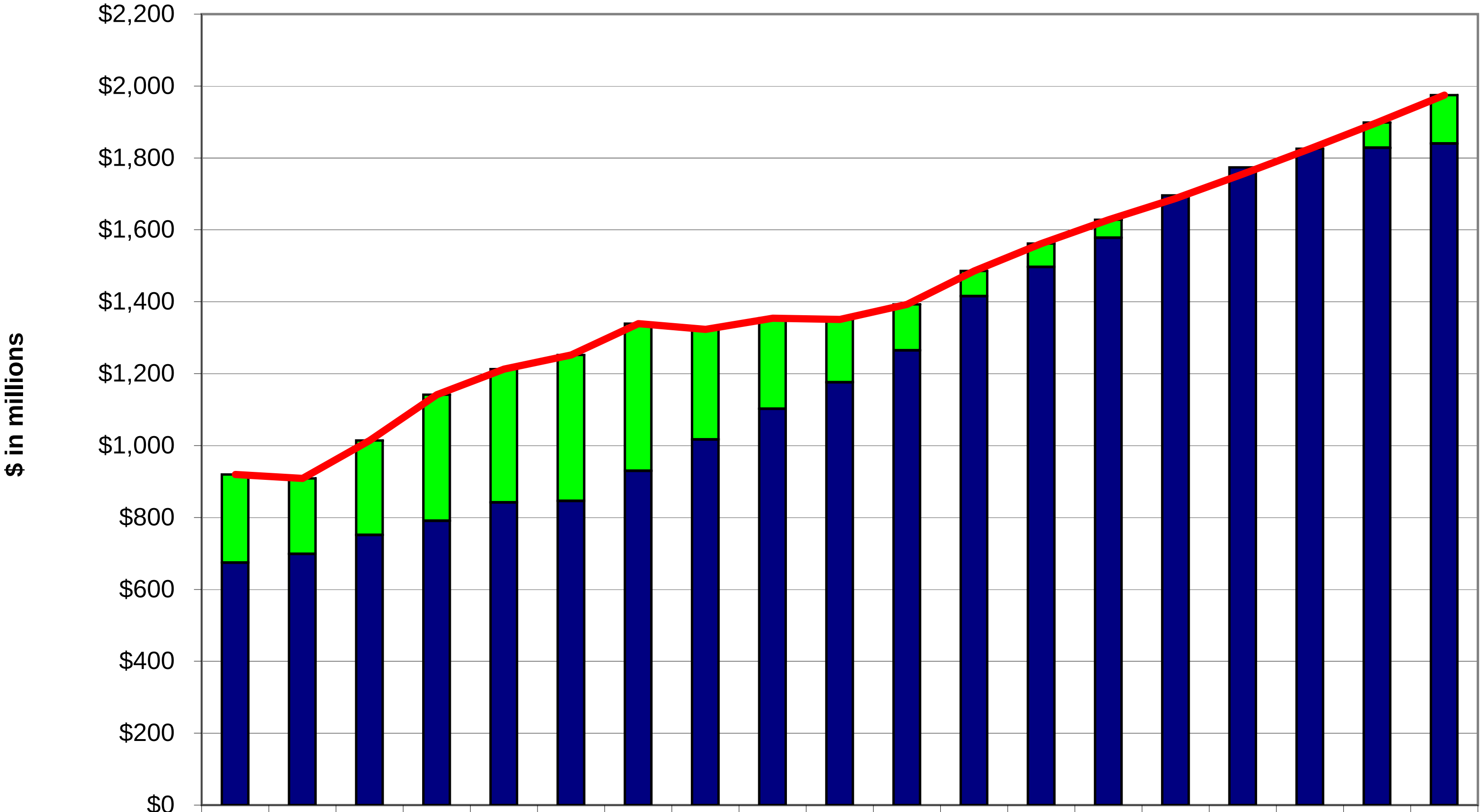
Tax Supported Debt Service to Revenues
as of June 2010
Preliminary, Subject to Change



	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	$35	$35	$43	$33	$28	$26	$26	$26	$26
Capital Leases	$38	$46	$52	$52	$44	$42	$47	$52	$49	$45	$56	$74	$79	$77	$86	$63	$44	$35	$35
DOT Consolidated Bonds	$113	$129	$135	$154	$141	$118	$121	$142	$151	$164	$193	$212	$244	$272	$298	$341	$353	$333	$321
General Obligation Bonds	$495	$497	$537	$554	$625	$654	$693	$745	$778	$841	$889	$984	$1,001	$1,056	$1,144	$1,203	$1,263	$1,294	$1,354
8.0% Benchmark	$919	$909	$1,014	$1,141	$1,212	$1,252	$1,339	$1,323	$1,354	$1,351	$1,393	$1,486	$1,562	$1,628	$1,687	$1,755	$1,826	$1,899	$1,975
Total Tax Supported Debt Service	$674	$699	$751	$790	$842	$846	$929	$1,017	$1,102	$1,175	$1,265	$1,415	$1,497	$1,577	$1,696	$1,774	$1,826	$1,828	$1,840

Source: Table 2A as of June 2010

Available Debt Service Capacity Using the 8.0% Criterion
as of June 2010
Preliminary, Subject to Change



	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	$306	$252	$175	$128	$71	$65	$50	($9)	($18)	($0)	$70	$135
Total Tax Supported Debt Service	$674	$699	$751	$790	$842	$846	$929	$1,017	$1,102	$1,175	$1,265	$1,415	$1,497	$1,577	$1,696	$1,774	$1,826	$1,828	$1,840
8.0% Benchmark	$919	$909	$1,014	$1,141	$1,212	$1,252	$1,339	$1,323	$1,354	$1,351	$1,393	$1,486	$1,562	$1,628	$1,687	$1,755	$1,826	$1,899	$1,975

Source: Table 2A June 2010

Projected Personal Income and Revenues
As of June 2010

Preliminary, Subject to Change

MARYLAND PERSONAL INCOME AND POPULATION

Historical Data through 2009
Projections 2010-2020

Updated May/June 2010, Preliminary, Subject to Change

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	$ 275,201	0.98%	5,726	0.89%
2010	$ 280,722	2.01%	5,793	1.16%
2011	$ 291,102	3.70%	5,836	0.74%
2012	$ 304,225	4.51%	5,870	0.59%
2013	$ 320,426	5.33%	5,902	0.54%
2014	$ 339,939	6.09%	5,932	0.52%
2015	$ 356,087	4.75%	5,962	0.50%
2016	$ 371,683	4.38%	5,992	0.50%
2017	$ 387,220	4.18%	6,022	0.50%
2018	$ 402,863	4.04%	6,051	0.49%
2019	$ 418,978	4.00%	6,080	0.48%
2020	$ 435,779	4.01%	6,109	0.47%

5.00% 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
1999-2009 Bureau of Economic Analysis, U.S. Dept. of Commerce
2010 - 2013 BRE
2014-2020 BRE from growth rates of Economy.com May 2010 forecast

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

MARYLAND STATE REVENUE PROJECTIONS
($ in millions)

updated May/June 2010
Preliminary, subject to change

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)	Program Open Space	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	$54.7	$16,734.9	6.92%
2009	$13,103.0	-3.3%	$698.6	11.6%	$79.2				$13,880.7	$2,142.0	$20.0	$441.3	$53.3	$16,537.4	-1.18%
2010	$13,494.6	3.0%	$762.4	9.1%	$65.2	$0.9	$11.0		$14,334.0	$2,074.0	$20.0	$441.3	$53.9	$16,923.2	2.33%
2011	$13,232.6	-1.9%	$790.4	3.7%	$44.2	$9.8	$114.0	$2.1	$14,193.1	$2,176.0	$20.0	$441.3	$54.4	$16,884.8	-0.23%
2012	$13,662.3	3.2%	$774.9	-2.0%	$2.2	$11.7	$145.0	$2.1	$14,598.2	$2,298.0	$20.0	$441.3	$55.0	$17,412.4	3.12%
2013	$14,423.2	5.6%	$795.5	2.7%	$2.2	$11.7	$372.0	$6.6	$15,611.1	$2,447.0	$20.0	$441.3	$55.5	$18,574.9	6.68%
2014	$15,120.6	4.8%	$801.4	0.7%	$2.2	$11.7	$479.0	$6.6	$16,421.5	$2,588.0	$20.0	$441.3	$56.1	$19,526.8	5.12%
2015	$15,822.2	4.6%	$801.8	0.0%	$2.2	$11.7	$523.0	$6.6	$17,167.4	$2,663.0	$20.0	$441.3	$56.6	$20,348.4	4.21%
2016	$16,534.2	4.5%	$821.9	2.5%	$2.2	$11.7	$533.5	$6.6	$17,910.0	$2,663.0	$20.0	$441.3	$57.2	$21,091.5	3.65%
2017	$17,278.2	4.5%	$842.5	2.5%	$2.2	$11.7	$544.1	$6.6	$18,685.3	$2,736.0	$20.0	$441.3	$57.8	$21,940.3	4.02%
2018	$18,055.8	4.5%	$863.5	2.5%	$2.2	$11.7	$555.0	$6.6	$19,494.7	$2,806.0	$20.0	$441.3	$58.3	$22,820.4	4.01%
2019	$18,868.3	4.5%	$885.1	2.5%	$2.2	$11.7	$566.1	$6.6	$20,339.9	$2,872.0	$20.0	$441.3	$58.9	$23,732.2	4.00%
2020	$19,717.3	4.5%	$907.2	2.5%	$2.2	$10.8	$577.4	$6.6	$21,221.6	$2,941.0	$20.0	$441.3	$59.5	$24,683.4	4.01%

General Fund:
1999 - 2009: Bureau of Revenue Estimates
2010 - 2015: BRE from The 90 Day Report
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 realized on 2009 2nd, 3rd Series and 2010 1st 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
Transportation Revenues:
1999-2020: Department of Transportation, Office of Finance, updated May 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, May 2010
Stadium Revenues:
represents lottery revenues transferred to the Stadium Authority, updated May 2010
Bay Restoration Fund Revenues:
2009-2020 total program revenues; source MDE, MWQFA, updated May 2010

Annuity Bond Fund Projections

Property Tax Rate/Assumed	13.20	13.20	13.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20
X00A.00.01							AS of JUNE 2010 - preliminary, subject to change					
Annuity Bond Fund	**2004** ACTUAL	**2005** Actual	**2006** Actual	**2007** Actual	**2008** Actual	**2009** Actual	**2010** Appropriation	**2011** ALLOWANCE	**2012** ESTIMATE	**2013** ESTIMATE	**2014** ESTIMATE	**2015** ESTIMATE
13 Fixed Charges	536,818,783	553,783,371	625,207,861	654,054,620	692,538,598	744,799,491	777,522,956	840,836,333	888,807,292	984,428,383	1,000,814,071	1,055,652,925
Total Expenditures	**536,818,783**	**553,783,371**	**625,207,861**	**654,054,620**	**692,538,598**	**744,799,491**	**777,522,956**	**840,836,333**	**888,807,292**	**984,428,383**	**1,000,814,071**	**1,055,652,925**
	8%	3%	12.9%	4.61%	5.9%	7.5%	4.4%	8.1%	5.7%	10.8%	1.7%	5.5%
Net **General Fund Expenditure**					**29,349,121**	**0**	**0**	**0**	**0**	**140,000,000**	**180,000,000**	**232,000,000**
Federal Fund Expenditure							**857,078**	**9,806,701**	**11,655,090**	**11,655,090**	**11,655,090**	**11,655,090**
Reimbursements from Transfer Tax for POS								**2,100,000**	**2,100,000**	**6,582,068**	**6,582,068**	**6,582,068**
Add: Special Fund Expenditure	536,818,782	553,783,370	625,207,861	654,054,620	663,189,476	744,799,491	776,665,878	828,929,633	875,052,202	826,191,225	802,576,913	805,415,766
Reimbursable Fund Expenditures												
	536,818,782	553,783,370	625,207,861	654,054,620	692,538,597	744,799,491	777,522,957	840,836,334	888,807,292	984,428,383	1,000,814,071	1,055,652,924
	equal	equal	equal	equal	equal	equal	equal	equal	equal	equal	equal	equal
Performance Measures/Performance Indicators:				NONE from March sale								
	2004 Actual	**2005 Actual**	**2006 Actual**	**2007 Actual**	**2008 Actual**	**2009 Actual**	**2010 Appropriation**	**2011 ALLOWANCE**	**2012 Estimate**	**2013 Estimate**	**2014 Estimate**	**2015 Estimate**
Balance Beginning of Fiscal Year	20,295,408	48,998,117	106,275,442	102,578,785	38,747,779	38,332,781	71,276,653	122,188,339	127,839,743	29,912,094	1,419,288	2,486,500
Property tax receipts	468,354,510	516,533,875	575,131,181	552,659,272	625,709,718	698,569,058	762,397,734	790,430,143	774,897,439	795,498,419	801,444,125	801,795,703
Interest and penalties on property taxes	1,780,281	1,831,245	2,126,374	2,402,564	2,402,873	2,966,052	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Loan repayments	2,838,994	2,452,041	2,459,305	2,191,845	1,416,305	1,312,518	691,653	625,894	477,114	450,000	450,000	450,000
Miscellaneous receipts	4,291,400	707,205	9,420	1,325,087	577,646	765,304	250,000	250,000	250,000	250,000	250,000	250,000
Accrued interest on bonds sold	277,778	500,000										
Bond premium	87,978,529	89,036,329	41,784,924	31,644,847	32,667,936	74,130,431	62,738,177	41,775,000	-	-	-	-
Transfer to reserve	(48,998,117)	(106,275,442)	(102,578,785)	(38,747,779)	(38,332,781)	(71,276,653)	(122,188,339)	(127,839,743)	(29,912,094)	(1,419,288)	(2,486,500)	(1,066,437)
Total	536,818,782	553,783,370	625,207,861	654,054,620	663,189,476	744,799,491	776,665,878	828,929,633	875,052,202	826,191,225	802,576,913	805,415,766

Bonds Authorized by American Recovery and Reinvestment Act of 2009 (ARRA)

Bonds Authorized
by the
American Recovery and Reinvestment Act of 2009

BABs – Build America Bonds
QSCBs – Qualified School Construction Bonds
QZABs – Qualified Zone Academy Bonds
QECBs – Qualified Energy Conservation Bonds
RZEDs – Recovery Zone Economic Development Bonds

Agenda

- ARRA Goals
- Bond Provisions
  - BABSs
  - QSCBs
  - QZABs
  - QECBs
  - RZEDs
- Summary of Maryland GO issues
- Subsidy Procedures
  - Subsidy Offsets
- IRS Compliance Questionnaire
  - Trading Activity

ARRA Goals

- Stabilize the municipal bond markets
  - Provide access to the much larger and more liquid taxable market
- Stimulate the economy with financing incentives for infrastructure improvements by lowering the debt service costs for municipal issuers
- A belief by Congressional/Treasury staff that a direct subsidy from Treasury on a taxable bond or a tax credit bond is more "efficient" than tax-exempt bond

Build America Bonds - BABs

BABs in 2009 and 2010

- 2009 ARRA authorization expires 12/31/10
- Taxable bonds must comply with tax-exempt requirements for use of proceeds.
- 35% direct subsidy of interest to the issuer from the US Treasury
- Unlimited allocation to issuers
- Financially advantageous in longer maturities
  - Breakeven is currently in 2019 maturity
  - Moves with relative changes in yield curves of Municipals and Treasuries and credit spreads
- BABs have reduced the supply of tax-exempt bonds and contributed to a reduction in tax-exempt rates.

Build America Bonds - BABs

Proposed Extension of BABs

- The House passed the American Jobs and Closing Tax Loopholes Act.
  - Extends the BABs authorization for 2 years
  - Reduces subsidy payments:
    - 32 percent of the interest payment on bonds issued in 2011
    - 30 percent on bonds issued in 2012
- The House sent the bill to the Senate which is taking up the measure after June 7.

Qualified School Construction Bonds - QSCBs

- Initially authorized as tax credit bonds
  - Illiquid market
  - Diminished need for tax credits in a recession
  - US Treasury set the tax credit rate daily
  - Generally required supplemental coupons
  - Authorized to have sinking fund and use annual deposits plus earnings to pay bullet maturity which, for Maryland is 15 years
  - Strict spend down requirements
- Hiring Incentives to Restore Employment (HIRE) Act, signed into law by the President on March 18, 2010, “babified” the QSCBs
  - Direct subsidy equal to the lesser of the tax credit rate or the coupon
  - For a highly rated issuer, should get a 100% subsidy
    - Tax Credit rate on June 4 was 5.56%, projected coupon is 4.58%
  - Sinking fund provision continues

Qualified Zone Academy Bonds - QZABs

- Federal Bond authorizations for QZABs began in 2001 and were increased in ARRA.
- Special Requirements:
  - Qualifying schools must be located in an Empowerment Zone or have at least 35% of its students eligible for free or reduced price school lunch.
  - QZAB projects are required to have 10% of funding from private contributions.
  - Current Maryland program allows only for renovation and repair of buildings (“bricks and mortar”) as part of Aging School Program.
  - Strict spend down requirements
- Maryland has issued these QZABs as tax credit bonds in private placements beginning in 2001 for a total of $47.6 million.
- QZABs were also “Babified” in HIRE.
  - Taxable bond with direct federal subsidy
  - Direct subsidy equal to the lesser of the tax credit rate or the coupon
  - For a highly rated issuer, should get a 100% subsidy
  - Sinking fund provision continues

Qualified Energy Conservation Bonds - QECBs

- Allocation
  - Based on Maryland's population, the State's allocation is $58.4 million.
  - Each large local government and the State shares in the allocation.
    - Maryland's share is $6.5 million
    - Some local governments have small allocations and have discussed a conduit issue with CDA.
- Initially a 70% tax credit bond, now "babified"
- $6.5 million of QECBs are planned for the 2011 First Series to finance energy projects in the schools.

Recovery Zone Economic Development Bonds - RZEDs

- Allocations to Counties only
- Super BABs – 45% direct subsidy
- House Bill extends period for state and local governments to issue recovery zone bonds by one year, through 2011.
- Governor’s Executive Order 01.01.2009.04 requires local governments to advise DBED of bond issues or intent to issue so that allocations can be reallocated to other issuers in the State.

Summary of Maryland Issuances

- Maryland, Baltimore City, Baltimore County and Prince George's County all issued QSCBs in 2009. Some of the federal 2009 allocation for the City and counties were carried over to 2010.
- Maryland GO Issuances of ARRA bonds follows on slide 11.

Maryland GO Issuances of ARRA Bonds

ARRA (American Reinvestment and Recovery Act) Bonds
Summary of Maryland GO Issues
as of June 9, 2010

		ISSUED				PROJECTED		
		Fiscal 2010	Amount (in millions)	Interest Subsidy	Savings (in millions) ¤	July 2010 Issue	Amount (in millions)	Taxable Interest Subsidy
BABs	***Build America Bonds***			35%				35%
		2009 Second Series, C	$50.0		$4.2			
		2009 Third Series, B	$58.2		$2.6			
		2010 First Series, A	$400.0		$11.2			
						2010 Second Series	$110.0	
QSCBs	***Qualified School Construction Bonds***			100% *				100%
		Qualified School Construction Bonds of 2009	$50.3		$10.6			
						2010 Second Series	$45.2	
QZABs	***Qualified Zone Academy Bonds***			*				100%
		Qualified Zone Academy Bonds of 2009	$5.6		$0.4			
						2010 Second Series	$4.5	
QECBs	***Qualified Energy Conservation Bonds***		$0.0		$0.0			
						2011 First Series	$6.5	70%
RZED	***Recovery Zone Economic Development Bonds (RZED)***		$0.0	45%				45%

* Both 2009 QSCBs amd QZABs were tax credit bonds. The investor receives a federal tax credit.
There is a supplemental coupon on 2009 QZABs of 1.60%. There was no supplemental coupon on QSCBs; resulting in essentially a 100% subsidy.
¤ Savings for BABS, QSCBs, and QZABs are calculated compared to tax-exempt yields at the time of issue.

Subsidy Procedures

- Budget
  - Debt service is budgeted at gross amount of taxable interest.
  - Subsidy is projected as revenue in the Annuity Bond Fund and in CDAC affordability analyses.
  - For BABs issued in FY 2010, projected subsidies from fiscal years 2010 through 2025 is $98.7 million.
  - In addition, $52.3 million of additional subsidies is projected for 2010 Second Series QSCBs, BABs, and QZABs.
- Collection of Subsidy
  - STO files an IRS form requesting subsidy for each semi-annual debt service payment. US Treasury wires the subsidy to the State.

Risks to Direct Pay Federal Subsidies

- Subsidy Offsets
- Monitoring of Trading Activity
- Audits of BABs

Subsidy Offsets

- The federal subsidy is subject to offset of any amounts the issuer may owe the federal government regardless of whether or not the liability is related to the purpose of the BABs issue.
- IRS has stated that the major potential offsets for issuers are:
  - Payroll taxes
  - An issuer default on a federal grant that must be repaid
  - If a state or local government provided group health insurance with Medicare as the secondary provider and Medicare paid as the primary provider, the payment must be reimbursed.

Subsidy Offsets - Maryland GO BABs

- Occurred with the $465,588.67 subsidy due May 1, 2010 for 2009 Third Series B which sold 10/21/09 in the amount of $58,200,000
- Offset amount was $6,869.54 for IRS claim on 9/30/09 payroll tax return.
- Comptroller reimbursed the amount and is pursuing the claim with the IRS.

Subsidy Offsets - Credit Concerns

Rating agency and credit concern

If the payment of debt service is in any way dependent on the receipt of the federal subsidy, or if the federal subsidy is in any way required to enable the project or government function financed by the bonds to be economically feasible, the stability and consistency of the federal subsidy payment becomes a significant credit issue.

Monitoring of Trading Activity

IRS requires that BABs cannot be priced with “more than a de minimis amount… of premium over the stated principal amount of the bond.”

- Designed to ensure that coupons on new issue BABs, and the resultant federal subsidy, are not artificially inflated
- BABs that are proven to have violated the issue price rules are at risk of losing their associated federal subsidy.
- IRS has not yet published any specific guidance as to exactly how this issue price should be monitored but they have indicated that any changes to the definition of issue price will be prospective.
- There may be a safe harbor for bonds sold through a competitive sale.

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Audits of BABs

- Issuers typically rely on an underwriter's certificate that a significant portion of the bonds were reoffered to the public at a price equal to the initial offering price.
- The IRS stated that they expect to audit BABs.
  - Backed off plan to audit 50%
  - Focus on the primary-market pricing of BABs
    - Verify the accuracy of underwriters' price certifications by monitoring primary market pricing.
- Markets move and prices change between the sale of the bonds and closing. Does this mean that the issue price and underwriters' representations cannot be relied on?
- Consequence of an audit finding in favor of the IRS
  - Subsidy is in jeopardy

Other Pending Federal Legislation and Regulation

June 10, 2010
CDAC

Update on Federal Financial Regulatory Reform

Wall Street Reform and Consumer Protection Act of 2009

Passed in the House 223-202 December 11, 2009

Restoring American Financial Stability Act of 2010

Passed in the Senate 59-39 May 20, 2010

Conference Committee

Senate conferees were appointed May 24, as follows: Dodd, Johnson, Reed, Schumer, Shelby, Crapo, Corker, Gregg, Lincoln, Leahy, Harkin and Chambliss.

House conferees are expected to be named this week. Completion of the conference committee's work targeted in time to give the House and the Senate time for final approval and sending the legislation to the President by July 4.

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- Subtitle A—Financial Stability Oversight Council
- Subtitle B—Office of Financial Research
- Subtitle C—Mitigation of Risks to the Financial System & Enhanced Supervision

Title II—Orderly Liquidation Authority

Title III—Transfer of Powers to the Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve

Title IV—Regulation of Advisers to Hedge Funds and Others

Title V—Insurance

Title VI—Improvements to Regulation of Bank and Savings Association Holding Companies and Depository Institutions

Title VII—Derivatives

Title VIII—Payments, Clearing and Settlement

Title IX—Investor Protections and Improvements to the Regulation of Securities
- Subtitle A and I—Broker-Dealer Regulation
- Subtitle B—Securities Laws Enforcement
- Subtitle C—Credit Rating Agencies
- Subtitle D—Improvements to the Asset-Backed Securitization Process
- Subtitle E—Executive Compensation
- Subtitle F—Improvements to the Management of the Securities and Exchange Commission (SEC)
- Subtitle G—Corporate Governance
- Subtitle H—Municipal Securities
- Subtitle I—Public Company Accounting Oversight Board (PCAOB) and Inspectors General

Notes on Title IX—Investor Protections and Improvements to the Regulation of Securities

Subtitle C--Credit Rating Agencies

- The legislation increases requirements for internal controls, greater transparency of rating procedures and methods, provides investors with a private right of action, provides SEC with greater enforcement tools and provides for SEC examination of rating organizations. Establishes an SEC office to administer SEC rules with respect to credit rating agencies and requires an SEC annual review of each organization

Subtitle H—Municipal Securities

- Expands rulemaking authority with a focus on the SEC in the House version and a focus on the Municipal Securities Rulemaking Board (MSRB) in the Senate version
- Government Accounting Office (GAO) study of the enhanced municipal issuer disclosure and the repeal of the Tower Amendment prohibition on the MSRB requiring issuer disclosure. Also, GAO study of execution, fairness, transparency and liquidity
- Requires SEC to study the funding mechanism for the GASB
- Requires registration and oversight of qualifications and business conduct of persons engaged in the municipal securities market, including financial advisors
- Concern has been expressed by the National Association of State Treasurers (NAST) and others that, in the area of interest rate swaps, holding dealers (who are counterparties in the transactions) to the fiduciary standard currently in the legislation is unworkable. A recent draft amendment circulated by Agriculture Committee (S) staff would alter this standard, including language as follows:

  The SEC will establish standards for disclosure by the swap dealer to the entity with regard to (a) material risks and characteristics of the swap (b) source and amount of profits or fees the swap dealer would realize from the swap (c) any other material incentives or conflicts of interest the swap dealer would have in connection with the swap (d) require the swap dealer to provide to the entity written representations regarding fair pricing and the appropriateness of the transaction and the basis for such conclusions.

Upcoming General Obligation Sale
July 23 - 28

Maryland STATE TREASURER

Investing for Maryland's future.

2010 Second Series
General Obligation Sale

Up to $500,000,000
for Capital Projects

Up to $100,000,000
for refunding bonds

July 23, July 26 and July 28 (tentative)

2010 Second Series General Obligation Bonds

Goals

- Achieve a low cost of debt by maximizing the issuance of Build America Bonds, Qualified School Construction Bonds and Qualified Zone Academy Bonds
- Achieve level debt service with 2010 First Series BABs
- Access the retail market, where there has been renewed demand for high quality municipal bonds
- Give **MARYLAND CITIZENS FIRST PRIORITY** in a general obligation bond sale
- Achieve refunding savings if available
- Make the negotiated sale process transparent for all stakeholders
- Ensure a fair allocation of orders to underwriting firms

2010 Second Series General Obligation Bonds

- **Second Series A – Tax-Exempt, Negotiated Sale**
  - Up to $200,000,000 of bonds will be sold to retail customers with first priority to Maryland residents (Final allocation between retail and competitive to be determined closer to the sale date.)
  - Maryland's strong AAA credit history is attractive to investors in a renewed "Flight to Quality" because of sovereign debt credit concerns and declines in the equity market.
  - Maturities 2013 – 2018, to level out debt service with 2010 First and Second Series BABs
- **Second Series B – Tax-Exempt, Competitive Sale**
  - Approximately $130,000,000 will be offered to bidders on July 28 at the BPW meeting.
  - Bonds sold at competitive sale go primarily to institutional owners.
  - Maturities 2013 – 2018, to level out debt service with 2010 First and Second Series BABs

2010 Second Series General Obligation Bonds

- **Second Series C – Taxable, BABs, Competitive Sale**
  - Up to $110,000,000 of bonds will be offered to bidders on July 28 at the BPW meeting.
  - These bonds will have a direct federal subsidy equal to 35% of the interest cost
  - Maturities 2019-2025
- **Second Series D – Taxable, QSCBs and QZABs, Competitive Sale**
  - Up to $49,765,000 will be offered to bidders on July 28 at BPW meeting.
  - These bonds are expected to price at levels that will result in a 100% federal subsidy of the interest cost.
  - Bullet Maturity in 2025

2010 Second Series General Obligation Bonds

- **Second Series E – Tax-Exempt, Refunding, Competitive Sale**
  - Up to $100,000,000 of refunding could be offered to bidders on July 28 at the BPW meeting.
  - Current projections indicate there are 1 to 3 series that are close to meeting refunding criteria of 3% net present value savings.
  - If refunding criteria are not met for the July 28 competitive sale, may issue using negotiated or competitive at a future sale.

2010 Second Series General Obligation Bonds

Process to Sell Bonds in a Negotiated Sale to Retail Investors

- Define retail as an order placed on behalf of individual, bank trust department or investment advisor and give first priority to Maryland retail.
- Use 10 underwriters, that were selected in a competitive procurement, as senior and co-managers.
- Include additional firms as part of the syndicate as selling group members.
- Update the website, www.buymarylandbonds.com.
- Announce the sale to citizens who have contacted the Treasurer's Office in the past few months using a listserve.
- Advertise the sale. Under consideration are print ads in newspapers in the Washington Post and Baltimore Sun.
- Open retail order period on Friday afternoon, July 23 and continue sale on Monday, July 26, 2010 (tentative).
- Finalize retail orders on Tuesday, July 27 and determine size of competitive sale.

Work Group

1. Proposed Staff

2. Proposed Scope
   - Debt issuance constraints for tax-supported debt
   - Financing plans for video lottery terminals and discussion of possible alternatives
   - Comparison of financing Energy Performance Contracts with bonds versus leases
   - Operating and Capital Leases
     - P3 Legislation (H.B. 1370)
     - Rating agency considerations
     - FASB/GASB accounting standards

3. Proposed Timeline

CDAC Summer Calendar
and
Preliminary Agendas

2010 CDAC Summer Calendar and Preliminary Agendas

- **July 19, 2010, 2:00 p.m.**
  - Size and condition of tax-supported debt
  - Rating agency reports and rating recalibrations
  - Preliminary reports from the work group

- **August 11, 2010, 2:00 p.m.**
  - Capital program
  - Size and condition of the debt of higher education
  - Results of the Sale of 2010 Second Series General Obligation Bonds
  - Continuation of work group findings

- **September 28, 2010, 2:00 p.m.**
  - Updated affordability ratios with the most recent revenue estimates from Board of Revenue Estimates
  - Vote on authorization recommendations for general obligation bonds and academic facilities bonds for the University System of Maryland