PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 23, 2011

NEW ISSUES—BOOK-ENTRY ONLY

Moody's Investors Service, Inc: Aaa
Standard & Poor's: AAA
Fitch Ratings: AAA
(See "Ratings" herein)

$485,000,000*

STATE OF MARYLAND
General Obligation Bonds
State and Local Facilities Loan of 2011, First Series
consisting of

$100,000,000*	$378,480,000*	$6,520,000*
First Series A [1]	First Series B [2]	First Series C [3]
Tax-Exempt Bonds	Tax-Exempt Bonds	Taxable
(Negotiated)	(Competitive)	Qualified Energy Conservation Bonds
		(Competitive)

Dated: Date of Delivery **Due: See Inside Cover**

The First Series A Bonds, the First Series B Bonds, and the First Series C Bonds are sometimes collectively referred to herein as the "Bonds." The Bonds will be issued as fully registered bonds in denominations of $5,000 each or any integral multiple thereof. Purchasers will not receive physical delivery of bond certificates. The Bonds will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments will be made so long as Cede & Co. is the registered owner of the Bonds. Interest on the Bonds will accrue from the date of their issuance and delivery and will be payable on September 15, 2011 and semiannually thereafter on March 15 and September 15 of each year unless redeemed prior to maturity. So long as the Bonds are maintained under a book-entry only system, the Treasurer of the State of Maryland (the "Treasurer") will act as Paying Agent and Bond Registrar. Interest on the Bonds will be paid as specified herein to the owner of record as of the last day of the month immediately preceding the interest payment date.

FOR MATURITY SCHEDULES SEE INSIDE COVER

The First Series A Bonds and the First Series B Bonds maturing on or after March 15, 2020 are subject to optional redemption commencing on March 15, 2019 at a redemption price equal to 100% of the principal amount thereof. The First Series C Bonds are subject to Make-Whole Optional Redemption, Extraordinary Event Redemption and Extraordinary Mandatory Redemption prior to their maturities. See "The BONDS – Redemption Provisions."

In the opinion of the Honorable Douglas F. Gansler, Attorney General of Maryland, and of Ballard Spahr LLP, Baltimore, Maryland, Bond Counsel, the Bonds will be valid and legally binding general obligations of the State of Maryland to the payment of which the full faith and credit of the State are pledged. In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the First Series A Bonds and the First Series B Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax ("AMT"); however, interest paid to corporate holders of the First Series A Bonds and the First Series B Bonds may be indirectly subject to AMT under circumstances as described under "TAX MATTERS" herein. Interest on the First Series C Bonds is included in gross income for federal income tax purposes. It is also the opinion of the Attorney General and of Bond Counsel that under existing law of the State of Maryland, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit realized in the sale or exchange thereof, will be exempt from taxation within the State of Maryland by the State or by any of its political subdivisions, municipal corporations, or public agencies; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon. See "TAX MATTERS" herein for a more complete description of the opinion of Bond Counsel and additional federal tax law consequences.

The interest rates to be shown on the inside cover are the interest rates per annum payable by the State resulting from the negotiated sale of the First Series A Bonds to the Underwriters (defined herein), and the successful bids for the First Series B Bonds and First Series C Bonds on March 9, 2011, by groups of banks and investment banking firms. The prices or yields shown on the maturity schedule will be furnished by the Underwriters and the successful bidders. Any other information concerning the terms of the reoffering of any of the Bonds should be obtained from the Underwriters or successful bidders and not from the State of Maryland.

The Bonds are offered for delivery, when and if issued, subject to the receipt of the approving opinions of the Attorney General of the State of Maryland and Ballard Spahr LLP, Baltimore, Maryland, and certain other conditions specified in the applicable Official Notices of Sale. Certain legal matters will be passed upon for the Underwriters of the First Series A Bonds by their counsel, Miles & Stockbridge P.C., Baltimore, Maryland. The Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about March 22, 2011.

March ___, 2011

Siebert Brandford Shank & Co., L.L.C.

BofA Merrill Lynch **Citi**

M&T Securities, Inc. **RCB Capital Markets**

Barclays Capital **Goldman, Sachs & Co.** **J.P. Morgan**

Loop Capital Markets, LLC **Morgan Keegan**

[1] Only the First Series A Bonds were purchased by the Underwriters listed above as described herein under "UNDERWRITING – FIRST SERIES A BONDS."
[2] The First Series B Bonds were sold on a competitive sale basis as described herein under "SALE AT COMPETITIVE BIDDING – FIRST SERIES B AND FIRST SERIES C BONDS" and pursuant to the Official Notice of Sale for the First Series B Bonds attached hereto as Appendix E.
[3] The First Series C Bonds were sold on a competitive sale basis as federally taxable Qualified Energy Conservation Bonds (Direct Payment to the State), as described herein under "SALE AT COMPETITIVE BIDDING – FIRST SERIES B AND FIRST SERIES C BONDS" and pursuant to the Official Notice of Sale for the First Series C Bonds attached hereto as Appendix E.

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*Preliminary, subject to change.

MATURITY SCHEDULES

$100,000,000* First Series A Tax-Exempt Bonds (Negotiated)

Maturing March 15	Principal*	Interest Rate	Price or Yield	CUSIP
		%		

$378,480,000* First Series B Tax-Exempt Bonds (Competitive)

Maturing March 15	Principal*	Interest Rate	Price or Yield	CUSIP
		%		

$6,520,000* First Series C Taxable Qualified Energy Conservation Bonds (Competitive)

Maturing March 15	Principal*	Interest Rate	Price or Yield	CUSIP
			%	

*Preliminary, subject to change.

No dealer, broker, salesman or any other person has been authorized by the State of Maryland to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the State of Maryland. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities described herein by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the State and other sources that are deemed to be reliable. The information from sources other than the State is not guaranteed as to accuracy or completeness and should not be construed as representations of the State or the Underwriters. The State of Maryland believes that the information contained in this Official Statement is correct and complete and has no knowledge of any inaccuracy or incompleteness as to any of the information herein. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Maryland since the respective dates as of which information is given herein.

No quotations from or summaries or explanations of provisions of law and documents herein purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the State of Maryland and the purchasers or holders of any of the securities described herein. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The cover page hereof, list of officials, this page and the appendices attached hereto are part of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with the offering of the Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions without prior notice contained in such Act. In making an investment decision, investors must rely on their own examination of the State and terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary may be a criminal offense.

STATE OF MARYLAND

SELECTED STATE OFFICIALS

EXECUTIVE

Martin O'Malley
Governor

Anthony G. Brown
Lieutenant Governor

Peter Franchot
Comptroller

Douglas F. Gansler
Attorney General

Nancy K. Kopp
Treasurer

JUDICIAL

Robert M. Bell
Chief Judge
Court of Appeals of Maryland

LEGISLATIVE

Thomas V. M. Miller, Jr.
President of the Senate
(47 Senators)

Michael E. Busch
Speaker of the House of Delegates
(141 Delegates)

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AGGREGATE PRINCIPAL AMOUNT OF ISSUE	$485,000,000*
INTEREST PAYMENT DATES	September 15, 2011 and semiannually thereafter on March 15 and September 15
STATE ECONOMIC FACTORS	The State of Maryland has a population of approximately 5.7 million, with employment based largely in services, trade, and government. Those sectors, along with financial activities, are the largest contributors to the gross state product, according to the U.S. Department of Commerce, Bureau of Economic Analysis. Population is concentrated around the Baltimore and Washington, D.C. PMSAs, and proximity to Washington, D.C. influences the above average percentage of employees in government. Manufacturing, on the other hand, is a much smaller proportion of employment than for the nation as a whole. Annual unemployment rates have been below those of the national average for each of the last 20 years. The average unemployment figure in 2010 was 7.4% compared to a national rate for the same period of 9.6%. In December 2010, the rates were 7.4% in Maryland and 9.4% in the United States. Total non-agricultural employment fell 0.6% annually between 2005 and 2010. The State's per capita personal income was the fourth highest in the country in 2009, according to the Bureau of Economic Analysis, at 122% of the national average. See "STATE DEMOGRAPHIC AND ECONOMIC DATA."
BUDGET AND FINANCIAL	The State enacts its budget annually. Revenues are derived largely from certain broad-based taxes, including statewide income, sales, motor vehicle, and property taxes. Non-tax revenues are largely from the federal government for transportation, health care, welfare and other social programs. General fund revenues on a budgetary basis realized in the State's fiscal year ended June 30, 2010, were above estimates by $190.9 million, or 1.5%. The State ended fiscal year 2010 with a $344.0 million general fund balance on a budgetary basis. This balance reflects a $190.2 million increase compared to the balance projected at the time the 2011 budget was enacted. In addition, there was a balance in the Revenue Stabilization Account of $611.6 million. For fiscal year 2011, the total budget is $33.1 billion, a $1,089.6 million increase over fiscal year 2010. The General Fund accounts for approximately $13.2 billion, of which the largest expenditures are for health and education, which together represent 74.6% of total general fund expenditures. General fund expenditures exclude transportation, which is funded with special fund revenues from the Transportation Trust Fund. See "STATE FINANCES – State Expenditures and Services." On a GAAP basis, the fiscal year 2010 nonspendable general fund balance was $449.0 million, while the spendable fund balance was $800.1 million. The reserved general fund balance was $1,363.0 million and unreserved fund balance was $146.9 million at the end of fiscal year 2009. The change in fund balance classification is due to the implementation of GASB Statement

*Preliminary, subject to change.

No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. See Appendix A, notes 2 and 13, of the Comprehensive Annual Financial Report. The total GAAP fund balance for fiscal year 2010 was $1,249.1 million compared with a total GAAP fund balance of $1,509.9 million for fiscal year 2009. See "STATE FINANCES."

The State Reserve Fund consists of the Revenue Stabilization Account and other reserve funds, which together totaled $614.7 million at the end of fiscal year 2010. The Revenue Stabilization Account was established to retain State revenues for future needs and to reduce the need for future tax increases. Current estimates for the close of fiscal year 2011 project a total reserve balance of $625.7 million, of which $622.7 million is projected to be in the Revenue Stabilization Account. In the proposed 2011 budget, the Revenue Stabilization Account balance as a percentage of general fund revenues as stated in the 2009 annual report of the Board of Revenue Estimates equaled 5.0%. The percentage decreased to 4.7% due to increased revenue estimates. See "STATE FINANCES – State Reserve Fund."

STATE DEBT

Maryland had $9,646.6 million of net State tax-supported debt outstanding as of December 31, 2010. General obligation bonds accounted for $6,832.3 million of that amount. In fiscal year 2010, debt service on general obligation bonds was paid primarily from State property tax receipts. Department of Transportation bonds outstanding account for another $1,621.1 million of State tax-supported debt as of December 31, 2010; the debt service on those bonds is payable from taxes and fees related to motor vehicles and motor vehicle fuel and a portion of the corporate income tax and a portion of the sales and use tax. Debt obligations issued by the Maryland Stadium Authority in the form of lease-backed revenue bonds and equipment lease financing account for $238.4 million of State tax-supported debt outstanding as of December 31, 2010. Rental payments under the leases are subject to annual appropriation by the General Assembly.

The State has also financed construction and acquisition of various other facilities and equipment through lease-type financing, subject to annual appropriation by the General Assembly, in the amount of $258.8 million as of December 31, 2010. In addition on January 20, 2011 the State sold $40.9 million of Certificates of Participation, subject to appropriation by the General Assembly.

There was $651.8 million of Grant Anticipation Revenue Vehicle ("GARVEE") Bonds outstanding as of December 31, 2010. Debt service is paid from a portion of Maryland's federal highway aid. The Maryland Department of Environment had Bay Restoration Revenue Bonds outstanding in the amount of $44.2 million as of December 31, 2010.

The State had $1,901.6 million of authorized but unissued debt as of December 31, 2010. The current offering is the third general obligation bond sale of fiscal year 2011; no further additional sales are anticipated during fiscal year 2011. See "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – Tax-Supported Debt Outstanding and Debt Data."

APPLICATION OF PROCEEDS

The proceeds of the First Series A and First Series B Bonds will be applied for a variety of public purposes, including the acquisition and construction of State facilities; capital grants to local governments for public schools, community colleges, and jails and correctional facilities; and matching fund loans and grants to local governments, nonprofit institutions, and other entities for hospitals, cultural projects and other projects.

The proceeds of the First Series C Bonds will be applied for capital grants to local education agencies for energy conservation projects in existing public schools.

CONTINUING DISCLOSURE	The State will provide annual financial and other information, including notices of certain events, in order to assist bidders and the Underwriters in complying with SEC Rule 15c2-12(b)(5). Appropriate periodic credit information will be provided to the rating agencies maintaining ratings on the Bonds. See Appendix F – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

THE FOREGOING INFORMATION IS QUALIFIED IN ITS ENTIRETY BY THE DETAILED INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT.

STATE OF MARYLAND
Official Statement

$485,000,000*
General Obligation Bonds
State and Local Facilities Loan of 2011, First Series

consisting of

$100,000,000*	**$378,480,000***	**$6,520,000***
First Series A	**First Series B**	**First Series C**
Tax-Exempt Bonds	**Tax-Exempt Bonds**	**Taxable**
(Negotiated)	**(Competitive)**	**Qualified Energy**
		Conservation Bonds
		(Competitive)

THE STATE

The State of Maryland (the "State") ratified the United States Constitution on April 28, 1788. The capital of the State is Annapolis, where the principal activities of the State Government are centered. The State's 2010 population is estimated at 5,737,274 on July 1st of that year. Maryland ranks 42nd among the states in land area with 9,844 square miles. The largest city in the State is Baltimore with a 2009 population of 637,418 (2,690,886 for the primary metropolitan statistical area). The 2010 population for counties and cities is not yet available.

* Preliminary, subject to change.

THE BONDS

General

The $485,000,000* aggregate principal amount of general obligation bonds offered by this Official Statement constitute the State and Local Facilities Loan of 2011, First Series. The Bonds consist of $100,000,000* First Series A Tax-Exempt Bonds (the "First Series A Bonds"), $378,480,000* First Series B Tax-Exempt Bonds (the "First Series B Bonds"), and $6,520,000* First Series C Taxable Qualified Energy Conservation Bonds (the "First Series C Bonds"). The First Series A, B and C Bonds are sometimes collectively referred to herein as the "Bonds." Interest on the Bonds will accrue from the date of issuance and delivery of the Bonds, expected to occur on or about March 22, 2011, and will be payable September 15, 2011, and semiannually thereafter on March 15 and September 15 until maturity unless redeemed prior to maturity as provided herein under "Redemption Provisions." Payment of the principal of and interest on the Bonds shall be in such currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. The Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof. The Bonds will initially be maintained under a book-entry only system; individual purchasers ("Beneficial Owners") shall have no right to receive physical possession of the Bonds, and any payment of the principal or redemption price of and interest on the Bonds will be made as described in APPENDIX G – "BOOK-ENTRY ONLY SYSTEM." So long as the Bonds are maintained under a book-entry only system, the Treasurer will serve as Bond Registrar and Paying Agent.

Interest on the Bonds will be paid on the date payable or, if that date is not a Business Day (hereinafter defined), on the next succeeding Business Day, to the person in whose name the Bond is registered on the registration books (the "Bond Register") maintained by the Bond Registrar as of the close of business on the last day of the month immediately preceding each interest payment date for the Bonds. "Business Day" means a day other than a Saturday, Sunday, or day on which banking institutions are authorized or obligated by law or required by executive order to remain closed. Principal will be payable upon presentation of the Bonds at the principal office of the Paying Agent, or at the principal office of any other Bond Registrar and Paying Agent appointed by the Treasurer, on the date the principal is payable or, if that date is not a Business Day, on the next succeeding Business Day. So long as the Bonds are maintained in a book-entry only system, interest will be paid by electronic funds transfer on the interest payment date with respect to Bonds held by The Depository Trust Company, New York New York ("DTC") from funds sent to DTC.

So long as the Bonds are maintained in a book-entry-only system, Beneficial Owners will not have physical possession of the Bonds and transfers of their interest in the Bonds will be made through DTC. Beneficial Owners should look to the institution from which their Bonds were purchased for payment.

See "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – General Obligation Bonds" for a description of the constitutional and other legal foundations of general obligation bonds of the State.

First Series A Bonds (Negotiated)

The State has determined to issue the First Series A Bonds as tax-exempt bonds, sold on a negotiated basis to the retail markets through a group of underwriters represented by Siebert Brandford Shank & Co., L.L.C. during a negotiated sale period, as described herein under "UNDERWRITING – FIRST SERIES A BONDS."

First Series B Bonds (Competitive)

The State has determined to issue the First Series B Bonds as tax-exempt bonds, sold on a competitive basis as described herein under "SALE AT COMPETITIVE BIDDING – FIRST SERIES B AND FIRST SERIES C BONDS" and pursuant to the Official Notice of Sale for the First Series B Bonds, attached hereto as Appendix E.

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* Preliminary, subject to change.

First Series C – Taxable Qualified Energy Conservation Bonds (Competitive)

The First Series C Bonds will be issued as $6,520,000* in Qualified Energy Conservation Bonds ("QECBs") under the provisions of American Recovery and Reinvestment Act of 2009 ("ARRA"), the Hiring Incentives to Restore Employment Act of 2010 ("HIRE Act"), and applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including §§54A and 54D (relating to QECBs). The First Series C Bonds will be sold on a competitive basis as described herein under "SALE AT COMPETITIVE BIDDING – FIRST SERIES B AND FIRST SERIES C BONDS" and pursuant to the Official Notice of Sale for the First Series C Bonds, attached hereto as Appendix E.

The total amount of QECBs that may be issued nationally is limited by the Code to $3.2 billion, and the Treasury Department has allocated a portion of such limit to the State and its large local governments in the amount of $58,445,000. After the required sub-allocations to large local governments based on population ratios, the QECB allocation remaining for use by the State is $6,521,244. The Maryland Consolidated Capital Bond Loan ("MCCBL") of 2010 (Chapter 483 of the 2010 Laws of Maryland) authorized the sale and issuance of up to $250,000,000 for the Maryland Public School Construction Program. Consequently, the State had determined to offer $6,520,000* of the $250,000,000 in Public School Construction bonds authorized by the MCCBL of 2010 in the form of taxable QECBs as the First Series C Bonds. The proceeds of the First Series C Bonds will be used to construct qualified energy conservation projects in certain public schools.

In accordance with the provisions of the HIRE Act, the State has elected to receive a subsidy payment (a "QECB Subsidy Payment") from the Treasury Department for the First Series C Bonds in an amount equal to the lesser of; (i) the amount of interest payable on the First Series C Bonds; or (ii) 70% of the amount of interest that would have been payable if interest were determined at the applicable Qualified Tax Credit Bond rate published by the Treasury Department on the sale date of the First Series C Bonds. QECB Subsidy Payments will be paid to the State; no registered owner of First Series C Bonds will be entitled to a tax credit or QECB Subsidy Payment, and interest paid to registered owners of First Series C Bonds will be subject to federal income tax but will be exempt from Maryland income tax. See "TAX MATTERS - Federally Taxable Qualified Energy Conservation Bonds – First Series C Bonds." The QECB Subsidy Payments have not been pledged to the payment of the First Series C Bonds. To the extent such QECB Subsidy Payments are paid by the Federal government to the State, such amounts would be part of the State's general revenues. Any failure by the State to qualify for the QECB Subsidy Payments or any offset of the QECB Subsidy Payments will not alter the State's obligation to pay the principal of and interest on the First Series C Bonds. The QECB Subsidy Payments are not full faith and credit obligations of the United States.

Authorization for the Bonds

The State Constitution prohibits the contracting of State debt unless authorized by a law providing for the collection of an annual tax or taxes sufficient to pay the interest when due and to discharge the principal within 15 years of the date of debt issuance. The State Constitution also provides that the taxes levied for this purpose may not be repealed or applied to any other purpose until the debt is fully discharged. As a matter of practice, general obligation bonds, other than refunding bonds, are issued to mature in serial installments designed to provide payment of interest only during the first two years and an approximately level annual amortization of principal and interest over the remaining years.

Beginning with its 1990 session, the General Assembly annually has enacted a Maryland Consolidated Capital Bond Loan Act (the "MCCBL") that consolidates within a single enabling act authorizations for various capital programs administered by State agencies and other projects for local governments or private institutions.

The Board of Public Works (the "Board"), a constitutional body composed of the Governor, the Comptroller, and the Treasurer, by resolution authorizes the issuance of bonds in a specified amount for part or all of the loans authorized by various enabling acts. Since 1969, the Board has used its statutory authority to issue and sell general obligation bonds authorized by various enabling acts on a consolidated basis as a single issue designated as a "State and Local Facilities Loan" of a numerical series indicating the order of sale during the calendar year. The Bonds have been authorized for issuance under this procedure.

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* Preliminary, subject to change.

The General Assembly annually enacts an MCCBL authorizing funds for various capital projects and programs to be financed through the sale of State general obligation bonds. The total amount of general obligation bonds authorized by various MCCBLs but unissued as of December 31, 2010, was $1,901,615,304. See "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – Capital Programs" and Appendix B – "SUPPLEMENTARY DEBT SCHEDULES."

Based upon the State's anticipated capital needs, the Board has authorized this sale and issuance of up to $485,000,000* in First Series A, B, and C Bonds to fund capital improvements. It is anticipated that the proceeds of the sale of the First Series A, B, and C Bonds will be expended for authorized projects in the categories shown in "THE BONDS – Use of Proceeds."

Security for the Bonds

The Bonds will be general obligations of the State to the payment of which the full faith and credit of the State are pledged.

Redemption Provisions

Optional Redemption of the First Series A Bonds and the First Series B Bonds

The First Series A Bonds and the First Series B Bonds maturing on or after March 15, 2020 are subject to redemption on or after March 15, 2019 as a whole or in part at the option of the State at any time on at least 30 days' notice and, if in part, in any order of maturity at the option of the State, at the redemption price of par, plus accrued interest, if any, to the redemption date.

Make-Whole Optional Redemption of the First Series C Bonds

The First Series C Bonds are subject to redemption prior to maturity at the option of the State, in whole or in part, on any Business Day, on at least 30 days' notice, at the Make-Whole Redemption Price (as defined herein). The "Make-Whole Redemption Price" is the greater of:

(i) 100% of the principal amount of the First Series C Bonds to be redeemed; or

(ii) the sum of the present values of the remaining scheduled payments of principal and interest on the First Series C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the First Series C Bonds are to be redeemed, discounted to the date on which the First Series C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined below) plus 30 basis points, plus, in each case, accrued and unpaid interest on the First Series C Bonds to be redeemed on the redemption date.

For purpose of determining the Make-Whole Redemption Price, the following definition applies:

"Treasury Rate" means, with respect to any redemption date for particular First Series C Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the First Series C Bonds to be redeemed; provided, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Event Redemption of First Series C Bonds

The First Series C Bonds will be subject to redemption as a whole or in part at any time, at the option of the State, on at least 30 days' notice, upon the occurrence of an Extraordinary Event (as defined below), at the Extraordinary Event Redemption Price (as defined herein). The "Extraordinary Event Redemption Price" is the greater of:

* Preliminary, subject to change.

(i) 100% of the principal amount of the First Series C Bonds to be redeemed; or

(ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the First Series C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the First Series C Bonds are to be redeemed, discounted to the date on which the First Series C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year of twelve 30-day months, at the Treasury Rate (described below) plus 100 basis points, plus, in each case, accrued interest on the First Series C Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if the State determines that a material adverse change has occurred to §6431 of the Code (as such Section is in effect on the date of issuance of the First Series C Bonds), or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections of the Code or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the State to satisfy the requirements to qualify to receive the QECBs Subsidy Payments, pursuant to which the QECBs Subsidy Payments are reduced or eliminated.

"Treasury Rate" means, with respect to any redemption date for particular First Series C Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the First Series C Bond to be redeemed; provided, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Mandatory Redemption of the First Series C Bonds

The First Series C Bonds are subject to extraordinary mandatory redemption, in whole or in part, on or about March 15, 2014, or, in the event of an extension negotiated with the Treasury Department, on a date that occurs between March 15, 2014 and the Treasury Department-approved extension date, in authorized denominations, at a redemption price equal to 100% of the principal amount of the First Series C Bonds called for redemption, in an amount equal to the unexpended Available Project Proceeds (as defined below) of the First Series C Bonds, plus accrued interest, if any, on the First Series C Bonds to be redeemed to the redemption date, but only to the extent that the State fails to expend all of such Available Project Proceeds within three years of issuance of the First Series C Bonds and no extension of the period for expenditure has been granted by the Treasury Department.

For the purposes of extraordinary mandatory redemption of the First Series C Bonds, "Available Project Proceeds" means the sum of the excess of the proceeds of sale of the First Series C Bonds (including any investment earnings on the proceeds of the First Series C Bonds), over costs of issuance paid for out of such proceeds (to the extent such costs do not exceed 2 percent of such proceeds).

Redemption Procedures

If less than all of the Bonds in any series shall be called for redemption, the particular Bonds to be redeemed shall be selected by the Paying Agent in such manner as, in its discretion, it shall determine, except that so long as DTC or its nominee is the sole registered owner of the Bonds, the particular Bonds to be redeemed shall be selected by DTC, in such manner as DTC shall determine.

In case part but not all of any of the Bonds in any series shall be selected for redemption, then upon its surrender, there shall be issued without charge to the registered owner replacement bonds in any authorized denominations as specified by the registered owner. The aggregate principal amount of bonds so issued shall be equal to the unredeemed balance of the principal amount of the bond surrendered, and bonds so issued shall bear the same interest rate and shall mature on the same date as the bond surrendered. Should the redemption of all or a portion of the Bonds of any series be required, the State shall provide a redemption notice (i) by first class mail, postage prepaid, at least 30 days prior to the redemption date to each registered owner as identified within the Bond Register and (ii) as may be further required in accordance with the Continuing Disclosure Agreement; provided, however, that neither the failure to mail the redemption notice nor any defect in the notice shall affect the validity of the redemption proceedings.

The redemption notice shall state: (1) whether the Bonds are to be redeemed in whole or in part and, if in part, the portions of the principal amount of the Bonds to be redeemed; (2) the redemption date and the redemption price or prices; (3) that the Bonds to be redeemed shall be presented for redemption and payment on or after the redemption date at the principal office of the Paying Agent; and (4) that interest on the Bonds called for redemption shall cease to accrue on the redemption date.

From and after the redemption date, if notice has been duly and properly given and if funds sufficient for the payment of the redemption price of the Bonds called for redemption are available on such date, the Bonds so called for redemption shall become due and payable at the redemption price or prices on the redemption date, interest on the Bonds shall cease to accrue, and the registered owners of the Bonds so called for redemption shall have no rights in respect thereof except to receive payment of the redemption price plus accrued interest to the redemption date. Upon presentation and surrender of Bonds called for redemption in compliance with the redemption notice, the Paying Agent shall pay the redemption price of such Bonds. If Bonds so called for redemption are not paid upon presentation and surrender as described above, such bonds shall continue to bear interest at the rates stated therein until paid.

Remedies

Based upon the provisions of §§34 and 52 of Article III of the State Constitution, general statutory law, and the enabling legislation for general obligation bond authorizations, in the opinion of the Attorney General, the courts of Maryland have jurisdiction to entertain proceedings and power to grant mandatory injunctive relief to: (1) require the Governor to include in the annual Budget an appropriation sufficient to pay all general obligation bond debt service for the ensuing fiscal year; (2) prohibit the General Assembly from taking action to reduce any such appropriation below the level required for that debt service; (3) require the Board of Public Works to fix and collect a tax on all property in the State subject to assessment for State tax purposes at a rate and in an amount sufficient to make such payments to the extent that adequate funds are not provided in the annual Budget; and (4) provide such other relief as might be necessary to enforce the collection of these taxes and payment of the proceeds to the holders of general obligation bonds, *pari passu,* subject to the inherent limitations of the Constitution referred to below.

It is also the opinion of the Attorney General that, while the mandatory injunctive remedies would be available and while the general obligation bonds of the State are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies would not be absolute. Enforcement of a claim for payment of the principal of or interest on the Bonds could be subject to the provisions of any statutes that hereafter may be constitutionally enacted by the United States Congress or by the General Assembly extending the time for payment or imposing other constraints upon enforcement.

Estimated Sources and Uses of Funds

	First Series A Bonds	**First Series B Bonds**	**First Series C Bonds**	**Total**
Sources:				
Par Amount	$	$	$	$
Plus (Less) Original Issue Premium (Discount)*				
Total Sources	$	$	$	$
Uses:				
Deposit to State and Local Facilities Loan Fund	$	$	$	$
Deposit to the Annuity Bond Fund				
Costs of Issuance**				
Underwriters' Discount				
Total Uses	$	$	$	$

* The premium earned on the sale of the Bonds will be applied first to pay the underwriters' discount and costs of issuance.
**Estimated. Includes fees for legal, rating agency, financial advisory services and other miscellaneous expenses.

Use of Proceeds

First Series A and First Series B Bonds. The proceeds from the sale of the First Series A and the First Series B Bonds will be deposited in the State and Local Facilities Loan Fund and expended as needed on any project authorized by an enabling act, whether or not bonds have been sold to specifically fund that project. "Project" accounting will be maintained to assure that individual project expenditures will not exceed individual project authorizations. The expenditure of bond proceeds for capital improvements is accounted for on a "cash flow" basis rather than a "project" basis.

The proceeds of the First Series A and the First Series B Bonds deposited to the State and Local Facilities Loan Fund are reasonably anticipated to be expended for the following purposes:

Education	$
Health and Hospital	
Public Safety	
Environment	
Housing	
Utilities	
Transportation	
Other	$
Total	$

First Series C Bonds. The proceeds from the sale of the First Series C Bonds will be deposited in a special account for QECBs within the State and Local Facilities Loan Fund and expended for qualified energy conservation projects in accordance with the requirements of §§54A and 54D of the Code.

The projects listed below are designated to use the proceeds of the QECBs, meet the requirements for QECBs, including using federal Davis-Bacon wages rates, and are projected to be completed within three years of the issuance of the First Series C Bonds. See "STATE GOVERNMENT – Interagency Committee on School Construction/Public School Construction Program."

Baltimore City	
Leith Walk Elementary	$1,000,000*
St. Mary's County	
Leonardtown Middle	4,520,000*
Somerset County	
Washington High	1,000,000*
Total	$ 6,520,000*

STATE GOVERNMENT

Legislature

The State has a bicameral legislature, the General Assembly, composed of the Senate with 47 members and the House of Delegates with 141 members. The State is divided into 47 legislative districts, each with one senator and three delegates. All members of the General Assembly are elected for four-year terms. The General Assembly meets annually for a 90-day session beginning on the second Wednesday in January. This regular session may be extended by the General Assembly or the Governor, and the General Assembly may meet in special sessions, but no extended or special session may last for longer than 30 days except for the purpose of enacting the Budget.

* Preliminary, subject to change.

Constitutional Officers

The leadership of State government includes four constitutional officers elected by the voters on a statewide basis for four-year terms: the Governor, the Lieutenant Governor, the Comptroller, and the Attorney General. The Treasurer is also a constitutional officer, appointed upon a joint ballot of the Senate and the House of Delegates for a four-year term.

The Governor is the chief executive officer of the State. The Lieutenant Governor has such duties as are delegated to him by the Governor, which may include any and all powers and duties of the Governor, and may serve as Acting Governor during the absence or incapacity of the Governor. The Attorney General is legal counsel to the Governor, the General Assembly, and all departments and units of the State government except the Public Service Commission and certain authorities.

Together, the Comptroller and the Treasurer constitute the Treasury Department. The Comptroller is required to exercise general superintendence over the fiscal affairs of the State, to prepare plans for the improvement and management of revenue and support of public credit, to keep the accounts of the State and its agencies, to prescribe the form of completing and stating these accounts, and to superintend and enforce the collection of all taxes and revenue. The Treasurer maintains custody of all deposits of State monies, invests the State's surplus funds, maintains custody of all securities, and is responsible for all disbursements of State funds, including payment of principal and interest on State debt. Acting on behalf of the Board of Public Works, the Treasurer manages the State's general obligation debt program, including all matters relating to the issuance and oversight of general obligation bonds.

Principal Departments

The executive functions of State Government are organized into 20 major departments, 19 of which are headed by a Secretary appointed by the Governor with the advice and consent of the Senate. The State Department of Education is headed by the State Board of Education, the members of which are appointed by the Governor for overlapping five-year terms, and the State Superintendent of Schools, who is appointed by the State Board of Education for a four-year term. The departments and their principal responsibilities are as follows:

The Department of Aging administers the delivery of services and activities for the elderly.

The Department of Agriculture is responsible for supervising, administering, and promoting agricultural activities in the State.

The Department of Budget and Management analyzes and plans budgetary matters and provides coordination and liaison for the Governor with the General Assembly, State operating agencies, and the public on matters relating to the operating and capital budgets, analysis of program revenues and budget implications, and performance auditing; manages and coordinates employee health benefits; administers personnel policies with respect to State employees; and reviews executive agency procurements of services.

The Department of Business and Economic Development promotes economic development, industrial opportunities, tourism, and economic resources of the State; and provides for and assists in financing industrial and commercial development.

The Department of Disabilities is responsible for developing, maintaining, revising, and enforcing statewide disability policies and standards.

The Department of the Environment is responsible for fostering and protecting the State's natural environment and administers various State programs regulating air, water, and hazardous waste pollution.

The Department of General Services advises the Board of Public Works and State agencies on matters of engineering, construction, and contracts in connection with capital expenditures; coordinates land acquisitions and the design and construction of State public works projects; and purchases supplies and equipment for the use of State agencies.

The Department of Health and Mental Hygiene is responsible for matters concerning public health in the State, including the direct delivery of health care services through State-owned health centers and hospitals and the financing of health services to low-income individuals through the Medicaid program.

The Department of Housing and Community Development administers the State's housing and community development assistance programs, including certain housing loan and mortgage insurance programs.

The Department of Human Resources administers, on the State level, the federal and State social service, public assistance, child support, and income maintenance programs.

The Department of Information Technology is responsible for statewide Information Technology ("IT") policy, oversight of large IT projects and expenditures, and centralizations of common IT functions and assets statewide.

The Department of Juvenile Services is responsible for State programs serving delinquent youths, children in need of supervision, and children in need of assistance.

The Department of Labor, Licensing, and Regulation administers various State regulatory agencies and licensing boards responsible for licensing and regulating professions, businesses, and trades, and has responsibility for the direction, coordination, and monitoring of all State employment and training and unemployment insurance programs.

The Department of Natural Resources is responsible for developing, coordinating, and administering policies and programs involving the natural resources and wildlife of the State.

The Department of Planning is the principal agency for planning matters concerning the development and effective use of the natural and other resources of the State and also is responsible for various historical and cultural programs.

The Department of Public Safety and Correctional Services is responsible for public safety, State correctional facilities, and parole and probation.

The Department of State Police is responsible for law enforcement and crime prevention.

The Department of Transportation is responsible for State-owned transportation facilities and programs, including the planning, financing, construction, operation, and maintenance of highway, transit, rail, port, and aviation facilities.

The Department of Veterans Affairs assists the State's veterans in obtaining benefits and services, maintains veterans' cemeteries and war memorials, and operates the State's veterans' home.

The State Department of Education is charged with the general supervision of public elementary and secondary education and is responsible for establishing and administering State educational policies and programs.

See "STATE FINANCES – State Expenditures and Services" for information concerning the activities of the departments that administer functions requiring the largest expenditures of funds by the State.

Judiciary

The Judiciary, a separate branch of government established in the State Constitution, includes two courts of appellate jurisdiction. The Court of Appeals, originally created by the State Constitution of 1776, is the State's highest court; today this court's appellate jurisdiction is almost entirely discretionary. The Court of Special Appeals was established in 1966 as an intermediate appeals court having statewide jurisdiction; almost all initial civil and criminal appeals are now included in the jurisdiction of this court.

The Circuit Courts, which function as trial courts of general jurisdiction, are the common law and equity courts of record exercising original jurisdiction within the State and handle the major civil and the more serious criminal matters. A Circuit Court sits in each county and in Baltimore City. The District Court of Maryland, created in 1970, is divided into 12 geographic districts throughout the State and exercises limited civil and criminal jurisdiction.

Board of Public Works

The Governor, Comptroller, and Treasurer are the members of the Board of Public Works. The Constitution of Maryland, Article XII, §2, provides that a majority of the Board shall be competent to act. A constitutional body, the Board supervises the expenditure of all funds obtained by State general obligation bond issues and all funds appropriated for capital improvements other than roads, bridges, and highways. The Board must review and approve all contracts for such capital expenditures after review by the legislatively authorized control agency, principally, the Department of Transportation, the Department of General Services, the Department of Budget and Management or the University System of Maryland. The Board considers, acts upon, and authorizes all issues of State general obligation bonds, fixes the rate of the State property tax required for debt service, and administers, through the Interagency Committee on School Construction ("IAC"), the State program for payments to the counties and Baltimore City for public school construction.

Interagency Committee on School Construction/
Public School Construction Program

The IAC was established by the Board in 1971, and is responsible for the annual Public School Construction Capital Improvement Program ("PSCCIP") and other funding programs. The IAC is composed of the State Superintendent of Schools (Chairperson), the Secretary of the Department of General Services, the Secretary of the Maryland Department of Planning, and two members of the public appointed respectively by the Speaker of the House of Delegates and the President of the Senate. The Public School Construction Program ("PSCP") is an independent agency of the Board that coordinates the efforts of the IAC agencies and is responsible for management of the State funding allocations to the local educational agencies ("LEAs"), as well as compliance by the LEAs with State regulations regarding design, procurement, project delivery, financing, and Minority Business Enterprise participation.

The PSCCIP is the primary instrument for the distribution of State grants to LEAs for public school construction projects. Since the founding of the program, the State has provided $5.9 billion in PSCCIP funding to the LEAs. Funds are allocated to support the eligible costs of projects within defined PSCCIP categories of work: new and replacement schools, complete and limited renovations, systemic renovations, and the movement of State-owned relocatable classroom facilities. The funding allocations for individual projects are developed using, among other factors, a State-local cost share formula that takes into account local wealth as well as student enrollment and the age of buildings. State participation is calculated using either a formula approach for the majority of large projects, or the actual or estimated cost of construction for smaller projects and certain large projects. Funding recommendations for each LEA are based strictly on the eligibility and priority of submitted projects, not on a pre-determined formula for distribution of the funds. Both planning and funding recommendations reflect State policies regarding community growth, economic development, sustainable building design, and Base Realignment and Closure readiness.

The IAC approves the award of all contracts between the LEA and the contractor or construction manager of the project. The responsibility for procurement of design and construction services and the management of projects has been delegated to the LEAs. State funding is disbursed on a reimbursement basis, either directly against approved contractor requisitions or against reimbursement requests from LEAs which have paid the contractor. State funds are usually used by the LEAs before local funds.

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STATE FINANCES

Budgetary System

Maryland has a strong executive system of government. Under the Maryland Constitution, Article III, §52, the Governor is responsible for the preparation and introduction of the State's annual budget. The Governor is required by the Constitution to submit a balanced budget, and in preparing the budget, the Governor is statutorily required to use revenue estimates reported by the Board of Revenue Estimates, whose members are the Comptroller, the Treasurer and the Secretary of Budget and Management, or explain the use of different estimates. Except for the General Assembly's own budget and the Judiciary's budget, the General Assembly cannot increase the Governor's proposed budget, but only reduce it.

Passage of the State's budget is constitutionally prioritized. The General Assembly meets annually for 90 days, beginning the second Wednesday of each January. If the budget has not been enacted seven days before the end of session (the 83rd day), the Constitution requires that the Governor issue a proclamation extending the session. If the budget has not been enacted by the 90th day, the General Assembly cannot consider any matter except the budget. This places the normal budget deadline in early April, almost 3 months before the start of the next fiscal year. In the past 50 years, the latest date of budget adoption was in 1992 on the 94th day of the session. Although laws enacted by the General Assembly are generally subject to referendum, the power of referendum is subject to express limitations, and does not extend to the State budget. The effective date of the State budget cannot be delayed by referendum. Maryland does not require supermajorities to increase taxes or enact the budget. A simple majority is required for passage of all bills.

The Governor submits to the General Assembly, shortly after the beginning of its annual session, a budget containing a complete plan of proposed expenditures and estimated revenues for the ensuing fiscal year, together with a statement showing: (1) the revenues and expenditures for the preceding fiscal year; (2) the current assets, liabilities, reserves, and surplus or deficit of the State; (3) the debts and funds of the State; (4) an estimate of the State's financial condition as of the beginning and end of the preceding fiscal year; and (5) any explanation the Governor may desire to make as to the important features of the budget and any suggestions as to methods for reduction or increase of the State's revenue. The budget is required to include a total for all appropriations and all estimated revenues; total appropriations may not exceed the estimated revenues, either as submitted by the Governor or as enacted by the General Assembly. The Constitution requires the Governor to include appropriations for certain matters, including specifically an appropriation to pay and discharge the principal and interest of the debt of the State in conformity with Article III, §34 of the Constitution and all laws enacted pursuant thereto. See "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM."

The Governor also is required to include in his annual budget sufficient appropriations to fund programs for which specific statutory spending levels or rates have been established by the General Assembly at a preceding session. With the submission of the budget for the ensuing year, the Governor also presents to the General Assembly any deficiency appropriations that he may deem necessary to supplement the current year's appropriations in light of current conditions. By law the Governor has the power, with the approval of the Board of Public Works, to reduce by not more than 25% any appropriation that he may deem unnecessary, except appropriations for the payment of interest and the retirement of State debt, the legislature, the public schools, the judiciary, the salaries of public officers during their terms of office, and the salaries of non-temporary employees in the State Personnel Management System (except in accordance with statutory provisions).

The General Assembly is prohibited by the Constitution from amending the Budget to affect certain specified provisions, including the obligations or debt of the State under Article III, §34 of the Constitution. Except for these specified provisions, the General Assembly may amend the budget to increase or decrease appropriations relating to the legislative and judicial branches but it may only strike out or reduce executive branch appropriations submitted by the Governor. The General Assembly must enact a balanced budget. After the enactment of the budget, and not before, the General Assembly is permitted to enact supplementary appropriations but may not enact any supplementary appropriation unless embodied in a separate bill that is limited to a single object or purpose and provides the revenue necessary to pay the appropriation by a tax to be levied and collected under the terms of the bill.

State expenditures are made pursuant to the appropriations in the annual budget, as amended from time to time by budget amendment. The various units of State government may, with the Governor's approval, amend the appropriations for particular programs in their individual budgets funded from the General Fund, provided they do not exceed their total general fund appropriations as contained in the annual budget. Additionally, appropriations for programs funded in whole or in part from funds other than the General Fund may permit expenditures in excess of original appropriations to the extent that revenues from the particular non-General Fund sources exceed original Budget estimates and the additional expenditures are approved by the Governor.

The Department of Budget and Management is headed by a Secretary who assists the Governor in the preparation and administration of the Budget and constitutes a statutorily created department that currently employs approximately 320 persons.

The Department of Legislative Services provides full-time professional assistance to all committees and subcommittees of the General Assembly including those involved with budget, taxation and fiscal matters. The Department also conducts research into fiscal and policy issues. The Office of Legislative Audits is part of the Department and is required by law to examine and report on the books and accounts of all agencies of State government at least every three years. See Appendix A – "FINANCIAL AND ACCOUNTING SYSTEM."

The Spending Affordability Committee consists of certain designated officers of the General Assembly and other members as may be appointed by the President of the Senate and the Speaker of the House of Delegates. Each year the Committee must submit a report to the Legislative Policy Committee of the General Assembly and to the Governor recommending the level of State spending, the level of new debt authorization, the level of State personnel, and the use of any anticipated surplus.

The Spending Affordability Committee submitted an interim report to the Governor and the Legislative Policy Committee on December 21, 2010 that recommended:

- a reduction in the State's structural deficit in the fiscal year 2012 budget;
- the preservation of the Rainy Day Fund at 5% of estimated revenue;
- the authorization of no more than $925.0 million in new general obligation debt and $27.0 million in academic revenue bonds for the University System of Maryland in the 2011 session;
- the consideration by the Budget Committees of the implementation of debt limits for all types of tax-supported debt reviewed by the Capital Debt Affordability Committee; and
- a cap on State positions at current levels.

State Revenues

The State derives most of its revenue from a combination of specialized taxes and user charges. Substantial changes were made to Maryland's revenue structure at the 2007 Special Session of the General Assembly, most of which became effective in January 2008, and one of which had an effective date of July 1, 2008. These changes are described below. The following are principal sources of the State's revenues:

Income Taxes. An income tax is imposed on: (1) the federal adjusted gross income of individuals, subject to certain positive and negative adjustments and minus certain deductions and personal exemptions; and (2) the federal taxable income of corporations, subject to certain positive and negative adjustments. Individuals may elect to use a standard deduction in lieu of itemized deductions. The standard deduction is 15% of the individual's Maryland adjusted gross income, but not less than $1,500 or more than $2,000 in the case of most individual returns, and not less than $3,000 or more than $4,000 in the case of a joint return or an individual return of a head of household or surviving spouse.

For tax years prior to 2008, $2,400 was allowed for each regular personal exemption and aged dependent, and $1,000 was allowed for each aged or blind personal exemption. The rate of tax for individuals was 2% on the first $1,000 of taxable income, 3% on the second $1,000, 4% on the third $1,000, and 4.75% on taxable income in excess of $3,000. For tax year 2008 and later, regular personal exemptions are determined based on federal adjusted gross income, ranging from $3,200 for those with federal adjusted gross income under $150,000/$100,000 (joint/single returns) to $600 for those with federal adjusted gross income over $250,000/$200,000 (joint/single returns). The tax brackets have also been restructured with the addition of 5%, 5.25% and 5.5% brackets beginning at net taxable income levels of $200,000/$150,000 (joint/single returns), $350,000/$300,000 (joint/single returns), and $500,000 (for both joint and single returns), respectively.

In the 2008 Legislative Session, an income tax surcharge was imposed for tax years 2008 through 2010 to address budget shortfalls. The State's top marginal income tax rate increased from 5.5% to 6.25% for net taxable income of $1,000,000 or more.

In addition to the above, each county and Baltimore City must levy a local income tax at the rate of at least 1% but not more than 3.2% of the individual's Maryland taxable income. There are a number of credits available against the income taxes, including a refundable earned income credit (which was increased from 20% to 25% of the federal credit for tax year 2008 and later) and a credit for rehabilitation of historic properties. An additional tax on the income of non-residents is imposed in the amount of the lowest county income tax rate in effect (currently 1.25%).

For tax year 2007 and earlier, corporations (domestic and foreign), including financial institutions and utilities, paid tax at the rate of 7% on the portion of net taxable income allocable to the State. Beginning with tax year 2008, the rate increased to 8.25%. Manufacturing corporations apportion their income based on sales only, rather than the historically applicable three-factor apportionment of sales, property, and payroll, where the sales factor is double-weighted. Corporate taxpayers are required to add to income any payments made for interest or intangibles to a related company and, as of tax year 2007, any payments made as dividends by "captive" Real Estate Investment Trusts, in order to prevent out-of-state subsidiaries from sheltering income from the Maryland corporate income tax.

Sales and Use Taxes. Effective January 3, 2008, the State imposed a 6% sales and use tax on a retail sale or use of tangible personal property in the State and certain enumerated services (including custom telephone, detective and building cleaning services among others); most services are exempt. The prior sales tax rate was 5%. Among the exemptions from the sales and use tax are sales of food for consumption off the premises by a vendor who operates a substantial grocery or market business at the same location, medicines, medical supplies and medical aids, agricultural equipment and supplies, manufacturing and research and development equipment and supplies, tangible personal property used in a production activity, residential utilities and fuel, motor vehicles and vessels subject to excise taxes, and sales to nonprofit charitable, educational or religious organizations to enable the organizations to carry on their exempt activities.

Property Taxes. Generally, all real property in the State is assessed at full cash value once every three years, with any increase in full cash value arising from the assessment phased in over the ensuing three taxable years in equal installments. Any decrease in the full cash value is recognized in full in the next taxable year and held constant for the remaining two taxable years. Certain farm, marshland, woodland, country club, and planned development property is assessed under special valuation techniques while public utility property is assessed at fair market value determined by reference to both income and property values.

The State imposes a tax at a rate expressed per $100 of assessed value on all real property subject to taxation. For fiscal years 1982 through 2003, the effective State property tax rate was maintained at a constant level (8.4 cents). For fiscal years 2004 through 2006, the State property tax rate was set at 13.2 cents. For fiscal years 2007 through 2011, the State property tax rate was set at 11.2 cents. Properties exempt from the State property tax include public property and property owned by certain nonprofit organizations for their designated purposes. The Homestead Property Tax Credit limits to 10% the maximum annual increase in assessments for owner-occupied principal residences that are subject to the State property tax. Revenues from the State property tax are credited to the Annuity Bond Fund and used to service general obligation debt.

Each of the counties and Baltimore City levies its own property tax at rates established by them, as do most incorporated municipalities. Tangible personal property and commercial and manufacturing inventory of businesses is assessed at fair market value determined from annual reports filed with the State Department of Assessments and Taxation. There is no State personal property tax but nineteen counties levy a tax on business personal property. See also, "STATE DEMOGRAPHIC AND ECONOMIC DATA – Assessed Value of Property."

Lottery Revenues. The State currently operates eight major lottery games: three- and four-digit games drawn twice daily; a six-number Maryland-only lotto-type game drawn daily; an 18-number, three-line lotto-type game drawn twice a week; two multi-state six-number lotto-type games (Mega Millions and Powerball) drawn twice a week; Keno and Racetrax, both terminal games; and various instant ticket games. Lottery tickets are sold by licensed agents under the supervision of the State Lottery Agency. In fiscal year 2010, the allocation of gross sales was 60.4% to prizes, 9.7% to administrative costs and agents' commissions, and 29.9% to State revenues. Except for administrative costs and a portion of Mega Millions revenues appropriated to the Maryland Stadium Authority, the State revenues are credited to the General Fund.

Video Lottery Terminals ("VLTs"). In November 2008 voters approved a constitutional amendment authorizing a maximum of 15,000 VLTs at five geographic locations. State revenues are generated by a one-time licensing fee that must be paid in order to operate a facility as well as two-thirds of the gross revenues from VLT play (after prize payments). All of the license fee revenue shall be deposited in the Education Trust Fund in order to support primary and secondary educational programs. The distribution of the gross VLT revenues is as follows:

- 2% to the State Lottery Agency for costs;
- Except for the Allegany County facility, no more than 33% to the video lottery operation licensees;
- 5.5% in local impact grants;
- 7% to a Purse Dedication Account, not to exceed a total of $100 million to the Account annually;
- 2.5% for an eight-year period to a Racetrack Facility Renewal Account, not to exceed a total of $40 million annually, except for the first 5 years of operations at a video lottery facility in Allegany County, 2.5% to the video lottery operation licensee that agrees to purchase the Rocky Gap Lodge and Resort;
- 1.5% to a Small, Minority, and Women-Owned Businesses Account; and
- the remainder (48.5 – 51.0%) to an Education Trust Fund.

The Video Lottery Facility Location Commission has approved three facility licenses to date. Two of these facilities (Worcester and Cecil Counties) opened in fiscal year 2011, while the third facility (Anne Arundel County) may open in fiscal year 2012, following the approval in November 2010 of a county zoning referendum. The Commission plans to re-bid the licenses for the two facilities that have not yet been awarded.

Public Service Company Franchise Taxes. The State imposes a franchise tax at the rate of 2% on the gross receipts from operations of public service companies engaged in the telephone business or in the transmission, distribution or delivery of electricity or natural gas in Maryland. In addition, a franchise tax of .062 cents for each kilowatt hour of electricity delivered for final consumption in Maryland, and of .402 cents for each therm of natural gas delivered for final consumption in Maryland, is imposed on each public service company engaged in the transmission, distribution or delivery of electricity or natural gas in Maryland. Public service companies subject to the tax on kilowatt hours of electricity and therms of natural gas are entitled to credits with respect to deliveries of such products to certain industrial customers.

Insurance Taxes. Insurance companies, including health maintenance organizations, are taxed at the rate of 2% on all new and renewal gross direct premiums (after certain deductions) allocable to the State.

Motor Vehicle Fuel and Titling Taxes and Registration Fees. The State imposes a per gallon tax of 23.5 cents on gasoline and motor fuels, 24.25 cents on special fuel other than aviation and turbine fuel, and 7 cents on aviation and turbine fuel. There is an excise tax imposed upon the issuance of original and subsequent certificates of title to motor vehicles at the rate of 6% of the fair market value of the vehicle, with an allowance for 100% of the value of a trade-in (prior to January 1, 2008, the excise tax rate was 5% and there was no trade-in allowance). The State requires a biennial registration fee on all motor vehicles that ranges from $2.50 to $1,800 per vehicle depending on the size and type of vehicle. Registration fees are generally imposed for two years at time of titling or at the time registration is renewed. There are several classes of vehicles, and fees vary within a class depending on the size of the vehicle. For example, the registration fee for passenger cars (Class A) ranges from $128 to $180 depending on the weight of the vehicle. An annual surcharge of $13.50 is included in most registration fees and is dedicated to the statewide Emergency Medical Services System.

Transfer Taxes. The State imposes a tax upon the recordation of instruments conveying title to real or personal property and conveying leasehold interests in real property. These are special fund revenues, although in some fiscal years all or a portion of these revenues were transferred to the General Fund. The most recent transfer occurred in fiscal year 2010 when a total of $164.3 million in transfer taxes, including $31.0 million in fiscal year 2010 revenues and $133.3 million of previously allocated revenues, was transferred to the General Fund. Pursuant to the fiscal year 2011 Budget, up to $54.0 million in fiscal year 2011 transfer taxes may be transferred to the General Fund. Legislation enacted in the 2009 Session also requires that transfer taxes must first be used to pay principal and interest due on certain general obligation bonds issued for Maryland Program Open Space.

Tobacco Taxes. Effective January 1, 2008, the State imposed a tax at the rate of $2.00 per pack of 20 cigarettes and 15% of the wholesale price of other tobacco products (the prior rate of tax for cigarettes was $1.00 per pack). All cigarette packs in retailers' and wholesalers' inventories on January 1, 2008 were subject to a floor tax of $1.00 per pack.

Death Taxes. The State's inheritance tax rate is 10% (bequests to direct relations and siblings are exempt). The State also imposes an estate tax and a generation-skipping transfer tax. These taxes were initially designed to capture the maximum revenue possible without imposing an additional tax burden on estates through a credit against the federal taxes. For State estate tax purposes, the unified credit is fixed at $345,000, which effectively exempts $1.0 million from the estate tax.

Alcoholic Beverage Taxes. There is a tax at the rate of $1.50 per gallon on all alcoholic beverages, except beer and wine, sold or delivered by a manufacturer or wholesaler to any retail dealer in the State. Taxes at the rates of 40 cents per gallon of wine and 9 cents per gallon of beer are imposed on the sale or delivery of those beverages by a manufacturer to a wholesale or retail dealer in the State.

Bay Restoration Fee. All users of sewerage and septic systems in the State are charged a mandatory fee of $30 per year (or $30 per "equivalent dwelling unit"). Revenues from users of sewerage systems are pledged, to the extent necessary, as security for Bay Restoration Revenue Bonds issued by the Maryland Water Quality Financing Administration, the proceeds of which will be applied primarily to provide grant funds to upgrade wastewater treatment plants with enhanced nutrient removal technology. In fiscal year 2010 a total of $155.0 million in Bay Restoration Fee revenue was transferred to the General Fund. Pursuant to the fiscal year 2011 Budget, $45.0 million in fiscal year 2011 Bay Restoration Fee revenue may be transferred to the General Fund. An equal amount of general obligation bonds are planned to fund projects that otherwise would have been funded with Bay Restoration Fee revenue. The fiscal year 2011 capital budget authorized general obligation bonds totaling $125.0 million in fiscal year 2011 and the fiscal year 2012 capital budget proposes an additional $75.0 million in fiscal year 2012 pending legislative approval of the budget.

Other Revenues. Exclusive of the proceeds of bond issues, approximately 59.6% of State revenues in fiscal year 2010 were received from sources other than taxes and lottery receipts. The largest component (31.54% of total revenues) was received from the federal government for highway and transit reimbursements; reimbursements and grants for health care programs; categorical and matching aid for public assistance, social services, and employment security; aid for public education; and miscellaneous grants-in-aid to State agencies. In addition to federal funds, the State receives revenues from court fines and costs; patient payments for services in State hospitals; interest on invested funds; and tuition fees paid to institutions of higher education. The State also receives revenues from operations of the Maryland Transit Administration, the Maryland Port Administration, and the Maryland Aviation Administration, which are paid into the Transportation Trust Fund.

Revenue Estimates. The State's revenue estimates are based upon projections by the Board of Revenue Estimates, composed of the Comptroller, the Treasurer, and the Secretary of Budget and Management. The Board studies the findings and recommendations of the Bureau of Revenue Estimates, a statutory State agency administratively under the Comptroller, that reviews the findings and recommendations of other agencies responsible for economic monitoring and revenue administration, and reports the estimates of revenue to the Governor for submission to the General Assembly in connection with the Budget.

In its report issued each December, the Board of Revenue Estimates presents revised revenue estimates for the current fiscal year (based upon current economic factors and legislative changes), and revenue estimates for the next succeeding fiscal year, upon which that fiscal year's budget is based. The revised estimate for the current year is made seven months before the end of that fiscal year, while the Budget estimate for the next succeeding fiscal year is made 19 months before the end of that fiscal year. The estimates are reviewed in March, prior to final action on the Budget by the General Assembly, and any appropriate adjustments to the estimates are made at that time. The following table shows the accuracy of General Fund revenue estimates for the 2006 through 2010 fiscal years.

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Historic General Fund Revenue Estimates and Actual Collections
($ in millions)

Fiscal Year	Actual Collections	Original Estimate Amount	Original Estimate % (a)	Final Estimate Amount	Final Estimate % (a)
2006	$12,369.9	$11,306.3	109.41%	$12,323.4	100.38%
2007	12,940.2	12,843.2	100.76	12,865.2	100.58
2008	13,545.6	13,452.8	100.69	13,616.8	99.48
2009	12,892.6	14,743.1	87.45	13,240.5	97.37
2010	12,560.1	13,738.3	91.42	12,382.7	101.43

(a) Actual collections as a percentage of estimates.
Note: Estimated and actual collections exclude transfers and other actions appearing in Appendix C, page C-3 as extraordinary transfers.

Receipts from the State property tax, all of which are devoted to debt service on general obligation bonds and which provided approximately 92% of the current revenues available for general obligation bond debt service payment in fiscal year 2010 (see "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – General Obligation Bonds"), are credited to a separate account known as the Annuity Bond Fund. The Board of Public Works is required annually to fix the property tax rate by May 1, after the end of the regular legislative session, in an amount sufficient to pay all debt service for the ensuing fiscal year on general obligation bonds after taking account of the amounts and sources of funds provided in the budget for that fiscal year, which begins July 1. The Commission on State Debt (consisting of the Treasurer, the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, the Director of the State Department of Assessments and Taxation, and one individual appointed by the Governor and not otherwise affiliated with State government) makes an original estimate approximately three months before July 1 of the year to which the property tax rate will apply and a revised estimate approximately nine months after that date. The following table portrays the accuracy of estimates of State property tax revenue in fiscal years 2006 through 2010.

State Property Tax Revenue Estimates
($ in millions)

Fiscal Year	Property Tax Rate (a)	Actual Collections	Original Estimate Amount	Original Estimate % (b)	Final Estimate Amount	Final Estimate % (b)
2006	13.2¢	$575.1	$567.6	101.33%	$573.3	100.31%
2007	11.2	552.7	547.5	100.95	552.1	100.09
2008	11.2	625.7	619.4	101.02	642.0	97.47
2009	11.2	698.6	691.2	101.07	700.9	99.67
2010 (c)	11.2	758.9	751.2	101.03	762.4	99.54

(a) The property tax rate is per $100 of assessed valuation.
(b) Actual collections as a percentage of estimates.
(c) Actual collections in FY 2010 include $16.0 million in revenues due in FY 2010 but collected in FY 2011.

General fund revenues and State property tax revenues (once the rates and structures are set) are entirely independent of the expenditures from the funds into which they flow, thus accurate forecasting is important. On the other hand, the vast majority of federal funds are received under matching programs or State administered programs where receipts vary directly with expenditures or expenditures are directly controlled by receipts. See Appendix C, "SUPPLEMENTARY REVENUE SCHEDULES – State of Maryland" pages C-1 and C-2 for a more detailed comparison of revenue estimates to actual collections. See also page C-3 for details as to the sources of to these revenues.

State Expenditures and Services

State expenditures and services for capital and operating programs include a typical range of direct governmental services and activities, as well as State support and aid to local governmental units, primarily in the areas of education and transportation.

Public Education. The agencies administering public education spend the largest portion of State revenue. In the fiscal year 2011 Budget, as amended, public education accounted for 50% of general fund appropriations and 38% of all appropriations.

Elementary and Secondary Education. The school boards of the 23 counties and Baltimore City are responsible for much of the administration of public elementary and secondary schools, including charter schools. There are no special, separate school districts in Maryland. The State supports the elementary and secondary education programs of the counties and Baltimore City through a number of aid programs. The major programs are described as follows: (1) under a formula equalized for ability to pay and based on wealth and enrollment factors, the State distributes aid to the local school systems for current expenses; (2) for personnel in local public schools, the State pays directly the employer's portion of the retirement system contributions; and (3) the State also distributes aid based on the number of students receiving free or reduced price meals, under various components of the Students with Disabilities Aid Program, and for pupil transportation. In addition to these major programs, the State Department of Education provides aid for local libraries, food service, and various educational activities and, through the State Department of Education's Interagency Fund, distributes funds to address the service needs of children at risk.

Higher Education. The public higher education system consists of the University System of Maryland and Morgan State University, each governed by its respective Board of Regents; St. Mary's College of Maryland, governed by its own Board of Trustees; Baltimore City Community College, a State institution governed by its Board of Trustees; and 17 community colleges, each governed by a local or regional Board of Trustees.

The Maryland Higher Education Commission is responsible for developing a statewide plan for higher education, approving mission statements, setting funding guidelines and administering State aid to local community colleges, aid to private colleges and universities, and student financial aid programs.

The State finances the State universities and colleges principally with State general fund revenues. In addition, the State finances a share of the cost of the locally owned two-year community colleges. State financial assistance is primarily in the form of general purpose formula grants. The State also makes grants to eligible private institutions of higher education under a formula based on State support for State four-year universities and colleges. In total, the higher education share of fiscal year 2010 expenditures was 15.6% and is 15.7% of the fiscal year 2011 Budget.

The following table presents the trends of enrollment (expressed in full-time equivalent students) at the State universities and colleges and the local community colleges for the fiscal years shown.

Enrollment (full-time equivalent students)
State Universities and Colleges

Fiscal Year	State Four-Year Institutions	Community Colleges	Total
2007	104,865	93,255	198,120
2008	108,545	96,135	204,680
2009	117,618	101,277	218,895
2010	122,969	110,688	233,657
2011 estimate	122,603	113,473	236,076

Health and Mental Hygiene. The Department of Health and Mental Hygiene has general responsibility for public health in the State and provides direct services through 13 residential health facilities, finances medical services to the indigent, and aids local health departments on a matching formula basis. For fiscal year 2011, $8,821.3 million is budgeted for the Department of Health and Mental Hygiene, including $4,768.6 million in federal funds and $3,228.2 million in State general funds.

The largest expenditure is for the medical assistance (Medicaid) program under which the State makes payments to health service vendors providing services to eligible low-income individuals and families. For fiscal year 2010, $5,690.2 million was spent on this program, virtually all of which was for services for which the State recovered approximately 50% from the federal government plus American Recovery and Reinvestment Act of 2009 ("ARRA") funds. For fiscal year 2010, the average monthly Medicaid enrollment was estimated at approximately 677,000. For fiscal year 2011, the Budget provides for 765,000 Medical Assistance enrollees and funding of $5,891.2 million.

The health centers operated by the Department of Health and Mental Hygiene provide care for mentally ill, intellectually disabled, and chronically ill patients. In recent years the State has expanded programs to provide services within the community as an alternative to institutionalization in State facilities.

Transportation. Transportation is the third largest category of State expenditures. The Department of Transportation is responsible for most of the State's various transportation facilities and for developing and maintaining a State master plan for transportation. It administers the State highway system; operates a mass transit system in the Baltimore region; assists mass transit in the Washington, D.C. region; operates and assists commuter rail systems and certain critical freight railroads; operates two airports, including Baltimore/Washington International Thurgood Marshall Airport ("BWI"); operates State-owned port facilities, primarily in Baltimore Harbor; and administers the licensing and regulation of motor vehicle drivers and dealers, as well as motor vehicles. For fiscal year 2011, the transportation budget totals $3,399.2 million; on the same basis actual expenditures for fiscal year 2010 were $3,162.5 million. See "STATE FINANCES – Transportation Trust Fund" with respect to the principal revenues and expenditures related to the Department of Transportation.

The Maryland Transportation Authority ("MdTA") of which the Secretary of Transportation is Chairman, is responsible for the administration of the various toll revenue facilities, which consist of bridges over the Susquehanna, Patapsco, and Potomac Rivers and the Chesapeake Bay; two tunnels under the Baltimore Harbor; the John F. Kennedy Memorial Highway; and other transportation facilities. The MdTA's financial transactions are accounted for in a separate special revenue fund and are not included in the Transportation Trust Fund.

Human Resources. The Department of Human Resources administers State and federal programs relating to child welfare, foster care, public assistance, family investment services, adult services, energy assistance, legal services, victim services, child support enforcement, and work opportunity assistance for adults receiving public assistance. For fiscal year 2011, approximately $2,589.3 million is budgeted for the Department of Human Resources, including $1,937.7 million in federal funds and $555.0 million in State general funds.

Public assistance programs include Temporary Cash Assistance ("TCA"), food stamps, assistance to disabled citizens, and several emergency assistance programs. The largest categories of programs are TCA, in which the State/federal shares vary depending upon the areas to which the State directs its Maintenance of Effort and Food Stamps, which is 100% federal funds. The Department of Human Resources also provides a broad range of social services to the indigent and other eligible persons under both federal-State and State-only programs.

Public Safety and Correctional Services, State Police, Juvenile Services and Governor's Office for Crime Control and Prevention. The Departments of Public Safety and Correctional Services, State Police, and Juvenile Services, include correctional agencies and institutions, parole units, the Maryland State Police, services and facilities for adjudicated youth, and related activities. The Governor's Office for Crime Control and Prevention administers federal and State grant programs focusing on crime control and prevention. For fiscal year 2011, approximately $1,896.7 million is budgeted for these departments, of which $1,499.6 million is from general funds.

Other Expenditures and Services. The State has numerous other operating units, including the judicial system; financial and revenue administration; labor, licensing and regulation; planning, budgetary activity, and personnel administration; natural resources and recreation; business and economic development; housing and community development; environment; and others, all of which accounted for approximately 8.3% of total expenditures for fiscal year 2010 and 8.9% of the fiscal year 2011 Budget. General obligation bond debt service accounted for approximately 2.4% of total expenditures for fiscal year 2010 and 2.5% of the fiscal year 2011 Budget.

State Reserve Fund

The State Reserve Fund is currently composed of four accounts: the Revenue Stabilization Account, which is established to retain State revenues for future needs and to reduce the need for future tax increases; the Dedicated Purpose Account, which is established to retain appropriations for major multi-year expenditures and to meet contingency requirements; the Economic Development Opportunities Program Account, which is to be used for extraordinary economic development opportunities as a supplement to existing programs; and the Catastrophic Event Account, which is to be used to respond quickly to a natural disaster or other catastrophic event that cannot be managed within existing appropriations. All interest earned on the State Reserve Fund is credited to the Revenue Stabilization Account.

The Governor is required to include in each annual budget bill an appropriation of \$100.0 million if the balance in the Revenue Stabilization Account is less than 3.0% of estimated general fund revenues. If the balance in the Account is at least 3.0% of estimated general fund revenues but less than 7.5% of estimated general fund revenues, the Governor is required to include an appropriation to the Account of \$50.0 million or the amount necessary to bring the balance of the Account to 7.5%, whichever is less. Maryland law defines estimated general fund revenues as those stated in the annual report of the Board of Revenue Estimates submitted to the Governor.

The Governor is also required to include an appropriation to the Revenue Stabilization Account equal to the unappropriated general fund balance in excess of \$10.0 million from the second prior fiscal year. The appropriation required under this provision may be offset by any appropriation required to reach a certain percent of estimated general fund revenues, as discussed above.

The provisions discussed above would have required an appropriation to the Revenue Stabilization Account in fiscal year 2011. However, pursuant to provisions in the Budget Reconciliation and Financing Act of 2009, no appropriation was made due to requirements in ARRA that the additional Medicaid funds authorized by ARRA could not directly or indirectly supplement a State's Rainy Day Fund.

Withdrawals that do not result in a Revenue Stabilization Account balance below 5.0% of estimated general fund revenues may be authorized by an act of the General Assembly or specifically authorized in the State Budget. Withdrawals that result in a Revenue Stabilization Account balance below 5.0% of estimated general fund revenues must be authorized by an act of the General Assembly other than the State Budget Bill.

The following table presents the balances of the State Reserve Fund for the four fiscal years ended June 30, 2007 through June 30, 2010, and the estimate for the fiscal year ending June 30, 2011.

State Reserve Fund
Fiscal Years 2007–2011
(\$ in millions)

	Balance at Fiscal Year End			
Fiscal Year	**Revenue Stabilization Account**	**Other Accounts**	**Total State Reserve Fund**	**Revenue Stabilization Account as a % of General Fund Revenue**
2007	\$1,432.2	\$157.6	\$1,589.7	11.1%
2008 (a)	684.8	35.5	720.3	5.1
2009	691.8	10.0	701.8	5.4
2010 (b)	611.6	3.1	614.7	4.9
2011 estimate (b)	622.7	3.0	625.7	4.7

(a) In fiscal year 2008, transfers to the General Fund included \$978.0 million from the Revenue Stabilization Account and \$100.0 million from the Dedicated Purpose Account.
(b) In the proposed budget, the Revenue Stabilization Account balance as a percentage of general fund revenue as stated in the annual report of the Board of Revenue Estimated equaled 5.0%. Subsequently, the percentage fell below 5.0% due to increased revenues.

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FY 2006-2010 GAAP General Fund Results of Operations

The GAAP General Fund is that fund from which all general costs of State government are paid and to which taxes and other revenues not specifically directed by law to be deposited in separate funds are recorded in accordance with Generally Accepted Accounting Principles ("GAAP"). The following table presents the comparative statement of revenues, expenditures, and changes in fund balances in the GAAP General Fund for fiscal years ended June 30, 2006 through June 30, 2010.

GAAP General Fund Comparative Statement of Revenues,
Expenditures, and Changes in Fund Balance
Fiscal Years 2006-2010
($ in thousands)

	2006	2007	2008	2009	2010
Revenues (a):					
Income taxes	$ 7,108,573	$ 7,325,181	$ 7,868,899	$ 7,156,297	$6,957,811
Sales and use taxes	3,382,851	3,447,896	3,748,933	3,851,752	3,754,326
Other taxes	1,748,366	1,687,223	1,816,652	1,554,732	1,542,180
Other licenses and fees	808,617	782,712	651,079	686,806	682,756
Charges for services	597,719	642,801	732,103	830,038	1,220,226
Interest and other investment income	201,783	292,262	296,636	154,895	119,635
Federal revenue	5,258,137	5,624,412	5,846,077	7,005,387	8,581,125
Other	99,236	206,076	188,575	358,044	395,238
Total revenues	19,205,282	20,008,563	21,148,954	21,597,951	23,253,297
Expenditures (a):					
General government	737,060	715,676	727,569	754,317	754,139
Health and mental hygiene	6,547,288	7,252,117	7,536,747	8,286,032	9,040,549
Education	6,352,121	7,151,741	7,997,946	8,289,393	8,539,556
Human resources	1,622,922	1,643,078	1,761,284	2,061,959	2,291,347
Public Safety	1,606,314	1,790,595	1,835,652	1,824,595	1,773,141
Judicial	490,861	527,618	556,056	585,778	556,908
Labor, licensing and regulation	154,607	164,255	166,848	182,751	226,118
Natural resources and recreation	165,439	177,553	188,675	205,876	184,342
Housing and community development	215,940	228,105	244,581	244,208	315,630
Environment	83,793	92,460	95,918	106,307	110,092
Agriculture	64,044	101,252	147,494	142,804	92,954
Business and economic development	56,374	65,774	94,503	90,892	74,578
Intergovernmental	553,941	503,014	408,208	354,617	336,703
Total expenditures	18,650,704	20,413,238	21,761,481	23,129,529	24,296,057
Excess (deficiency) of revenues over expenditures	554,578	(404,675)	(612,527)	(1,531,578)	(1,042,760)
Other sources (uses) of financial resources:					
Capital leases	71,798	50,575	31,185	27,945	15,472
Operating transfers in	653,163	613,148	648,718	602,745	1,276,702
Operating transfers out	(368,942)	(532,635)	(440,755)	(474,778)	(510,244)
Net other sources (uses) of financial resources	356,019	131,088	239,148	155,912	781,930
Net change in fund balances	910,597	(273,587)	(373,379)	(1,375,666)	(260,830)
Fund balances at the beginning of the year	2,621,957	3,532,554	3,258,967	2,885,588	1,509,922
Fund balances, June 30	$ 3,532,554	$ 3,258,967	$ 2,885,588	$1,509,922	$1,249,092
Fund balance as % of revenues	18.4%	16.3%	13.6%	7.0%	5.4%

(a) The budgetary system's principal departures from the modified accrual basis, i.e., GAAP, are with the classification of the State's budgetary funds and the timing of certain revenues and expenditures. See APPENDIX A – "COMPREHENSIVE ANNUAL FINANCIAL REPORT."

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General Fund 2011 Budget

2011 Budget. On April 12, 2010, the General Assembly enacted the Budget for fiscal year 2011 (the "2011 Budget"). The 2011 Budget includes, among other things: (1) funds to the State's Teachers' and Employees' Retirement and Pension Systems consistent with the "corridor" methodology of funding as prescribed by statute; (2) $5,741.6 million in aid to local governments from general funds; (3) $0.8 million for capital projects; (4) $15.0 million to the State Reserve Fund; and (5) deficiency appropriations of $195.8 million for fiscal year 2010, including $108.9 million for Medicaid, $39.3 million for Public Education, $17.3 million to the Department of Human Resources for Temporary Disability Assistance Payments, $13.3 million to the Department of Assessments and Taxation for tax credit payments, and $12.0 million for the Department of Public Safety and Correctional Services, mostly for staffing and inmate medical costs. The 2011 Budget does not include funds for any employee cost of living adjustment, merit increases, or a match for contributions to deferred compensation.

As part of the fiscal year 2011 budget plan, the General Assembly enacted the Budget Reconciliation and Financing Act of 2010 (the "2010 Act"), legislation that authorizes various funding changes resulting in increased general fund revenues and decreased general fund appropriations. The 2010 Act and other revenue adjustments increase fiscal year 2011 general fund revenues by $367.2 million, including $363.4 million in Highway User Revenues, $22.1 million by diverting to the General Fund a portion of sales taxes and motor fuel taxes from the Chesapeake Bay 2010 Fund, $11.0 million resulting from changes in the allocation of interest earnings that otherwise would be retained in special funds accounts, and $2.4 million in Admissions and Amusement tax attributable to the cultural arts. Fiscal year 2011 general fund revenue reductions include $41.8 million in corporate income taxes due to the reauthorization of the Higher Education Investment Fund and $19.0 million related to the Job Creation Tax Credit.

The 2010 Act authorizes transfers to the General Fund in fiscal year 2011 of $22.3 million, including $11.7 million from the University System of Maryland and $6.0 million in furlough-related savings from various special funds. The 2010 Act also authorizes transfers to the General Fund totaling $111.7 million from capital-related special fund balances, including $45.0 million from the Bay Restoration Fund and $54.0 million in transfer tax revenues.

Reductions to required fiscal year 2011 general fund appropriations include $350.0 million in Aid to Education to be replaced with Education Trust Fund revenues being re-allocated from the Local Income Tax Reserve, $156.9 million from reducing operating budget funding for the Intercounty Connector to reflect the use of bonds, $42.1 million in Higher Education funding to be replaced with Higher Education Investment Fund revenues, and $17.0 million due to an increase in quality assessments on nursing facilities.

The 2011 Budget includes $15.0 million for the State Reserve Fund in the Dedicated Purpose Account for distribution to the Department of Health and Mental Hygiene for the Prince George's County Health Care System. The 2011 Budget also eliminates operating funds for the Intercounty Connector. No transfers from the State Reserve Fund to the General Fund are planned in fiscal year 2011.

The 2011 Budget funds fiscal year 2011 debt service on the State's general obligation bonds with $827.5 million in special funds, primarily from State property tax revenues. The projected amount of State property tax revenues reflects a property tax rate of 11.2 cents (per $100 of taxable assessed value), a rate unchanged from fiscal year 2010.

State aid to primary and secondary schools includes $114.0 million in Education Trust Fund revenues generated through $60.0 million in anticipated revenue from Video Lottery Terminal ("VLT") operations and $54.0 million in VLT licensing fees. The 2011 Budget also includes $389.0 million in additional federal fund attainment in the Medicaid program.

Based on the Board of Revenue Estimates March 2010 general fund revenue estimate and actions enacted by the General Assembly in the 2010 session, it was estimated that the general fund balance on a budgetary basis at June 30, 2011 would be $203.9 million.

Subsequent Events. General fund revenues and fund transfers realized in the State's fiscal year ended June 30, 2010 were $190.9 million above estimates and general fund reversions on a budgetary basis were $0.6 million below estimates, resulting in a $344.0 million general fund balance on a budgetary basis.

On August 10, 2010 federal legislation authorizing an extension of enhanced federal fund Medicaid match provisions was enacted. The extended federal Medicaid match was approved at a level lower than that authorized by the American Recovery and Reinvestment Act of 2009. The 2010 Act authorized a transfer of $200.0 million from the Local Income Tax Reserve to the General Fund due to the reduction in the federal match.

On December 15, 2010, the Board of Revenue Estimates increased its fiscal year 2011 general fund revenue estimate by $57.0 million. In addition, the fiscal year 2012 Budget plan includes $60.5 million in revenue adjustments including $23.0 million contingent upon the enactment of the Budget Reconciliation and Financing Act of 2011 (the "2011 Act") authorizing the deposit of federal retiree drug subsidies to the General Fund. The 2011 Act also proposes transfers to the General Fund in fiscal year 2011 of $5.6 million in transfer tax revenues and $2.2 million from various special fund balances. Based on the events and actions discussed above, it is estimated that the general fund balance on a budgetary basis at June 30, 2011 will equal $679.4 million.

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General Fund Revenues and Appropriations — Budgetary Basis
Fiscal Years 2010-2011
($ in millions)

	2010 Actual	2011 Original Budget	2011 Estimate (a)
General Fund Revenues			
Income Taxes	$6,867.6	$6,805.6	$6,950.6
Sales and Use Taxes	3,522.8	3,667.2	3,708.3
Lottery	491.0	527.6	492.6
Franchises, Excises, Licenses, Fees	1,678.7	2,033.1	2,068.1
Extraordinary Items (b)	27.0	5.4	3.7
Total	$12,587.1	$13,038.9	$13,223.2
General Fund Appropriations			
Public Education	$6,977.1	$6,637.1	$6,641.2
Human Resources	607.3	557.8	555.0
Public Health	2,963.0	3,150.1	3,228.2
Public Safety, State Police, and Juvenile Services	1,499.2	1,500.3	1,499.6
Capital Funding	0.1	0.8	0.8
State Reserve Fund – Revenue Stabilization & Dedicated Purpose Accounts	114.9	15.0	15.0
Administrative and Other	1,280.8	1,280.5	1,288.7
Total	$13,442.3	$13,141.6	$13,228.5

General Fund Balance — Budgetary Basis
Fiscal Years 2010-2011
($ in millions)

	2010 Actual	2011 Estimate (a)
Balance Beginning of Year (c)	$87.2	$ 344.0
Increases:		
Revenues	12,587.1	13,223.2
Transfer from Revenue Stabilization Account	210.0	0.0
Transfer from other funds	888.4	340.7
	13,685.5	13,563.9
Decreases:		
Appropriations	13,442.3	13,228.5
Reversion of Prior Year Encumbrances	(13.7)	-
	13,428.6	13,228.5
Balance End of Year (c)	$344.0	$679.4

(a) Estimated revenues include revenues recommended to the Governor by the Board of Revenue Estimates in December 2010 and revenue adjustments incorporated in the fiscal year 2012 Budget. Estimated appropriations are based on the Budget as enacted and include deficiency appropriations of $93.8 million and are net of estimated reversions of $37.8 million.
(b) Extraordinary revenues include anticipated collections from the 2009 tax amnesty program.
(c) Fund balance does not include amounts reserved for the State Reserve Fund or encumbrances. See "STATE FINANCES – State Reserve Fund."

*Totals may not add due to rounding.

General Fund 2012 Budget

2012 Budget. On January 21, 2011, the Governor presented his proposed fiscal year 2012 Budget ("the 2012 Budget") to the General Assembly. The 2012 Budget includes $14,636.0 million in spending for, among other things (1) $6,185.3 million in aid to local governments; (2) $2,534.0 million for the Medicaid Program; and (3) $15.0 million to the Dedicated Purpose Account of the State Reserve Fund for the Prince George's County Health System. The 2012 Budget also includes deficiency appropriations of $93.8 million for fiscal year 2011, including: $78.1 million to the Department of Health and Mental Hygiene primarily for Medicaid, $6.1 million for the State Department of Education largely for student assessments, and $3.6 million to the Department of Juvenile Services for various operating expenses.

As part of the fiscal year 2012 budget plan, the Governor has proposed the Budget Reconciliation and Financing Act of 2011 (the "2011 Act") legislation that, if enacted, would authorize various funding changes resulting in increased general fund revenues and decreased general fund appropriations.

The 2011 Act and other revenue adjustments increase fiscal year 2012 revenues by $253.8 million, including $59.1 million in additional income tax and sales tax collections as a result of federal tax changes, $60.0 million in diverted transportation related revenues, $24.0 million in federal retiree drug subsidies, $20.0 million from linking renewals of vehicle registrations to the payment of tax liabilities, $18.7 million in sales and motor fuel tax diversions from the Chesapeake Bay 2010 Fund, and $17.8 million from maintaining existing payments to businesses for sales tax collections.

The 2011 Act proposes transfers to the General Fund in fiscal year 2012 of $12.9 million, including $10.0 million from the Real Property Records Improvement Fund and $2.0 million from the State Insurance Trust Fund. The 2011 Act also proposes transfer to the General Fund totaling $191.3 million from various capital-related special funds, including $94.5 million in transfer tax revenues and $90.0 million from the Bay Restoration Fund.

Proposed fiscal year 2012 general fund appropriations include reversions and reductions totaling $445.2 million contingent upon enactment of the 2011 Act. The proposed reductions include $93.7 million in aid to education to maintain State support for primary and secondary education at the fiscal year 2011 level, $124.4 million in aid to education as a result of prefunding fiscal year 2012 support in fiscal year 2011, $104.0 million in savings from retirement reforms, $42.4 million for various proposals in the Department of Health and Mental Hygiene, $34.8 million from shifting a share of the cost of property valuation to local governments, and $22.1 million in savings from retiree prescription drug benefits.

The 2012 Budget includes $1.5 billion in contributions to the State Teachers' and Employees' Pension Systems consistent with the corridor methodology of funding as prescribed by statute. The 2011 Act proposes reforms to the Teachers' and Employees' Pension Systems. If the proposed reforms are enacted, the 2011 Act will also reduce the State's contributions to the Teachers' and Employees' Pension Systems in fiscal year 2012 by $120.0 million to reflect the impact of the increased employee contributions and reduced future retirement benefits and their associated liabilities. Of this amount, $104.0 million will accrue to the General Fund, and $16.0 million will accrue to special and federal funds contributing to the pension systems. Any savings from pension reform in fiscal year 2012 in excess of $120.0 million will be reinvested in the System. The 2011 Act also provides that for future fiscal years the State's contributions to each system shall include an additional amount reflecting the difference between the State's required contribution under the corridor funding method for that fiscal year and the amount that would have been required had pension reforms not been enacted. For fiscal year 2013 only, that additional amount will be reduced by $60.0 million, but beginning in fiscal year 2014 all savings from the 2011 Act pension reforms will be invested in the Teachers' and Employees' Pension Systems.

The 2012 Budget includes funds for full employee salaries and does not propose any furloughs or temporary salary reductions. The 2012 Budget also does not include funds for any employee cost of living adjustment, merit increases, or the statutory match for contributions to deferred compensation but does include $39.2 million for a one-time $750.00 bonus for most employees.

The 2012 Budget includes $15.0 million to the Dedicated Purpose Account of the State Reserve Fund for distribution to the Prince George's County Health System. The 2011 Act proposes directing $40.0 million in transportation related revenues to the Revenue Stabilization Account of the State Reserve Fund. The balance in the Revenue Stabilization Account is estimated to equal $681.5 million or 5.0% of general fund revenues as estimated by the Board of Revenue Estimates in December 2010. No transfers from the State Reserve Fund to the General Fund are planned in fiscal year 2012.

The 2012 Budget funds debt service on the State's general obligation bonds with $867.3 million in special funds, primarily from State property tax revenues and $11.1 million in federal funds reflecting the interest subsidy on current outstanding ARRA Bonds. The projected amount of State property tax revenues reflects a property tax rate of 11.2 cents (per $100 of taxable assessed value), a rate unchanged from fiscal year 2011.

It is estimated that the general fund balance on a budgetary basis at June 30, 2012, will be $120.3 million. In addition, the balance in the Revenue Stabilization Account of the State Reserve Fund is estimated to be $681.5 million at June 30, 2012, equal to 5.0% of estimated general fund revenues.

Interim General Fund Revenues and Expenditures

The State does not issue, nor does it have procedures in effect that provide interim financial statements; however, the Office of the Comptroller has compiled the following summary data with respect to the revenues and expenditures of the General Fund for the six months ended December 31, 2009 and 2010. The General Fund is that fund from which all general costs of State government are paid and to which taxes and other revenues not specifically directed by law to be deposited in separate funds are recorded. Approximately 40.4% of revenues were accounted for in the General Fund in fiscal year 2010, and it is currently estimated that the General Fund will account for 39.9% of all revenues in fiscal year 2011. The presentation of these data does not purport to be, and should not be construed as, an interim Statement of General Fund Revenues, Expenditures, and Surplus; however, adjustments have been made to present the revenues on a basis reasonably comparable to the table of operating revenues included in the section "STATE FINANCES – State Revenues" presented elsewhere in this Official Statement.

General Fund Revenues. The following presents a summary of general fund revenues on a budgetary basis by major categories for the six months ended December 31, 2009 and 2010.

General Fund Revenues
($ in millions)

	Six months Ended December 31			
	Fiscal Year 2010		Fiscal Year 2011	
	Amount	% of FY Actual Revenues (a)	Amount	% of FY Estimated Revenues (a)
Income Taxes (b)	$2,818.5	41.0%	$2,810.1	40.4%
Sales and Use Taxes (b)	1,452.2	41.2	1,507.1	41.0
Motor Vehicle User Taxes, Fees (c)	4.3	51.3	173.4	46.2
Property, Franchise, Excise Taxes	496.3	45.6	524.4	46.5
Sundry Fees, Licenses, Charges, Etc.	359.0	33.5	327.2	31.6
Federal	25.1	37.2	16.2	23.6
Total	$5,155.4	41.0 %	$5,358.5	40.7%

(a) For the first six months of fiscal year 2010, represents the percentage of actual revenues for the full fiscal year; for the first six months of fiscal year 2011, represents the percentage of revenues as estimated by the Board of Revenues Estimates on December 15, 2010.

(b) Income taxes and sales and use taxes reflect amounts actually received from July through December, excluding amounts received in that period allocable to the preceding fiscal year.

(c) These revenues include existing transportation related taxes whose distributions were changed for fiscal years 2010 through 2012 in the fiscal year 2011 operating budget approved by the General Assembly during the 2010 session. The fiscal year 2010 distribution was treated as a transfer.

* Totals may not add due to rounding.

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General Fund Expenditures. The following presents a summary of general fund expenditures on a budgetary basis by major category for the six months ended December 31, 2009 and 2010 (see note (a)):

General Fund Expenditures
($ in millions)

	Six months Ended December 31			
	Fiscal Year 2010		Fiscal Year 2011	
	Amount	% of FY Actual Expenditures (b)	Amount	% of FY Budget Expenditures (b)
Public Education	$3,416.7	48.9%	$2,940.2	44.3%
Human Resources	244.4	40.3	257.0	46.1
Public Health	1,917.8	63.9	2,001.6	62.9
Public Safety	640.0	44.9	622.3	43.5
Administrative & Other	630.1	47.4	663.0	48.6
State Reserve Fund - Revenue Stabilization Account	114.9	100.0	-	-
Total	$6,963.9	51.7 %	$6,484.1	49.2%

(a) The State's accounting procedures do not require recording encumbrances (i.e., commitments evidenced by purchase orders or contracts) for financial reporting purposes except at the end of each fiscal year. Accordingly, no amounts of encumbrances have been recorded for the six months ended December 31, 2009 and 2010. At June 30, 2009 and 2010, General Fund encumbrances charged to expenditures for the fiscal years ended totaled $136.7 million and $97.4 million, respectively. The Office of the Comptroller has no reason to believe that the current patterns of commitments are not in conformity with historical practices. See Appendix A, Notes 1 and 2 of Notes to Financial Statements and Notes to Required Supplementary Information as to certain changes, accrual methods, and practices affecting the presentation of expenditures.

(b) For the first six months of fiscal year 2010, represents the percentage of actual expenditures for the full fiscal year; for the first six months of fiscal year 2011, represents the percentage of current budget expenditures.

* Totals may not add due to rounding.

Federal Stimulus Funding

The American Recovery and Reinvestment Act of 2009 (“ARRA”) provides support to States by funding infrastructure, education programs and human services programs by providing discretionary and targeted funding. The table titled Impact of ARRA on Maryland shows that ARRA provides over $4.6 billion in formula funding to the State of Maryland.

ARRA grants to Maryland provide $581.8 million for educational programs, $767.3 million for infrastructure programs, and $425.6 million for other programs. These funds provide additional federal support and do not supplant general funds. ARRA also includes $101.8 million in grants to local governments and aid organizations that are not appropriated in the State budget. These funds will be distributed directly to the local governments and aid organizations.

ARRA also provides federal grants for which State and local governments must compete, including grants to support law enforcement, habitat conservation, and the arts. It is uncertain how much of these funds the State will receive and they are not included in ARRA estimates for Maryland.

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Funds Supporting State General Fund Commitments

ARRA's most significant impact for Maryland is the $2.8 billion that can support State general fund commitments. These funds support Medicaid, education, and discretionary State spending. The funds are used in the place of general funds to sustain State funding from fiscal years 2009 to 2011.

Medicaid funds total $1,896.3 million and are available from October 2008 through the end of December 2010. A portion of the funds are attributable to a 6.2% increase in the State's Federal Medical Assistance Percentage.

Impact of ARRA on Maryland
Fiscal Years 2009 through 2011
($ in Millions)

Program	FY 2009	FY 2010	FY 2011 Estimate	FY 2012 Estimate	Estimated Total Award
Supporting State General Fund Commitments					
Fiscal Stabilization – Education	$0.0	$297.3	$422.3	$0.0	$719.6
Fiscal Stabilization – Discretionary	1.5	79.6	79.0	0.0	160.1
Medicaid	443.5	785.8	667.0	0.0	1,896.3
Subtotal	445.0	1,162.7	1,168.3	0.0	2,776.0
Education Grants Appropriated in the State Budget					
Special Education	0.0	214.1	14.2	0.0	228.3
Title I	0.0	130.7	0.0	0.0	130.7
Race to the Top	0.0	0.0	173.6	26.6	200.2
Education Technology	0.0	8.1	4.6	0.0	12.7
School Improvement Program	0.0	0.2	0.0	0.3	0.5
Vocational Rehabilitation	0.8	5.3	2.7	0.0	8.8
Head Start	0.0	0.0	0.0	0.3	0.6
Subtotal	0.8	358.4	195.4	27.2	581.8
Infrastructure Appropriated in the State Budget					
Highways	15.0	155.8	191.0	46.8	408.6
Transit Capital	0.0	42.4	74.7	35.2	152.3
Aviation Capital	0.0	6.5	7.5	0.0	14.0
High Speed Rail	0.0	0.0	1.1	15.0	16.1
Tax Credit Assistance Program (HOME)	0.0	31.7	0.0	0.0	31.7
Section 1602 Monetization	0.0	77.2	0.0	0.0	77.2
Broadband Technology	0.0	0.0	0.0	43.8	43.8
Clean Water	0.0	19.1	0.5	0.4	20.0
Drinking Water	0.0	3.4	0.1	0.1	3.6
Subtotal	15.0	336.1	274.9	141.3	767.3
Other Grants Appropriated in the State Budget					
State Energy Programs	0.0	19.3	28.5	3.7	51.5
Energy Efficiency and Conservation Block Grant	0.0	5.7	17.5	2.1	25.3
Weatherization	6.5	52.3	2.7	0.5	62.0
Community Services Block Grant	0.0	13.7	0.0	0.0	13.7
Homelessness Prevention	0.0	5.4	0.0	0.0	5.4
Community Development Block Grant	0.0	2.1	0.0	0.0	2.1
Foster Care	7.2	7.1	0.0	0.0	14.3
Food Assistance	33.4	3.9	0.3	0.0	37.6
Temporary Assistance for Needy Families	16.1	32.8	9.6	0.0	58.5
Ind. Living, Homeless Educ. & Work Study	0.0	1.6	0.4	0.0	2.0
Child Care & Development Block Grant	4.4	18.2	2.0	0.0	24.6
Child Support Enforcement	14.1	12.2	2.8	0.0	29.1
UI/Workforce Inv./Dislocated Workers	1.8	17.1	0.7	0.8	20.4
Preventative Health BG/Immunization	0.0	1.3	2.8	1.0	5.1
Health Information Technology	1.0	0.6	4.0	7.8	13.4
Byrne Grants/Public Safety Grants	0.1	8.8	12.4	10.9	32.2
Federal Subsidy on Build America Bonds	0.0	0.9	9.2	11.1	21.2
Other Grants	0.3	3.3	2.9	0.8	7.3
Subtotal	84.9	206.3	95.8	38.8	425.7
Total State Grants	$545.7	$2,063.5	$1,734.4	$207.2	$4,550.8

Source: Department of Budget and Management.
* Totals may not add due to rounding.

State Fiscal Stabilization Fund. The table below shows that ARRA provides $879.8 million to Maryland in Fiscal Stabilization funds. The legislation requires that 81.8%, or $719.7 million, support education programs. The education funds must first be used to restore elementary and secondary school reductions to fiscal year 2008 spending levels. Since Maryland has increased spending, this requirement does not apply. Remaining funds must be used to support State formula increases in fiscal years 2010 and 2011 for elementary and secondary education or to restore reductions made to State higher education funding below fiscal years 2008 or 2009 levels. The State has applied these funds to support elementary and secondary education increases. The fiscal year 2010 Budget included $297.3 million and $422.3 million is included in the 2011 Budget.

Finally, ARRA permits 18.2% of the Fiscal Stabilization funds to support general government services. These discretionary funds total $160.1 million, of which $1.5 million was spent in fiscal year 2009, $79.6 million was spent in fiscal year 2010 and the remaining $79.0 million is included in the 2011 Budget.

ARRA – Federal Stabilization Spending by Program
Fiscal Years 2009-2011
($ in Millions)

Program	FY 2009	FY 2010 Estimate	FY 2011 Estimate	Total
Fiscal Stabilization – Education	$0.0	$297.3	$422.3	$719.7
Fiscal Stabilization – Discretionary				
Maryland State Police	0.0	19.9	19.9	39.7
Department of Juvenile Services	0.0	4.5	4.5	9.0
Department of Human Resources	1.5	1.5	1.5	4.5
Department of Public Safety and Correctional Services	0.0	53.7	53.2	106.9
Subtotal	1.5	79.6	79.1	160.1
Total Fiscal Stabilization	$1.5	$376.9	$501.4	$879.8

* Totals may not add due to rounding.

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FY 2006-2010 General Fund Budget vs. Actual

The following statement presents a comparison of budget versus actual revenues, expenditures and encumbrances and changes in fund balance in the State's General Fund using the budgetary basis of accounting for each of the past five fiscal years ended June 30.

Statutory General Fund Comparative Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balance Budget and Actual Fiscal Years 2006 to 2010 ($ in thousands)

	2006		2007		2008		2009		2010	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Revenues:										
Income taxes	$ 6,831,911	$6,843,809	$ 7,167,363	$ 7,268,949	$7,545,165	$7,491,807	7,363,803	7,027,897	$6,600,565	$6,888,949
Sales and use taxes	3,350,608	3,355,168	3,457,229	3,420,149	3,691,717	3,675,263	3,610,951	3,620,431	3,473,936	3,528,960
Other taxes	976,705	945,458	956,817	961,416	1,083,077	1,100,788	1,113,177	1,056,124	1,010,987	1,034,718
Licenses and fees	181,709	198,533	212,457	209,504	205,284	205,314	190,969	207,169	202,944	204,963
Charges for services	292,566	296,653	294,546	306,806	308,532	299,709	290,861	298,377	291,250	271,923
Interest and other investment income	133,976	195,395	172,795	260,708	122,585	234,289	103,000	113,607	35,000	64,759
Other	572,042	928,778	588,371	1,477,980	601,428	837,322	547,693	878,185	598,114	705,211
Total revenues (a)	12,339,517	12,763,794	12,849,578	13,905,512	13,557,788	13,844,492	13,220,454	13,201,790	12,212,796	12,699,483
Expenditures and encumbrances by major function:										
Payments of revenue to civil divisions of the State	132,036	131,793	145,033	144,794	149,512	149,218	120,760	120,760	124,011	124,011
Public debt	-	-	-	-	29,349	29,349	-	-	-	-
Legislative	65,284	64,184	69,128	68,156	72,258	70,838	76,397	73,650	76,403	71,590
Judicial review and legal	392,974	392,541	432,829	429,676	457,197	453,810	485,384	477,529	479,558	469,861
Executive and administrative control	169,705	168,299	278,878	276,634	195,834	193,466	254,130	248,094	200,473	197,325
Financial and revenue administration	165,026	164,754	182,851	179,001	185,550	180,191	179,818	178,792	197,695	196,070
Budget and management	60,033	59,190	65,860	62,537	31,546	28,611	38,839	36,165	38,328	37,062
General services	50,388	50,387	59,815	58,814	58,062	58,062	55,284	55,284	51,284	51,209
Natural resources and recreation	65,529	65,298	75,692	75,387	76,856	76,476	57,855	57,718	45,351	45,250
Agriculture	24,822	24,812	30,292	30,021	34,392	33,710	29,155	28,884	25,236	25,236
Health, hospitals and mental hygiene	3,382,496	3,381,597	3,588,004	3,588,003	3,671,920	3,651,019	3,373,973	3,362,742	2,985,071	2,962,979
Human resources	551,865	550,865	569,924	569,924	575,743	575,743	589,585	589,215	607,269	607,266
Labor, licensing and regulation	19,020	16,681	16,004	15,728	15,880	15,440	12,829	12,743	33,235	33,235
Public safety and correctional services	890,577	890,305	1,034,310	1,033,397	1,034,831	1,034,830	1,076,908	1,076,861	1,008,610	1,007,312
Public education	5,523,831	5,517,071	6,201,859	6,197,845	7,014,660	7,007,355	7,246,594	7,242,123	6,977,056	6,973,769
Housing and community development	6,924	6,924	46,132	45,621	13,701	13,688	9,411	9,401	4,231	4,231
Business and economic development	59,939	59,939	103,205	103,086	95,708	95,670	81,198	80,788	62,702	62,701
Environment	34,472	34,472	50,835	50,340	44,527	44,471	44,951	44,941	35,500	35,500
Juvenile services	197,656	197,334	238,791	238,520	267,188	266,734	267,002	266,941	260,637	260,636
State police	230,966	230,555	245,559	245,559	247,375	246,745	180,461	178,772	164,082	162,112
State reserve fund	349,372	349,372	791,382	791,382	262,795	262,795	211,543	211,543	114,948	114,948
Reversions:										
Current year reversions	(20,000)	-	(20,000)	-	(30,000)	-	(30,000)	-	(63,680)	-
Prior year reversions	-	(14,863)	-	(29,971)	-	(49,268)	-	(44,216)	-	(13,672)
Total expenditures and encumbrances	12,352,915	12,341,510	14,206,383	14,174,454	14,504,884	14,438,953	14,362,077	14,308,730	13,428,000	13,428,631
Changes in encumbrances during fiscal year	-	2,834	-	(51,543)	-	26,735	-	42,998	-	39,241
Total expenditures	12,352,915	12,344,344	14,206,383	14,122,911	14,504,884	14,465,688	14,362,077	14,351,728	13,428,000	13,467,872
Excess of revenues over (under) expenditures	(13,398)	419,450	(1,356,805)	(217,399)	(947,096)	(621,196)	(1,141,623)	(1,149,938)	(1,215,204)	(768,389)
Other sources (uses) of financial resources:										
Operating transfers in (out)	-	30,386	-	(23,798)	-	(72,596)	-	688,515	-	898,877
Excess of revenues over (under) expenditures and other sources of financial resources	(13,398)	449,836	(1,356,805)	(241,197)	(947,096)	(693,792)	(1,141,623)	(461,423)	(1,215,204)	130,488
Fund balances at the beginning of the year	1,872,213	1,872,213	2,322,049	2,322,049	2,080,852	2,080,852	1,387,060	1,387,060	925,637	925,637
Fund balances, June 30 (b)	$ 1,858,815	$ 2,322,049	$ 965,244	$ 2,080,852	$ 1,133,756	$ 1,387,060	$ 245,437	$ 925,637	$ (289,567)	$ 1,056,125

(a) This amount differs from the total general fund revenues noted in the "General Fund Revenues and Appropriations – Budgetary Basis" schedule due to the different treatment of transfers, including the transfer of revenues from the State Reserve Fund.

(b) Includes balances for the State Reserve Fund and encumbrances.

General Fund Outlook

The 2012 Budget results in an estimated general fund balance on a budgetary basis at June 30, 2012 of $120.3 million. The Department of Budget and Management forecasts that expenditures will exceed available revenues in future years but the size of the gap has been reduced due to expenditure reductions included in the 2011 Act and in the 2012 Budget, which together reduce the State's structural budget imbalance in fiscal year 2012 by 36.9% to $1.2 billion from an estimated $2.0 billion. The Department of Budget and Management also estimates future shortfalls in the General Fund between $1.0 and $1.3 billion in fiscal years 2013 through 2016.

Cigarette Restitution Fund

All payments received by the State related to the tobacco settlement are to be deposited into the Cigarette Restitution Fund ("CRF"), which can only be spent through appropriations in the annual State budget. At least 50% of the appropriations must be for: the reduction of tobacco use by minors; implementation of the agriculture plan adopted by the Tri-County Council for Southern Maryland; public and school education campaigns to decrease tobacco use; smoking cessation programs; enforcement of laws regarding tobacco sales; support for programs that expand access to health care for the uninsured; primary health care in rural areas and those targeted by tobacco companies; prevention, treatment, and research, including capital projects, concerning cancer, heart disease, lung disease, and tobacco use and control; and substance abuse treatment and prevention programs. Thirty percent of appropriations funded by the CRF must be for the Medicaid program. The remainder of the CRF may be appropriated for any public purpose. Maryland law provides a framework for two of the primary uses of the CRF by creating and outlining two specific programs: the Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening, and Treatment Program.

The special fund appropriations of the CRF are limited to the available proceeds of the tobacco settlement. In its budgetary process, the State has made various revenue assumptions; in the event the anticipated revenues or funds are less than the State expects, the appropriations cannot be fully expended. Net expenditures from the CRF were $192.7 million in fiscal year 2009 and $166.5 million in fiscal year 2010.

State Unemployment Insurance Trust Fund

In fiscal year 2010, the Maryland Unemployment Insurance Trust Fund (the "Fund"), which provides funding for unemployment benefits in the State, received approximately $643.9 million in annual contributions from employers and workers while paying out approximately $942.6 million in regular, annual state unemployment benefits (excluding benefits paid entirely by the federal government.) The State's unemployment rate, which was 5.4% in December 2008, rose to 7.5% in December 2009 and was 7.4% in December 2010.

The State borrowed $133.8 million from the U.S. Department of Labor ("DOL") for cash advances to provide funding for unemployment insurance benefits. The need for this advance was due to unprecedented demand on the Fund because of the economic downturn. The Fund pays up to 26 weeks of benefits for Marylanders who lose jobs through no fault of their own. Extended benefits beyond the first 26 weeks are paid for by federal funds.

Increased unemployment insurance tax payments from employers resulting from automatic rate adjustments began to flow into the Fund beginning in April 2010 and the Fund repaid the advance to DOL in December 2010. Repayment of these advances to DOL was solely the obligation of the Fund and was not an obligation of the State's General Fund. Because the advance was paid by year end, no interest was due.

While the Fund in Maryland has held up better than those in many other states, its reserves declined to less than $100.0 million in early February 2010, from $755.0 million at the end of calendar year 2008. As of December 31, 2010, the Fund balance is $200.0 million, which includes $126.8 million in additional federal funding because of modernization adjustments to the State unemployment insurance laws. In December 2010, the Fund was paying approximately $16.0 million a week in benefits.

Transportation Trust Fund

The Transportation Trust Fund, administered by the Department of Transportation, is the largest of the special funds and consolidates into a single fund substantially all fiscal resources dedicated to transportation (excluding the Maryland Transportation Authority) including the excise taxes on motor vehicle fuel and motor vehicle titles, a portion of sales and use tax on short-term vehicle rentals, a portion of the corporate income tax, wharfage and landing fees, rentals, and fare box revenues. See "STATE TAX-SUPPORTED DEBT – Department of Transportation Debt." All expenditures of the Department of Transportation are made from the Transportation Trust Fund. In addition, the various categories of transportation bonds are serviced from the Transportation Trust Fund, and the particular taxes and other designated revenues are both dedicated to the payment of such indebtedness and constitute the sole sources to which holders of transportation bonds legally may look for repayment.

Amounts in the Transportation Trust Fund do not revert to the General Fund if unexpended at the end of the fiscal year; however, from time to time, the General Assembly has enacted legislation requiring that certain unpledged revenue in the Transportation Trust Fund be delivered to the General Fund. In some instances, such legislation also has provided for the subsequent re-transfers from the General Fund to the Transportation Trust Fund.

The following table shows a condensed summary of the fund balances of the Department of Transportation for each of the past five fiscal years ended June 30.

Department of Transportation Fund Balances
Fiscal Years 2006-2010
($ in thousands)

	2006	2007	2008	2009	2010
Revenues	$3,534,227	$3,501,115	$3,341,196	$3,403,513	$3,506,266
Expenditures	3,650,196	3,670,657	3,769,682	3,622,653	3,785,271
Excess (deficiency) of revenues over expenditures	(115,969)	(169,542)	(428,486)	(219,140)	(279,005)
Net other sources (uses) of financial resources	158,510	111,077	249,319	404,740	280,002
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources	42,541	(58,465)	(179,167)	185,600	997
Fund balance, July 1	345,342	387,883	329,418	150,251	335,851
Fund balance, June 30	$387,883	$329,418	$150,251	$335,851	$336,848

Note: The Department of Transportation Special Revenue and Debt Service Funds account for substantially all of the financial activities of the Transportation Trust Fund. The Maryland Transportation Authority ("MdTA") is not part of the Transportation Trust Fund. The above summary was prepared from the audited financial statements of the Department of Transportation which are prepared in accordance with Generally Accepted Accounting Principles.

Investment of State Funds

State statute provides that the investment of unexpended or surplus money over which the Treasurer has custody, which includes both general funds and special funds, is limited to: (1) obligations of the United States or its agencies or instrumentalities; (2) repurchase agreements collateralized in an amount not less than 102% of principal by obligations of the United States or its agencies or instrumentalities; (3) bankers' acceptances, money market mutual funds and commercial paper (limited to 10% of total investments) all only with the highest rating; and (4) the Maryland Local Government Investment Pool ("MLGIP").

Investment Portfolio Distribution
(par value)

	December 31, 2009	December 31, 2010
U.S. Treasuries	$895,000	$895,000
Agencies	2,038,719,000	4,594,324,000
Repurchase Agreements	3,685,138,320	1,495,118,770
Money Market Funds	75,414,893	58,734,707
MLGIP	230,646,321	221,062,848
Total*	$6,030,813,535	$6,370,135,325
Weighted Average Maturity in Days	575	1,227

* Totals may not add due to rounding.

At December 31, 2010, approximately 72% of the portfolio was invested in U.S. Treasuries and U.S. government agencies, and 24% of the portfolio was in shorter-term repurchase agreements. Investments in Treasuries and Agencies were approximately 34% of the portfolio on December 31, 2009, while repurchase agreements were approximately 61% at that time. The monthly weighted average portfolio interest rate was 2.316% for December 2010 compared to 1.245% for December 2009.

The portfolio size on December 31, 2010 was $339.3 million more than December 2009. Interest earnings are not expected to significantly increase until the Federal Open Market Committee raises rates.

Maryland State Retirement and Pension System

The Maryland State Retirement and Pension System (the "System") was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool." The "State Pool" consists of the State agencies, boards of education, community colleges and libraries. The "Municipal Pool" consists of the participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities. Participating governmental units that elect to join the System (the "Municipal Pool") cost-share in the liabilities of the Municipal Pool only, and receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. The System is administered by a 14-member Board of Trustees that has the authority to invest and reinvest the System's assets. The State is the guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits and expenses of the System.

The "State Pool" comprises five distinct plans: Teachers' Retirement and Pension System (the "Teachers' Pension System"), Employees' Retirement and Pension System (the "Employees' Pension System"), State Police Retirement System, Judges' Retirement System, and Law Enforcement Officers' Pension System. Together, the Teachers' and Employees' Pension Systems account for 98.1% of membership in the "State Pool." The "Municipal Pool" covers employees of 151 political subdivisions and other entities within the State.

The System provides retirement, death and disability benefits in accordance with State statutes. Employees are vested after 5 years of service. Employee retirement benefits are based on years of service and the highest three-year average salary. Generally, normal service retirement benefits are based on 30 years of service or attainment of age 62 with 5 years of service, but reduced benefits are provided for early service retirements. Members of the law enforcement officers' pension plans may retire with normal benefits after reaching age 50, or completing 22 or 25 years of service depending on the plan, but have no early service retirement. Retirement allowances are adjusted annually to provide for increases in the cost of living which, for certain members, are limited to 3% of the original allowance amount.

Pension enhancements passed by the Maryland General Assembly during the 2006 legislative session established the Alternative Contributory Pension Selection ("ACPS") plan within the Teachers' and Employees' Pension Systems. The ACPS provides for an increased annual benefit multiplier of 1.8% of average final salary per year of service since July 1, 1998 and a 1.2% multiplier for prior years. Effective July 1, 2008, employees in these systems pay 5% of annual salary as a mandatory contribution.

By law, employer contribution rates are established by annual actuarial valuations using the entry age normal cost method and other actuarial assumptions adopted by the Board of Trustees. The unfunded actuarial accrued liability ("UAAL") that existed as of the June 30, 2000 actuarial valuation is being amortized over the period ending on June 30, 2020. The UAAL for each fiscal year subsequent to the year ended June 30, 2000, represents a separate liability layer for actuarial funding purposes, and, accordingly, will be amortized over a 25-year period commencing July 1 of the following fiscal year. Assets are valued for funding purposes by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% or less than 80% of the market value of assets.

The Budget Reconciliation and Financing Act of 2002 modified the methodology for determining the State's annual required employer contribution to the Teachers' and Employees' combined systems (i.e., a portion of the "State Pool") for fiscal years beginning after June 30, 2002. Accordingly, effective July 1, 2002, the State's employer contribution to the Teachers' and Employees' combined systems only is determined by the System's actuary under a modified corridor funding method. This method effectively maintains the contribution rate in effect for the Teachers' and Employees' combined systems during the preceding fiscal year (as adjusted for any legislative changes in the benefit structure) as long as such systems remain between 90 percent and 110 percent funded. If either system falls below 90 percent funded (i.e., below the corridor), then the contribution rate in effect for the subsequent fiscal year will be the rate in effect for the preceding fiscal year plus 20 percent of the difference between the current fiscal year full funding rate and the prior fiscal year contribution rate. Conversely, if either system exceeds 110 percent funded (i.e., above the corridor), then the contribution rate in effect for the subsequent fiscal year will be the rate in effect for the preceding fiscal year minus 20 percent of the difference between the current fiscal year full funding rate and the prior fiscal year contribution rate. The methodology for computing the State's employer contribution rates for the Law Enforcement Officers' Pension System, State Police Retirement System, and the Judges' Retirement System remains unchanged. For each of these three systems, the employer contribution rate is equal to the sum of the normal contribution and the accrued liability contribution.

In fiscal year 2010, utilizing the modified corridor method described above for the Teachers' and Employees' Pension Systems, the State paid $1.206 billion of the employer annual required contribution of $1.427 billion, or 84.5% of the required payment.

As of June 30, 2010, the State's membership in the System included 171,811 active members, 45,154 vested former members, and 106,776 retirees and beneficiaries. As reported in the System's annual Actuarial Valuation Report, the funded status of each plan in the "State Pool" as of June 30, 2010 was as follows:

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Funded Status of the Plans within the "State Pool" Portion of the Maryland State Retirement and Pension System
($ in thousands)

Plan	Actuarial Accrued Liability	Actuarial Value of Assets	Funded Ratio (Assets/Liab)	Unfunded Actuarial Liability	Covered Payroll (Active Members)*	UAL As a Percent of Payroll %*
Teachers' Retirement and Pension System	$31,963,421	$20,908,150	65.4%	$11,055,271	$6,254,647	176.8%
Employees' Retirement and Pension System	15,451,890	9,224,784	59.7	6,227,106	3,109,731	200.2
State Police Retirement System	1,722,564	1,085,281	63.0	637,283	81,705	780.0
Judges' Retirement System	426,215	276,643	64.9	149,572	39,961	374.3
Law Enforcement Officers' Pension System	715,568	367,934	51.4	347,634	87,706	396.4
Total of All Plans	$50,279,658	$31,862,792	63.4%	$18,416,866	$9,573,750	192.4%

- The Covered Payroll and UAL as a Percentage of Payroll results reported in the System's Actuarial Valuation Report were calculated using actual payroll data and differ slightly from the calculations shown in the State's Financial Statements which were calculated using projected payroll rather than actual payroll data.

The following table presents information regarding the UAAL of the System, including both the "State Pool" and the "Municipal Pool" for the years 2006 to 2010 as of June 30 valuation dates, derived from a report by the System's independent actuary.

Unfunded Actuarial Accrued Liability of the Maryland State Retirement and Pension System (a)
($ in thousands)

Valuation Date June 30	Actuarial Accrued Liability	Actuarial Value Of Assets	Funded Ratio (Assets/Liab.)	Unfunded Actuarial Liability	Covered Payroll (Active Members)	UAL As a Percent of Payroll%
2006..........	$43,243,492	$35,795,025	82.8%	$7,448,467	$9,287,576	80.1%
2007(b).....	47,144,354	37,886,936	80.4	9,257,418	9,971,012	92.8
2008	50,244,047	39,504,284	78.6	10,739,763	10,542,806	101.9
2009..........	52,729,171	34,284,569	65.0	18,444,603	10,714,241	172.2
2010..........	54,085,081	34,688,346	64.1	19,396,735	10,657,944	182.0

(a) Includes both the "State Pool" and the "Municipal Pool" accrued liabilities.
(b) Beginning July 1, 2006, the System changed its funding method from the Aggregate Entry Age Normal method to the Individual Entry Age Normal method. The Actuary's revaluation of the State's fiscal year 2009 contribution resulted in a recommended increase of $87.7 million. Due to timing of the recommendation, however, this amount was not included in the FY2009 Budget. It was included in the June 30, 2009 valuation and began to be amortized as a portion of the UAAL on July 1, 2010.

For a more detailed discussion of the System, see Appendix A, Note 15 to the Financial Statements and Required Supplementary Information. A copy of the System's Actuarial Valuation Report as of June 30, 2010 may be obtained by sending an e-mail request to Michael Golden, Director of External Affairs for the Maryland State Retirement Agency, at mgolden@sra.state.md.us

Ad Hoc Committee Recommendations. In July 2010, the Board of Trustees approved the report and recommendations of the System's Ad Hoc Committee on Funding Methodology, provided as part of a periodic review of actuarial methodology, including analysis by the Board of Trustees' actuary and review by the System's accountant. In summary, these recommendations are: (1) to phase out over 10 years the corridor funding method used by the State; (2) to move to a 20-year open amortization of liabilities across all plans, rather than the current amortization periods ranging between 10 and 25 years; and (3) to retain 5-year asset smoothing, except to smooth FY 2009 losses over 10 years due to the extraordinary nature of the 2008 – 2009 investment climate.

These recommendations have not been implemented and are contingent upon the enactment of legislation by the General Assembly to implement changes to the corridor funding method and the amortization periods. These recommendations have been reported to the General Assembly's Joint Committee on Pensions for review and consideration.

2012 Proposed Reforms. The 2012 budget plan includes in the 2011 Act proposed reforms to the Teachers' and Employees' Pension Systems. Current members of the systems will choose between two benefit options going forward. The first option would maintain the current employee contribution equal to 5.0% of annual salary and decrease the annual benefit multiplier of average final salary to 1.5% per year of future service beginning July 1, 2011. The second option would require an increased employee contribution equal to 7.0% of annual salary beginning July 1, 2011 in order to maintain a 1.8% annual benefit multiplier. Additionally, for non-vested current members only, benefits would be based on the highest five-year average salary instead of highest three-year average.

Also proposed in the 2011 Act, beginning July 1, 2011 the mandatory employee contribution for new members of the Teachers' and Employees' Pension Systems will equal 7.0% of annual salary and the annual benefit multiplier will be 1.5%. Benefits will be based on the highest five-year average salary and 10 years of service will be required before an employee is vested. Normal service retirement age will be raised from age 62 to 65; however, members could still retire after 30 years of service regardless of age and receive full benefits. Early retirement age will be raised from age 55 to 60. Finally, cost-of-living adjustments for retirees will be capped at 1.0% in years in which the System's pension fund investments do not meet investment targets (currently 7.75%).

Additionally, the 2011 Act will eliminate the Deferred Retirement Option Program for new and non-vested members of State Police Retirement System and the Law Enforcement Officers Pension System and will increase the employee contribution for new judges in the Judges' Retirement System to 8.0% of annual salary.

The 2012 Budget includes $1.5 billion in contributions to the Teachers' and Employees' Pension Systems consistent with the corridor methodology of funding as prescribed by statute.

If the proposed reforms are enacted, the 2011 Act will also reduce the State's contributions to the Teachers' and Employees' Pension Systems in fiscal year 2012 by $120.0 million to reflect the impact of the increased employee contributions and reduced future retirement benefits and their associated liabilities. Of this amount, $104.0 million will accrue to the General Fund, and $16.0 million will accrue to special and federal funds contributing to the pension systems. Any savings from pension reform in fiscal year 2012 in excess of $120.0 million will be reinvested in the System. The System's actuary estimates that if the pension reforms are enacted and the savings are allocated as described, the System's funded status at the next valuation as of June 30, 2011 will roughly equate (+/- 0.1%) to the funded status that would have resulted if there were no reforms and no reduction in funding occurred. This approximate equivalence is due to the increased employee contributions and plan changes included in the 2011 Act offsetting the reduced State contribution.

The 2011 Act does not propose any changes to the corridor funding method; however, the 2011 Act also provides that for future fiscal years the State's contributions to each system shall include an additional amount reflecting the difference between the State's required contribution under the corridor funding method for that fiscal year and the amount that would have been required had pension reforms not been enacted. For fiscal year 2013 only, that additional amount will be reduced by $60.0 million, but beginning in fiscal year 2014 all savings from the 2011 Act pension reforms will be invested in the Teachers' and Employees' Pension Systems.

These proposed reforms have not been implemented and are contingent upon the enactment of the 2011 Act. If these pension reforms are enacted and the additional amounts are contributed annually, the System's actuary projects that the "State Pool" portion of the System will reach 80.0% funding by fiscal year 2023, three years faster than currently projected. The actuary also projects the System will reach full funding in fiscal year 2030.

In addition to the 2011 Act, a number of bills proposing various similar and alternative pension reforms have been introduced in the General Assembly and will be considered during the current session, which ends April 11, 2011.

Other Retirement Programs

In addition to the principal retirement programs administered by the Board of Trustees, the Maryland Transit Administration of the Department of Transportation provides pension benefits to its employees for the three unions it recognizes and for former union members promoted to management positions (the "MTA Plan"). All other management employees hired after April 30, 1970, are members of the State Employees' Retirement or Pension Systems.

The MTA Plan provides retirement, death and disability benefits and is funded in compliance with collective bargaining agreements. Employees are vested after 5 years of service. Employee retirement benefits are based on years of service times an annual benefit multiplier of 1.4% to 1.6% of final average compensation. Generally, full service retirement benefits are based on 30 years of service or attainment of age 65.

The annual funding of the plan is based upon a report of the consulting actuary. The Department of Transportation's budget for fiscal year 2010 provided $37.8 million for the plan, or 152% of the employer annual required contribution.

As of June 30, 2010, membership in the MTA Plan included 2,827 active members, 472 vested former members, and 1,373 retirees and beneficiaries. The funded status of the MTA plan as of June 30, 2010 was as follows:

Funded Status of the MTA Plan
($ in thousands)

Actuarial Accrued Liability	Actuarial Value of Assets	Funded Ratio (Assets/Liab)	Unfunded Actuarial Liability	Covered Payroll (Active Members)	UAL As a Percent of Payroll %
$426,041	$162,756	38.20%	$263,285	$145,029	181.5%

For a more detailed discussion of the MTA Plan, see Appendix A, Note 15 to the Financial Statements and Required Supplementary Information.

Other Post-Employment Benefits (OPEB)

State Employees' Health Insurance Program. Retired State employees and their eligible dependents meeting certain qualifications may participate, on a subsidized basis, in the State Employees' Health Insurance Program (the "Plan"). As of July 1, 2010, the Plan membership included 82,071 active employees, 4,588 vested former employees and 57,149 retirees and beneficiaries. The Plan assesses a charge to retirees for post-employment health care benefits that is based on health care insurance charges for active employees. During fiscal year 2010, retiree plan members contributed $69.5 million and the State contributed $332.9 million for retiree health care benefits.

The State has adopted the Governmental Accounting Standard Board ("GASB") Statement No. 45 ("GASB 45") which addresses how state and local governments should account for and report costs and obligations related to post-employment health care and other post-employment non-pension benefits ("OPEB"). GASB 45 generally requires that the annual cost of OPEB and the related obligations and commitments be accounted for and reported in essentially the same manner as pensions. Annual OPEB costs typically will be based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 do not require governments to fund their OPEB plans. GASB 45 establishes accounting standards including disclosure requirements for the post-employment plans, the funding policies, the actuarial valuation processes and assumptions, and the extent to which the plans have been funded over time.

As of June 30, 2010, the actuarial accrued liability for benefits was $16.0 billion, and the actuarial value of assets was $183.4 million, resulting in an unfunded actuarial accrued liability ("UAAL") of $15.9 billion. The discount rate used was a blended rate of 4.3%. The ratio of the actuarial value of assets to the actuarial accrued liability was 1.1%.

The covered payroll (annual payroll of active employees covered under the Plan) was $4.6 billion, and the ratio of the UAAL to the covered payroll was (343.9%).

The State's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the State's annual OPEB cost, the amount actually contributed to the Plan and the State's net OPEB obligation as of June 30, 2010.

State Employees' Health Insurance Program
Annual OPEB Cost and Net OPEB Obligation
Fiscal Year 2010
($ in millions)

Annual Required Contribution (ARC)	$1,184.5
ARC adjustment	(57.3)
Interest on Net OPEB Obligation	63.6
Total Annual OPEB Cost (AOC)	1,190.8
Less: Contributions made	(336.4)
Increase in net OPEB obligation	854.4
Net OPEB obligation - beginning of year	1,478.1
Net OPEB obligation - end of year	$2,332.5
Percentage of annual OPEB cost contributed	28.3%

The State's General Fund has historically contributed approximately 60% of the annual pay-as-you-go costs of other post-employment benefits, with special and federal funds contributing the balance. Chapter 355 of the 2007 Laws of Maryland created the Postretirement Health Benefits Trust Fund ("the Trust Fund") as an irrevocable trust. Funds of the Trust Fund will be used to assist in financing the State's post-retirement health insurance subsidy. State law provides that the subsidy received by the State as a result of the federal Medicare Prescription Drug Improvement and Modernization Act of 2003, or similar federal subsidies, shall be deposited in the Trust Fund beginning in fiscal year 2008. During fiscal year 2010, $1.0 million of this subsidy was transferred to the Trust Fund. The State also contributed $2.4 million in additional funding. The 2009 Budget Reconciliation and Financing Act redirects the remaining subsidy to the State Employees and Retirees Health and Welfare Benefits Fund instead of the Trust Fund for fiscal years 2010 through 2012. The net assets held in trust for post-retirement health benefits as of June 30, 2010 were $167.9 million. This balance also reflects the activity for investment earnings and administrative expenses during the year.

Maryland Transit Administration. In addition to the State Employees' Health Insurance Program, the Maryland Transit Administration ("MTA") of the Department of Transportation provides benefits to its employees for the three unions it recognizes. All employees hired directly into management after April 30, 1970 are members of the State Employees' Health Insurance Program. Union employees and those moving from union to management are eligible for membership in the MTA Health Plan. The annual funding of the plan is based upon a report of the consulting actuary. MTA OPEB is unfunded.

As of June 30, 2009 the most recent actuarial valuation date the actuarial liability for benefits was $431.5 million, and the actuarial value of assets was $0, resulting in UAAL of $431.5 million. The discount was a blended rate of 4.5%. The ratio of the actuarial value of assets to the actuarial accrued liability was 0%. The covered payroll (annual payroll of active employees covered under the Plan) was $151.6 million, and the ratio of the UAAL to the covered payroll was (284.7%).

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MTA's annual OPEB cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The following table shows the components of MTA's annual OPEB cost, the amount actually contributed and MTA's net OPEB obligation as of June 30, 2010.

Maryland Transit Pension Plan OPEB
Annual OPEB Cost and Net OPEB Calculations
Fiscal Year 2010
($ in millions)

Annual Required Contribution (ARC)	$45.5
ARC adjustment	(4.2)
Interest on Net OPEB Obligation	2.9
Total Annual OPEB Cost (AOC)	44.2
Less: Contributions made	(10.9)
Less: Interest on contributions	(.2)
Increase in net OPEB obligation	33.1
Net OPEB obligation - beginning of year	64.5
Net OPEB obligation - end of year	$97.6
Percentage of annual OPEB cost contributed	24.7%

For a more detailed discussion of the Other Post-employment Health Benefits, see APPENDIX A, Note 16 to the Financial Statements.

Blue Ribbon Commission

The 2006 General Assembly established a Blue Ribbon Commission (the "Commission") which is reviewing the assumptions and qualifications for assessing OPEB liability and is studying funding options. In an Interim Report released in December 2008, the Commission reported its view that Maryland cannot sustain into the future the current level of retiree health benefits. The Commission is continuing to explore options for redesigning retiree health benefits and/or the way the State pays for them to arrive at a solution that is both fiscally sound and fair to current and retired State employees.

The Commission is also required to:

- review the State's legal obligation to provide retiree health benefits;
- study the factors contributing to the rising cost of retiree health benefits;
- review current benefit levels for State employees and retirees;
- review the eligibility requirements for retiree health benefits;
- review alternatives for providing health benefits to State retirees;
- recommend a multi-year plan to fully fund State obligations for retiree health benefits; and
- issue periodic reports to the Governor and the General Assembly.

Public Employees' and Retirees' Benefit Sustainability Commission

The 2010 General Assembly established a Public Employees' and Retirees' Benefit Sustainability Commission (the "Sustainability Commission"), composed of the State Treasurer, three members appointed by the Governor, two members appointed by the President of the Senate, and two members appointed by the Speaker of the House of Delegates. The Sustainability Commission is directed to study and make recommendations with respect to all aspects of State-funded benefits and pensions provided to State and public education employees and retirees, and review and evaluate recruitment practices, retention incentives, actuarial liabilities and funding methods, employee contribution rates, and the comparability and affordability of State Teachers' and Employees' Retirement and Pension Systems and State Employee and Retiree Health Benefit Program.

The Sustainability Commission issued a summary of its key interim recommendations in four areas on December 21, 2010, and issued an interim report of its findings and recommendations in January 2011. The Sustainability Commission's key interim recommendations include:

- Reducing State expenditures on employee and retiree health benefits by 10% by altering plan design and cost sharing policies;

- Changing the eligibility criteria for State employees to qualify for retiree health benefits by:
  - extending the time required for employees to earn retiree health benefits;
  - extending the time required for employees to qualify for maximum premium subsidy for health benefits; and
  - requiring employees to retire directly from State service to qualify for retiree health benefits.

- Restructuring pension benefits for current and future employees to reduce future liabilities by:
  - increasing the vesting requirement for non-vested employees;
  - making cost of living adjustment payments contingent on investment performance;
  - offering current and/or future employees a menu of benefit options to include conversion of accrued benefits to cash balance accounts, increasing employee contributions, or lowering benefit multipliers; and
  - increasing normal service retirement eligibility for new and non-vested employees.

- Phasing in over at least three years a requirement that local boards of education, community colleges, and libraries pay half of the total retirement costs for their employees who are members of the State's retirement and pension systems.

These recommendations have not been implemented and many are contingent upon the enactment of legislation by the General Assembly to adopt changes to the State's employee and retiree health benefits programs and pension benefits programs. These recommendations have been reported to the Governor and the legislative leadership for review and consideration. A final report of the Commission is due on or before June 30, 2011.

The 2012 Budget proposes to implement changes to employee and retiree prescription drug and health benefits that are estimated to decrease the State's OPEB liability from $15.9 billion to $9.0 billion. The proposal increases employee prescription drug copayments and creates a State program for retiree health benefits that closely mirrors Medicare Part D. Retirees will be required to enroll in Medicare Part D effective July 1, 2020 after the Part D "coverage gap" is phased-out. These proposals have not been implemented and the changes in retiree prescription drug and health care coverage is contingent upon the enactment of legislation by the General Assembly.

Labor Management Relations

As of December 31, 2010, the State had approximately 109,784 employees.

States are exempt from the provisions of the National Labor Relations Act; thus, State employees may engage in collective bargaining only if specifically authorized. Since 1999, collective bargaining has been available to approximately 35,000 State employees. Eligible State employees are assigned to one of nine bargaining units. In 2001, collective bargaining was extended to approximately 10,000 employees of the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.

Currently, State employees may join employee associations, and the State permits the deduction of dues from employees' salaries for these associations. Approximately 20,918 employees pay dues to 15 State employee associations.

Public school teachers throughout the State are not State employees but are employed and otherwise paid by the local school boards of education. The State, however, pays retirement benefit contributions on behalf of those employees. Teachers have been authorized by statute to form and participate in employee organizations for the purpose of representation on all matters relating to salaries, wages, hours, and other working conditions. Similar laws have been enacted to cover employees of Baltimore City and some counties.

The employees of the public community colleges and the public libraries are not State employees; the State, however, pays each employer's share of the retirement contribution.

Organizations certified as the exclusive bargaining representatives are entitled to negotiate wages, hours and working conditions on behalf of bargaining unit employees. Negotiated terms that require statutory changes or appropriations must be approved by the General Assembly.

Aid to Local Government

The State provides substantial assistance to local governments through a variety of direct and indirect assistance programs. Cash assistance is provided to support, among other local expenditures, community colleges, basic current expenses of elementary and secondary schools, pupil transportation, road construction and maintenance, the education of students with disabilities, local health departments, and local police departments. In addition to cash grants, the State has paid directly the retirement contributions for local teachers and librarians. The State also has paid directly a major share of the debt service on bonds issued to pay for the construction of local elementary and secondary schools, community colleges, and water treatment facilities. Further, the State has assumed the non-federal share of the costs of providing medical assistance, income maintenance payments, and social services for the needy. In the transportation area, the State operates the mass transit program in the Baltimore area and provides grant assistance for the Maryland portion of the Washington metropolitan area transit system.

The following table presents a summary of major State financial support for fiscal years 2007 through 2010, and estimates for the 2011 fiscal year. Federal funds are generally excluded except for State Fiscal Stabilization Funds for Education authorized by ARRA.

Major State Financial Support to Local Governments
Fiscal Years 2007–2011
($ in millions)

	2007	2008	2009	2010	2011 Estimated
Education	$4,729	$5,462	$5,687	$5,809	$6,024
Transportation	562	537	476	171	144
Health	64	67	57	37	37
Environment	136	97	20	9	15
Public Safety	105	110	109	87	83
Other	151	163	134	137	140
Total	$5,746	$6,436	$6,483	$6,251	$6,443

* Totals may not add due to rounding.

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STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM

The State issues general obligation bonds, to the payment of which the State ad valorem property tax is pledged, for capital improvements and for various State-sponsored projects. In addition, the Maryland Department of Transportation issues for transportation purposes its limited, special obligation bonds payable primarily from specific, fixed-rate excise taxes and other revenues related mainly to highway use. The State and certain of its agencies also have entered into a variety of lease-purchase agreements to finance the acquisition of capital assets. These lease agreements specify that payments thereunder are subject to annual appropriation by the General Assembly.

At least since the end of the Civil War, the State has paid the principal of and interest on its general obligation bonds when due. There is no general debt limit imposed by the State Constitution or public general laws. Although the State has the authority to make short-term borrowings in anticipation of taxes and other receipts up to a maximum of $100.0 million, the State has not issued short-term tax anticipation notes or made any other similar short-term borrowings for cash flow purposes.

Tax-Supported Debt Outstanding

The aggregate principal amount of outstanding bonded indebtedness of the State is as follows:

Tax-Supported Debt Outstanding
($ in millions)

	Outstanding at December 31, 2010	As Adjusted for this Sale
General Obligation Bonds (a)	$6,832.3	$7,317.3
Consolidated Transportation Bonds (b)	1,621.1	1,621.1
Maryland Stadium Authority Bonds and Leases (c)	238.4	238.4
Capital Leases (d)	258.8	258.8
GARVEE Bonds (e)	651.8	651.8
Bay Restoration Revenue Bonds (e)	44.2	44.2
Net Tax-Supported Debt	$9,646.6	$10,131.6

(a) As of December 31, 2010 the authorized but unissued amounts before and after giving effect to the sale of the Bonds were $1,901.6 million and $1,416.6 million respectively. See also Appendix B – "SUPPLEMENTARY DEBT SCHEDULES."
(b) See "Department of Transportation Debt."
(c) See "Maryland Stadium Authority Lease Revenue Debt Outstanding."
(d) See "Lease and Conditional Purchase Financings." On January 20, 2011 the State issued $40.9 million of Taxable Certificates of Participation, Series 2011 A.
(e) See "Other Tax-Supported Debt."

The above table excludes local debt as well as revenue and enterprise debt, all of which are not State tax-supported debt. (For further information on Revenue and Enterprise Debt see "MISCELLANEOUS REVENUE AND ENTERPRISE FINANCINGS" and Appendix B – "SUPPLEMENTARY DEBT SCHEDULES – Revenue and Enterprise Financings."

General Obligation Bonds

General obligation bonds are authorized and issued primarily to provide funds for State-owned capital improvements, including institutions of higher education, and the construction of locally owned public schools. General obligation bonds also have been issued to fund local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for repayable loans or outright grants to private, nonprofit, cultural, or educational institutions. In the fiscal year 2010 capital program, 49% of new general obligation bond authorizations represent financing of State-owned capital facilities and State programs, 50% represent financing of capital improvements owned by local government units, and 1% represent financing of capital improvements owned by non-profit or other private entities.

Dedication of State Property Tax to General Obligation Debt. As stated above, the State Constitution prohibits the contracting of State debt unless the debt is authorized by a law levying an annual tax or taxes sufficient to pay the debt service within 15 years and prohibiting the repeal of the tax or taxes or their use for another purpose until the debt is paid. As a uniform practice, each separate enabling act that authorizes the issuance of general obligation bonds for a given object or purpose has specifically levied and directed the collection of a State ad valorem property tax on all taxable property in the State. The Board of Public Works is directed by law to fix by May 1 of each year the property tax rate necessary to produce revenue sufficient for the debt service requirements of the next fiscal year, which begins July 1, but the taxes so levied need not be collected if or to the extent that funds sufficient for debt service requirements in the next fiscal year have been appropriated in the annual Budget. Accordingly, the Board, in annually fixing the rate of property tax after the end of the regular legislative session in April, takes account of appropriations of general and other funds for debt service.

From fiscal year 1972 through fiscal year 2003, general funds were appropriated to the State Department of Education for payment of debt service for public school construction debt. Other general obligation bonds have been serviced to a lesser degree from general funds as well as from the State property tax. As a result, although all the enabling acts commit the State property tax to the service of general obligation debt, and all amounts collected from such tax are applied to that purpose, it had been the normal practice to devote a significant amount of general fund revenue to general obligation debt service. From fiscal years 2004 to 2006, however, an increase in the State property tax rate eliminated the need for general funds to subsidize funding of general obligation debt service. Although the State property tax rate was decreased in fiscal year 2007, property tax revenues were sufficient to make future debt service payments without any general fund subsidy except in fiscal year 2008.

In fiscal year 2010, the primary sources of current revenue of the Annuity Bond Fund, from which debt service on all general obligation debt was paid, were the State property tax (92%) and premium from bond sales (8%). For fiscal year 2011, the primary source of current revenues is projected to be the State property tax (93%), premium from bond sales (5%), and federal subsidies for ARRA Bonds (1%) and other revenues (1%).

Department of Transportation Debt

Consolidated Transportation Bonds are limited obligations issued by the State Department of Transportation (the “Department”), the principal of which must be paid within 15 years from the date of issue, for highway, port, transit, rail, or aviation facilities or any combination of such facilities. Current law limits the outstanding aggregate principal amount of these bonds to $2.6 billion. Current law also provides that the General Assembly may establish in the Budget for any fiscal year a maximum outstanding aggregate amount of these bonds as of June 30 of the fiscal year that is less than $2.6 billion. For fiscal year 2011, the limit is $1,791.8 million. At December 31, 2010, the principal amount of outstanding bonds was $1,621.1 million.

Debt service on Consolidated Transportation Bonds is payable from those portions of the excise tax on each gallon of motor vehicle fuel and the motor vehicle titling tax, sales and use tax on short-term vehicle rentals, and the corporate income tax as are credited to the Department after distribution to the General Fund and political subdivisions, plus all departmental operating revenues and receipts. The holders of these bonds are not entitled to look to other sources for payment. The Department has covenanted with the holders of outstanding Consolidated Transportation Bonds not to issue additional bonds unless certain revenue adequacy tests are met.

Nontraditional Debt. The 2010 General Assembly established a maximum outstanding principal amount of $628.3 million as of June 30, 2011, for all nontraditional debt of the Department. Nontraditional debt outstanding is defined as any debt instrument that is not a consolidated transportation bond or Grant Anticipation Revenue Vehicle (“GARVEE”) Bond. Such debt includes, but is not limited to: certificates of participation (documented by conditional purchase agreements), debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by Maryland Economic Development Corporation (“MEDCO”) or any other third party on behalf of the Department. As of December 31, 2010, the Department’s nontraditional debt outstanding was $648.0 million. The limit of $628.3 million was increased to $663.3 million by the Department, after appropriate notification to and concurrence of the Budget Committee, to accommodate a proposed garage financing through MEDCO. See Appendix B – “SUPPLEMENTARY DEBT SCHEDULES – State Tax-Supported Lease and Conditional Purchase Financings” and “ – Revenue and Enterprise Financings” for nontraditional debt of the Department.

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Maryland Stadium Authority Bonds

The Maryland Stadium Authority (the "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 and Ocean City, and a conference center in Montgomery County, the Hippodrome Theater in Baltimore City, and the Camden Station Renovation. At December 31, 2010, the principal amount of tax-supported outstanding bonds and capital leases of the Authority was $238.4 million. See Appendix B – "SUPPLEMENTARY DEBT SCHEDULES – Maryland Stadium Authority" for a summary of outstanding debt and interest rate exchange agreements of the Authority and descriptions of the Authority's projects.

Lease and Conditional Purchase Financings

The State has financed and expects to continue to finance the construction and acquisition of various facilities and equipment through conditional purchase, sale-leaseback, and similar transactions. As of December 31, 2010, the total tax-supported capital leases and conditional purchase financings outstanding were $258.8 million. See Appendix B – "SUPPLEMENTARY DEBT SCHEDULES – State Tax-Supported Lease and Conditional Purchase Financings" for details of the total tax-supported capital leases outstanding. All of the tax-supported lease payments under these arrangements are subject to annual appropriation by the General Assembly. In the event that appropriations are not made, the State may not be held contractually liable for the payments. These transactions generally are subject to approval by the Board of Public Works.

In January 2011 the State sold $40.9 million of Certificates of Participation ("COPs") to finance the acquisition of video lottery terminals for facilities located in Perryville, Cecil County and Ocean Downs, Worcester County. Local government agencies or other lessors have also issued revenue bonds or sold certificates of participation to finance facilities such as the multi-agency office buildings in St. Mary's County and Calvert County and district court facilities in Baltimore and Prince George's Counties. MEDCO issued lease revenue bonds in the amount of $36.0 million in June 2002 which were partially refunded in May 2010 to finance the construction of a new headquarters building for the Department of Transportation. In addition, in October 2004, the Department of Transportation sold $15.5 million in Certificates of Participation for the acquisition of shuttle buses for Baltimore/Washington International Thurgood Marshall Airport ("BWI"). In July 2005, the Maryland Transportation Authority ("MdTA") issued lease revenue bonds in the amount of $23.8 million to finance the costs of a parking facility project for the Annapolis State Office Complex, operated by the Maryland Department of General Services ("DGS"). Lease revenue payable by DGS is pledged for the repayment of the bonds.

The State Treasurer's Office consolidates equipment lease-purchases authorized in the budget into periodic lease-purchase agreements for all Executive agencies. The State also has a lease-purchase program to provide financing for energy conservation projects at State facilities. Lease payments are made from the agencies' annual utility appropriations from the savings achieved through the implementation of energy performance contracts.

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Other Tax-Supported Debt

Bay Restoration Revenue Bonds. During the 2004 legislative session, the Maryland General Assembly created the Bay Restoration Fund to be managed by the Water Quality Financing Administration of the Maryland Department of the Environment ("Administration"). The Bay Restoration Fund receives a mandatory fee of $30 per year per equivalent dwelling unit from users of sewerage systems in the State, as well as $30 per year from septic system users. The Bay Restoration Fund sewer fee generated $54.8 million in revenue (cash basis) during fiscal year 2010. Future sewer fee revenues are projected at approximately $55.0 million per year. The sewer fee revenues are pledged, to the extent necessary, as security for Bay Restoration Revenue Bonds issued by the Administration, the proceeds of which will be applied primarily to provide grant funds to upgrade wastewater treatment plants with enhanced nutrient removal technology. The first $50.0 million of Bay Restoration Revenue Bonds were issued on June 25, 2008. Between 2012 and 2014, the Administration expects to issue an additional $480.0 million in Bay Restoration Revenue Bonds. The fiscal year 2010 transfer of $155.0 million and the fiscal year 2011 transfer of $45.0 million from the Bay Restoration Fund to the General Fund pursuant to the Budget Reconciliation and Financing Act of 2010 will not affect the security of Bay Restoration Revenue Bonds. As of December 31, 2010 the principal amount of outstanding bonds was $44.2 million.

GARVEE Bonds. In 2005, the General Assembly authorized funding for the Intercounty Connector highway project to be built in Montgomery and Prince George's Counties, Maryland. The MdTA is authorized to issue GARVEE bonds in an amount not to exceed $750.0 million, with a maximum maturity of 12 years. Debt service is paid from a portion of Maryland's federal highway aid. MdTA issued the first series of GARVEE bonds in June 2007 in the amount of $325.0 million, and issued the second and final series of GARVEE bonds in December 2008 in the amount of $425.0 million. As of December 31, 2010, the principal amount of outstanding GARVEE bonds was $651.8 million.

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Debt Data

The following tables present, at fiscal year end, various data showing: (1) the trend of outstanding general obligation debt, its relationship to assessed value of property, personal income, and population, and the trend of general obligation debt service and its relationship to revenues; (2) the trend of outstanding general obligation, transportation, and other State tax-supported debt and debt service and their relationships to the same factors; and (3) the total combined tax-supported debt of the State and debt of Baltimore City and all of the counties, towns, and special taxing districts within Maryland, and various relationships of such local combined debt to the assessed value of property, population and personal income. While the State is not obligated for local debt, the Combined State and Local Unit Debt Ratios demonstrate the total State and local debt obligations relative to statewide assessed values, population and personal income, for general comparison with other states' debt levels.

The Capital Debt Affordability Committee ("CDAC") annually reports ratios for tax-supported debt outstanding compared to personal income and tax-supported debt service compared to revenues. Debt outstanding, personal income, debt service, revenues and population in the following tables are all as reported in the 2010 CDAC report. Because some of the numbers used in the CDAC report are preliminary, they may not agree with more recent figures reported elsewhere in this Official Statement.

General Obligation Bond Ratios
($ in millions except per capita amounts)

	Fiscal Years				
	2006	**2007**	**2008**	**2009**	**2010**
General Obligation Bonds (a)	$4,868	$5,142	$5,494	$5,874	$6,523
% Change (b)	7.9%	5.6%	6.8%	6.9%	11.0%
Assessed Value (c)	$452,483	$527,182	$617,632	$707,490	$751,568
Debt Ratio (d)	1.1%	1.0%	0.9%	0.8%	0.9%
Population (e)	5,623	5,646	5,676	5,726	5,793
Per Capita Debt	$866	$911	$968	$1,026	$1,126
Personal Income (f)	$252,781	$264,368	$272,542	$274,326	$283,227
Debt Ratio (d)	1.9%	2.0%	2.0%	2.1%	2.3%
General Obligation Debt Service	$625	$654	$693	$745	$778
Revenues (g)	$13,012	$13,530	$14,208	$13,678	$13,427
Debt Service Ratio (d)	4.8%	4.8%	4.9%	5.5%	5.8%

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Combined General Obligation, Transportation and Other State Tax-Supported Debt Ratios ($ in millions except per capita amounts)

	Fiscal Years				
	2006	**2007**	**2008**	**2009**	**2010**
Debt (a)					
General Obligation Bonds (a)	$4,868	$5,142	$5,494	$5,874	$6,523
Transportation Bonds:					
Consolidated Transportation	1,078	1,111	1,269	1,583	1,645
Capital Leases	227	248	247	267	243
Stadium Authority	297	283	272	256	252
GARVEE Bonds	-	325	301	704	652
Bay Restoration Revenue Bonds	-	-	50	47	44
Total State Tax-Supported Debt	$6,470	$7,109	$7,632	$8,730	$9,359
Assessed Value (c)	$452,483	$527,182	$617,632	$707,490	$751,568
Debt Ratio (d)	1.4%	1.3%	1.2%	1.2%	1.2%
Population (e)	5,623	5,646	5,676	5,726	5,793
Per Capita Debt	$1,151	$1,259	$1,345	$1,525	$1,616
Personal Income (f)	$252,781	$264,368	$272,542	$274,326	$283,227
Debt Ratio (d)	2.6%	2.7%	2.8%	3.2%	3.3%
Debt Service	$842	$846	$929	$1,015	$1,100
Revenues (h)	$15,155	$15,652	$16,735	$16,334	$16,055
Debt Service Ratio (d)	5.6%	5.4%	5.6%	6.2%	6.9%

Combined State and Local Unit Debt Ratios ($ in millions except per capita amounts)

	Fiscal Years				
	2006	**2007**	**2008**	**2009**	**2010**
Debt (a)					
State Tax-Supported Debt	$6,470	$7,109	$7,632	$8,730	$9,359
Local Debt (i)	13,652	14,654	15,156	15,862	N/A
Total Combined Debt	$20,122	$21,763	$22,788	$24,592	N/A
Assessed Value (c)	$452,483	$527,182	$617,632	$707,490	$751,568
Debt Ratio (d)	4.4%	4.1%	3.7%	3.5%	N/A
Population (e)	5,623	5,646	5,676	5,726	5,793
Per Capita Debt	$3,579	$3,855	$4,015	$4,295	N/A
Personal Income (f)	$252,781	$264,368	$272,542	$274,326	$283,227
Debt Ratio (d)	8.0%	8.2%	8.4%	9.0%	N/A

(a) Shows amount of debt outstanding at the end of fiscal years shown (June 30) less amounts advance refunded and net of any sinking funds. Local debt includes the debt of Baltimore City, counties, towns, and special districts. Local debt data are derived from compilations by the Department of Legislative Services of data reported by the local units as required by statute.
(b) Shows the percentage of increase or decrease of the dollar values from the preceding year's amount.
(c) Amounts for full value are stated as of January 1, the date assessments are made final for the fiscal year beginning the next July 1.
(d) The debt ratios are expressed as the principal amounts of outstanding debt as percentages of (i) assessed value and (ii) personal income. The debt service ratios are expressed as the total annual amounts of debt service as percentages of all relevant revenues.
(e) Population is stated in thousands.
(f) Personal income is for the calendar year ended December 31 of the year shown. The 2009 and 2010 figures are estimates.
(g) Amounts of revenue represent general fund revenues, property taxes, bond premium, U.S. Treasury subsidies, and Educational Trust Fund.
(h) Amounts of revenue represent general fund revenues, property taxes, bond premium, U.S. Treasury subsidies, Educational Trust Fund, transportation revenues, lottery revenues transferred to the Stadium Authority, federal capital highway revenues and bay restoration fees.
(i) Includes outstanding debt of component units.
N/A = Not Available
* Totals may not add due to rounding.

See Appendix B – "SUPPLEMENTARY DEBT SCHEDULES – General Obligation Bonds" for (1) amounts of the outstanding general obligation bonds of the State at each fiscal year end for the period 2006 - 2010, and (2) for the annual debt service requirements on all general obligation bonds of the State for future fiscal years.

Capital Programs

General obligation debt is one of several sources of funds used to finance capital assets of the State and to provide State capital grants and repayable loans to local governments and the private sector (see "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – General Obligation Bonds"). Other types of debt incurred by the State and its units to finance various capital facilities and programs include bonds issued by the Department of Transportation (see "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – Department of Transportation Bonds"), bonds issued by the Maryland Stadium Authority (see "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – Maryland Stadium Authority Bonds") and capital leases for the acquisition of property and equipment (see "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – Lease and Conditional Purchase Financings").

The State has also funded capital projects through current operating revenues and receipts. For example, the Department of Transportation funds roads, bridges, and other transportation facilities from current revenues from dedicated sources; and the Department of Natural Resources constructs waterway improvements, shore erosion and land development projects, purchases land for recreational and conservation purposes, and provides capital grants to local governments from revenues in its operating budget. Furthermore, the operating budget from time to time has included general funds for projects normally eligible for funding by general obligation bonds.

The General Assembly annually enacts a Maryland Consolidated Capital Bond Loan appropriating funds for the various capital programs to be funded through the sale of State general obligation bonds. Once authorized, the projects are implemented by various State agencies, generally under the supervision of the Board of Public Works. Project expenditures are accounted for in the Capital Projects Fund. General obligation bonds are issued as cash is needed to meet project requirements. General obligation bond proceeds are credited to the State and Local Facilities Loan Fund, and cash is transferred to fund capital project expenditures, as needed. For each fiscal year from 2007 through 2011, the following table arrays the amount of bonds authorized, issued, cancelled, and retired; the cumulative amount of general obligation bonds outstanding; and cumulative amount of bonds authorized but unissued.

Bonds Authorized, Issued, Cancelled and Retired
($ in thousands)

	Activity during Fiscal Year						Status at Fiscal Year End	
		Issued			Principal			
Fiscal Year	Authorized (a)	New	Refunding	Authorizations Cancelled	Redeemed	Refunded	Outstanding	Authorized but Unissued
2007............	$821,126	$679,378	$ -	$4,645	$405,695	$ -	$5,142,154	$1,911,587
2008............	937,644	779,986	-	5,393	428,310	-	5,493,830	2,063,852
2009............	1,112,000	845,563	65,800	1,939	464,725	66,825	5,873,643	2,328,351
2010	1,254,268	1,140,883	798,080	46,751	482,754	806,630	6,523,222	2,394,985
2011 (b)	0	489,718		3,651	180,674		6,832,266	1,901,615

(a) Amounts shown represent authorizations that become effective in the fiscal year indicated. The normal effective date is June 1, which is in the same fiscal year as the session of the General Assembly enacting the authorization; however, some authorizations are not effective until July 1, which is the first day of the following fiscal year.

(b) As of December 31, 2010.

* Totals may not add due to rounding.

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The following table reflects activity and ending balances in the Capital Projects Fund on a budgetary basis.

Capital Projects Fund
($ in thousands)

Fiscal Year	Beginning Balance	Bond Proceeds (a)	Project Expenditures	Other (b)	General Fund Appropriation	Ending Balance
2006	$ 93,145	$ 751,638	$ (700,692)	$ 109,212	$4,290	$257,593
2007	257,593	681,040	(855,953)	125,980	77,562	286,222
2008	286,222	794,833	(1,039,012)	168,971	11,810	222,824
2009 (c)	222,824	915,987	(1,027,414)	11,529	1,000	123,926
2010 (d)	123,926	1,143,530	(1,002,558)	(97,114)	-	167,784

(a) Includes premiums on the sale of bonds used to pay underwriter's discount and costs of issuance.
(b) Consists primarily of State property transfer tax revenues and other transfers in (out).
(c) Bond proceeds in FY 2009 totaled $985,420,000. Of this amount, $65,800,000 and $3,633,000 were refunding bonds and associated premiums, respectively.
(d) Bond proceeds in FY 2010 totaled $2,072,065,000. Of this amount, $798,080,000 and $130,455,000 were refunding bonds and associated premiums, respectively.

The State's five-year capital program consists of funding for general construction projects, grants for public school construction, and other capital grant programs. In January of each year, the State publishes a proposed capital improvements plan for each of these areas for the five ensuing fiscal years. This plan reflects a projection of the capital improvements that will be required to improve and maintain State facilities, improve public schools, and support State priorities, such as cleaning up the Chesapeake Bay.

The State's anticipated capital needs for fiscal years 2012 through 2016 for projects included in the January 2011 proposed capital improvement plan that are to be funded through general obligation bond sales total $1,897.0 million as follows: 2012, $256.9 million; 2013, $336.1 million; 2014, $397.2 million; 2015, $460.4 million; and 2016, $446.5 million. The State's capital needs for projects included in the January 2010 capital improvement plan that were to be funded through general obligation bond sales for fiscal years 2011 through 2015 totaled $2,172.1 million.

The January 2011 proposed capital improvement plan includes an additional $1,306.6 million in general obligation bonds in fiscal years 2012 through 2016 to improve public schools throughout the State as follows: 2012, $262.4 million; 2013, $271.4 million; 2014, $260.6 million; 2015, $256.1 million; and 2016, $256.1 million. A total of $1,023.3 was included in the January 2010 capital improvement plan for fiscal years 2011 through 2015 for public school construction.

The January 2011 proposed capital improvement plan also includes an additional $1,483.4 million to address other capital needs, including Chesapeake Bay restoration, community college facilities, affordable housing, hospital improvements and other important community facilities. General obligation bonds proposed for these purposes include: 2012, $432.2 million; 2013, $331.9 million; 2014, $269.7 million; 2015, $216.5 million; and 2016, $233.1 million. Other capital grants projects included in the January 2010 capital improvement plan that were to be funded through general obligation bond sales for fiscal years 2011 through 2015 totaled $1,678.5 million.

Capital Debt Affordability Committee

The General Assembly created a Capital Debt Affordability Committee (the "CDAC"), the members of which are the Treasurer, the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, and one person appointed by the Governor. The Chairs of the Capital Budget Subcommittees of the Senate Budget and Taxation Committee and the House Appropriations Committee participate as non-voting members. The CDAC is required to submit to the Governor by October 1 of each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized. Although the CDAC's responsibilities are advisory only, the Governor is required to give due consideration to the CDAC's finding in preparing a preliminary allocation of new general obligation debt authorizations for the next ensuing fiscal year.

The CDAC's most recent recommendation of September 2010 encompasses all tax-supported debt, including, in addition to general obligation debt, Consolidated Transportation Bonds issued by the Department of Transportation, bonds issued by the Maryland Stadium Authority, State tax-supported capital lease transactions, GARVEE Bonds and

Bay Restoration Revenue Bonds. This recommendation to the Governor and the General Assembly for fiscal year 2012 was to limit new general obligation bond authorizations to $925.0 million.

The following table compares the CDAC's recommendations for bond authorizations with the authorizations enacted by the General Assembly during each of the last five sessions.

CDAC's Recommendations for Bond Authorizations
($ in thousands)

General Assembly Session	For Fiscal Year	CDAC Recommendations	Actual Authorizations (a)	Difference
2007	2008	810,000	821,126(b)	11,126(b)
2008	2009	935,000	935,000	-
2009	2010	1,110,000	1,112,000	2,000(c)
2010	2011	1,140,000	1,144,543(b)	4,453(b)
2011	2012	925,000	(d)	(d)

(a) Actual authorizations are net of deauthorizations for prior years' projects of $19.8 million, $2.6 million, $30.8 million and $39.7 million for fiscal years 2007, 2008, 2009 and 2010, respectively.
(b) Reflects bonds authorized for a special federal program (Qualified Zone Academy Bonds), which provide federal tax credits to bondholders in lieu of interest, and which the CDAC informally indicated should be considered outside its recommendation.
(c) $2,000,000 Local Government Infrastructure Financing Program Capital Reserve Fund Loan of 2009 – Chapter 719 of the 2009 Laws of Maryland, effective June 1, 2009.
(d) The General Assembly's session began in January 2011.

Total sales of general obligation bonds during the five fiscal years 2007 through 2011 follows:

Total Sales of General Obligation Bonds
Fiscal Years 2007-2011
($ in thousands)

	2007	2008	2009	2010	2011(a)
General Construction	$205,029	$410,882	$455,200	$737,441	321,692
State Public School Construction	323,291	351,822	380,046	329,251	140,810
Other	151,058	17,282	10,317	74,191	27,216
Total	$679,378	$779,986	$845,563	$1,140,883	$489,718
Refunding	—	—	65,800	798,080	—
Number of Sales	3	3	3	6	2

The sale of the Bonds described in this Official Statement, expected to be delivered on or about March 22, 2011, will be the third and final sale for the 2011 fiscal year.

(a) Through December 31, 2010.

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MISCELLANEOUS REVENUE AND ENTERPRISE FINANCINGS

Certain other units of the State government are authorized to borrow money under legislation that expressly provides that the loan obligations shall not be deemed to constitute a debt or a pledge of the faith and credit of the State. The Community Development Administration of the Department of Housing and Community Development, higher education institutions (including the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College), the Maryland Transportation Authority, the Maryland Water Quality Financing Administration, and the Maryland Environmental Service have issued and have outstanding bonds of this type. The principal of and interest on bonds issued by these bodies are payable solely from various sources, principally fees generated from use of the facilities or enterprises financed by the bonds. Outstanding revenue and enterprise debt of these State units, together with their non-State tax-supported lease and conditional purchase financings, amounted to approximately $7.4 million at December 31, 2010. See Appendix B – "SUPPLEMENTARY DEBT SCHEDULES – Revenue and Enterprise Financings" for a summary of outstanding Revenue and Enterprise Financings.

On February 10, 1998, the Governor issued an Executive Order assigning responsibility to the Department of Budget and Management to report annually on the levels of debt issued and outstanding by certain State agencies and to recommend annual debt issuance amounts for those agencies. The Executive Order also provides that the Governor may establish the amounts of such debt to be issued during the fiscal year, which amounts may be amended by the Governor.

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STATE DEMOGRAPHIC AND ECONOMIC DATA

Introduction

The following selected economic, social, and employment data may be relevant in evaluating the economic and financial condition of the State; however, this information is not intended to provide all relevant data necessary for a complete evaluation of the State's economic and financial condition.

Maryland is located on the East Coast in the South Atlantic Census Region, and is bordered by Delaware, Pennsylvania, West Virginia, Virginia, and the District of Columbia. Maryland encompasses 12,193 square miles. Ranking 42nd among the 50 states in size, Maryland's land area (exclusive of inland waterways and the 1,726 square miles of the Chesapeake Bay) is 9,844 square miles.

Population

According to 2010 Census reports, Maryland's population on April 1 of that year was 5,773,552 , an increase of 9.0% from the 2000 Census. Maryland's population is concentrated in urban areas. Overall, Maryland's population per square mile was 583 in 2010. The following table presents estimated population of Maryland and the United States from 2001 - 2010.

Population

	Maryland		United States	
Year	**Population**	**Change**	**Population**	**Change**
2001	5,374,009	1.2	285,049,647	1.0
2002	5,437,880	1.2	287,745,630	0.9
2003	5,491,971	1.0	290,242,027	0.9
2004	5,537,913	0.8	292,936,109	0.9
2005	5,576,889	0.7	295,618,454	0.9
2006	5,605,552	0.5	298,431,771	1.0
2007	5,627,211	0.4	301,393,632	1.0
2008	5,650,870	0.4	304,177,401	0.9
2009	5,688,399	0.7	306,656,290	0.8
2010	5,737,274	0.9	309,050,816	0.9

Source: U.S. Department of Commerce, Bureau of the Census.
Note: Figures are estimates for July 1 of each year. 2010 county population is not currently available, but in 2009 the eleven counties and Baltimore City located in the Baltimore-Washington region contained 50.1% of the State's land area and 87.1% of its population. The 2009 population for the Baltimore PMSA was estimated at 2,690,886 and for the Maryland portion of the Washington PMSA, 2,265,578.

The 2009 population of Maryland and the United States was distributed by age as follows:

Age Distribution 2009

Age	**Maryland**	**United States**
Under 5 years	6.7%	6.9%
5 through 19 years	19.9	20.2
20 to 44 years	34.0	34.1
45 to 64 years	27.2	25.9
65 years and over	12.2	12.9
	100.0%	100.0%

Source: U.S. Department of Commerce, Bureau of the Census.
* Totals may not add due to rounding.

Personal Income

Maryland residents received approximately $275.1 billion in personal income in 2009. Maryland's total personal income increased at a rate of 0.4%, well above the national decline of -1.7%. Additionally, per capita income, remained significantly above the national average in 2009, $48,275 in Maryland compared with the national average of $39,626. In 2009, Maryland's per capita personal income ranked fourth highest in the nation. Per capita income varies across the State, with the highest incomes in the Washington and Baltimore regions. The table below shows trends in per capita personal income in Maryland and the United States.

Per Capita Personal Income Trends

Year	Maryland	Change	US	Change	Maryland Ranking
2000	$34,681	7.7%	$30,318	7.0%	4
2001	36,201	4.4	31,145	2.7	4
2002	37,095	2.5	31,461	1.0	4
2003	38,150	2.8	32,271	2.6	4
2004	40,530	6.2	33,881	5.0	4
2005	42,480	4.8	35,424	4.6	4
2006	44,979	5.9	37,698	6.4	4
2007	46,923	4.3	39,458	4.7	5
2008	48,410	3.2	40,673	3.1	5
2009	48,275	-0.3	39,626	-2.6	4

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
Note: Rankings do not include the District of Columbia.

Maryland is more reliant on the service and government sectors than the nation as a whole, while the manufacturing sector is much less significant than it is nationwide. As one of the wealthier states, a greater share of personal income is derived from dividends, interest and rent, and a lesser share comes from transfer payments. In 2009, the sources of personal income in the State and the comparable sources of personal income for the nation were as follows:

[Table appears on following page]

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Sources of Personal Income
2009
($ in millions)

	Maryland	Percentage of Personal Income Before Residence Adjustment Maryland	United States
Mining, forestry, fishing	$ 273	0.1%	1.2%
Construction	12,568	5.1	3.9
Manufacturing	10,131	4.1	7.4
Trade, transportation & utilities	24,157	9.7	11.0
Information services	5,028	2.0	2.5
Finance, insurance & real estate	13,321	5.4	6.2
Professional & business services	34,542	13.9	11.6
Educational & health services	24,262	9.8	9.1
Leisure & hospitality services	6,447	2.6	3.0
Other services	7,013	2.8	2.6
Government			
Federal, civilian	21,087	8.5	2.5
Military	4,223	1.7	1.4
State & local	22,911	9.2	9.3
Farm income	296	0.1	0.6
Earnings by place of work	186,255		
Less:			
Personal contributions for social insurance	(21,284)	(8.6)	(8.0)
Plus:			
Dividends, Interest and Rent	47,288	19.0	18.0
Transfer Payments	36,089	14.5	17.5
Personal income before residence adjustment	248,348	100.0%*	100.0%*
Residence adjustment	26,794		
Total Personal Income	$275,142*		

Source: U.S. Department of Commerce, Bureau of Economic Analysis (State Quarterly Personal Income, Series SQ5N).
Note: Total personal income is reported by place of residence; however, income by industry is shown by place of work. The residence adjustment accounts for Maryland residents who work outside the State.

* Totals may not add due to rounding.

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Over the past five years, total personal income in Maryland has grown 4.1% annually, compared to national personal income growth of 3.9%. Wage and salary income, roughly half of total personal income, has grown at a higher rate in Maryland than it has nationally. Supplements to wages and salaries – essentially nonwage benefits – have grown more quickly in Maryland, while dividend, interest and rent income and proprietor's income have grown more slowly. Proprietor's income growth was subdued nationally, though veered negative in Maryland for the first time in the series' history. The disparity in growth of the residence adjustment income earned by residents who work outside of Maryland or the nation is not as meaningful as it might appear, because the residence adjustment is roughly 10% of Maryland personal income, but only half a basis point of national personal income.

Growth of Personal Income Components
(Five-Year Average, 2005 - 2009)

	Maryland	United States
Wages and Salaries	3.5%	2.9%
Supplements to Wages and Salaries	4.5	3.6
Proprietors' Income	-1.6	-0.3
Contributions for Social Insurance	4.1	3.2
Residence Adjustment	3.1	2.1
Dividends, Interest, and Rent	5.5	6.4
Transfer Payments	8.6	8.5

Source: US Department of Commerce, Bureau of Economic Analysis (State Annual Personal Income, Series A04).
Note: Total personal income is reported by place of residence, however income by industry is shown by place of work. The residence adjustment accounts for Maryland residents who work outside the State.

Employment

Maryland's labor force totaled just under 3.0 million individuals in 2010, including agricultural and nonagricultural employment, the unemployed, the self-employed and residents who commute to jobs in other states. The government, retail trade, and services sectors (notably professional and business, and educational and health) are the leading areas of employment in the State. In contrast to the nation as a whole, considerably more people in Maryland are employed in the federal government and service sectors and fewer in manufacturing, as shown in the following table:

Distribution of Employment
2010

	Maryland	United States
Construction & mining	5.9%	4.8%
Manufacturing	4.5	8.9
Trade, transportation & utilities	17.3	19.0
Information services	1.8	2.1
Financial activities	5.4	5.8
Professional & business services	15.5	12.8
Educational & health services	15.9	15.0
Leisure & hospitality services	9.5	10.1
Other services	4.5	4.1
Government		
Federal	5.5	2.3
State & local	14.2	15.0
Total	100.0%*	100.0%*

Source: U.S. Department of Labor, Bureau of Labor Statistics
*Totals may not add due to rounding.

In 2010, Maryland employment fell .1%, though that decline followed the sharpest drop in employment in nearly two decades, resulting in slightly negative employment growth over the past five years. Following the collapse of the housing market, the construction and finance industries realized significant job losses, and as the broader recession took hold, several other Maryland industries were severely impacted. Maryland's high income and proximity to the federal government has enabled continued growth in professional and business services. As is often the case, government employment in Maryland has acted as a stabilizing influence.

Employment Growth
(Five-Year Average, 2006 – 2010)

	Maryland	United States
Construction & mining	-4.4%	-4.4%
Manufacturing	-4.0	-3.9
Trade, transportation & utilities	-1.5	-0.9
Information services	-2.3	-2.3
Financial activities	-2.9	-1.4
Professional & business services	0.1	-0.3
Educational & health services	2.5	2.4
Leisure & hospitality services	1.1	0.5
Other services	-0.7	-0.2
Government		
Federal	1.9	1.6
State & local	1.0	0.5
Total Non-agricultural Employment	-0.3%	-0.5%

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Recent employment trends in Maryland are shown in the following table. Maryland's unemployment rate has been lower than the rest of the country for the past ten years, while the labor force has grown more slowly than the rest of the country in seven of the last ten years.

Employment Trends

Year	Unemployment Rate in Maryland	Unemployment Rate in the United States	Growth in Maryland Labor Force	Growth in United States Labor Force
2001	4.1	4.7	0.6	0.8
2002	4.5	5.8	1.3	0.8
2003	4.5	6.0	0.5	1.1
2004	4.3	5.5	0.4	0.6
2005	4.1	5.1	1.8	1.3
2006	3.8	4.6	1.9	1.4
2007	3.5	4.6	0.3	1.1
2008	4.4	5.8	0.5	0.8
2009	7.0	9.3	-1.3	-0.1
2010	7.4	9.6	-0.9	-0.2

Source: Maryland Department of Labor, Licensing and Regulation.
Note: In December 2010 the unemployment rate was 7.4% in Maryland and 9.4% in the United States.

Educational Levels

Maryland's work force is more highly educated than that of the rest of the country. The percentage of the population (25 years and over) with a Bachelor's degree or higher is 35.7% as compared to 27.9% for the rest of the country. Maryland ranks third in the nation in the percentage of its population over 25 with a graduate or professional degree. The percentage of the population with a high school diploma or better is 88.2% in Maryland compared to 85.3% in the United States. This educational attainment facilitates the rapid growth of the professional services and information services sectors, which require an educated workforce.

Educational Attainment of Population 25 Years and Over in 2009

	Maryland	United States
Less than High School	11.8%	14.7%
High School Diploma	26.7	28.5
Some College	19.7	21.3
Associate's Degree	6.2	7.5
Bachelor's Degree	19.7	17.6
Graduate or Professional Degree	16.0	10.3

Source: American Community Survey.

Assessed Value of Property

Maryland levies a State tax on real property, revenues from which are credited to the Annuity Bond Fund to pay debt service. Through fiscal year 2003 the rate was 8.4 cents per $100 of assessment (21 cents on utility operating property). In fiscal year 2004 the rate was increased to 13.2 cents per $100 of assessment (33 cents on utility operating property). For fiscal years 2007 through 2010, the tax rate is 11.2 cents per $100 of assessment (28 cents on utility operating property).

Shown below is the assessed value for State purposes of real property as determined by the State Department of Assessments and Taxation. All real property is assessed at full cash value once every three years, with any increase in full cash value phased in over the ensuing three taxable years in equal installments. Any decrease in the full cash value is recognized in full in the next taxable year and held constant for the remaining two taxable years.

Assessed Values of Real Estate
($ in thousands)

Fiscal Year	Real Property	Utility Operating Real Property	Total	Change in Assessed Values
2002	$317,031,724	2,161,893	$319,193,617	4.9%
2003	334,732,221	2,165,542	336,897,763	5.5
2004	360,626,451	1,299,590	361,926,041	7.4
2005	397,093,127	1,323,073	398,416,200	10.1
2006	451,090,503	1,392,322	452,482,825	13.6
2007	525,706,233	1,476,219	527,182,452	16.5
2008	616,526,923	1,105,319	617,632,242	17.2
2009	706,403,763	1,086,209	707,489,972	14.5
2010	750,498,802	1,069,237	751,568,039	6.2
2011	733,912,450	717,440	734,629,890	-2.2

Source: State Department of Assessments and Taxation, December 1, 2010.

Note: See also, "STATE FINANCES – State Revenues, Property Taxes and State Property Tax Revenue Estimates."

Residential Construction

The value of all residential unit permits issued in 2009 declined by 6.3% as a result of a weak housing market. The total number of residential building permits declined by 14.6%. Home sales declined in 2006, 2007 and 2008, while home prices, which showed double-digit growth in the five years prior, stagnated in 2006 and 2007 before turning downwards in 2008. The rate of price decline increased in 2009, although volume increased for the first time since 2005.

Aggregate Value of and Building Permits Issued for Residential Construction in Maryland

Year	Value of Construction in Current Dollars ($ in millions)	Change	Number of Permits Issued	Change
2000	$3,232.1	4.2%	30,358	2.0%
2001	3,228.0	-0.1	29,059	-4.3
2002	3,517.9	9.0	29,293	0.8
2003	3,723.6	5.8	29,914	2.1
2004	3,822.7	2.7	27,382	-8.5
2005	4,687.6	22.6	30,180	10.2
2006	3,889.9	-17.0	23,262	-22.9
2007	3,768.8	-3.1	18,582	-20.1
2008	2,229.7	-40.8	13,018	-29.9
2009	2,089.0	-6.3	11,123	-14.6

Source: U.S. Department of Commerce, Bureau of the Census.

Home Sales and Median Home Price

Year	Unit Home Sales	Growth	Median Home Price	Growth
2000	61,836	7.0%	$131,792	-0.1%
2001	80,169	29.6	152,748	15.9
2002	84,870	5.9	173,484	13.6
2003	89,371	5.3	200,334	15.5
2004	98,056	9.7	241,454	20.5
2005	98,858	0.8	292,214	21.0
2006	82,787	-16.3	307,910	5.4
2007	63,585	-23.2	307,744	-0.1
2008	46,834	-26.3	285,082	-7.4
2009	52,591	12.3	256,217	-10.1

Source: Maryland Association of Realtors.

Taxable Retail Sales

Sales accelerated strongly in 2000 with a booming economy, high levels of consumer confidence and the "wealth effect" generated by the robust equity market. The 2001 recession caused a steep slowdown in 2002 and 2003, while a relatively strong economy, low interest rates and high levels of mortgage refinancing resulted in robust growth in 2004 through 2006. As the economy slowed in fiscal year 2007, and the boost from mortgage refinancing and other housing-related issues faded, growth slowed precipitously. The onset of the current recession coupled with high gas prices resulted in declining taxable retail sales for fiscal year 2008. Fiscal year 2009 saw continued reductions in retail sales as declining wealth, increased unemployment, and a lack of credit weighed heavily across all categories of the base. Despite four consecutive months of positive growth in sales and use tax collections in the back end of fiscal year

2010, growth remained negative for the year. The following table illustrates the changes in taxable sales for fiscal 2001 through 2010.

Taxable Retail Sales in Maryland
(includes automobile sales)
($ in thousands)

Fiscal Year	Taxable Retail Sales	Change
2001	65,177,540	5.1
2002	66,562,680	2.1
2003	67,788,320	1.8
2004	73,296,320	8.1
2005	77,427,480	5.6
2006	81,933,900	5.8
2007	82,568,490	0.8
2008	80,120,978	-3.0
2009	72,413,624	-9.6
2010	71,521,298	-1.2

Source: Comptroller of the Treasury, Bureau of Revenue Estimates.
Note: Includes sales and use tax base and motor vehicle excise tax base.

Other Economic Factors

The Maryland Economy. While most of the current difficulties caused by the recession are affecting the State's economy, these problems have not hit Maryland as hard as many other states. One positive future development for the State is the implementation of the 2005 decisions of the Base Realignment and Closure Commission ("BRAC").

Real Estate. Home sales in Maryland started to slow in 2005; prices began to substantively decline in 2008. The Maryland Realtors Association reports the median price for a home sold in 2009 declined 10.1% from the median price in 2008. More recently, as of December 2010, the year over year rate of median home price decline has moderated (although it is still negative) since a trough of -15.8% in April 2009, displaying the first positive trend since March 2005. The construction industry has contracted as new home construction slowed significantly and commercial construction was unable to compensate. In addition, retail sales of items such as appliances and furniture, typically associated with a strong housing market, have declined.

Biotechnology. Maryland is well positioned in the front ranks of the biotechnology field. The State's concentration of higher education and research institutions, particularly medical schools, thriving pharmaceuticals industry and one of the most highly educated workforces in the country has created growth opportunities for the biotech companies that have located or started up here.

Base Realignment and Closure. The State is poised to receive more federal jobs than any other state in the country from the 2005 BRAC process. BRAC will also bring indirect jobs, families with income, and increased demand for goods and services. In the aggregate, Maryland total BRAC related job creation estimates range between 45,300 and 60,000. The majority of these jobs are expected to be located within an eight county area in central Maryland (Anne Arundel, Howard, Montgomery, Prince George's, Harford, Baltimore and Cecil Counties, and Baltimore City). Although direct federal job realignment has a statutory end date of September 15, 2011, many positions have already transferred to Maryland. Notably, the Army's Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance unit ("C4ISR") began to move to Aberdeen Proving Ground in 2007 and expects the majority of the transfers to occur in 2010 and 2011. In addition, the Defense Information Systems Agency ("DISA") expects to begin shifting jobs in 2010 and 2011, following the completion of a new seven-building, 1,070,000 square foot campus. Many contractors have already relocated and/or added new offices and positions in Maryland with many more related expansions expected over an indefinite timeline.

LEGAL MATTERS

Legality of the Bonds

The legality of the issuance of the Bonds offered by this Official Statement will be passed upon by the Honorable Douglas F. Gansler, Attorney General of Maryland, and by Ballard Spahr LLP, Baltimore, Maryland, Bond Counsel. However, Bond Counsel will rely upon the opinions of the Attorney General addressed to Bond Counsel with respect to the validity of the specified State loans or installments thereof represented by the Bonds and as to compliance with State law. Delivery of the Bonds is conditioned upon delivery by the Attorney General and Bond Counsel of unqualified opinions substantially in the respective forms set forth in Appendix D.

Litigation

The State and its units are parties to numerous legal proceedings, many of which normally occur in governmental operations. Except as noted below, the legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse effect on the State's financial position.

The State is the defendant in a class-action proceeding in the Circuit Court for Anne Arundel County challenging on constitutional grounds the 2007 enactment by the General Assembly of certain State-wide ground rent reforms. Plaintiffs allege an unconstitutional regulatory taking of property without just compensation in violation of the United States and Maryland Constitutions and seek damages in excess of $100.0 million. There is a reasonable possibility of a decision in the Circuit Court that is adverse to the State.

A decision that grants the entirety of the monetary relief sought by the class action plaintiffs in this case potentially could have a material impact on the State's finances. Any such decision would likely be the subject of appeals and/or curative legislation, both of which could reduce any adverse financial impact. The payment of any final judgment after exhaustion of appeals would be subject to the approval of the Board of Public Works from money appropriated for that purpose in the State budget. Consequently, neither the fiscal year 2011 nor the fiscal year 2012 budgets will be adversely affected, and the payment of any final judgment would impact a future fiscal year budget to the extent monies are appropriated in that fiscal year to pay such final judgment.

TAX MATTERS

Treasury Circular 230 Disclosure

To ensure compliance with Treasury Circular 230, taxpayers are hereby notified that: (a) any discussion of U.S. federal tax issues in this Official Statement is not intended or written by us to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Code; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

Federal Tax-Exemption – First Series A and First Series B

In General. In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the First Series A Bonds and the First Series B Bonds (the "Tax-Exempt Bonds") (including original issue discount treated as interest, if any), is excludable from gross income for Federal income tax purposes. Interest on the Tax-Exempt Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax ("AMT"); however, interest paid to corporate holders of the Tax-Exempt Bonds (other than an S corporation, regulated investment company, or real estate investment trust) may be indirectly subject to corporate AMT because of its inclusion in the adjusted current earnings of a corporate holder. The opinions described in the preceding sentence assume the accuracy of certain representations and compliance by the State with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Tax-Exempt Bonds. Failure to comply with such requirements could cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Bonds. The State has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Tax-Exempt Bonds.

Original Issue Discount. Certain maturities of the Tax-Exempt Bonds may be issued at an initial public offering price which is less than the amount payable on such Bonds at maturity (collectively, the "Discount Bonds"). The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity (other than "qualified stated interest") constitutes original issue discount. For federal income tax purposes, original issue discount on a Tax-Exempt Bond accrues periodically over the term of the Tax-Exempt Bond as interest with the same tax exemption and AMT status as regular interest. The accrual of original issue discount increases the holder's tax basis in the Tax-Exempt Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

Original Issue Premium. Certain maturities of the Tax-Exempt Bonds may be issued at an initial public offering price which is in excess of the stated redemption price of such Tax-Exempt Bonds at maturity (collectively, the "Premium Bonds"). For federal income tax purposes, original issue premium is amortizable periodically over the term of a Tax-Exempt Bond through reductions in the holder's tax basis for the Tax-Exempt Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Backup Withholding. A person making payments of tax-exempt interest to a bondholder is generally required to make an information report of the payments to the Internal Revenue Service and to perform "backup withholding" from the interest if the bondholder does not provide an IRS Form W-9 to the payor. "Backup withholding" means that the payor withholds tax from the interest payments at the backup withholding rate, currently 28%. Form W-9 states the bondholder's taxpayer identification number or basis of exemption from backup withholding.

If a holder purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the account, as generally can be expected, there should be no backup withholding from the interest on the Bond.

If backup withholding occurs, it does not affect the excludability of the interest on the Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Federally Taxable Qualified Energy Conservation Bonds – First Series C Bonds

The State has determined to issue "Qualified Energy Conservation Bonds" ("QECBs"). The information contained under this caption, "Federally Taxable Qualified Energy Conservation Bonds – First Series C Bonds," shall be applicable only to the First Series C Bonds.

In General. The State has elected to designate the First Series C Bonds as taxable QECBs pursuant to §54D of the Code, and as "Qualified Bonds" pursuant to §6431(f) of the Code. Although the First Series C Bonds are issued by the State, interest on the First Series C Bonds is not excludable from gross income for federal income tax purposes under §103 of the Code. Interest on the First Series C Bonds is taxable as ordinary income for federal income tax purposes at the time the interest accrues or is received in accordance with the holder's method of accounting for federal income tax purposes.

Direct Pay Bonds. Pursuant to the Hiring Incentives to Restore Employees Act enacted on March 18, 2010 ("HIRE"), the State has elected to receive cash subsidy payments from the United States Treasury equal to the lesser of (i) the amount of interest on the First Series C Bonds, or (ii) 70 percent of the amount of interest that would have been payable if the interest were determined at the applicable tax credit bond rate published by the United States Treasury on the sale date of the First Series C Bonds. The Code imposes requirements on the First Series C Bonds that the State must continue to meet after the First Series C Bonds are issued in order to receive the cash subsidy payments. These requirements generally involve the way that First Series C Bond proceeds must be invested and ultimately used. If the State does not meet these requirements, it is possible that the State may not receive the cash subsidy payments and the First Series C Bonds may fail to be "Qualified Energy Conservation Bonds" under §54D of the Code and "Qualified Bonds" under §6431(f) of the Code retroactively to the date of issuance of the First Series C Bonds. Any such failure to qualify as QECBs will not alter the State's obligation to pay the principal and interest due on the First Series C Bonds.

In certain circumstances, the cash subsidy payments to be made to the State may be reduced (offset) by amounts determined to be applicable under the Code and Regulations. For example, offsets may occur by reason of any past-due legally enforceable debt of the State to any federal agency. The amount of any such offset is not predictable, and even if any credits are offset, any such offset does not alter the State's obligation to pay principal and interest due on the First Series C Bonds.

Certain Federal Income Tax Considerations – First Series C Bonds

Original Issue Discount. Certain maturities of the First Series C Bonds may be issued at an initial public offering price which is less than the amount payable on such Bonds at maturity (collectively, the "Discount Bonds"). The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity (other than "qualified stated interest") constitutes original issue discount. For federal income tax purposes, original issue discount on a First Series C Bond accrues periodically as taxable income to the holders in each taxable year to the extent in excess of stated interest, subject to a de minimis exception based on the amount of the original issue discount in relation to the maturity of the applicable First Series C Bonds. Holders should consult their tax advisers for an explanation of the accrual rules and the effect of such accruals on their tax basis for the First Series C Bonds.

Original Issue Premium. Certain maturities of the First Series C Bonds may be issued at an initial public offering price which is in excess of the stated redemption price of such First Series C Bonds at maturity (collectively, the "Premium Bonds"). For federal income tax purposes, original issue premium is amortizable periodically over the term of a First Series C Bond through deductions in determining taxable income. Holders should consult their tax advisers for an explanation of the amortization rules.

Backup Withholding. Certain purchasers may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the First Series C Bonds if the purchasers, upon issuance or subsequent purchase, fail to supply their brokers, or any other person required to collect such information pursuant to the Code, with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide a certified statement, under penalty of perjury, that they are not subject to backup withholding. Information returns will be sent annually to the Service and to each purchaser setting forth the amount of interest paid with respect to the First Series C Bonds and the amount of tax withheld thereon.

Foreign Investors. Holders who are not United States persons as defined for federal tax purposes may be subject to special rules and should consult their tax advisors.

Tax–Exemption - State of Maryland Taxation

In the opinion of the Attorney General and of Bond Counsel, under existing law of the State of Maryland, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit realized in the sale or exchange thereof, will be exempt from taxation within the State of Maryland by the State or by any of its political subdivisions, municipal corporations, or public agencies; however, the law of the State of Maryland does not expressly refer to, and no opinion is expressed concerning, estate or inheritance taxes or any other taxes not levied directly on the Bonds or the interest thereon.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, 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. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the

Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

UNDERWRITING –FIRST SERIES A BONDS

The First Series A Bonds are being purchased by Siebert Brandford Shank & Co., L.L.C. as representative of a group of underwriters named in the Bond Purchase Agreement hereinafter referred to (the "Underwriters"). The Underwriters have agreed to purchase the First Series A Bonds for a purchase price of $___________ (which is equal to the aggregate principal amount of the First Series A Bonds of $____________, plus net original issue premium of $__________ less underwriters' discount of $__________. The Underwriters' obligation to purchase the First Series A Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain matters by Bond Counsel, and certain other conditions. The yields or prices shown on the inside cover page of this Official Statement for the First Series A Bonds were furnished by the Underwriters for the First Series A Bonds. All other information concerning the nature and terms of any reoffering of the Bonds should be obtained from the Underwriters for the First Series A Bonds and not from the State.

Certain matters will be passed upon for the Underwriters by Miles & Stockbridge P.C.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., an underwriter of the First Series A Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the First Series A Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the First Series A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), both UBSFS and CS&Co. will purchase First Series A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any First Series A Bonds that such firm sells.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the First Series A Bonds has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the First Series A Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase First Series A Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any First Series A Bonds that Incapital sells.

SALE AT COMPETITIVE BIDDING – FIRST SERIES B AND FIRST SERIES C BONDS

The First Series B and First Series C Bonds were offered by the State for sale by separate competitive bidding on March 9, 2011, in accordance with the respective forms of the Official Notices of Sale set forth in Appendix E. The interest rates shown on the inside cover page of this Official Statement are the interest rates per annum payable by the State resulting from the award of the First Series B and First Series C Bonds at the competitive bidding. The yields or prices shown on the inside cover page of this Official Statement for the First Series B and First Series C Bonds were furnished by the successful bidders for the First Series B and First Series C Bonds. All other information concerning the nature and terms of any reoffering of the First Series B and First Series C Bonds should be obtained from the successful bidders for the First Series B and First Series C Bonds and not from the State.

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OTHER INFORMATION

Report of Independent Public Accountants

The General Purpose Financial Statements of the State of Maryland for the year ended June 30, 2010, included in the section Appendix A – "FINANCIAL STATEMENTS" of this Official Statement have been audited by SB & Company, LLC, independent certified public accountants, as stated in their report appearing herein.

Financial Advisor

Public Financial Management, Inc. of Philadelphia, Pennsylvania served as financial advisor to the State for the issuance of the Bonds. Public Financial Management, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiable instruments.

Ratings

As noted on the cover page of this Official Statement, Moody's Investors Service, Inc., Standard & Poor's, a Division of the McGraw-Hill Companies, Inc., and Fitch Ratings have given the Bonds ratings of Aaa, AAA, and AAA respectively. An explanation of the significance of a particular rating may be obtained from the rating agency furnishing it. The State furnished to the rating agencies the information contained in a preliminary form of this Official Statement and other information. Generally, rating agencies base their ratings on such materials and information, as well as their own investigations, studies, and assumptions. It should be noted that the ratings may be changed at any time and that no assurance can be given that they will not be revised downward or withdrawn by any or all rating agencies, if in the judgment of any or all, circumstances should warrant such actions. Any downward revision or withdrawal of any of the ratings could have an adverse effect on market prices for the Bonds.

Continuing Disclosure

In order to enable the successful bidders and the Underwriters for the Bonds to comply with the requirements of paragraph (b)(5) of the Securities and Exchange Commission Rule 15c2-12, the Board of Public Works will execute and deliver, on or before the date of issuance and delivery of the Bonds, a Continuing Disclosure Agreement, the form of which is attached as Appendix F. Potential purchasers should note that certain of the events listed in Section 4(a) of the Continuing Disclosure Agreement have been included for purposes of compliance with Rule 15c2-12 but are not relevant for the Bonds, specifically those events relating to debt service reserves, credit enhancements and liquidity providers, and property or other collateral. The State has complied with its obligations under its existing Continuing Disclosure Agreements executed pursuant to Rule 15c2-12(b)(5). As of July 1, 2009, the State files its secondary market disclosures with the Electronic Municipal Market Access ("EMMA") system.

Official Statement

This Official Statement has been approved and authorized by the Board of Public Works of Maryland for use in connection with the sale of the Bonds representing the $485,000,000* State and Local Facilities Loan of 2011, First Series. The Underwriters and the successful bidders will be furnished without cost with up to 100 copies of this Official Statement and of any amendment or supplement that may be issued.

The Board of Public Works has been advised by Ballard Spahr LLP, Baltimore, Maryland, as Bond Counsel in connection with the issuance of the Bonds. See Appendix D to this Official Statement for the forms of the opinions of the Attorney General and Ballard Spahr LLP, Baltimore, Maryland, to be rendered at the time of delivery of the Bonds. The statement under "LEGAL MATTERS – Litigation" has been passed upon by the Honorable Douglas F. Gansler, Attorney General of Maryland, and as to legal conclusions, is stated upon the authority of the Attorney General.

The forms of the Official Notices of Sale for the First Series B Bonds and the First Series C Bonds, attached as Appendix E to this Official Statement, set forth the terms and conditions of the public sale and delivery of and payment for, respectively, the First Series B Bonds and the First Series C Bonds. Reference is particularly made to the Official Notices of Sale for statements of the legal opinions as to the validity of the First Series B Bonds and the First Series C Bonds, the legal opinions and other certifications relating to the accuracy and completeness, in all material respects, of the Official Statement, and the other signed documents to be delivered to the successful bidders for the First Series B

Bonds and the First Series C Bonds at or prior to closing as a condition to the bidders' obligations to accept delivery of and to pay for the First Series B Bonds and the First Series C Bonds.

BOARD OF PUBLIC WORKS
OF MARYLAND

MARTIN O'MALLEY
Governor

PETER FRANCHOT
Comptroller

NANCY K. KOPP
Treasurer

Annapolis, Maryland
March ___, 2011

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*Preliminary, subject to change.

FINANCIAL AND ACCOUNTING SYSTEM

The financial statements and other financial data contained in this Official Statement have been prepared by the Office of the Comptroller. The financial statements and notes thereto contained on pages A-8 through A-110 have been prepared in accordance with accounting principles generally accepted in the United States and, with respect to the Basic Financial Statements for the year ended June 30, 2010, have been audited by SB & Company, LLC, independent certified public accountants, whose report thereon is included in this Official Statement on pages A-8 to A-9. Pagination references within the body of the financial statements in the CAFR refer to the pages in the CAFR.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its comprehensive annual financial reports for fiscal years 1980 through 2009. In order to be awarded a Certificate of Achievement, a governmental unit must publish a comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

Effective June 30, 2002, the State implemented the new reporting model required by GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*." These basic financial statements include Management's Discussion and Analysis, which provides a narrative overview and analysis of the State's financial activities. Furthermore, they include government-wide financial statements, (i.e., the statement of net assets and the statement of activites), which provide both short-term and long-term information about the State's financial position. The statement of activities demonstrates the degree to which the direct expenses of a given function of the State's activities are offset by its program revenues. These statements provide statewide financial information distinguished between governmental activities, business-type activities and component units. Included with these statements are reconciliations between the entity-wide statements, prepared on the full accrual basis, and the fund level statements prepared on the modified accrual basis. In addition, there are reconciliations between the fund level and budgetary statements. Detailed information on the new reporting model is provided in the Management's Discussion and Analysis section and in Note 1 of the "Notes to the Financial Statements."

State statutes require an audit of every unit of State government, including the Office of the Comptroller, by the Legislative Auditor at least every three years or more as determined by the Legislative Auditor. The Legislative Auditor is required to be, and is, a certified public accountant. The Legislative Auditor conducts fiscal, compliance, and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. Although certain of those reports include presentations of detailed financial data and contain expressions of opinion thereon, the audits usually are not made for that purpose. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

The State maintains accounts on a budgetary basis for each program within an agency, and places strong reliance upon the checks, balances, and controls inherent in the constitutional budgetary system. Under constitutional and statutory requirements, a balanced State Budget must be adopted each year, and expenditures may not be made in excess of appropriations. Agencies must report on an object and program basis to the Office of the Comptroller which, in turn, reports to the Department of Budget and Management, which monitors compliance with the Budget. See "STATE FINANCES – Budgetary System." In addition, for year end reporting purposes, the State converts its financial statements prepared on a budgetary basis to financial statements prepared in accordance with generally accepted accounting principles.

Although the accounts maintained by the State on a budgetary basis conform in many respects to accounting principles generally accepted in the United States, there are certain departures from these principles that are dictated by statutory requirements and historical practices. The principal departures are the classification of the State's principal funds and the timing of recognition of certain revenues, expenditures, and expenses.

The State's accounting system is maintained by the Comptroller in compliance with State law and in accordance with the State's budgetary funds. In addition to the accounting systems maintained by the Comptroller, certain individual agencies that are not subject to the State Budget maintain accounting systems that permit financial reporting on the basis of generally accepted accounting principles.

For the purpose of reporting its financial activities in accordance with generally accepted accounting principles, at the fund level the State records its activities in Governmental, Proprietary, and Fiduciary Fund types. See Note 1 to "Notes to the Financial Statements." On a budgetary basis, the State reports its financial activities in the General, Special, Federal, Annuity Bond (Debt Service), Capital Projects, and Higher Education, Current Unrestricted and Current Restricted Funds.

The *General Fund* is the fund in which all general transactions of the State are recorded unless otherwise directed by law to be included in another fund. The General Fund includes most of the governmental operating assets, liabilities, revenues, and expenditures. To the extent that the Budget enacted by the General Assembly uses an estimated fund balance at the end of the current fiscal year, in establishing the Budget for the next succeeding year, that amount of General Fund balance existing at June 30 of the current fiscal year is recorded as assigned to supplement the new year's Budget. See "STATE FINANCES – Budgetary System."

The *Annuity Bond Fund* (Debt Service Fund) is used to account for all payments of debt service on general obligation bonds.

The *Capital Projects Fund is* a group of accounts, each set up for a particular legislated authorization. The proceeds of general obligation bonds, the transfers from the General Fund, and the expenditures of the funds obtained thereby (which are almost entirely for capital projects) are accounted for in each of the accounts.

The *Federal Funds* are used to account for most grants from the federal government.

The *Special Funds* include the transportation activities of the State, including related indebtedness, except for federal transportation grants, which are accounted for in Federal Funds. In addition to the transportation activities, transactions related to dedicated funds, such as fishery and wildlife funds and shared taxes, are recorded in Special Funds.

The *Higher Education, Current Unrestricted and Current Restricted Funds* are used to account for higher education activities. Higher Education, Current Unrestricted and Current Restricted Funds include all revenues used or available for carrying out the current operations of the State's universities and colleges.

Under budgetary reporting, revenues generally are recognized when cash is received except for (i) significant self-assessed taxes, which are recorded in the period to which they apply, and (ii) federal grants, which are recorded when earned. Expenditures generally are recorded when cash is disbursed or upon the approval of encumbrances against appropriations. At the fund level under generally accepted accounting principles, revenues generally are recognized when earned, subject in certain cases to their availability to fund appropriations. Expenditures and expenses are recognized when liabilities are incurred, subject to certain modifications for interest and principal on general long-term debt, retirement costs, other post-employment benefits, compensated absences, pollution remediation, and claims and judgments. See Note 2 of "Notes to the Financial Statements" for further information concerning the significant accounting policies employed by the State in preparing its financial statements in accordance with accounting principles generally accepted in the United States.

A summary of the effects of fund structure and timing differences on the General Fund balances between the budgetary basis and generally accepted accounting principles basis for fiscal years 2010 and 2009 follows.

	(in thousands)	
	2010	**2009**
Year end fund balance on budgetary basis……………...………………………..	$ 1,056,125	$ 925,637
Fund structure reclassifications……………………...…………………………….	1,263,204	1,100,317
Adjustments to the budgetary accounting system:		
Cash and cash equivalents……………...……………………………………..	(67,992)	51,751
Investments……………………………...……………………………………….	36,579	13,754
Other accounts receivable……….………….……………......…………………..	180,404	118,194
Other assets…..………………………………...………………………………….	(191,201)	(148,474)
Accounts payable and accrued liabilities……...….…………...…………….	(716,542)	(305,308)
Deferred revenue………………………………………………………………….	(311,485)	(245,949)
Year end fund balance on generally accepted accounting principles basis…….	$ 1,249,092	$ 1,509,922

FINANCIAL STATEMENTS

(Pages A-1 through A-7 not used)

SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Honorable Peter Franchot
Comptroller of Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland (the State), as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements, schedules and supplementary information are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of (1) certain Economic Development Loan Programs; (2) the Maryland State Lottery Agency; (3) the Maryland Transportation Authority; (4) the Economic Development Insurance Programs; (5) certain foundations included in the higher education component units; (6) the Maryland Food Center Authority; (7) the Maryland Technology Development Corporation; and (8) the Investment Trust Fund, which represent the percentages of the total assets, total net assets, and total operating revenues or additions included in the accompanying financial statements.

	Percentage of Opinion Unit		
	Total Assets	Total Net Assets	Total Operating Revenues
Business-Type Activities			
Major -			
Certain Economic Development Loan Programs	30.7 %	8.7 %	4.3 %
Maryland State Lottery Agency	2.1	0.4	49.3
Maryland Transportation Authority	46.0	48.1	15.0
Non-Major -			
Economic Development Insurance Programs	0.9	1.7	0.1
Total percentage of business-type activities	79.7 %	58.9 %	68.7 %
Component Units			
Major -			
Certain foundations included in the higher education component units	12.8 %	15.5 %	13.5 %
Non-Major -			
Maryland Food Center Authority	0.3	0.4	0.4
Maryland Technology Development Corporation	0.3	0.1	1.7
Total percentage of component units	13.4 %	16.0 %	15.6 %
Fiduciary Funds			
Investment Trust Fund	5.8 %	6.9 %	75.4 %

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Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned funds and component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis; required supplemental schedules of funding progress and employer contributions for the Maryland Pension and Retirement System, the Maryland Transit Administration Pension Plan, and Other Post-employment Benefits Plan; and the respective budgetary comparison for the budgetary general, special and Federal funds as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section of this report has not been subjected to the auditing procedures applied by us or the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

SB & Company, LLC

Hunt Valley, Maryland
December 10, 2010

STATE OF MARYLAND

Management's Discussion and Analysis

Management of the State of Maryland provides this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2010. Please read it in conjunction with the Comptroller's letter of transmittal, which can be found in the Introductory Section of this report, and the State's financial statements which follow this section.

Financial Highlights

Government–wide

- Maryland reported net assets of $12.6 billion in fiscal year 2010 and $14.5 billion in fiscal year 2009.
- Of the net assets in fiscal year 2010, a deficit balance of $5.2 billion was reported as total unrestricted net assets, which includes a $6.7 billion deficit balance in governmental activities and a $1.5 billion balance in business-type activities.
- The State's total net assets decreased by $2.0 billion as a result of this year's operations. The net assets for governmental activities decreased by $2.1 billion (22.1%). Net assets of business-type activities increased by $117 million (2.3%).
- The State's governmental activities had total expenses of $29.9 billion, total revenues of $27.2 billion and net transfers from business-type activities of $615 million for a net decrease of $2.1 billion.
- Business-type activities had total expenses of $3.9 billion, program revenues of $4.6 billion, and transfers out of $615 million for a net increase in net assets of $117 million.
- Total State revenues were $31.8 billion, while total costs for all programs were $33.8 billion.

Fund Level

- Governmental funds reported a combined fund balance of $1.8 billion, a decrease of $155 million (7.8%) from the prior year.
- The General Fund reported an unassigned fund balance deficit of $341 million and a remaining fund balance (nonspendable, restricted, and committed) of $1.6 billion, compared to an unreserved fund balance of $147 million and a reserved fund balance of $1.4 billion last year. This represents a net decrease of $261 million in General Fund, fund balance. The total unassigned fund balance deficit in the governmental funds was $700 million, compared to the unreserved fund balance of $42 million in the prior year.
- Governmental funds reported a total nonspendable, restricted, and committed fund balance of $2.5 billion in 2010, compared to a total reserved fund balance of $1.9 billion in the prior year.

Long-term Debt

- Total bonds and obligations under long-term leases at year end was $15.4 billion, a net increase of $1.4 billion (9.9%) over the prior year.
- $1.9 billion General Obligation Bonds of which, $798 million were refunding bonds, and $140 million Transportation Bonds were issued during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Maryland's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists readers in assessing the State's economic condition at the end of the fiscal year. The statements include all fiscal year revenues and expenses, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The above financial statements distinguish between the following three types of state programs or activities:

Governmental Activities - The activities in this section are typically supported by taxes and intergovernmental revenues, i.e., federal grants. Most services normally associated with State government fall into this category, including the Legislature, Judiciary and the general operations of the Executive Department.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include insurance and loan programs for economic development, the Unemployment Insurance Program, the Lottery, the Transportation Authority and Maryland Correctional Enterprises, a program which constructs office furnishings utilizing the prisons' inmate population.

Discretely Presented Component Units – The government-wide statements include operations for which the State has financial accountability, but are legally separate entities. Financial information for these component units is reported separately from the financial information presented for the primary government. The component unit activities include Higher Education, the Maryland Prepaid College Trust, the Maryland Stadium Authority and other non-major proprietary activities. All of these entities operate similarly to private sector business and to the business-type activities described above. The component unit Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College and Baltimore City Community College and certain affiliated foundations. The non-major component units include the Maryland Food Center Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority and the Maryland Technology Development Corporation.

Complete financial statements of the individual component units can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

This report includes two schedules (pages 29 and 31) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned and other assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but are recognized on the government-wide statements.
- Deferred bond issuance costs are capitalized and amortized on the government-wide statements, but reported as expenditures in governmental funds.

- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, and bonds and notes payable, only appear as liabilities in the government-wide statements.

- Capital outlays result in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.

- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.

- Certain other transactions represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The government-wide financial statements can be found on pages 24-27 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental, enterprise, and fiduciary. Each of these categories uses a different accounting approach.

Governmental funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The State maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Department of Transportation-special revenue fund, both of which are considered to be major funds. Data from the remaining three governmental funds are combined into a single, aggregated presentation. Data for the non-major governmental funds, namely, the debt service fund for general obligation bonds, the debt service fund for transportation revenue bonds and the capital projects fund, is provided in the form of combining statements elsewhere in this report. These funds are reported using modified accrual accounting, which measures cash and all other assets which can be readily converted to cash. The basic governmental funds financial statements can be found on pages 28 and 30 of this report.

Enterprise funds – Enterprise funds are used to show activities that operate similar to activities of commercial enterprises. These funds charge fees for services provided to outside customers including local governments. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements because they both utilize accrual accounting, the same method used for businesses in the private sector.

The State has six enterprise funds, four of which are considered to be major enterprise funds. These funds are: Economic Development Loan Programs, the Unemployment Insurance Program, the Lottery Agency and the Transportation Authority. Data for the non-major enterprise funds, Economic Development Insurance Programs and Maryland Correctional Enterprises, are combined into a single aggregated presentation. Individual fund data for these non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic enterprise funds financial statements can be found on pages 34 - 38 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are restricted in purpose and are not available to support the State's own programs. Fiduciary funds use accrual accounting.

The State's fiduciary funds include the Pension and Other Employee Benefits Trust Funds (Pension Trust), the Investment Trust Fund, the Postretirement Health Benefits Trust Fund (OPEB Trust) and Agency Funds. The Pension and Other Employee Benefits Trust Funds consist of the Retirement and Pension System, the Maryland Transit Administration Pension Plan and the Deferred Compensation Plan. The Postretirement Health Benefits Trust Fund accumulates funds to assist with the costs of the State's postretirement health insurance subsidy. The Investment Trust Fund accounts for the transactions, assets, liabilities and fund equity of an external investment pool. Agency funds account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals. Individual fund detail for the fiduciary funds can be found in the combining financial statements.

The basic fiduciary funds financial statements can be found on pages 39 - 40 of this report.

Combining Financial Statements, Component Units – The government-wide financial statements present information for the component units in a single aggregated column in the Statement of Net Assets and the Statement of Activities. Combining Statement of Net Assets and Combining Statement of Activities have been provided for the Component Unit Proprietary Funds and provide detail for each major proprietary component unit, with a combining column for the non-major component units. Individual financial statement information for the non-major component units is provided elsewhere in this report.

The combining financial statements for the component units can be found on pages 42 - 44 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 46 - 102 of this report.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the budgetary general, special revenue and federal funds, along with a reconciliation of the statutory and Accounting Principles Generally Accepted in the United States of America (GAAP) General and Special Revenue Fund, fund balances at fiscal year end. This report also presents certain required supplementary information concerning the State's progress in funding obligations to provide pension benefits and other post-employment benefits and includes a footnote concerning budgeting and budgetary control. Required supplementary information immediately follows the notes to the financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements referred to earlier in connection with non-major governmental, enterprise, and fiduciary funds and non-major component units are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The State's combined net assets (government and business-type activities) totaled $12.6 billion at the end of 2010 and $14.5 billion at the end of 2009.

Net Assets as of June 30,

(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	$ 5,951	$ 5,342	$ 8,201	$ 8,053	$ 14,152	$13,395
Capital assets	19,252	19,265	3,894	3,207	23,146	22,472
Total assets	25,203	24,607	12,095	11,260	37,298	35,867
Long-term liabilities	13,195	11,369	5,930	5,375	19,125	16,744
Other liabilities	4,722	3,882	875	697	5,597	4,579
Total liabilities	17,917	15,251	6,805	6,072	24,722	21,323
Net assets:						
Invested in capital assets, net of related debt	13,796	14,381	1,555	1,368	15,351	15,749
Restricted	155	127	2,281	2,321	2,436	2,448
Unrestricted	(6,665)	(5,152)	1,454	1,499	(5,211)	(3,653)
Total net assets	$ 7,286	$ 9,356	$ 5,290	$ 5,188	$ 12,576	$14,544

The largest portion of the State's net assets, $15.4 billion, reflects investment in capital assets such as land, buildings, equipment and infrastructure, less any related debt to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens. Consequentially, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, a portion of the State's net assets, $2.4 billion, represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining balance for unrestricted net assets, a deficit of $5.2 billion, reflects the State's expenses over revenues.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

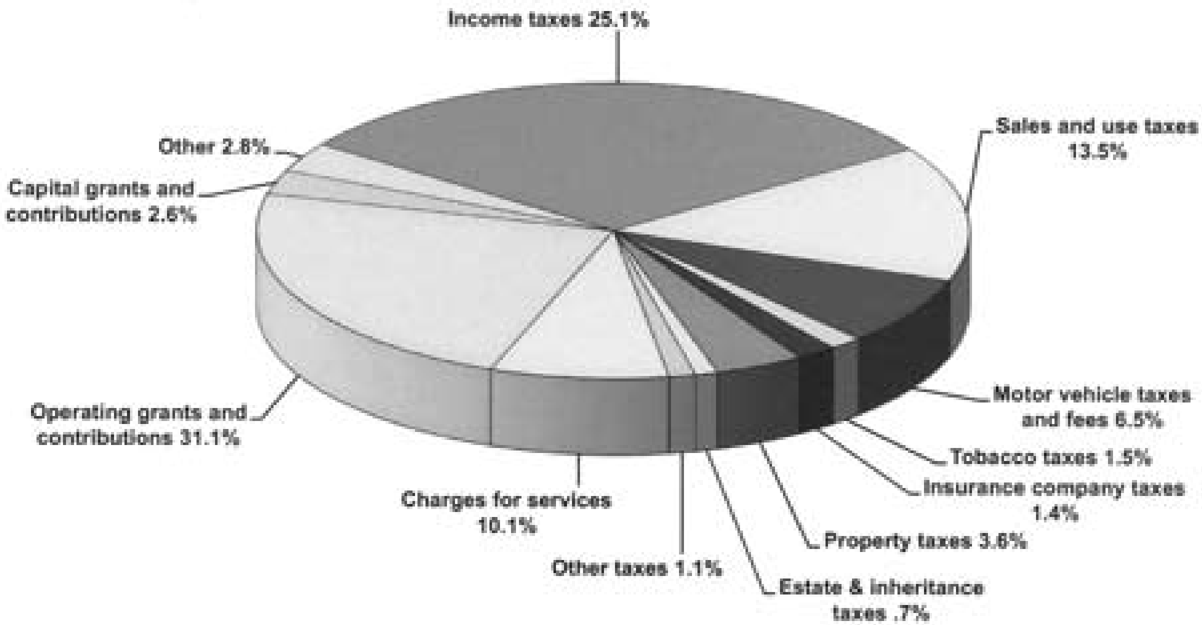
Changes in Net Assets

For the Year Ended June 30,

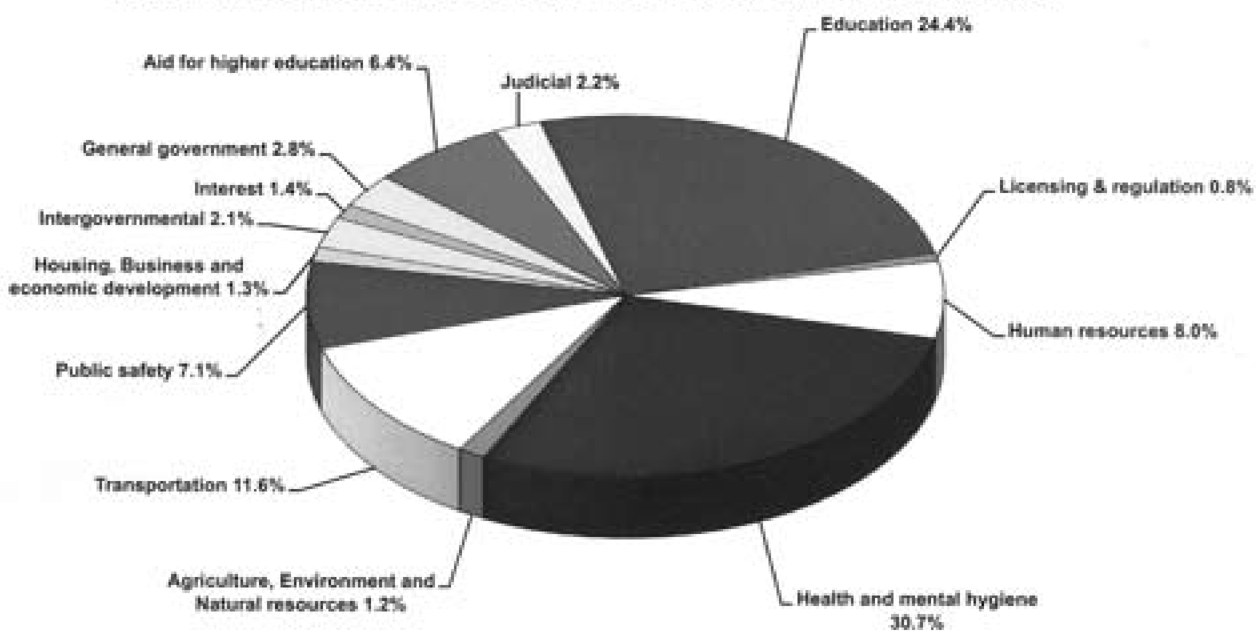
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 2,819	$ 2,405	$3,613	$2,932	$ 6,432	$ 5,337
Operating grants and contributions	8,659	7,080	1,016	391	9,675	7,471
Capital grants and contributions	728	692			728	692
General revenues:						
Income taxes	7,003	7,168			7,003	7,168
Sales and use taxes	3,761	3,857			3,761	3,857
Motor vehicle taxes	1,797	1,787			1,797	1,787
Tobacco taxes	406	406			406	406
Insurance company taxes	383	369			383	369
Property taxes	1,010	969			1,010	969
Estate & inheritance taxes	196	230			196	230
Other taxes	295	293			295	293
Unrestricted investment earnings	168	203	9	18	177	221
Total revenues	27,225	25,459	4,638	3,341	31,863	28,800
Expenses:						
General government	837	836			837	836
Health and mental hygiene	9,174	8,399			9,174	8,399
Education	7,294	7,173			7,294	7,173
Aid for higher education	1,908	1,878			1,908	1,878
Human resources	2,401	2,163			2,401	2,163
Public safety	2,120	2,134			2,120	2,134
Transportation	3,461	3,203			3,461	3,203
Judicial	655	682			655	682
Labor, licensing and regulation	254	204			254	204
Natural resources and recreation	188	219			188	219
Housing and community development	320	248			320	248
Environment	122	124			122	124
Agriculture	57	95			57	95
Business and economic development	79	95			79	95
Intergovernmental grants	635	625			635	625
Interest	405	390			405	390
Economic development insurance programs			4	9	4	9
Economic development loan programs			316	285	316	285
Unemployment insurance program			2,004	1,330	2,004	1,330
State Lottery			1,205	1,207	1,205	1,207
Transportation Authority			327	308	327	308
Maryland Correctional Enterprises			50	53	50	53
Total expenses	29,910	28,468	3,906	3,192	33,816	31,660
Increase (decrease) in net assets before transfers and special items	(2,685)	(3,009)	732	149	(1,953)	(2,860)
Transfers and special items	615	461	(615)	(461)		
Change in net assets	(2,070)	(2,548)	117	(312)	(1,953)	(2,860)
Net assets - beginning (as restated)	9,356	11,904	5,173	5,500	14,529	17,404
Net assets - ending	$ 7,286	$ 9,356	$5,290	$5,188	$12,576	$14,544

2010 REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



2010 EXPENSES BY FUNCTION - GOVERNMENTAL ACTIVITIES



Governmental Activities

Comparing current year activities to the prior year discloses that revenues increased by $1.8 billion or 6.9%, while expenses increased by $1.4 billion or 5.1%. The revenue increase was primarily due to an increase of $1.6 billion or 22.3% in operating grants and an increase of $414 million or 17.2% in charges for services. The increase in operating grants was primarily due to increases in federal revenues for Medicaid expenses, due to the economy – driven growth in enrollment; education; and temporary assistance programs in human resources. A significant portion of this increase includes growth in American Recovery and Reinvestment Act funds.

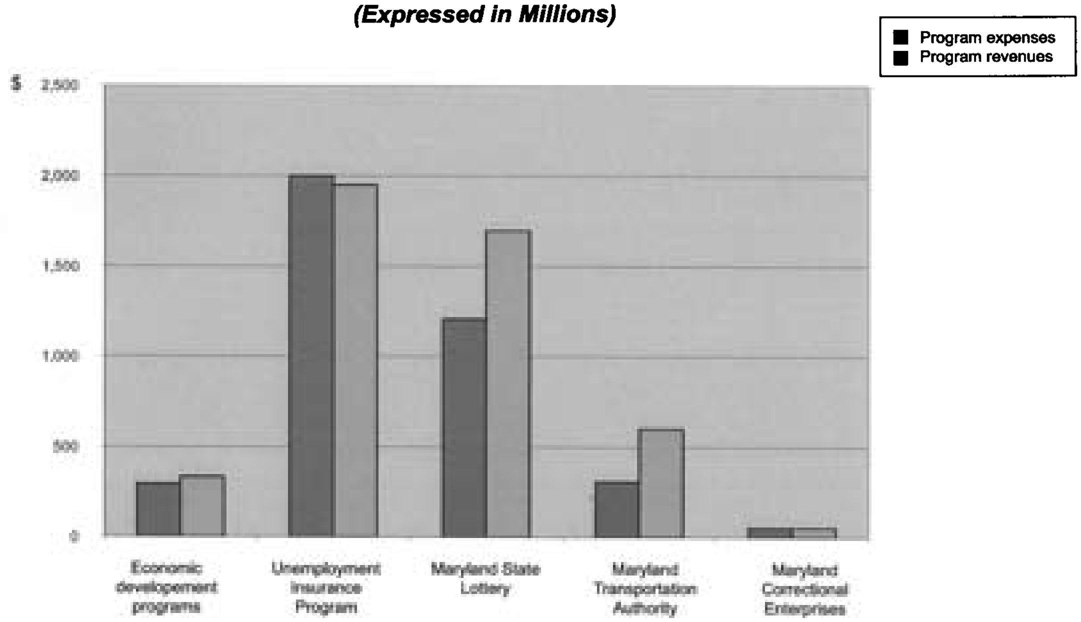
These increases were offset by a decrease of $165 million or 2.3% in income taxes and a decrease of $96 million or 2.5% in sales and use taxes. The decrease in taxes was primarily due to the continued declining economy nationwide. The increase in expenses was primarily due to increases of $775 million or 9.2% in health care programs, $258 million or 8.1% for transportation, and $238 million or 11.0% for human resources.

Business-type Activities

Business-type activities increased the State's net assets by $732 million before transfers of $615 million to governmental activities, for a net increase of $117 million in net assets. The increase compares to an increase of $149 million before transfers of $461 million in the prior year. Key elements of this increase are as follows:

- The change in net assets for the Maryland Transportation Authority was an increase of $293 million compared to an increase of $125 million in the prior year. Net operating income was $237 million compared to $116 million in the prior year. Operating revenues increased by $145 million (38.9%), including an increase in intergovernmental revenue of $100 million of which $55 million was received from the State of Maryland for reimbursement of construction costs for the Inter-County Connector. Operating expenses increased by $24 million (9.4%) due primarily to increases in depreciation and insurance. Non-operating revenues and expenses increased by $47 million, primarily for the gain on the sale of land at the Seagirt Marine Terminal ($59 million), offset by a reduction in investment revenue ($17 million).
- The change in net assets for the Unemployment Insurance Program was a decrease of $68 million compared to a decrease of $486 million in the prior year. Operating activities produced a deficit of $1.1 billion compared to the prior year's operating deficit of $890 million. While the Program's charges for services increased by $503 million (114.3%), benefit payments increased by $674 million (50.6%) due to the continued increase in the number of Marylanders collecting unemployment benefits. Federal payments for extended benefits and other programs increased by $611 million (164.4%).

Expenses and Program Revenues - Business-type Activities
(Expressed in Millions)



- Economic Development Loan Programs had a decrease of $96 million in net assets compared to an increase of $54 million in the prior year. The difference between years is primarily due to an increase of $129 million in net transfers to the general fund.
- Lottery ticket sales were $1.7 billion, an increase of $8 million (.5%) over last year. Operating expenses decreased by $2 million (.2%) and transfers to governmental activities increased to $511 million in 2010, from $493 million in 2009, an increase of 3.5%. Video Lottery Terminal (VLT) applicant fees increased by $3 million in 2010 compared to 2009. This increase is the result of the expansion of the VLT Program. During 2010, the Video Lottery Commission approved the award of two VLT operator licenses.

Financial Analysis of the State's Funds

As of the end of the current fiscal year, the State's governmental funds reported a combined fund balance of $1.8 billion, a decrease of $155 million from the prior year. The combined fund balance includes a deficit of $700 million in unassigned, including a deficit of $341 million for the general fund and a deficit of $359 million for the other governmental funds. The remainder of the fund balance is nonspendable, restricted, or committed based on the constraints on the specific purposes for which amounts in that fund can be spent. The remainder of fund balance is 1) unspendable because it is in the form of prepaid items, inventories and long-term loans and notes receivable ($620 million); 2) restricted by outside parties or to pay debt service on general obligation bonds from specific taxes ($155 million); or 3) committed to legislated purposes or to liquidate contracts and purchase orders of the prior period ($1.7 billion). Included in committed fund balance is $615 million in the "State Reserve Fund" which is set aside to meet future financial needs. By law, the governor must appropriate to the State Reserve Fund, the general fund surplus of the second preceding fiscal year that exceeds $10,000,000. The unassigned general fund deficit plus the amount in the State Reserve Fund, is approximately .9 % of the total annual expenditures in governmental funds, compared with 3.0% for the prior year.

General Fund

The general fund is the major operating fund of the State. At the end of the current fiscal year, the unassigned fund balance deficit of the general fund was $341 million, while total fund balance was $1.2 billion. The fund balance of the State's general fund decreased by $261 million during 2010, compared to a decrease of $1.4 billion for 2009. Although increases in revenues, $1.7 billion (7.7%), were greater than increases in expenditures, $1.2 billion (5.0%), there was a deficiency of revenues compared to expenditures of $1.0 billion in the current year.

Revenues increased by $1.7 billion over the prior year, primarily due to increases in federal revenues, $1.6 billion (22.5%) and charges for services, $390 million (47.0%), and despite revenue decreases for income taxes, $198 million (2.8%), and sales and use taxes, $97 million (2.5%).

General fund expenditures increased by $1.2 billion. Expenditures for education, health and mental hygiene and human resources increased by $250 million (3.0%), $755 million (9.1%) and $229 million (11.1%), respectively. These increases were the result of continued increased funding for education, and continued increases in Medicaid costs and funding for food stamps and temporary assistance due to the worsening economy.

Transfers out from the general fund were $510 million this year compared to $475 million for the prior year. This increase was due primarily to an increase of $26 million to the Economic Development Loan Programs.

Special Revenue Fund

The Maryland Department of Transportation special revenue fund accounts for resources used for operation of the State's transportation activities, not including debt service and pension activities. The fund balance of the Department's special revenue fund was $336 million as of June 30, 2010, an increase of $7 million (2.1%) from the prior fiscal year. Revenues increased by $67 million (2.2%), expenditures decreased by $329 million (9.7%), and other sources of financial resources decreased by $568 million. The increase in revenues was primarily from an increase in federal revenue, and the decrease in expenditures was primarily in intergovernmental grants and revenue sharing and capital outlays. The decrease in other sources of financial resources was due to reductions in bonds issued and an increase in transfers to the general fund.

Budgetary Highlights

Differences between the original budget and final amended budget, and the final budget and actual expenditures for the general fund for the year are summarized as follows. The budgetary schedule may be found in the Required Supplementary Information Section.

Overall, the change between the original and final general fund budget was a decrease of $336 million or 2.4 %. The Department of Health and Mental Hygiene appropriations decreased by $180 million primarily due to cost containment actions, partially offset by deficiency appropriations related to Medicaid enrollment growth. In addition, there were cost containment reductions due to reduced revenue estimates throughout all functions of the general fund budget.

The difference between the final budget, $13.6 billion and actual expenditures, $13.5 billion was $96 million, or .7%. This amount was encumbered for future spending. The variance was primarily due to the cancellation of current and prior year encumbrances. Appropriations were cancelled primarily for legislative, judicial, health, education, and business and economic development functions.

Capital Asset and Debt Administration

Capital assets

At June 30, 2010, the State had invested $23.1 billion (net of accumulated depreciation) in a broad range of capital assets (see table below). Depreciation expense for the fiscal year totaled $1.1 billion ($1.0 billion for governmental activities and $53 million for business-type activities). The increase in the State's investment in capital assets, net of depreciation expense, for the current fiscal year was $674 million (a decrease of $13 million for governmental activities and an increase of $687 million for business-type activities).

Capital Assets as of June 30,

(Net of Depreciation, Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and improvements	$ 3,081	$ 2,995	$ 404	$ 396	$ 3,485	$ 3,391
Art and historical treasures	9	28			9	28
Structures and improvements	3,700	3,541	24	24	3,724	3,565
Equipment	803	788	30	30	833	818
Infrastructure	9,310	8,457	1,259	1,376	10,569	9,833
Construction in progress	2,349	3,456	2,177	1,381	4,526	4,837
Total	$ 19,252	$ 19,265	$ 3,894	$ 3,207	$ 23,146	$22,472

Major capital asset events during the current fiscal year for governmental activities include continued widening and/or expansion of existing highways and bridges, various transit, port and motor vehicle administration construction projects; and software development for modernized integrated tax system. Elements of the increases in capital assets of business-type activities include the Inter-County Connector and electronic toll lane projects, which resulted in increases in land and improvements and construction in progress, and the restoration of existing facilities.

Additional information on the State's capital assets can be found in footnote 10 of this report.

Long-term debt

The State is empowered by law to authorize, issue and sell general obligation bonds, which are backed by the full faith and credit of the State. The State also issues dedicated revenue bonds for the Department of Transportation and various business-type activities. The payment of principal and interest on revenue bonds comes solely from revenues received from the respective activities. This dedicated revenue debt is not backed by the State's full faith and credit.

At June 30, 2010, the State had outstanding bonds totaling $14.3 billion. Of this amount, $6.5 billion were general obligation bonds, backed by the full faith and credit of the State. The remaining $7.8 billion were secured solely by the specified revenue sources.

Outstanding Bond Debt as of June 30,

(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds (backed by the State)	$ 6,523	$ 5,874			$ 6,523	$ 5,874
Transportation Bonds (backed by specific revenues)	1,645	1,583			1,645	1,583
Revenue Bonds (backed by specific revenues)			$ 6,162	$ 5,423	6,162	5,423
Total	$ 8,168	$ 7,457	$ 6,162	$ 5,423	$ 14,330	$ 12,880

The total increase in bonded debt in the current fiscal year was $1.5 billion ($649 million increase related to general obligation bonds, and $62 and $739 million increase related to transportation and revenue bonds, respectively). The State's general obligation bonds are rated Aaa by Moody's and AAA by Standard and Poors and Fitch. During fiscal year 2010, the State issued general obligation debt totaling $1.9 billion at a premium of $196 million. Of this amount, $798 million and related premium of $130 million was for refunding bonds. On August 10, 2010 (fiscal year 2011), the State issued general obligation bonds aggregating $485 million for capital improvements.

State law limits the amount of Consolidated Transportation Bonds, dedicated revenue debt that may be outstanding as of June 30 to the amount authorized in the budget, and this amount may not exceed $2.6 billion. The aggregate principal amount of these bonds that was authorized to be outstanding as of June 30, 2010, was $1.8 billion. The actual amount in Consolidated Transportation Bonds outstanding was $1.6 billion.

Additional information on the State's long-term debt can be found in footnote 11 of this report.

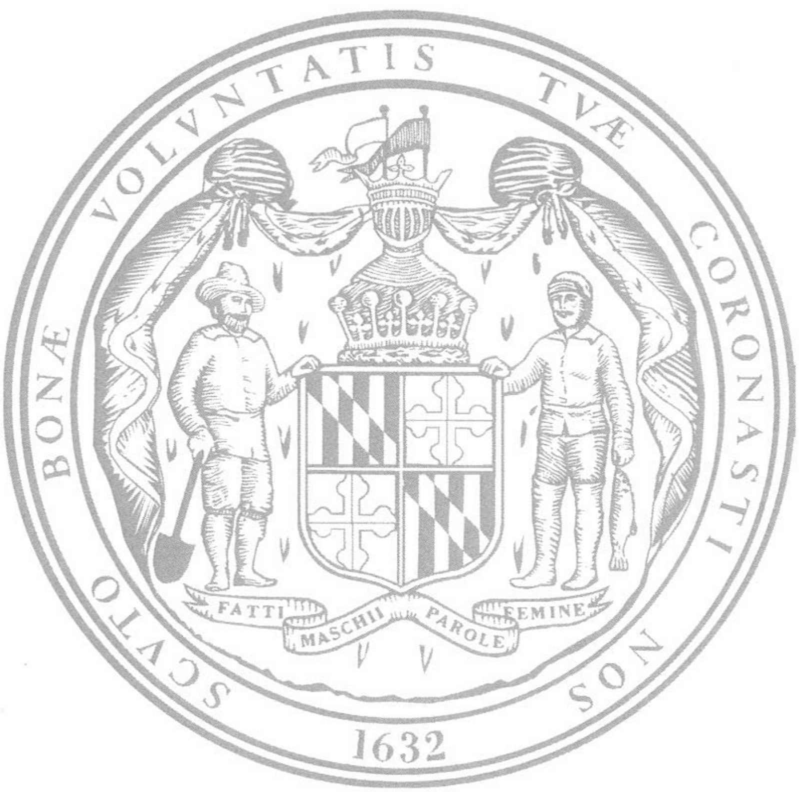
Economic Factors and Next Year's Budget

The recent national recession has slowed Maryland's economy and its effects will likely continue to be felt for an extended period of time. Economic indicators in employment, personal income and housing continued to show deterioration from the start of the recession and, in some areas, historic declines from recent decades. In this environment, the budget will be balanced in fiscal year 2011 by reducing general fund spending by $265 million and total spending by $249 million from fiscal year 2010.

Nevertheless, Maryland's economy is showing signs of the emerging national recovery. The Base Realignment and Closure process has begun to create defense-related jobs and should accelerate new jobs through September 2011. This and other factors such as a highly skilled workforce, employment in growth sectors such as health services, and a strong Federal government presence, should accelerate the emergence of Maryland's economy.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Accounting Division, Office of the Comptroller, P.O. Box 746, Annapolis, Maryland 21404.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BASIC FINANCIAL STATEMENTS

STATE OF MARYLAND
Statement of Net Assets
June 30, 2010
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 206,810	$ 93,366	$ 300,176	$ 121,880
Equity in pooled invested cash	1,800,805	595,211	2,396,016	1,294,466
Investments	280,577	415,613	696,190	536,198
Endowment investments				183,250
Foundation investments				819,387
Inventories	105,076	14,412	119,488	12,343
Prepaid items	498,891		498,891	6,448
Deferred charges	21,439		21,439	4,460
Taxes receivable, net	1,011,927		1,011,927	
Intergovernmental receivables	1,049,728		1,049,728	
Tuition contracts receivable				229,735
Due from primary government				3,764
Due from component units	702		702	
Other accounts receivable	525,939	52,370	578,309	433,906
Loans and notes receivable, net	16,367	606,291	622,658	74,964
Investment in direct financing leases		398,906	398,906	232,762
Other assets	5,725	26,523	32,248	21,542
Collateral for lent securities	247,824		247,824	
Restricted assets:				
Cash and cash equivalents	41,384	1,425,358	1,466,742	65,359
Equity in pooled invested cash	105,315		105,315	
Investments	2,930	1,175,638	1,178,568	130,955
Deferred charges		17,000	17,000	
Deferred outflows on interest rate swaps		32,630	32,630	
Taxes receivable, net	26,329		26,329	
Loans and notes receivable, net	3,256	3,013,361	3,016,617	
Other	91	333,928	334,019	
Capital assets, net of accumulated depreciation:				
Land	3,081,026	404,872	3,485,898	165,718
Art and historical treasures	9,370		9,370	375
Structures and other improvements	3,699,877	23,590	3,723,467	3,570,677
Equipment	802,515	29,728	832,243	389,875
Infrastructure	9,310,446	1,258,956	10,569,402	188,142
Construction in progress	2,348,911	2,176,988	4,525,899	477,055
Total capital assets	19,252,145	3,894,134	23,146,279	4,791,842
Total assets	25,203,260	12,094,741	37,298,001	8,963,261

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Liabilities				
Salaries payable	172,384		172,384	104,083
Vouchers payable	348,025		348,025	
Accounts payable and accrued liabilities	2,253,746	374,333	2,628,079	213,523
Internal balances	(38,151)	38,151		
Due to component units	3,764		3,764	
Due to primary government				702
Accounts payable to political subdivisions	274,068		274,068	
Unearned revenue	497,797	19,794	517,591	264,095
Interest rate swaps		32,630	32,630	
Accrued insurance on loan losses		14,453	14,453	3,831
Other liabilities				4,997
Collateral obligations for lent securities	247,824		247,824	
Bonds and notes payable:				
Due within one year	598,264	358,646	956,910	112,904
Due in more than one year	8,045,134	5,802,987	13,848,121	1,357,842
Other noncurrent liabilities:				
Due within one year	365,225	36,757	401,982	181,348
Due in more than one year	5,149,638	127,081	5,276,719	833,447
Total liabilities	17,917,718	6,804,832	24,722,550	3,076,772
Net Assets				
Invested in capital assets, net of related debt	13,796,006	1,554,706	15,350,712	3,607,970
Restricted for:				
Debt service	151,317	164,802	316,119	9,440
Capital improvements and deposits	2,657	494,800	497,457	29,868
Higher education-nonexpendable				589,952
Higher education-expendable				444,948
Unemployment compensation benefits		498,605	498,605	
Loan programs		1,019,986	1,019,986	75,308
Insurance programs		103,379	103,379	
Other	398		398	
Unrestricted (deficit)	(6,664,836)	1,453,631	(5,211,205)	1,129,003
Total net assets	$7,285,542	$5,289,909	$12,575,451	$5,886,489

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Statement of Activities
For the Year Ended June 30, 2010
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Primary government -								
Governmental activities:								
General government	$ 837,542	$ 490,230	$ 76,580	$ 4,376	$ (266,356)		$ (266,356)	
Health and mental hygiene	9,174,006	948,124	4,814,136		(3,411,746)		(3,411,746)	
Education	7,294,358	77,003	1,362,882		(5,854,473)		(5,854,473)	
Aid for higher education	1,908,027	139,909	48,173		(1,719,945)		(1,719,945)	
Human resources	2,401,029	92,254	1,559,696		(749,079)		(749,079)	
Public safety	2,119,696	81,459	177,565	2,347	(1,858,325)		(1,858,325)	
Transportation	3,460,865	527,330	90,762	714,144	(2,128,629)		(2,128,629)	
Judicial	654,605	246,027	6,422		(402,156)		(402,156)	
Labor, licensing and regulation	253,977	30,154	163,469		(60,354)		(60,354)	
Natural resources and recreation	187,525	48,359	33,369	909	(104,888)		(104,888)	
Housing and community development	319,721	17,851	294,567		(7,303)		(7,303)	
Environment	121,957	59,156	23,936		(38,865)		(38,865)	
Agriculture	57,275	47,938	4,352	6,127	1,142		1,142	
Business and economic development	78,701	13,796	3,042		(61,863)		(61,863)	
Intergovernmental grants and revenue sharing	635,467				(635,467)		(635,467)	
Interest	405,163	405	857		(403,901)		(403,901)	
Total governmental activities	29,909,914	2,819,995	8,659,808	727,903	(17,702,208)		(17,702,208)	
Business-type activities:								
Economic development - insurance programs	4,247	4,591				$ 344	344	
Economic development - general loan programs	13,501	3,561				(9,940)	(9,940)	
Economic development - water quality loan programs	99,911	80,900	32,842			13,831	13,831	
Economic development - housing loan programs	201,077	220,874				19,797	19,797	
Unemployment insurance program	2,004,334	953,711	982,803			(67,820)	(67,820)	
Maryland State Lottery	1,205,310	1,711,285				505,975	505,975	
Maryland Transportation Authority	327,360	588,427				261,067	261,067	
Maryland Correctional Enterprises	49,965	49,278				(687)	(687)	
Total business-type activities	3,905,705	3,612,627	1,015,645			722,567	722,567	
Total primary government	$33,815,619	$6,432,622	$9,675,453	$727,903	(17,702,208)	722,567	(16,979,641)	

Component units:								
Higher education	$4,295,594	$1,978,808	$1,351,702	$203,846				$ (761,238)
Maryland Prepaid College Trust	66,942	57,485						(9,457)
Maryland Stadium Authority	70,604	34,311	21,273					(15,020)
Other component units	151,080	135,034	21,451					5,405
Total component units	$4,584,220	$2,205,638	$1,394,426	$203,846				(780,310)
General revenues:								
Income taxes					7,003,514		7,003,514	
Sales and use taxes					3,760,756		3,760,756	
Motor vehicle taxes					1,796,769		1,796,769	
Tobacco taxes					405,915		405,915	
Insurance company taxes					382,569		382,569	
Property taxes					1,009,768		1,009,768	
Estate & inheritance taxes					196,002		196,002	
Other taxes					294,752		294,752	
Grants and contributions not restricted to specific programs								1,058,628
Unrestricted investment earnings					167,581	9,068	176,649	142,376
Changes to permanent endowments								(1,367)
Transfers					614,794	(614,794)		
Total general revenues, changes to permanent endowments, and transfers					15,632,420	(605,726)	15,026,694	1,199,637
Changes in net assets					(2,069,788)	116,841	(1,952,947)	419,327
Net assets - beginning of the year, as restated					9,355,330	5,173,068	14,528,398	5,467,162
Net assets - end of the year					$7,285,542	$5,289,909	$12,575,451	$5,886,489

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Balance Sheet
Governmental Funds
June 30, 2010
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	$ 196,138	$ 10,672		$ 206,810
Equity in pooled invested cash	1,652,469	148,336		1,800,805
Investments	10,099		$270,478	280,577
Prepaid items	408,352	90,539		498,891
Taxes receivable, net	938,646	73,281		1,011,927
Intergovernmental receivables	843,193	200,133	6,402	1,049,728
Other accounts receivable	411,499	114,391	49	525,939
Due from other funds	95,867	125,030		220,897
Due from component units	702			702
Inventories	25,987	79,089		105,076
Loans and notes receivable	14,901	1,466		16,367
Collateral for lent securities	247,824			247,824
Restricted assets:				
Cash and cash equivalents		27,437		27,437
Cash with fiscal agent			13,947	13,947
Equity in pooled invested cash			105,315	105,315
Investments	2,930			2,930
Taxes receivable			26,329	26,329
Other accounts receivable			92	92
Due from other funds			2,425	2,425
Loans and notes receivable			3,256	3,256
Total assets	$4,848,607	$870,374	$428,293	$6,147,274
Liabilities:				
Salaries payable	$ 147,411	$ 24,974		$ 172,385
Vouchers payable	255,818	38,932	$ 53,275	348,025
Accounts payable and accrued liabilities	1,392,077	349,195	25,652	1,766,924
Due to other funds	467,452	12,889	54,830	535,171
Due to component units	3,764			3,764
Accounts payable to political subdivisions	177,449	41,946	54,673	274,068
Deferred revenue	802,279	66,716	47	869,042
Accrued self-insurance costs	105,441			105,441
Collateral obligations for lent securities	247,824			247,824
Total liabilities	3,599,515	534,652	188,477	4,322,644
Fund balances:				
Nonspendable	448,982	171,094		620,076
Spendable:				
Restricted	398	3,069	151,317	154,784
Committed	1,140,676	161,559	447,295	1,749,530
Unassigned (deficit)	(340,964)		(358,796)	(699,760)
Total fund balances	1,249,092	335,722	239,816	1,824,630
Total liabilities and fund balances	$4,848,607	$870,374	$428,293	$6,147,274

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Reconciliation of the Governmental Funds' Fund Balance to the Statement of Net Assets' Net Assets Balance
June 30, 2010
(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Net Assets (pages 24-25) differ from the amounts for the governmental funds' fund balances because of:	
Amount in governmental funds, fund balance (page 28)	$1,824,630
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	19,252,145
Taxes and other receivables that will not be available to pay for current-period expenditures and, therefore, are deferred in the funds	371,247
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds	(136,823)
Deferred charges not available to pay for current period expenditures	21,439
Other assets not available to pay for current period expenditures	5,725
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
General Obligation Bonds	(6,601,989)
Deferred charges to be amortized over the life of the debt	20,530
Premiums to be amortized over the life of the debt	(340,084)
Transportation Bonds	(1,645,010)
Deferred charges to be amortized over the life of the debt	2,491
Premiums to be amortized over the life of the debt	(79,337)
Accrued self-insurance costs	(228,501)
Accrued annual leave	(324,003)
Pension liabilities	(1,226,437)
Other post-employment benefits liability	(2,430,102)
Pollution remediation	(169,416)
Obligation under capital leases	(798,201)
Obligations under capital leases with component units	(232,762)
Net assets of governmental activities (page 25)	$7,285,542

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds
For the Year Ended June 30, 2010
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	$ 6,957,811			$ 6,957,811
Sales and use taxes	3,754,326			3,754,326
Motor vehicle taxes and fees		$1,796,769		1,796,769
Tobacco taxes	405,915			405,915
Insurance company taxes	382,569			382,569
Property taxes	262,942		$ 746,826	1,009,768
Estate & inheritance taxes	196,002			196,002
Other taxes	294,752			294,752
Other licenses and fees	682,756			682,756
Charges for services	1,220,226	419,691		1,639,917
Revenues pledged as security for bonds		89,521		89,521
Interest and other investment income	119,635	394	1,204	121,233
Federal revenue	8,581,125	804,906	857	9,386,888
Other	395,238	18,119	405	413,762
Total revenues	23,253,297	3,129,400	749,292	27,131,989
Expenditures:				
Current:				
General government	753,206			753,206
Health and mental hygiene	9,040,549			9,040,549
Education	6,896,720		300,958	7,197,678
Aid to higher education	1,642,836		264,178	1,907,014
Human resources	2,291,347			2,291,347
Public safety	1,773,141			1,773,141
Transportation		1,422,085		1,422,085
Judicial	556,908			556,908
Labor, licensing and regulation	226,118			226,118
Natural resources and recreation	184,342			184,342
Housing and community development	315,630			315,630
Environment	110,092			110,092
Agriculture	92,954			92,954
Business and economic development	74,578			74,578
Intergovernmental grants and revenue sharing	336,703	551,686	298,764	1,187,153
Capital outlays		1,092,891	107,285	1,200,176
Debt service:				
Principal retirement			560,348	560,348
Interest			366,237	366,237
Bond issuance costs	933		8,349	9,282
Total expenditures	24,296,057	3,066,662	1,906,119	29,268,838
Excess (deficiency) of revenues over (under) expenditures	(1,042,760)	62,738	(1,156,827)	(2,136,849)
Other financing sources (uses):				
Capital leases	15,472			15,472
Bonds issued		140,000	1,140,883	1,280,883
Refunding bonds issued			798,080	798,080
Bond premium		631	196,323	196,954
Payments to refunded bond escrow agent			(924,185)	(924,185)
Transfers in	1,276,702	376,856	241,491	1,895,049
Transfers out	(510,244)	(573,321)	(196,690)	(1,280,255)
Total other sources (uses) of financial resources	781,930	(55,834)	1,255,902	1,981,998
Net changes in fund balances	(260,830)	6,904	99,075	(154,851)
Fund balances, beginning of the year	1,509,922	328,818	140,741	1,979,481
Fund balances, end of the year	$ 1,249,092	$335,722	$ 239,816	$ 1,824,630

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Reconciliation of the Statement of the Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2010

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Activities (pages 26-27) are different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because of the following:		
Net change in fund balances - total governmental funds (page 30)		$ (154,851)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital outlays	$1,448,945	
Depreciation expense	(1,026,089)	422,856
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
Net loss on disposals and trade-ins	(435,953)	(435,953)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Deferred revenues for taxes are recognized, net of revenue already recognized in the prior year	52,132	
Deferred revenues for other revenues are recognized, net of revenue already recognized in the prior year	(108,538)	
Revenues from other assets are recognized, net of revenue already recognized in the prior year	501	(55,905)
The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long term debt and related items.		
Debt issued, General Obligation Bonds	(1,126,770)	
Debt issued, Transportation Bonds	(140,000)	
Capital lease financing	(15,472)	
Premiums, discounts and issuance costs	(35,734)	
Principal repayments:		
General Obligation Bonds	482,754	
Transportation Bonds	77,595	
Capital leases	83,124	(674,503)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Accrued interest	798	
Compensated absences	(16,121)	
Self-insurance	(4,873)	
Net pension obligation	(209,820)	
Other post-employment benefits liability	(951,972)	
Pollution remediation liabilities	10,556	(1,171,432)
Change in net assets of governmental activities (page 27)		$(2,069,788)

The accompanying notes to the financial statements are an integral part of this financial statement.


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STATE OF MARYLAND

ENTERPRISE FUND FINANCIAL STATEMENTS

Major Funds

Economic Development Loan Programs

This fund includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.

Unemployment Insurance Program

This fund reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment assessments collected from employers, Federal revenue received and remittance of benefits to the unemployed.

Maryland State Lottery Agency

This fund accounts for the operation of the State Lottery.

Maryland Transportation Authority

This fund accounts for the activity of the Maryland Transportation Authority, which is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

Non-major Funds

Other Enterprise Funds

Individual non-major enterprise funds are presented in the combining section following the footnotes.

STATE OF MARYLAND
Statement of Fund Net Assets
Enterprise Funds
June 30, 2010
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Assets -						
Current assets:						
Cash and cash equivalents			$ 2,393	$ 90,973		$ 93,366
Equity in pooled invested cash	$ 412,491		65,955		$116,765	595,211
Investments				56,145		56,145
Other accounts receivable	6,143		29,114	13,015	4,098	52,370
Due from other funds	20,985	$ 2,967		12,889		36,841
Inventories				4,261	10,151	14,412
Loans and notes receivable, net	27,152				41	27,193
Investment in direct financing leases				1,674		1,674
Other assets			35	555	222	812
Current restricted assets:						
Cash and cash equivalents	602,395	640	31,613	334,362		969,010
Cash on deposit with U.S. Treasury		456,348				456,348
Investments	122,763		24,987	346,603		494,353
Loans and notes receivable, net	102,829					102,829
Other accounts receivable	112,948	220,647	131			333,726
Total current assets	1,407,706	680,602	154,228	860,477	131,277	3,234,290
Non-current assets:						
Investments	67,010			290,982	1,476	359,468
Loans and notes receivable, net	578,656				442	579,098
Investment in direct financing leases				397,232		397,232
Other assets				25,711		25,711
Restricted non-current assets:						
Investments	486,088		88,695	106,502		681,285
Deferred charges	17,000					17,000
Deferred outflow on interest rate swaps	32,630					32,630
Loans and notes receivable, net	2,910,532					2,910,532
Other accounts receivable	202					202
Capital assets, net of accumulated depreciation:						
Land				404,872		404,872
Structures and improvements				22,574	1,016	23,590
Equipment	23		4,469	18,950	6,286	29,728
Infrastructure				1,258,902	54	1,258,956
Construction in progress				2,175,250	1,738	2,176,988
Total non-current assets	4,092,141		93,164	4,700,975	11,012	8,897,292
Total assets	5,499,847	680,602	247,392	5,561,452	142,289	12,131,582

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Liabilities-						
Current liabilities:						
Accounts payable and accrued liabilities	66,909	48,156	79,293	178,356	1,619	374,333
Due to other funds	2,011		39,026	33,955		74,992
Accrued insurance on loan losses	616				13,837	14,453
Other liabilities	6,466		25,977	2,815	1,499	36,757
Unearned revenue	111		2,322	14,784	2,577	19,794
Revenue bonds payable - current	140,340	133,841		84,465		358,646
Total current liabilities	216,453	181,997	146,618	314,375	19,532	878,975
Non-current liabilities:						
Interest rate swaps	32,630					32,630
Other liabilities	18,241		78,817	27,789	2,234	127,081
Revenue bonds payable	3,126,959			2,676,028		5,802,987
Total non-current liabilities	3,177,830		78,817	2,703,817	2,234	5,962,698
Total liabilities	3,394,283	181,997	225,435	3,018,192	21,766	6,841,673
Net Assets-						
Invested in capital assets, net of related debt	23		(791)	1,546,380	9,094	1,554,706
Restricted for:						
Debt service				164,802		164,802
Capital improvements				494,800		494,800
Unemployment compensation benefits		498,605				498,605
Loan programs	1,019,986					1,019,986
Insurance programs					103,379	103,379
Unrestricted	1,085,555		22,748	337,278	8,050	1,453,631
Total net assets	$2,105,564	$498,605	$ 21,957	$2,543,260	$120,523	$5,289,909

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2010
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Operating revenues:						
Lottery ticket sales			$1,706,573			$1,706,573
Charges for services and sales	$ 68,478	$943,315	3,592	$ 514,281	$ 52,271	1,581,937
Loan and grant recoveries	1,501					1,501
Unrestricted interest on loan income	12,092				536	12,628
Restricted interest on loan income	153,745					153,745
Other	6,649		1,120	4,896	35	12,700
Total operating revenues	242,465	943,315	1,711,285	519,177	52,842	3,469,084
Operating expenses:						
Prizes and claims			1,034,157			1,034,157
Commissions and bonuses			113,131			113,131
Cost of sales and services			22,986		40,908	63,894
Operation and maintenance of facilities				205,107		205,107
General and administrative	39,219		33,672	26,631	10,452	109,974
Benefit payments		2,004,334				2,004,334
Capital grant distributions	91,038					91,038
Depreciation and amortization	19		1,308	50,414	1,450	53,191
Provision for insurance on loan losses	24,217				1,402	25,619
Other	15,397					15,397
Total operating expenses	169,890	2,004,334	1,205,254	282,152	54,212	3,715,842
Operating income (loss)	72,575	(1,061,019)	506,031	237,025	(1,370)	(246,758)
Non-operating revenues (expenses):						
Unrestricted interest and other investment income	8,060		(782)	1,790		9,068
Restricted interest and other investment income	61,611	10,396		10,543	2,182	84,732
Interest expense	(143,073)		(56)	(45,208)		(188,337)
Federal grants and distributions	32,842	982,803				1,015,645
Other	(267)			58,707	(1,155)	57,285
Total non-operating revenues (expenses)	(40,827)	993,199	(838)	25,832	1,027	978,393
Income (loss) before transfers	31,748	(67,820)	505,193	262,857	(343)	731,635
Transfers in	40,711			30,000		70,711
Transfers out	(168,666)		(510,609)		(6,230)	(685,505)
Changes in net assets	(96,207)	(67,820)	(5,416)	292,857	(6,573)	116,841
Total net assets - beginning of the year, as restated	2,201,771	566,425	27,373	2,250,403	127,096	5,173,068
Total net assets - end of the year	$2,105,564	$498,605	$ 21,957	$2,543,260	$120,523	$5,289,909

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2010
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers	$ 443,249	$ 847,070	$ 1,710,733	$ 495,964	$ 51,679	$3,548,695
Payments to suppliers	(1,515)		(40,249)	(85,854)	(32,469)	(160,087)
Payments to employees	(14,418)		(12,833)	(128,142)	(17,490)	(172,883)
Program loan disbursements	(222,734)					(222,734)
Other receipts	179,258			14,518	8,197	201,973
Other payments	(151,944)	(2,010,929)	(105,725)		(1,569)	(2,270,167)
Lottery prize payments			(1,028,577)			(1,028,577)
Net cash from operating activities	231,896	(1,163,859)	523,349	296,486	8,348	(103,780)
Cash flows from non-capital financing activities:						
Proceeds from the sale of revenue bonds	384,535	133,841		1,590		519,966
Payment on revenue bonds	(242,000)					(242,000)
Interest payments	(153,998)					(153,998)
Transfers in	45,705			30,000		75,705
Transfers out	(161,944)		(529,156)		(7,352)	(698,452)
Grants	35,102	982,803				1,017,905
Lottery installment payments			(29,656)			(29,656)
Net cash from non-capital financing activities	(92,600)	1,116,644	(558,812)	31,590	(7352)	489,470
Cash flows from capital and related financing activities:						
Payments on interfund borrowings					(1,407)	(1,407)
Proceeds from notes payable and revenue bonds				558,053		558,053
Principal paid on notes payable and revenue bonds				(69,084)		(69,084)
Interest payments			(56)	(85,202)		(85,258)
Proceeds from sale of capital assets				140,000		140,000
Acquisition of capital assets				(763,272)	(3,327)	(766,599)
Payments of capital lease obligations			(487)			(487)
Net cash from capital and related financing activities			(543)	(219,505)	(4,734)	(224,782)
Cash flows from investing activities:						
Purchase of investments	(266,448)		(959)	(4,756,093)		(5,023,500)
Proceeds from maturity and sale of investments	267,332		29,656	4,644,697		4,941,685
Interest on investments	17,555	10,396		12,026	2,182	42,159
Net cash from investing activities	18,439	10,396	28,697	(99,370)	2,182	(39,656)
Net changes in cash and cash equivalents	157,735	(36,819)	(7,309)	9,201	(1,556)	121,252
Balance - beginning of the year	444,660	493,807	41,315	416,134	1,556	1,397,472
Balance - end of the year	$ 602,395	$ 456,988	$ 34,006	$ 425,335	$ -	$1,518,724

STATE OF MARYLAND
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2010
(Continued)
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ 72,575	$(1,061,019)	$506,031	$237,025	$(1,370)	$(246,758)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	19		1,308	50,414	1,450	53,191
Deferred prize payment			959			959
Effect of changes in non-cash operating assets and liabilities:						
Equity in pooled invested cash	97,633		7,479		7,585	112,697
Investments	(124)					(124)
Other accounts receivable	(56,034)	(95,884)	(1,638)	837	296	(152,423)
Due from other funds	803	(361)		(7,246)		(6,804)
Inventories				(175)	927	752
Loans and notes receivable	125,078				30	125,108
Other assets			2		(261)	(259)
Accounts payable and accrued liabilities	(6,288)	(6,595)	(4,553)	15,780	(405)	(2,061)
Due to other funds	(1,407)		13,825	1,679		14,097
Accrued insurance on loan losses	32				558	590
Other liabilities	(476)		27	457	395	403
Unearned revenue	85		(91)	(2,285)	(857)	(3,148)
Total adjustments	159,321	(102,840)	17,318	59,461	9,718	142,978
Net cash from operating activities	$ 231,896	$(1,163,859)	$523,349	$296,486	$ 8,348	$(103,780)
Noncash transactions (amounts expressed in thousands):						
Unrealized gain (loss) on investments	$ 12,847		$ (783)	$ 1,517		
Additions to capital assets				55,607		

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010
(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Postretirement Health Benefits Trust Fund	Agency Funds
Assets:				
Cash and cash equivalents	$ 1,644,895		$ 5	$132,682
Equity in pooled invested cash				465,762
Investments:				
U.S. Treasury and agency obligations	1,240,222	$1,755,991	18,104	
Repurchase agreements		433,016		
Bonds	2,892,918		27,243	
Corporate equity securities	13,160,346		104,977	
Commercial paper		238,113		
Mortgage related securities	1,676,774			
Mutual funds	3,024,934	158,551		
Guaranteed investment contracts	744,569			
Real estate	1,212,462		17,525	
Annuity contracts	112,712			
Private equity	1,585,865			
Alternative investments	2,622,000			
Investments held by borrowers under securities lent with cash collateral	4,496,980			
Total investments	32,769,782	2,585,671	167,849	
Taxes receivable, net				238,885
Intergovernmental receivables				375,469
Other receivables	1,087,082	581		2,288
Accounts receivable from state treasury				350,000
Collateral for lent securities	4,630,233			
Total assets	40,131,992	2,586,252	167,854	1,565,086
Liabilities:				
Accounts payable and accrued liabilities	1,131,912	10,499		163,802
Accounts payable to political subdivisions				1,401,284
Collateral obligation for lent securities	4,630,233			
Total liabilities	5,762,145	10,499		1,565,086
Net assets:				
Held in trust for:				
Pension benefits (A schedule of funding progress for each of the plans may be found on pages 107&108)	32,053,081			
Deferred compensation benefits	2,316,766			
Local Government Investment Pool participants		2,575,753		
Postretirement health benefits			167,854	
Total net assets	$34,369,847	$2,575,753	$167,854	$ -

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010
(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Postretirement Health Benefits Trust Fund
Additions:			
Contributions:			
Employers	$ 545,564		$ 2,425
Members	697,151	$6,275,672	
Sponsors	804,220		
Total contributions	2,046,935	6,275,672	2,425
Investment earnings:			
Net increase in fair value of investments	3,670,608		14,704
Interest	348,572	6,089	141
Dividends	516,723		4,292
Real estate operating net earnings	20,890		
Total investment earnings	4,556,793	6,089	19,137
Less: investment expense	163,199	774	120
Net investment earnings	4,393,594	5,315	19,017
Total additions	6,440,529	6,280,987	21,442
Deductions:			
Benefit payments	2,604,377		
Distributions to participants		5,315	
Redemptions (unit transactions at $1.00 per unit)		6,229,382	
Refunds	33,531		
Administrative expenses	32,526		
Total deductions	2,670,434	6,234,697	
Changes in net assets	3,770,095	46,290	21,442
Net assets - beginning of the year	30,599,752	2,529,463	146,412
Net assets - end of the year	$34,369,847	$2,575,753	$167,854

The accompanying notes to the financial statements are an integral part of this financial statement.

COMPONENT UNIT FINANCIAL STATEMENTS

Major Component Units

Higher Education

Higher education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single component unit. The financial information for certain foundations affiliated with the universities and colleges has not been included in this fund in accordance with GASB Statement No. 14 as amended by GASB Statement No. 39.

Maryland Prepaid College Trust

The Maryland Prepaid College Trust is a program of the College Savings Plans of Maryland and directed by the Board to provide a means for payment of the cost of tuition and mandatory fees in advance of enrollment at eligible institutions of higher education.

Maryland Stadium Authority

The Maryland Stadium Authority was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State.

Non-major Component Units

Other Component Units

Non-major component units are presented individually in the combining section following the footnotes.

STATE OF MARYLAND
Combining Statement of Net Assets
Component Units
June 30, 2010
(Expressed in Thousands)

	Higher Education	Maryland Prepaid College Trust	Maryland Stadium Authority	Other Component Units	Total
Assets:					
Cash and cash equivalents	$ 80,669	$ 11,389	$ 682	$ 29,140	$ 121,880
Equity in pooled invested cash	1,251,556	159	1,626	41,125	1,294,466
Investments	3,952	519,321		12,925	536,198
Endowment investments	183,250				183,250
Foundation investments	819,387				819,387
Tuition contracts receivable	61,349	168,386			229,735
Other accounts receivable	393,907	1,844	8,625	29,530	433,906
Due from primary government			3,764		3,764
Inventories	12,343				12,343
Prepaid items	6,448				6,448
Deferred charges	1,879		2,581		4,460
Loans and notes receivable, net	69,854		4,470	640	74,964
Investments in direct financing leases			228,628	4,134	232,762
Other assets	16,389		185	4,968	21,542
Restricted assets:					
Cash and cash equivalents	62,864		74	2,421	65,359
Investments	97,231		21,284	12,440	130,955
Capital assets, net of accumulated depreciation:					
Land	157,702			8,016	165,718
Art and historical treasures	375				375
Structures and improvements	3,362,262		183,012	25,403	3,570,677
Infrastructure	187,640			502	188,142
Equipment	371,480	53	10,909	7,433	389,875
Construction in progress	461,562			15,493	477,055
Total assets	7,602,099	701,152	465,840	194,170	8,963,261
Liabilities:					
Salaries payable	104,083				104,083
Accounts payable and accrued liabilities	166,027	285	16,072	31,139	213,523
Due to primary government	702				702
Unearned revenue	202,955	10,562	48,490	2,088	264,095
Accrued insurance on loan losses				3,831	3,831
Other liabilities	4,770			227	4,997
Bonds and notes payable:					
Due within one year	81,271		18,069	13,564	112,904
Due in more than one year	1,109,196		244,106	4,540	1,357,842
Other noncurrent liabilities:					
Due within one year	97,447	54,755	55	29,091	181,348
Due in more than one year	178,101	630,390	881	24,075	833,447
Total liabilities	1,944,552	695,992	327,673	108,555	3,076,772

	Higher Education	Maryland Prepaid College Trust	Maryland Stadium Authority	Other Component Units	Total
Net Assets:					
Invested in capital assets, net of related debt	3,458,855	53	114,683	34,379	3,607,970
Restricted:					
Debt service			4,919		4,919
Capital improvements and deposits		773	16,438	115	17,326
Nonexpendable:					
Scholarships and fellowships	228,954				228,954
Research	11,313				11,313
Other	349,685				349,685
Expendable:					
Debt service	4,521				4,521
Capital projects	12,542				12,542
Loans and notes receivable	75,308				75,308
Scholarships and fellowships	106,118				106,118
Research	89,768				89,768
Other	249,062				249,062
Unrestricted	1,071,421	4,334	2,127	51,121	1,129,003
Total net assets	$5,657,547	$ 5,160	$138,167	$ 85,615	$5,886,489

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2010
(Expressed in Thousands)

	Higher Education	Maryland Prepaid College Trust	Maryland Stadium Authority	Other Component Units	Total
Expenses:					
General and administrative		$ 1,970	$ 7,593	$ 13,376	$ 22,939
Operation and maintenance of facilities	$ 335,999		21,988	108,551	466,538
Instruction	1,110,146				1,110,146
Research	933,562				933,562
Public service	145,272				145,272
Academic support	360,179				360,179
Student services	189,750				189,750
Institutional support	391,454				391,454
Scholarships and fellowships	118,275				118,275
Tuition benefits		64,907			64,907
Auxiliary	453,460				453,460
Hospitals	137,710				137,710
Interest on long-term debt	43,121		16,499	980	60,600
Depreciation and amortization		47	16,568	3,120	19,735
Foundation expenses	75,046				75,046
Other	1,620	18	7,956	25,053	34,647
Total expenses	4,295,594	66,942	70,604	151,080	4,584,220
Program revenues:					
Charges for services:					
Student tuition and fees (net of $240,464 in allowances)	1,112,404				1,112,404
Auxiliary enterprises (net of $35,350 in allowances)	499,648				499,648
Restricted investment earnings	58,050		1,539	25	59,614
Other	308,706	57,485	32,772	135,009	533,972
Total charges for services	1,978,808	57,485	34,311	135,034	2,205,638
Operating grants and contributions	1,351,702		21,273	21,451	1,394,426
Capital grants and contributions	203,846				203,846
Total program revenues	3,534,356	57,485	55,584	156,485	3,803,910
Net program revenue (expense)	(761,238)	(9,457)	(15,020)	5,405	(780,310)
General revenues:					
Grants and contributions not restricted to specific programs	1,058,628				1,058,628
Unrestricted investment earnings (loss)	89,611	64,134	(12,693)	1,324	142,376
Changes to permanent endowments	(1,367)				(1,367)
Total general revenues, additions and deductions to permanent endowments	1,146,872	64,134	(12,693)	1,324	1,199,637
Changes in net assets	385,634	54,677	(27,713)	6,729	419,327
Net assets - beginning of the year, as restated	5,271,913	(49,517)	165,880	78,886	5,467,162
Net assets - end of the year	$5,657,547	$ 5,160	$138,167	$ 85,615	$5,886,489

The accompanying notes to the financial statements are an integral part of this financial statement.

STATE OF MARYLAND

Index for Notes to the Financial Statements

For the Year Ended June 30, 2010

Notes to Required Supplementary Information

1. Summary of Significant Accounting Policies:

A. Reporting Entity

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the government-wide financial statements includes the financial data of the following major component units. Individual statements are presented for each component unit.

Higher Education (Proprietary Fund Type) – Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College and certain of their foundations. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The universities and colleges are funded through State appropriations, tuition, Federal grants, and private donations and grants. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Some of the financial information for foundations affiliated with the universities and colleges has not been included with the financial information of the universities and colleges in accordance with the requirements of GASB Statement No. 14 as amended by GASB Statement No. 39.

The Maryland Prepaid College Trust (Proprietary Fund Type) is a program of the College Savings Plans of Maryland and directed by its Board. The Board consists of five State officials and five members of the public appointed by the Governor. The Maryland Prepaid College Trust provides a means for payment of the cost of tuition and mandatory fees in advance of enrollment at eligible institutions of higher education. If the Trust's contract obligations exceed the market value of Trust assets, State appropriations may be provided.

Maryland Stadium Authority (Proprietary Fund Type) - The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Authority's Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and Treasurer) have approved all of the projects and bond issuances of the Authority.

The non-major component units are comprised of the following proprietary fund type entities.

The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight members are appointed by the Governor.

The Authority has statewide jurisdiction to promote the State's welfare by undertaking real estate development and management activities that facilitate the wholesale food industry activity in the public interest. It is subject to State regulations and approvals and has received State subsidies.

The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

The Maryland Industrial Development Financing Authority (MIDFA) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The MIDFA is subject to the authority of the Secretary and subject to State finance regulations. It provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

The Maryland Technology Development Corporation (Corporation) was established as a body corporate and politic and a public instrumentality of the State. The Corporation's Board of Directors consists of 15 individuals, the Secretary of the Department of Business and Economic Development and 14 members appointed by the Governor with the advice and consent of the Senate. Its budget is submitted to and approved by the State, and its major revenue source is State appropriations. The Corporation was created to assist in transferring to the private sector and commercializing the results and products of scientific research and development conducted by the colleges and universities and to assist in the commercialization of technology developed in the private sector. The Corporation administers the Maryland Technology Incubator Program and the Maryland Stem Cell Research Fund.

Complete financial statements of the individual component units and the Local Government Investment Pool of the Investment Trust Fund may be requested from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

Related Organizations

The Maryland Economic Development Corporation (MEDCO), Injured Workers' Insurance Fund and the Maryland Automobile Insurance Fund are related organizations of the State. The Governor appoints a majority of the Board of Directors, but the State does not have the ability to impose its will on the organizations, and there is no financial benefit/burden relationship. As of June 30, 2010, the Economic Development Loan Programs, major enterprise funds, had transactions with MEDCO that included loans, investments and grants totaling $22,155,000. The Maryland Industrial Development Financing Authority (MIDFA) provides insurance as a credit enhancement for transactions of MEDCO. As of June 30, 2010 the insurance outstanding on MEDCO's transactions insured by MIDFA, other component unit, was $387,000.

B. Government-wide and Fund Financial Statements

The State's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the primary government and its component units. Interfund activity has been eliminated from these statements except for certain charges for services between activities that would distort the direct costs and program revenues reported for the applicable functions. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements as those assets are not available to support government programs. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund (other than the agency funds), financial statements. The agency funds are reported using the accrual basis of accounting, but have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, other post-employment benefits, compensated absences, pollution remediation and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The State reports the following major governmental funds:

General Fund:

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, health and mental hygiene, education (other than higher education institutions), human resources, public safety, judicial, labor, licensing and regulation, natural resources and recreation, housing and community development, environment, agriculture, and business and economic development. Resources obtained from Federal grants and used for general fund activities consistent with applicable legal requirements, are recorded in the general fund.

Special Revenue Fund, Maryland Department of Transportation:

Transactions related to resources obtained, the uses of which are committed for specific purposes, are accounted for in the special revenue fund. The Maryland Department of Transportation special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation, including construction or improvement of transportation facilities and mass transit operations.

Enterprise Funds:

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The enterprise funds differ from governmental funds in that the focus is on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator.

The major enterprise funds are as follows.

1. The Economic Development Loan Programs includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.

2. The Unemployment Insurance Program reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment taxes collected from employers, Federal revenue received and remittance of benefits to the unemployed.

3. The Maryland State Lottery Agency operates the State Lottery.

4. The Maryland Transportation Authority is responsible for the operation and maintenance of toll roads, bridges and tunnels in the State.

Fiduciary Funds:

1. The Pension and Other Employee Benefits Trust Fund (Pension Trust Fund) includes the Maryland State Retirement and Pension System, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Pension Trust Fund reflects the transactions, assets, liabilities and net assets of the plans administered by the State and is accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is reported as of and for its period ended December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to Federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

2. The Investment Trust Fund reflects the transactions, assets, liabilities and net assets of the Maryland Local Government Investment Pool and is accounted for using the flow of economic resources measurement focus.

3. The Postretirement Health Benefits Trust Fund (OPEB Trust) accumulates funds to assist the State's Employee and Retiree Health and Welfare Benefits Program finance the State's postretirement health insurance subsidy. The OPEB Trust is administered by the Board of Trustees for the Maryland State Retirement and Pension System, and its transactions, assets, liabilities and net assets are accounted for using the flow of economic resources measurement focus. The assets of the Pension and OPEB Trusts are not pooled for investment purposes, and each trust's assets may be used only for the payment of benefits to the trust's members in accordance with the terms of the trust.

4. The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of litigants, patient and prisoner accounts, various taxes collected by the State for distribution to political subdivisions and amounts withheld from employees' payroll.

D. Change in Accounting Principles and Restatement of Beginning Balances

As of June 30, 2009, the State reported derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This statement requires governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals, whereas the changes in fair value of investment derivative instruments are reported as investment revenue in the current reporting period. Accordingly, the beginning net assets for the Economic Development Loan Programs, an enterprise fund, and the Maryland Stadium Authority, a component unit, are restated as follows (amounts expressed in thousands).

	Economic Development Loan Programs	Maryland Stadium Authority
Beginning net assets, as previously reported	$2,217,077	$193,411
Recognition of changes in fair value of derivatives as deferrals	(15,306)	(27,531)
Beginning net assets, as restated	$2,201,771	$165,880

E. New Pronouncements:

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in March 2009, effective for financial statements for periods beginning after June 15, 2010. The State has early implemented this statement. In addition, the GASB issued Statement No. 59, *Financial Instruments Omnibus*, in June 2010, effective for financial statements for periods beginning after June 15, 2010, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, in December 2009, effective for financial statements for periods beginning after June 15, 2011. The State will implement these statements as of their effective dates. While the State is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the State.

2. Significant Accounting Policies - Assets, Liabilities and Net Assets or Equity:

A. All Funds:

Deposits with Financial Institutions and Investments:

The State Treasurer's Office operates a centralized cash receipt, investment and disbursement function for the majority of the State's funds as required by statute. Certain enterprise activities, pension funds, agency funds and component units are specifically exempted from this function in the law. Individual fund equity in pooled invested cash is reported as an asset on the balance sheets of those funds participating in the centralized cash receipt and disbursement function. Investment earnings accrue to those funds reporting equity in pooled invested cash only if the law specifically provides for the fund's accrual of interest earnings.

The State Treasurer's Office invests short-term cash balances on a daily basis primarily in U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Certificates of deposits of Maryland financial institutions.
- Banker's acceptances.
- Money market mutual funds.
- Commercial paper.
- Maryland Local Government Investment Pool.
- Securities Lending Collateral.

In addition, bond sale proceeds may be invested in Municipal securities. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping. Investments are recorded at fair value and changes in fair value are recognized as revenue. Fair values are based on quotations from national security exchanges and security pricing services, or by the respective fund managers for securities which are not actively traded. Money market mutual funds and the Maryland Local Government Investment Pool are operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. Their fair values are based on a share price of $1.00 per share. Investments maturing within 90 days of purchase are reported in the financial statements as cash and cash equivalents.

The Maryland State Retirement and Pension System (System), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the System. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in nondividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the System. The System is authorized by Section 21-116 of the State Personnel and Pensions Article to establish and maintain the investment policy manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to, common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and non-U.S. companies; private equity - direct/partnership/funds; real estate investment trusts; commingled real estate funds; directly owned real estate; fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.S. and non-U.S. companies, and supra-national organizations; futures and options; foreign exchange forward and future contracts and options; equity index futures; and equity options.

Investments of the System, the Postretirement Health Benefits Trust Fund (OPEB Trust) and the Maryland Transit Administration (MTA) Pension Plan are stated at fair value. The investments of the OPEB Trust and the MTA Pension Plan are held and invested on their behalf by the System and are limited to those allowed for the System. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Fair value for real estate investments is based on estimated current values and independent appraisals. Fair value for private equity investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers.

State employees are offered participation in deferred compensation plans created in accordance with the Internal Revenue Code, Sections 401(a), 401(k), 403(b) and 457. The Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans is responsible for the implementation, maintenance and administration of the Plans. The Board has appointed a private company as the Plans' administrator. Assets of the Plans are held in trusts for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plans are valued at cost plus interest credited which approximates fair value for fixed earnings investment contract pools and at fair value based on published quotations at each December 31, or net asset value as provided by the investment custodian, for variable earnings investments.

Retirement Costs:

Substantially all State employees participate in one of several State retirement systems. (See footnote 15.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement costs have been provided on the accrual basis, based upon actuarial valuations, except that retirement expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

Other Post-Employment Benefit Costs:

Substantially all State retirees may participate in the various health care plans offered by the State. (See footnote 16.) Post-employment health care costs have been provided on the accrual basis, based upon actuarial valuations, except that other post-employment expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

Accrued Self-Insurance Costs:

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary funds and discretely presented component units on an accrual basis and the modified accrual basis for the governmental funds. The long-term accrued self-insurance costs of the governmental funds, which are not expected to be funded with current resources, are reported in the government-wide financial statements.

Annual Leave Costs:

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 75 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the government-wide financial statements. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

Capital Assets:

Capital assets, which include property, plant, art and historical treasures, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure acquired prior to June 30, 1980, is not reported. Capital assets are defined by the government as assets with an initial, individual cost of more than $50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	5-50
Building improvements	5-50
Vehicles	3-25
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

Long-term Obligations:

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Resources:

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

Debt Refinancing:

The gain or loss associated with debt refinanced is deferred and amortized to interest expense over the remaining life of the old debt or the life of the new debt whichever is shorter.

Net Assets:

Net assets are divided into three categories. Net assets invested in capital assets net of related debt is the capital assets less accumulated depreciation and outstanding principal of the related debt. Restricted net assets reflect restrictions on assets imposed by parties outside the State or imposed by the State by constitutional provisions or enabling legislation. Unrestricted net assets are total net assets of the State less net assets invested in capital assets net of related debt and restricted net assets. Unrestricted net assets are comprised mainly of cash, investments, loans and receivables.

B. Governmental Funds:

Inventories and Prepaid Items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements under the consumption method.

Grants:

Revenues from Federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all grant revenues to be available if they are collected within 60 days of the current fiscal period. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

Income Taxes:

The State accrues the net income tax receivable or records a deferred revenue based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

Sales and Use Taxes:

The State accrues June sales taxes that are not remitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

Property Taxes:

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real property subject to taxation, due and payable each July 1 and December 1 (lien dates), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at 100% of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate in fiscal year 2010 was 11.2 ¢ per $100 of assessed value. Unpaid property taxes are considered in arrears on October 1 and January 1, respectively, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Property taxes are accrued to the extent they are collected within 60 days of year end.

Escheat Property:

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund. An asset is recognized in the period when the legal claim to the assets arises or when the resources are received, whichever occurs first, and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

Intergovernmental Expenditures:

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions, are recorded as intergovernmental expenditures if such payments do not require mandatory use for specific functions. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

Capital Assets:

Expenditures for capital assets are reported as capital outlays in the governmental funds.

Compensated Absences:

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity:

Fund balance for governmental funds is reported in categories and classifications that are presented in order of constraints on the specific purposes for which amounts in that fund can be spent. Nonspendable fund balance represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Spendable fund balance is classified as restricted, committed, assigned, or unassigned. Amounts are reported as restricted when spending constraints are (a) externally imposed or (b) imposed by the government by constitutional provisions or enabling legislation. Committed fund balance includes amounts committed for specific purposes by formal action of the government's highest level of decision-making authority. In Maryland, the uses of these funds are established in statute after appropriate action by the General Assembly and the Governor. Assigned fund balance is intended spending expressed by (a) the governing body or (b) a body or official to which the governing body has delegated the authority to assign amounts. The Governor is authorized to assign current year funds for appropriation in the subsequent year's budget pursuant to budgetary policies adopted by the General Assembly. Unassigned fund balance is the residual classification for the general fund.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balance is available, the State considers committed, assigned, and unassigned amounts to have been spent in that order.

C. *Enterprise Funds, Fiduciary Funds and Component Units:*

Basis of Accounting:

The accounts of the enterprise funds, fiduciary funds and component units are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For both the government-wide business-type activities and the enterprise fund financial statements, the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

Enterprise funds and component units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents:

The enterprise funds consider all highly liquid investments that mature within 90 days of purchase to be cash and cash equivalents for reporting on the statement of cash flows.

Grants:

Revenues from Federal reimbursement type grants are recorded when the related expenses are incurred.

Capital Assets:

Capital assets are stated at cost. Depreciation of the cost of capital assets is provided on the straight-line basis over estimated useful lives of 5 to 50 years for depreciable real property and building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Lottery Revenues, Prizes and Related Transfers:

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

Provisions for Insurance and Loan Losses:

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

Inventories:

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

3. Deposits with Financial Institutions and the U.S. Treasury, Equity in Pooled Invested Cash and Investments:

Cash and cash equivalents, equity in pooled invested cash and investments as shown on the basic financial statements as of June 30, 2010, reconcile to cash deposit and investment disclosures as follows (amounts expressed in thousands).

Government-wide statement of net assets:	
Cash and cash equivalents	$ 422,056
Equity in pooled invested cash	3,690,482
Investments	2,235,025
Collateral for lent securities	247,824
Restricted cash and cash equivalents	1,532,101
Restricted equity in pooled invested cash	105,315
Restricted investments	1,309,523
Statement of fiduciary net assets:	
Cash and cash equivalents	1,777,582
Equity in pooled invested cash	465,762
Investments	35,523,302
Collateral for lent securities	4,630,233
Total cash and cash equivalents and investments per basic financial statements	51,939,205
Less: Cash and cash equivalents and investments of higher education foundations not subject to disclosure	864,234
Total cash and cash equivalents and investments per Note 3	$51,074,971

Note 3 of the financial statements:	
Cash deposits:	
Governmental funds	$ 247,275
Enterprise funds	519,794
Fiduciary funds	266,610
Component units	90,625
Investments:	
Governmental funds	4,793,812
Enterprise funds	2,590,180
Fiduciary funds	41,664,505
Component units	902,170
Total cash deposits and investments	$51,074,971

Cash and cash equivalents for financial statement presentation include short-term investments maturing within 90 days of purchase. Investments for financial statement presentation include certificates of deposit maturing 90 days or more from date of purchase.

A. *Cash Deposits:*

As of June 30, 2010, the carrying value for the bank deposits of the governmental funds, enterprise funds, fiduciary funds and component units were $247,275,000, $519,794,000, $266,610,000 and $90,625,000, respectively. The bank balances were $247,275,000, $530,956,000, $266,610,000, and $94,471,000, respectively.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. State law permits the Treasurer to deposit in a financial institution in the State, unexpended or surplus money in which the Treasurer has custody if (a) the deposit is interest bearing; (b) the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance; and (c) a custodian holds the collateral.

The Economic Development Loan Programs, Higher Education component unit, and Maryland Stadium Authority do not have a deposit policy for custodial credit risk. As of June 30, 2010, $37,000, $21,271,000, and $73,000, respectively, of their bank balances were exposed to custodial credit risk as uninsured and uncollateralized. The Maryland Prepaid College Trust does not have a policy for custodial credit risk. As of June 30, 2010, $12,863,000, of its bank balances were exposed to custodial credit risk as uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Trust's name.

B. Investments:

The State discloses investment risks as follows:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

1. Investments-Governmental Funds:

The State Treasurer's Office is authorized to make investments as stated in footnote 2.A.

Investments are stated at fair value that is based on quoted market prices. The investments and maturities as of June 30, 2010, for the governmental funds of the primary government are as follows (amounts expressed in thousands).

		Investment Maturities (in Years)		
Investment Type	Fair Value	Less than 1	1 - 3	More than 3
U.S. agencies (a)	$ 2,814,275			$2,814,275 (b)
Repurchase agreements	1,510,903	$1,498,082		12,821
Local Government Investment Pool	220,810	220,810		
Total investments	4,545,988	1,718,892		2,827,096
Collateral for lent securities	247,824	247,824		
Total investments and collateral for lent securities	$4,793,812	$1,966,716	$ -	$2,827,096

(a) Investments held by broker dealers under securities lending program are $177,917,000.
(b) Bonds in the amount of $2,145,820,000, mature February 2014 to June 2015, but are callable July 2010 to June 2012.

Interest Rate Risk. The State Treasurer's Office's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase. Sinking fund investments with guaranteed earnings to redeem term bonds beginning in fiscal year 2016 were $12,821,000.

Credit Risk. State law requires that the governmental funds' repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments are made directly in U.S. agency obligations. Obligations of the Federal National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation are rated Aaa by Moody's and AAA by Standard & Poor's and Fitch. Obligations of the Federal Home Loan Bank are rated Aaa by Moody's and AAA by Standard & Poor's. Obligations of the Federal Agricultural Mortgage Corporation are not rated. The Local Government Investment Pool is rated AAAm by Standard & Poor's.

Concentration of Credit Risk. The State Treasurer's Office's investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. There is no other limit on the amount that may be invested in any one issuer. More than 5 percent of the governmental funds' investments are in the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Agricultural Mortgage Corporation, and the Federal Home Loan Bank. These investments are 56.0%, 17.0%, 12.8%, and 8.6% of the governmental funds' total investments, respectively.

2. *Investments - Enterprise Funds:*

The enterprise funds' bond indentures and investment policies, with the exception of the Economic Development Loan Programs, authorize the investment of assets related to the indentures and other funds in obligations in which the State Treasurer may invest. The Economic Development Loan Programs are authorized to invest in obligations of the U.S. Treasury, U.S. government agencies, obligations of U.S. political subdivisions, bankers' acceptances, commercial paper, repurchase agreements, guaranteed investment contracts, corporate debt securities and mutual funds.

Investments of the enterprise funds are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2010, for the enterprise funds of the primary government are as follows (amounts expressed in thousands).

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 - 5	6-10	11-15	More than 15
U.S. Treasury obligations	$ 470,792	$ 15,416	$ 547	$6,077	$4,284	$444,468
U.S. Government agency obligations	894,275	488,040	397,484	2,484		6,267
Repurchase agreements	35,547	17,397				18,150
Guaranteed investment contracts	20,677			20,677		
Money market mutual funds	1,002,456	1,002,456				
Total	$2,423,747	$1,523,309	$398,031	$29,238	$4,284	$468,885

In addition to the investments scheduled above, as of June 30, 2010, the enterprise funds' investments also include the fair value of direct equity investments, $52,752,000.

The State Lottery Agency, a major enterprise fund, invests in U.S. Treasury obligations and annuity contracts that provide for guaranteed payouts to jackpot prize winners and, therefore, have no interest rate risk to the Lottery. At June 30, 2010, the fair value of these investments was $113,334,000 and $347,000, respectively. Of these investments, U.S. Treasury obligations held by broker dealers under the securities lending program were $64,771,000.

Interest Rate Risk. The enterprise funds' policy for managing their exposure to fair value loss arising from increasing interest rates is to manage investment maturities so that they precede or coincide with the expected need for funds.

Credit Risk. The investment policies of the enterprise funds require that repurchase agreements are collateralized by U.S. Treasury and agency obligations. The policies also require that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by these or that they receive the highest possible rating from at least one nationally recognized securities rating organization and that commercial paper be rated A-1, P-1. According to the indenture and investment policy of the Economic Development Loan Programs, investments must be rated no lower than the rating on the Loan Programs' bonds or F1/P1 for the issuer's short-term accounts or securities. The rating on the Loan Programs' bonds as of June 30, 2010, was Aa by Moody's and AA by Fitch.

As of June 30, 2010, the enterprise funds had the following investments and quality ratings (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Rating Organization	Percentage of Total Investments
U.S. Government agency obligations	$ 894,275	AAA/Aaa	S&P/Moody's	34.53%
Money market mutual funds	1,002,456	AAAm/Aaa	S&P/Moody's	38.70
Repurchase agreements-underlying securities	35,547	AAA/Aaa	S&P/Moody's	1.37
Total	$1,932,278			74.60%

Concentration of Credit Risk. The enterprise funds place no limit on the amount they may invest in any one issuer of U.S. Government agency obligations. More than 5% of the enterprise funds' investments are in obligations of the Federal Home Loan Bank and Federal Home Loan Mortgage Corporation. These investments are 13.8% and 9.8% of the enterprise funds' total investments.

3. *Investments - Fiduciary Funds:*

The Pension and OPEB Trust Funds are authorized to make investments as stated in footnote 2.A.

The Maryland Local Government Investment Pool is authorized by Article 95, Section 22G, of the Annotated Code of Maryland to invest in any instrument in which the State Treasurer may invest. Investments of the Pool are stated at fair value. Securities are valued daily on an amortized cost basis which approximates market value. Money market funds are valued at the closing net asset value per share on the day of valuation.

The investments and maturities as of June 30, 2010, for the fiduciary funds of the primary government are as follows (amounts expressed in thousands).

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than10
U.S. Treasury notes and bonds	$ 3,195,166	$ 484,956	$ 1,091,696	$ 856,867	$ 761,647
U.S. Treasury strips	16,426			2,444	13,982
U.S. Government agency obligations	1,758,141	1,529,916	141,117	74,960	12,148
Repurchase agreements	433,016	433,016			
Commercial paper	238,113	238,113			
Guaranteed investment contracts (a)	744,568		744,568		
Corporate bonds	1,683,423	102,065	688,560	617,874	274,924
International bonds	896,864	110,282	264,213	243,533	278,836
Other government bonds	439,593	14,627	205,527	104,960	114,479
Mortgage-backed securities	1,688,588	17,445	12,400	81,571	1,577,172
Asset-backed securities	212,709	975	74,407	34,485	102,842
Bond mutual funds	478,464	25,126	318,913	134,425	
Swaps	3,264	8,625	(1,106)	(1,433)	(2,822)
Alternative investments	1,061,648	410,963	195,255	455,430	
Money market mutual funds	1,665,571	1,665,571			
Total investments	14,515,554	5,041,680	3,735,550	2,605,116	3,133,208
Collateral for lent securities	4,630,233	4,630,233			
Total investments and collateral for lent securities	$19,145,787	$9,671,913	$3,735,550	$2,605,116	$3,133,208

(a) These investments are stated at contract value at December 31, 2009. The fair value as of December 31, 2009, was $736,258,000, and the wrapper value was $2,302,000.

In addition to the investments scheduled above, as of June 30, 2010, the fiduciary funds' investments also include the fair value of stock mutual funds, $2,546,470,000, corporate equity securities, $15,430,583,000, private equity, $1,585,865,000, real estate, $1,229,987,000, annuity contracts, $112,712,000, insurance contracts, $3,952,000, and other investments, $1,609,149,000.

Interest Rate Risk. At June 30, 2010, the System had $1.2 billion invested in mortgage pass-through securities. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

The Deferred Compensation Plans (Plans) invest in annuity contracts and insurance contracts that provide for guaranteed payouts to participants and, therefore, have no interest rate risk to the Plans. As of June 30, 2010, the fair value of these investments was $112,712,000 and $3,952,000, respectively.

The State Treasurer's Office manages the Local Government Investment Pool. The State Treasurer's investment policies state that no direct investment by the Pool may have a maturity date of more than 13 months after its acquisition.

Credit Risk. The investment policy of the System regarding credit risk is determined by each investment manager's mandate. The Local Government Investment Pool may invest in banker's acceptances and commercial paper rated only Tier 1 by at least one nationally recognized securities rating organization. As of June 30, 2010, the fiduciary funds' investments were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale (amounts expressed in thousands).

Investment Type	Fair Value	Quality Rating	Percentage of Total Investments
U.S. Government agency obligations................	$1,750,611	AAA	4.73%
U.S. Government agency obligations................	684	AA	0.00%
U.S. Government agency obligations................	684	A	0.00%
U.S. Government agency obligations................	1,711	BAA	0.00%
U.S. Government agency obligations................	4,449	Unrated	0.01%
Repurchase agreements-underlying securities...	433,016	AAA	1.17%
Money market mutual funds...........................	198,125	AAA	0.53%
Money market mutual funds...........................	12,128	AA	0.03%
Money market mutual funds...........................	1,403,935	A	3.79%
Money market mutual funds...........................	51,383	Unrated	0.14%
Commercial paper..	238,113	AAA	0.64%
Guaranteed investment contracts....................	739,973	AA	2.00%
Guaranteed investment contracts....................	4,595	Unrated	0.01%
Corporate bonds..	224,199	AAA	0.61%
Corporate bonds..	115,826	AA	0.31%
Corporate bonds..	459,620	A	1.24%
Corporate bonds..	60,122	BAA	0.16%
Corporate bonds..	7,050	BA	0.02%
Corporate bonds..	479,461	BBB	1.29%
Corporate bonds..	104,061	BB	0.28%
Corporate bonds..	121,642	B	0.33%
Corporate bonds..	19,188	CAA	0.05%
Corporate bonds..	647	CA	0.00%
Corporate bonds..	21,784	CCC	0.06%
Corporate bonds..	320	CC	0.00%
Corporate bonds..	959	C	0.00%
Corporate bonds..	967	D	0.00%
Corporate bonds..	67,176	Unrated	0.18%
International bonds.......................................	620,239	AAA	1.67%
International bonds.......................................	90,392	AA	0.24%

International bonds	100,969	A	0.27%
International bonds	1,603	BAA	0.00%
International bonds	2,885	BA	0.01%
International bonds	10,578	BBB	0.03%
International bonds	5,770	BB	0.02%
International bonds	6,090	B	0.02%
International bonds	962	CCC	0.00%
International bonds	57,376	Unrated	0.15%
Other government bonds	97,202	AAA	0.26%
Other government bonds	70,647	AA	0.19%
Other government bonds	153,503	A	0.41%
Other government bonds	21,023	BAA	0.06%
Other government bonds	75,865	BBB	0.20%
Other government bonds	3,188	BB	0.01%
Other government bonds	7,650	B	0.02%
Other government bonds	319	CCC	0.00%
Other government bonds	319	C	0.00%
Other government bonds	9,877	Unrated	0.03%
Mortgage-backed securities	1,404,156	AAA	3.79%
Mortgage-backed securities	21,795	AA	0.06%
Mortgage-backed securities	58,024	A	0.16%
Mortgage-backed securities	11,859	BAA	0.03%
Mortgage-backed securities	4,167	BA	0.01%
Mortgage-backed securities	11,538	BBB	0.03%
Mortgage-backed securities	5,449	BB	0.01%
Mortgage-backed securities	19,556	B	0.05%
Mortgage-backed securities	14,743	CAA	0.04%
Mortgage-backed securities	60,577	CCC	0.16%
Mortgage-backed securities	18,270	CC	0.05%
Mortgage-backed securities	4,807	D	0.01%
Mortgage-backed securities	53,647	Not rated	0.14%
Asset-backed securities-other	111,632	AAA	0.30%
Asset-backed securities-other	4,798	AA	0.01%
Asset-backed securities-other	11,515	A	0.03%
Asset-backed securities-other	640	BAA	0.00%
Asset-backed securities-other	320	BA	0.00%
Asset-backed securities-other	19,832	BBB	0.05%
Asset-backed securities-other	18,872	BB	0.05%
Asset-backed securities-other	15,993	B	0.04%
Asset-backed securities-other	320	CAA	0.00%
Asset-backed securities-other	13,434	CCC	0.04%
Asset-backed securities-other	1,919	CC	0.01%
Asset-backed securities-other	2,559	D	0.01%
Asset-backed securities-other	10,875	Not rated	0.03%
Bond mutual funds	478,464	Not rated	1.29%
Swaps	3,264	Not rated	0.01%
Total	$ 10,241,911		27.66%

Foreign Currency Risk. The majority of the System's foreign currency-denominated investments are in equities, which the System's asset allocation policy limits to 15%. The System has an overlay program to minimize its currency risk.

The System's exposure to foreign currency risk as of June 30, 2010, is as follows (amounts expressed in thousands).

Currency	Equity	Fixed Income	Cash	Alternative Investments	Mutual Funds	Total
Australian dollar	$405,826	$ 58,032	$ 3,076			$ 466,934
Brazilian real	59,409	119	2,122			61,650
Canadian dollar	465,401	50,506	2,082			517,989
Czech koruna	5,661		91			5,752
Danish krone	75,801	694	388			76,883
Egyptian pound	1,093					1,093
Euro currency	1,776,002	520,249	14,783	$253,380		2,564,414
Hong Kong dollar	577,502	815	2,515			580,832
Hungarian forint	1,005		2			1,007
Indonesian rupish	21,115		19			21,134
Israeli shekel	21,761		125			21,886
Japanese yen	1,272,499	60,308	10,671			1,343,478
Malaysian ringgit	22,827		46			22,873
Mexican peso	32,462		40			32,502
New Taiwan dollar	733		10,622			11,355
New Turkish lira	25,993					25,993
New Zealand dollar	3,916		45			3,961
Norwegian krone	56,656		374			57,030
Philippine peso	3,401		32			3,433
Polish zloty	7,257	18,630	3			25,890
Pound sterling	1,222,340	185,481	5,960	79,886		1,493,667
Singapore dollar	143,418		561			143,979
South African rand	42,169		219			42,388
South Korean won	144,753		169			144,922
Swedish krona	167,829	23,922	475			192,226
Swiss franc	491,021	95	617			491,733
Thailand baht	20,283		8			20,291
Turkish lira	41,955		182			42,137
Yuan renminbi		194				194
Multiple		558		123,204	$462,514	586,276
Total	$7,110,088	$919,603	$55,227	$456,470	$462,514	$9,003,902

Derivatives:

Each System investment manager's guidelines determine the extent to which derivatives are permissible. Futures and other derivatives are permitted to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. Unleveraged derivatives are permitted for the purpose of hedging investment risk, to replicate an investment that would otherwise be made directly in the cash market or to modify asset exposure in tactical portfolio shifts. Use of derivatives is not permitted to materially alter the characteristics, including the investment risk, of each manager's account. The investment managers are to have in place, and use, procedures that subject derivative based strategies to rigorous scenario and volatility analysis. Futures and short option positions must be hedged with cash, cash equivalents or current portfolio security holdings.

A list of derivatives aggregated by investment type is as follows (amounts expressed in thousands).

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount(1)	Classification	Amount (2)	Notional*
Commodity futures long	Investment revenue	$ (8,159)	Futures	$ (12,041)	$ 66,678
Commodity futures short	Investment revenue	3,093	Futures	3,096	6
Credit default swaps bought	Investment revenue	(1,705)	Swaps	(259)	4,351
Credit default swaps written	Investment revenue	15,693	Swaps	(5,060)	109,200
Fixed income futures long	Investment revenue	51,539	Futures	16,570	625,250
Fixed income futures short	Investment revenue	(20,970)	Futures	(8,363)	(713,150)
Fixed income options bought	Investment revenue	30	Options		
Fixed income options written	Investment revenue	3,064	Options	(1,905)	(277,300)
Foreign currency options bought	Investment revenue	(105)	Options	93	193
Foreign currency options written	Investment revenue	683	Options	(2)	(1,500)
Futures options bought	Investment revenue	(1,134)	Options	328	3,969
Futures options written	Investment revenue	3,141	Options	(325)	(1,784)
FX forwards	Investment revenue	129,042	Long term instruments	70,623	
Index futures long	Investment revenue	7,069	Futures	(1,079)	256
Index futures short	Investment revenue	(3,245)	Futures		
Interest rate swaps	Investment revenue	366	Swaps		
Pay fixed interest rate swaps	Investment revenue	(3,590)	Swaps	(2,157)	42,062
Receive fixed interest rate swaps	Investment revenue	5,606	Swaps	2,120	2,566,000
Rights	Investment revenue	2,904	Common stock	537	2,497
TBA transactions long	Investment revenue	13,290	Long term instruments	1,374	216,973
TBA transactions short	Investment revenue	(827)	Long term instruments	(496)	(41,495)
Total return swaps bond	Investment revenue	(122)	Swaps		
Warrants	Investment revenue	139	Common stock	4,020	1,435
Totals		$195,802		$ 67,074	

*Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions.

Credit Risk. The System is exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to losses related to credit risk, the investment managers use counterparty collateral in their non-exchange-traded derivative instruments. Netting arrangements are also used when entering into more than one derivative instrument transaction with a counterparty. At the present time the System does not have a formal policy relating to counterparty collateral or netting arrangements.

The aggregate fair value of derivative instruments in asset positions as of June 30, 2010 was $683,501,000. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform. The maximum loss would, however, be reduced by the counterparty collateral and the liabilities included in netting arrangements with counterparties.

The following tables list the fair value of credit exposure per ratings of Standard & Poor's (S&P), Moody's and Fitch for the counterparties (amounts expressed in thousands).

Fair Value	S&P Rating	Fair Value	Moody's Rating	Fair Value	Fitch Rating
$411,103	AA	$ 31,445	Aaa	$515,481	AA
272,398	A	645,097	Aa	168,020	A
		6,959	A		
$683,501		$683,501		$683,501	

Risk concentrations are presented in the table below.

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
UBS AG London	23%	A	A	Aa
Barclays Bank Plc Wholesale	15%	AA	AA	Aa
Royal Bank of Scotland Plc	14%	A	AA	Aa
HSBC Bank Plc	10%	AA	AA	Aa
JP Morgan Chase Bank	10%	AA	AA	Aa
BNP Paribas SA	9%	AA	AA	Aa
Westpac Banking Corporation	9%	AA	AA	Aa
Royal Bank of Canada (UK)	4%	AA	AA	Aaa
Northern Trust Co. London	2%	AA	AA	Aa
Toronto Dominion Bank	1%	AA	AA	Aaa
Morgan Stanley & Co. International Plc	1%	A	A	A
UBS AG	1%	A	A	Aa
Deutsche Bank AG London	1%	A	AA	Aa

4. *Investments - Component Units:*

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments and are invested in accordance with the investment policies adopted by the Board of Trustees. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, corporate debt and equity securities, asset-backed securities and mutual funds that invest in government securities. The investments of the higher education foundations are not included in the GASB Statement No. 40 disclosures below because the foundations are not required to and do not follow the statements of GASB.

In July 2005, one of the institutions, the University System of Maryland, transferred title to its endowment investments to its foundation in exchange for an equivalent proportionate interest in the long-term investment portfolio managed by the foundation. The agreement is for a term of five years, with renewable two-year extensions at the option of the institution, unless notice of intent to terminate the arrangement is provided prior to the expiration of the term. If the agreement is terminated, funds invested with individual investment managers that have commitments from the foundation to maintain investments for certain minimum time periods may not be returned to the institution until those constraints have been satisfied. For reporting purposes, the foundation's investments have been reduced by the amount of the institution's investments with the foundation.

The Maryland Stadium Authority is restricted by the trust indenture for each bond issue as to the investments which can be made. Authorized investments under the indentures include U.S. Treasury and agency obligations, municipal obligations, banker's acceptances, and repurchase agreements.

Investments of the component units are stated at fair value, which is based on quoted market prices.

The investments and maturities as of June 30, 2010, for the component units are as follows (amounts expressed in thousands).

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1-5	6-10	11-15	More than 15
U.S. Treasury obligations	$ 35,315	$ 827	$ 18,322	$10,428		$ 5,738
U.S. Government agency obligations	148,487	41,516	54,495	3,746	$3,577	45,153
Bond mutual funds	11,034	11,034				
Corporate debt securities	88,570	5,283	31,214	15,660	677	35,736
Municipal bonds	4,456		341	658	418	3,039
Money market mutual funds	118,596	118,596				
Total	$406,458	$177,256	$104,372	$30,492	$4,672	$89,666

In addition to the investments scheduled above, as of June 30, 2010, the component units' investments include the fair value of stock mutual funds, $184,662,000, corporate equity securities, $104,784,000, real estate, $29,059,000, and the share of assets invested with the foundation, $177,207,000.

Interest Rate Risk. The policy of the higher education institutions for managing their exposure to fair value loss arising from increasing interest rates is to comply with their investment policy, which sets maximum maturities for various fixed income securities.

Credit Risk. The policies of the higher education institutions for reducing their exposure to credit risk is to require minimum quality ratings for fixed income securities. The investment policy of the Maryland Prepaid College Trust requires the average rating in each portfolio to be "AA" or better. The trust indenture for each bond issuance by the Maryland Stadium Authority requires money market investments to be rated in the highest category by two nationally recognized securities rating organizations.

As of June 30, 2010, the component units had the following investments and quality ratings (amounts expressed in thousands).

Investment Type	Fair Value	Rating	Rating Organization	Percentage of Total Investments
U.S. agencies	$ 3,070	AAA/Aaa	S&P & Moody's	0.34%
U.S. agencies	145,417	Not rated		16.13%
Money market mutual funds	97,365	Aaa	Moody's	10.80%
Money market mutual funds	21,231	Not rated		2.35%
Bond mutual funds	11,034	Not rated		1.22%
Corporate debt securities	10,545	AAA/Aaa	S&P & Moody's	1.17%
Corporate debt securities	12,868	AA/Aa	S&P & Moody's	1.43%
Corporate debt securities	19,333	A	S&P & Moody's	2.14%
Corporate debt securities	33,419	Less than A	Moody's	3.70%
Corporate debt securities	118	BBB	S&P & Moody's	0.01%
Corporate debt securities	12,287	Not rated		1.36%
Municipal bonds	4,456	Aaa	Moody's	0.49%
Total	$371,143			41.14%

Concentration of Credit Risk. The component units place no limit on the amount they may invest in U.S. Government issuers.

In addition to the Maryland Prepaid College Trust, the College Savings Plans of Maryland consists of the Maryland College Investment Plan, a fiduciary component unit. As of June 30, 2010, the Plan has $1,851,223,000 of investments held in trust for individuals and organizations.

C. Securities Lending Transactions:

1. Governmental and Enterprise Fund Types:

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. These transactions may involve certain investments held in the State treasury for the benefit of State agencies. The State's custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. Additionally, under the terms of the lending agreement, the lending agent indemnifies the State against any credit loss arising from investment of the collateral. The collateral will be returned for the same securities in the future. Cash collateral is initially pledged at greater than the market value of the securities lent and additional cash collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent.

Securities on loan at year-end are owned by the general fund and the Maryland State Lottery Agency and are included in the preceding Investments Note 3.B. At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2010, the fair value of the loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		
	Lent Securities	Collateral Received	Percent Collateralized
Securities-General fund	$ 177,917	$ 182,000	102.3%
Securities-Lottery Agency	64,771	65,824	101.6
Total	$ 242,688	$ 247,824	102.1%

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. Investments made with cash received as collateral are included in the preceding Investments-Governmental Funds Schedule in 3.B.1.

The State's custodial bank is obligated to indemnify the State against liability for any suits, actions or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 2010.

2. *Fiduciary Funds:*

The Pension Trust Funds (Funds) participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. The preceding Investments – Fiduciary Funds Schedule in 3.B.3 includes (1) securities lent at year-end for cash collateral; (2) securities lent for securities collateral; and (3) investments purchased with cash collateral.

Borrowing brokers must transfer in the form of cash or other securities, collateral valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the lent securities. The Funds have not experienced any loss due to credit or interest rate risk on securities lending activity since inception of the program. As of June 30, 2010, the Funds had no credit risk exposure to borrowers because the fair value of collateral held for securities lent exceeded the fair value of the related securities, as follows (amounts expressed in thousands).

Securities Lent	Fair Value	Cash Collateral Received or Non-Cash Collateral Value	Percent Collateralized
Lent for cash collateral:			
Fixed income securities	$ 2,331,720	$ 2,383,436	102.3%
Domestic equities	1,680,536	1,734,086	103.2
International equities	484,724	512,711	105.8
Subtotal	4,496,980	4,630,233	
Lent for noncash collateral:			
Fixed income securities	25,890	26,146	101.0
Domestic equities	11,956	16,458	137.7
International equities	3,542		
Total securities lent	$ 4,538,368	$ 4,672,837	103.0%

During fiscal year 2010, the Funds maintained the right to terminate securities lending transactions upon notice. Cash collateral is invested in one of the lending agent's short-term investment pools, which as of June 30, 2010, had a weighted average maturity of 33 days and an average expected maturity of 73 days. Because the relationship between the maturities of the investment pools and the Funds' security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the Funds cannot match maturities. The Funds cannot pledge or sell collateral securities received unless and until a borrower defaults.

4. Receivables:

Taxes receivable, as of June 30, 2010, consisted of the following (amounts expressed in thousands).

	Major Governmental Funds			
	General	Special Revenue	Non-Major Governmental Funds	Total Governmental Funds
Income taxes	$ 550,918			$ 550,918
Sales and use taxes	389,252			389,252
Transportation taxes, principally motor vehicle fuel and excise		$73,281		73,281
Other taxes, principally alcohol and property	40,736		$ 26,329	67,065
Less: Allowance for uncollectibles	42,260			42,260
Taxes receivable, net	$ 938,646	$ 73,281	$ 26,329	$1,038,256

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to tax revenues of the current period are $5,469,000.

Other accounts receivable in the governmental funds of $526,031,000, including $70,658,000 due in excess of one year, consist of various miscellaneous receivables for transportation costs, collection of bills owed to the State's collection unit, Medicaid reimbursements, and child support and public assistance overpayments.

Other accounts receivable for the enterprise funds of $386,298,000, primarily consist of $220,647,000 due to the Maryland Unemployment Program from employers and for benefit overpayments, and $29,245,000, due to the Maryland State Lottery Agency for lottery ticket sale proceeds.

5. Deferred Revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, enterprise funds and component units also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of June 30, 2010, the various components of deferred revenue reported in the governmental funds and enterprise funds were as follows (amounts expressed in thousands).

	Unavailable	Unearned	Total
Tax receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	$217,688		$217,688
Other receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	208,607		208,607
Other receivables for revenues not considered available to liquidate liabilities of the current period (special revenue fund)	50,254		50,254
Other receivables for revenues not considered available to liquidate liabilities of the current period (other governmental funds)	47		47
Receipts that have been received, but not earned (general fund)		$375,984	375,984
Revenue in connection with resources that have been received, but not earned (special revenue fund)		16,462	16,462
Revenue in connection with resources that have been received, but not earned (enterprise funds)		19,794	19,794
Total deferred/unearned revenue for governmental funds and enterprise funds	$476,596	$412,240	$888,836

6. Loans and Notes Receivable and Investment in Direct Financing Leases:

A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2010, consisted of the following (amounts expressed in thousands).

	Primary Government				Component Units		
	General	Special Revenue Department of Transportation	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority	Other
Notes receivable:							
Political subdivisions:							
Water quality projects			$ 2,887	$ 847,484			
Public school construction			351				
Other		$ 1,466	18				
Volunteer fire & rescue companies	$ 8,275						
Permanent mortgage loans				3,042,242			
Student and health profession loans					$78,495		
Shore erosion loans	6,369						
Other	257				5,224	$ 4,470	$674
Total	14,901	1,466	3,256	3,889,726	83,719	4,470	674
Less: Allowance for possible loan losses				270,074	13,865		34
Loans and notes receivable, net	14,901	1,466	3,256	3,619,652	69,854	4,470	640
Due within one year	2,074	300	551	130,022	8,186	401	79
Due in more than one year	$12,827	$ 1,166	$ 2,705	$3,489,630	$61,668	$ 4,069	$ 561

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 4.4% to 8.8% and mature within 23 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater and drinking water projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds' Federal assistance program. The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes. Student and health profession loans are made pursuant to student loan programs funded through the U.S. Government.

B. Investment in Direct Financing Leases:

Enterprise Funds:

As of June 30, 2010, the Maryland Transportation Authority (Authority) has direct financing leases with the State's Department of Transportation, the Washington Metropolitan Area Transit Authority (WMATA), and the general fund. The present value of the direct financing leases as of June 30, 2010, was $398,906,000. As of June 30, 2010, the Authority held $48,589,000 to be spent to complete assets under these direct financing leases. Lease payments receivable, including unearned interest for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following amounts (expressed in thousands).

2011	$ 25,024
2012	26,189
2013	27,294
2014	28,484
2015	18,119
2016-2020	98,236
2021-2025	110,500
2026-2030	81,175
2031-2035	28,040
Total	443,061
Unearned interest income	4,434
Total lease payments	447,495
Restricted investments related to unexpended bond proceeds	48,589
Net investments in direct financing leases	$398,906

Component Units:

As of June 30, 2010, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2010, is $228,628,000. As of June 30, 2010, the Authority held $7,857,000 to be spent to complete assets under these direct financing leases. Lease payments receivable, including unearned interest for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following amounts (expressed in thousands).

2011	$ 31,652
2012	31,822
2013	31,835
2014	31,924
2015	30,688
2016-2020	123,584
2021-2025	47,290
2026-2030	6,432
Total	335,227
Less: Unearned interest income	98,742
Total lease payments	236,485
Restricted investments related to unexpended bond proceeds	7,857
Net investments in direct financing leases	$228,628

7. Restricted Assets:

Certain assets of the governmental activities, business-type activities and component units are classified as restricted assets on the Statement of Net Assets. The purpose and amount of restricted assets as of June 30, 2010, are as follows (amounts expressed in thousands).

Amount	Purpose
Governmental Activities:	
$ 27,437	Represents money restricted for completion of transportation construction projects maintained in a trust account per Certificates of Participation agreements
1,126	Represents investments restricted for debt service payments according to bond agreements
147,813	Represents State property taxes restricted to pay debt service on general obligation debt
2,929	Represents certificates of deposit linked to funds loaned under the State's housing loan program
$179,305	
Business-type Activities:	
$3,718,470	Assets of the Community Development Administration and the State Funded Loan Programs are restricted for various mortgage loans for low-income housing and local governments' public facilities
668,917	The purpose of the restricted assets is to secure the revenue bonds of the Maryland Water Quality Administration made for waste-water treatment systems and bay restoration
677,635	Restricted assets represent deposits with the U.S. Treasury and amounts due from employers to pay unemployment compensation benefits in accordance with Federal statute
145,426	This cash is held in separate annuity contracts and coupon bonds in the Maryland State Lottery Agency for winning lottery ticket payouts and escrow deposits from video lottery terminal license applicants
787,467	Cash and investments have been restricted in accordance with revenue bond debt covenants of the Maryland Transportation Authority for completion of capital projects and debt service
$5,997,915	
Component Units:	
$ 160,095	Restricted assets of higher education include funds held by the trustee for future construction projects and to pay debt service and cash restricted for endowment purposes
21,358	Restricted assets of Maryland Stadium Authority include cash and investments that relate to revenue bond indentures and master equipment lease financing agreements
14,861	Restricted assets include investments that relate to revenue bond indentures and to restricted project advances for the provision of water supply and waste-water treatment by the Maryland Environmental Service
$ 196,314	

8. Interfund Receivables and Payables:

Interfund balances, as of June 30, 2010, consisted of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Non-major governmental funds	$ 54,830 (b)
	Enterprise Funds -	
	Economic Development Loan Programs	2,011 (c)
	Maryland State Lottery Agency	39,026 (a)
		$95,867
Special Revenue Fund	General Fund	$ 91,075 (d)
	Enterprise Funds -	
	Maryland Transportation Authority	33,955 (e)
		$125,030
Non-major governmental funds	General Fund	$ 2,425 (f)
Enterprise Funds –		
Economic Development Loan Programs	General Fund	$ 20,985 (h)
Unemployment Insurance Program	General Fund	2,967 (h)
Maryland Transportation Authority	Special Revenue Fund	12,889 (g)
		$ 36,841
Agency Fund –		
Local Income Taxes	General Fund	$ 350,000 (i)

The receivable and payable transactions between the governmental funds and the enterprise funds are reported as due from and due to other funds. The receivable and payable transactions between the agency fund and the general fund are reported as accounts receivable from State treasury by the agency fund and due to other funds by the general fund.

The receivable and payable transactions between the Primary Government and Component Units, as of June 30, 2010, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Higher Education Fund	$ 702
Component Units -		
Maryland Stadium Authority	General Fund	$3,764

(a) The amounts represent monies collected by the Maryland State Lottery in June, 2010, and paid to the general fund in July, 2010.
(b) This amount represents an overdraft in the non-major governmental funds' share of pooled invested cash.
(c) The amount represents short term advances from the general fund for principal and interest payments.
(d) The amount represents income tax subsidies and return of health insurance costs from the general fund.
(e) The Maryland Transportation Authority collects fees for the special revenue fund. The money will be used to build and maintain special revenue fund infrastructure, structures and other improvements.
(f) The amount represents monies collected by the general fund in June, 2010, and paid to the non-major governmental funds in July, 2010.
(g) The Maryland Transportation Authority receives rent, interest income and fees for services form the special revenue fund.

(h) These amounts represent receivable balances from general fund subsidies.
(i) The loan was made in accordance with Section 2-606 of Tax-General Article of the Annotated Code of Maryland from the reserve of unallocated tax revenue that the Comptroller estimates will be claimed and refunded to taxpayers within 3 years of the date that the income tax return was filed. The money will be used to provide funding for public elementary and secondary education. According to the same law, an additional loan from this Agency Fund (reserve) of $200,000,000 to the General Fund, is required to be made in fiscal year 2011 to assist in funding the Maryland Medicaid Program.

All interfund balances except for (i) above, are expected to be repaid by June 30, 2011. For (i) above, the General Fund is required to pay $50,000,000 a year in each of fiscal years 2014 through 2020 to the Agency Fund for the $350,000,000 loan and $33,333,000 a year in each of fiscal years 2021 through 2026 for the $200,000,000 loan.

9. Interfund Transfers:

Interfund transfers, for the year ended June 30, 2010, consisted of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	$ 398,284
	Non-major Governmental Funds	192,913
	Enterprise Funds -	
	Maryland State Lottery Agency	510,609
	Economic Development Loan Programs	168,666
	Non-major Enterprise Funds	6,230
		$1,276,702
Special Revenue Fund	General Fund	$ 376,856
Non-major Governmental Funds	General Fund	$ 96,454
	Special Revenue Fund	145,037
		$ 241,491
Enterprise Funds -		
Loan Programs	General Fund	$ 36,934
	Non-major Governmental Funds	3,777
Maryland Transportation Authority	Special Revenue Fund	30,000
		$ 70,711

Transfers are primarily used to 1) transfer revenues from the fund required by statute or budget to collect the revenue to the fund required by statute or budget to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the non-major governmental funds as debt service payments become due, and 3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the non-major governmental funds transferred $185,835,000 of Program Open Space funds, $185,000 of interest earned on bonds, $981,000 for expenses for bond sales, $87,000 return of funds for rescinded pay-as-you-go capital projects, and $5,825,000 of Shore Erosion loan repayments to the general fund.

The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, operating expenses and capital expenditure payments in the amount of $510,609,000, to the general fund. The general fund transferred $36,934,000 to support the operations of Enterprise Funds – Loan Programs, and the Enterprise Funds – Loan Programs transferred $168,666,000 of unused funds to the general fund. The special revenue fund also transferred $30,000,000 to the Enterprise Fund – Maryland Transportation Authority for design, planning and land purchases for the Inter-County Connector Project. Expenditures for capital projects of $3,777,000 were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of $1,642,836,000, and $264,178,000, respectively, that were for funds provided to supplement revenues and construction costs, respectively, of the higher education component units. The general fund also had net expenditures of $19,537,000 that were for funds provided to supplement revenues of the Maryland Stadium Authority. The general fund transferred $15,743,000 to the non-major component unit, the Maryland Technology Development Corporation, for Maryland Stem Cell Research and other operating grants.

10. Capital Assets:

A. *Capital Assets, Primary Government:*

Capital assets activity by asset classification net of accumulated depreciation, for the year ended June 30, 2010, was as follows (amounts expressed in thousands).

Governmental activities:

Classification	Balance June 30, 2009	Additions	Deletions	Transfers In/Out*	Balance June 30, 2010
Capital assets, not being depreciated,					
Land and improvements	$ 2,995,299	$ 91,737	$ 1,209	$ (4,801)	$ 3,081,026
Art and historical treasures	27,795	55	18,480		9,370
Construction in progress	3,455,727	722,380	48,861	(1,780,335)	2,348,911
Total capital assets, not being depreciated	6,478,821	814,172	68,550	(1,785,136)	5,439,307
Capital assets, being depreciated,					
Structures and improvements	5,843,377	162,655	12,824	188,684	6,181,892
Equipment	2,546,277	87,523	167,502	153,688	2,619,986
Infrastructure	16,905,796	524,594	11,812	1,028,994	18,447,572
Total capital assets, being depreciated	25,295,450	774,772	192,138	1,371,366	27,249,450
Less accumulated depreciation for,					
Structures and improvements	2,302,540	182,577	3,102		2,482,015
Equipment	1,758,132	152,895	93,556		1,817,471
Infrastructure	8,448,357	690,617	1,848		9,137,126
Total accumulated depreciation	12,509,029	1,026,089	98,506		13,436,612
Total capital assets, net	$ 19,265,242	$ 562,855	$ 162,182	$ (413,770)	$ 19,252,145

Business-type activities:

Classification	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not being depreciated,				
Land and improvements	$ 395,850	$ 17,763	$ 8,741	$ 404,872
Construction in progress	1,381,193	797,665	1,870	2,176,988
Total capital assets, not being depreciated	1,777,043	815,428	10,611	2,581,860
Capital assets, being depreciated,				
Structures and improvements	45,890	150	240	45,800
Equipment	85,522	6,641	31,235	60,928
Infrastructure	2,544,235	1,648	145,323	2,400,560
Total capital assets, being depreciated	2,675,647	8,439	176,798	2,507,288
Less accumulated depreciation for,				
Structures and improvements	21,393	980	163	22,210
Equipment	55,943	6,520	31,263	31,200
Infrastructure	1,168,574	45,691	72,661	1,141,604
Total accumulated depreciation	1,245,910	53,191	104,087	1,195,014
Total capital assets, net	$3,206,780	$770,676	$83,322	$3,894,134

*A large decrease for transfers from the State Highway Administration (SHA) to an agency outside the State was made via an ownership agreement with the State of Virginia (VDOT) for half ownership of the completed Woodrow Wilson Bridge project in the amount of $413,770,000. These assets were transfered from SHA to VDOT for the year ended June 30, 2010.

B. Depreciation Expense, Primary Government:

The depreciation expense for the year ended June 30, 2010, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government	$ 37,248
Education	5,374
Human resources	10,936
Health and mental hygiene	8,588
Environment	514
Public safety	51,547
Housing and community development	113
Natural resources and recreation	16,643
Transportation	878,817
Agriculture	13,729
Labor, licensing and regulation	607
Judicial	1,973
Total depreciation expense – governmental activities	$1,026,089

Business-type activities:

Function	Amount
State Lottery	$ 1,308
Transportation Authority	50,414
Maryland Correctional Enterprises	1,450
Economic Development Loan Programs	19
Total depreciation expense - business type activities	$ 53,191

11. Long-Term Obligations:

A. Governmental Activities:

Changes in governmental activities' long-term debt, for the year ended June 30, 2010, are as follows (amounts expressed in thousands).

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds and notes payable:					
General obligation bonds	$ 5,873,643	$1,938,963	$1,289,384	$ 6,523,222	$515,094
Transportation bonds	1,582,605	140,000	77,595	1,645,010	83,170
Deferred amounts:					
Issuance premiums	474,565	196,954	55,777	615,742	
On refunding	(37,402)	(117,555)	(14,381)	(140,576)	
Total bonds and notes payable	7,893,411	2,158,362	1,408,375	8,643,398	598,264
Other liabilities:					
Compensated absences	307,882	176,926	160,805	324,003	163,771
Self insurance costs	319,378	1,137,742	1,123,179	333,941	121,666
Net pension obligation	1,016,617	221,430	11,610	1,226,437	
Net other post employment benefits obligation	1,478,130	951,972		2,430,102	
Obligations under capital leases	848,208	15,073	65,080	798,201	59,821
Obligations under capital leases with component units	250,407	399	18,044	232,762	19,417
Pollution remediation	179,972	3,563	14,118	169,417	550
Total other liabilities	4,400,594	2,507,105	1,392,836	5,514,863	365,225
Total long-term liabilities-governmental activities	$12,294,005	$4,665,467	$2,801,211	$14,158,261	$963,489

General Obligation Bonds -

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts. Bonds are issued and accounted for on a "cash flow" basis rather than a "project" basis and are not sold to specifically fund an enabling act. General obligation bonds are subject to arbitrage regulations. However, there are no major outstanding liabilities in connection with these regulations as of June 30, 2010. Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund and capital projects fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 2010, the State issued $1,938,963,000 of general obligations at a premium of $196,323,000 with related issuance costs of $9,282,000.

Included in bond issuances were $798,080,000 to refund certain outstanding general obligation bonds issued between 2004 and 2009. From the refunding bonds and related premium of $130,455,000, $924,185,000 was transferred to an escrow account and used to purchase U.S. Government securities. These securities will be used to secure the principal, call premium, and interest related to the refunded bonds. The interest rates on the refunded bonds range from 4.3% to 5.0%. The purpose of the refunding was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is $35,134,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is $33,527,000.

Refunded bonds of $899,710,000 maturing in fiscal years 2012-2023 and callable in fiscal years 2011-2017 were considered defeased as of June 30, 2010. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

General obligation bonds issued and outstanding, as of June 30, 2010, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Annual Principal Installments	Principal Issued	Principal Outstanding
8/3/00	2004-2016	5.1-5.8%	$ 15,900	$ 200,000	$ 15,900
3/8/01	2004-2016	4.0-5.5	15,900-20,535	200,000	108,830
7/26/01	2005-2017	5.0-5.5	15,130-20,285	200,000	123,200
11/21/01	2016	0(b)	18,098	18,098	18,098
3/21/02(a)	2003-2017	4.0-5.5	15,180-19,765	309,935	121,715
8/15/02(a)	2003-2018	3.0-5.5	16,000-23,055	515,830	153,930
3/6/03	2006-2018	5.0-5.3	35,920-49,830	500,000	339,210
8/5/03	2007-2019	5.0	34,060-41,605	500,000	188,695
8/10/04	2008-2020	5.0	26,025-33,420	400,000	177,590
10/21/04(a)	2005-2016	5.0	18,495-108,620	574,655	274,200
11/30/04	2020	0(b)	9,043	9,043	9,043
3/17/05(a)	2006-2020	4.0-5.3	29,195-105,235	631,185	440,295
8/11/05	2009-2021	4.3-5.0	30,565-43,820	450,000	313,155
3/23/06	2009-2021	4.0-5.0	20,060-27,955	300,000	234,615
8/10/06	2010-2022	4.3-5.0	21,160-34,870	350,000	264,300
12/20/06	2022	0(b)	4,378	4,378	4,378
3/15/07	2010-2022	5.0	19,445-28,455	325,000	214,135
8/16/07	2011-2023	5.0	21,000-38,265	375,000	375,000
12/18/07	2023	0(b)	4,986	4,986	4,986
3/12/08	2011-2023	4.0-5.0	22,585-40,555	400,000	331,600
7/28/08	2012-2024	5.0	24,365-41,705	415,000	415,000
12/16/08	2010-2021	1.6(b)	464	5,563	5,099
3/16/09(a)	2011-2024	2.0-5.0	22,620-61,690	490,800	451,285
8/18/09	2013-2025	2.0-5.3(c)	29,070-50,000	485,000	485,000
11/3/09	2013-2025	4.5-5.0(c)	11,205-20,400	200,000	200,000
12/16/09	2025	0(d)	50,320	50,320	50,320
12/17/09	2011-2025	1.6(b)	371	5,563	5,563
12/18/09(a)	2016-2021	2.0-5.0	29,560-178,775	602,765	602,765
3/9/10(c)	2019-2025	4.0-4.6	52,450-62,170	400,000	400,000
3/9/10(a)(b)	2018-2023	3.0-5.0	2,330-60,600	195,315	195,315
				$9,118,436	$6,523,222

(a) Includes refunding debt
(b) Qualified Zone Academy Bonds for which the purchaser receives Federal tax credits each year the bonds are outstanding
(c) Includes federally taxable Build America Bonds for which the State receives a subsidy payment from the Federal government equal to 35% of interest payments
(d) Qualified School Construction Bonds for which the purchaser receives Federal tax credits each year the bonds are outstanding

General obligation bonds authorized, but unissued, as of June 30, 2010, total $2,394,985,000.

As of June 30, 2010, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2011	$ 515,094	$ 304,968
2012	542,179	278,952
2013	564,299	250,866
2014	529,389	222,808
2015	506,374	196,748
2016-2020	2,459,889	612,117
2021-2025	1,405,998	139,354
Total	$6,523,222	$2,005,813

Subsequent to June 30, 2010, on August 10, 2010, general obligation bonds aggregating $485,175,000 were issued for capital improvements. Serial bonds in the amount of $440,000,000 with interest rates ranging from 2.0% to 5.0% mature through 2026. Term bonds in the amount of $45,175,000 with an average interest rate of 4.4% mature in 2026.

Of these bonds, $120,175,000 were issued as federally taxable bonds. Bonds in the amount of $75,000,000 are Build America Bonds under the American Recovery and Reinvestment Act of 2009 (ARRA). For these bonds, the State receives a subsidy payment from the Federal government equal to 35% of interest payments. Bonds in the amount of $45,175,000 are Qualified School Construction Bonds under ARRA. For these bonds, the State receives a subsidy payment from the Federal government equal to 100% of interest payments.

Transportation Bonds -

Transportation bonds outstanding as of June 30, 2010, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds – 3.0% to 5.5%, due serially through 2024 for State transportation activity	$1,593,655
Consolidated Transportation Bonds, Refunding – 5.0%, due serially through 2014 for State transportation activity	51,355
Total	$1,645,010

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport, rail, or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed $2,600,000,000 through June 30, 2010, and thereafter. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2010, was $1,830,010,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2010, was $1,645,010,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (1) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (2) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

The 2009 session of the General Assembly established a maximum outstanding principal amount of $661,800,000 as of June 30, 2010, for all nontraditional debt of the Department. Nontraditional debt outstanding is defined as any debt instrument that is not a Consolidated Transportation Bond or GARVEE bond (tax-exempt debt backed by annual federal appropriations for federal-aid transportation projects). This debt includes certificates of participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of the Department. As of June 30, 2010, the Department's nontraditional debt outstanding was $674,740,000 and is reported as obligations under capital leases and includes funds held by the bond trustee under these agreements.

Arbitrage regulations are applicable to the transportation bonds payable. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2010.

During fiscal year 2010, the Department issued $140,000,000 of Consolidated Transportation Bonds at a premium of $631,000, with maturities ranging from June 15, 2013, to June 15, 2025, with interest rates ranging from 2.0% to 4.7%. Of these bonds, $126,000,000 were issued as federally taxable bonds (Build America Bonds).

As of June 30, 2010, Department bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending	Consolidated Transportation Bonds	
June 30,	Principal	Interest
2011	$ 83,170	$ 75,492
2012	102,845	71,672
2013	109,340	66,908
2014	130,620	61,480
2015	147,280	55,421
2016-2020	696,000	168,717
2021-2025	375,755	40,047
Total	$1,645,010	$539,737

Obligations Under Capital Leases -

Obligations under capital leases as of June 30, 2010, bore interest at annual rates ranging from .9% to 6.7%. Capital lease obligations with third parties in fiscal year 2010 increased by $15,073,000 for master equipment and building leases entered into by the general fund and include leases for various transportation related projects entered into by the Maryland Department of Transportation. The capital leases with component units include the general fund's capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games, and with other non-major component units. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2010 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations with Third Parties	Capital Lease Obligations with Component Units
2011	$ 99,343	$ 34,046
2012	95,167	33,209
2013	88,044	32,958
2014	84,835	33,059
2015	69,324	31,312
2016-2020	322,492	124,252
2021-2025	278,425	47,290
2026-2030	175,640	6,432
2031-2035	29,379	
Total future minimum payments	1,242,649	342,558
Less: Amount representing interest	410,960	99,557
Less: Restricted cash and investments	33,488	10,239
Present value of net minimum payments.	$ 798,201	$ 232,762

The reduction shown for restricted cash and investments in the amounts of $33,488,000 and $10,239,000 is monies held by the bond trustee to be used primarily for construction expenditures.

The assets acquired through capital leases are as follows (amounts expressed in thousands).

Asset	Third Parties Amount
Construction in progress	$ 51,854
Land and improvements	19,102
Buildings and improvements	1,043,334
Machinery and equipment	263,928
Infrastructure	319,383
Total acquired assets	1,697,601
Less: Accumulated depreciation	480,355
Total capital assets - net	$1,217,246

Pollution Remediation Obligations -

The State has recognized a pollution remediation obligation on the statement of net assets for governmental activities. A pollution remediation obligation is a liability which addresses the current or potential detrimental effects of existing pollution and may include pre-cleanup activities (site assessment, feasibility study), cleanup activities (neutralization, containment, removal and disposal, site restoration), oversight and enforcement and post remediation monitoring.

Obligating events initiate the recognition of a pollution remediation liability. These events include any of the following.

(a) There is an imminent danger to the public.
(b) The State is in violation of a related permit or license.
(c) The State is identified as a responsible party or potentially responsible party (PRP) by a regulator.
(d) The State is named or has evidence that it will be named in a lawsuit.
(e) The State commences, or legally obligates itself to commence, pollution remediation activities.

The pollution remediation obligation is an estimate and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations. The liability is recognized as it becomes estimable. In some cases, this may be at inception. In other cases, components of a liability (for example, legal services, site investigation or required post remediation monitoring) are recognized as they become reasonably estimable. At a minimum, the liability is reviewed for sufficiency when various benchmarks occur, such as receipt of an administrative order, participation as a responsible party or PRP in a site assessment, completion of a corrective measures feasibility study, issuance of an authorization to proceed, and as remediation is implemented and monitored.

Measurement of the liability is based on the current value of outlays expected to be incurred using the expected cash flow technique. This technique measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts - the estimated mean or average. Expected recoveries reduce the pollution remediation expense.

The pollution remediation estimated liability is $680,697,000 with approximately $511,280,000 of estimated recoveries from third parties to reduce the liability. Included in this liability are cost estimates for site monitoring and repair, excavation of road and infrastructure and replacement of buildings as a result of site contaminations by hazardous materials under Federal and State law in the amount of $155,670,000. In these cases, either the State has been named in a lawsuit by a State regulator or the State legally obligated itself under the Environmental Article, Section 7-201, of the Annotated Code of Maryland.

The estimated liability also includes $12,461,000 for the clean-up of an illegal tire dump for which the State is legally obligated under the Environmental Article, Section 9-2 of the Annotated Code of Maryland. The State is also responsible for the removal and replacement of underground storage tanks and the monitoring of wells, in an estimated amount of $1,286,000, as a result of not complying with federal requirements under the Clean Water Act and the Resource Conservation Recovery Act.

The cost estimates and assumptions for the pollution remediation due to site contamination from hazardous materials are based on engineering design estimates. The cost estimates and assumptions for the tire dump clean-up are based on estimated unit cost of $325/ton based on historical data, fuel costs, specific site factors and adjusted by 3% - 4% CPI.

No pollution remediation liability has been recognized for a former landfill on land owned by the highway department that has been identified for cleanup by the EPA. The EPA has invited the agency to participate in a PRP Group as owner-operator of the land. The agency has replied that it transferred the land in question to a local government. The State has not made a final commitment. Cleanup costs have yet to be determined.

For the governmental activities, compensated absences, self insurance, net pension obligations, net other post-employment benefits obligations, obligations under capital leases, and pollution remediation obligations are generally liquidated by the general or special revenue fund as applicable.

B. Long Term Obligations – Business-type Activities:

Changes in long-term obligations for business-type activities as of June 30, 2010, are as follows (amounts expressed in thousands).

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Bonds Payable:					
Revenue bonds payable	$5,422,501	$ 1,083,158	$344,026	$6,161,633	$358,646
Other Liabilities:					
Lottery prizes	119,702	8,279	29,656	98,325	24,098
Escrow deposits	40,479	25,393	34,851	31,021	6,537
Rebate liability	10,106	1,074	3,146	8,034	725
Compensated absences	11,648	6,835	6,082	12,401	2,868
Self insurance costs	8,720	2,086	2,010	8,796	1,363
Obligations under capital leases	5,748		487	5,261	1,166
Total other liabilities	196,403	43,667	76,232	163,838	36,757
Total long-term liabilities-business type activities	$5,618,904	$1,126,825	$420,258	$6,325,471	$395,403

Debt service requirements for business-type activities' notes payable and revenue bonds to maturity are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration Principal	Community Development Administration Interest	Maryland Water Quality Financing Administration Principal	Maryland Water Quality Financing Administration Interest	Maryland Transportation Authority Principal	Maryland Transportation Authority Interest	Maryland Unemployment Insurance Program Principal
2011	$ 126,506	$ 120,530	$ 14,465	$ 5,499	$ 84,465	$ 135,559	$133,841
2012	318,595	117,375	15,660	4,890	88,058	131,349	
2013	73,585	114,526	13,400	4,240	101,588	127,530	
2014	80,050	111,442	13,470	3,760	114,957	122,918	
2015	83,310	108,058	6,560	3,192	108,762	117,765	
2016-2020	431,025	484,390	32,835	11,863	598,316	500,237	
2021-2025	348,600	395,810	30,330	3,834	315,215	377,967	
2026-2030	340,185	315,259			339,320	288,684	
2031-2035	487,405	229,502			352,310	197,396	
2036-2040	535,910	124,064			357,815	106,252	
2041-2045	251,510	39,743			213,485	18,706	
2046-2050	39,055	3,448					
Total	3,115,736	2,164,147	126,720	37,278	2,674,291	2,124,363	133,841
Discounts, premiums and other deferred costs	21,147		3,696		52,308		
Accumulated accreted interest					33,894		
Total	$3,136,883	$2,164,147	$130,416	$37,278	$2,760,493	$2,124,363	$133,841

Community Development Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, proceeds of which were used for various mortgage loan programs. Assets aggregating approximately $3,717,989,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 0.5% to 6.8%, with the bonds maturing serially through June, 2049. The principal amount outstanding as of June 30, 2010, is $3,136,883,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 101% of the outstanding principal amount. During fiscal year 2010, the Administration issued $138,205,000 of revenue bonds with interest rates ranging from 0.5% to 5.3% and maturing serially through November, 2041 and $246,330,000 of revenue bonds at variable short-term rates and maturing on January 1, 2012.

Subsequent to June 30, 2010, the Administration issued a total of $93,555,000 and redeemed a total of $69,720,000 revenue bonds.

Interest Rate Swaps:

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the Administration entered into interest rate swaps in connection with variable rate revenue bonds totaling $295,555,000. The intention of the swaps was to effectively change the Administration's variable interest rate on the bonds to fixed rates.

Terms. The bonds and the related swap agreements mature from September 1, 2025 through September 1, 2043, and the swaps' notional amount of $295,555,000 matches the amount of the variable rate bonds. Under the swap agreements, the Administration pays the counterparty a fixed payment of from 3.7% to 4.8% and receives a variable payment computed as either 64% of the London Interbank Offered Rate (LIBOR) plus .2% or .3%. Conversely, the bonds' variable rate is based on the Securities

Industry and Financial Markets Association Rate.

Credit risk. The fair value of the swaps represents the Administration's credit exposure to each counterparty as of June 30, 2010. The fair value of three swaps with one counterparty is ($8,205,000), the fair value of one swap with a second counterparty is ($4,560,000), the fair value of three swaps with a third counterparty is ($17,625,000), and the fair value of one swap with a fourth counterparty is ($2,240,000). Therefore, the Administration is not exposed to credit risk as of June 30, 2010, because the swaps have a negative fair value. However, should the valuation of the swap change and the fair value turn positive, the Administration would be exposed to credit risk in the amount of the swap's fair value. The first counterparty is rated AA by Standard & Poor's and Aa by Moody's, the second counterparty is rated A by Standard & Poor's and Fitch and Aa by Moody's, the third counterparty is rated Aa by Moody's and AAA by Standard & Poor's and Fitch, and the fourth counterparty is rated Aaa by Moody's and AA by Fitch. To mitigate the potential for credit risk, if the counterparties' credit quality falls below A, the fair value of the swaps will be fully collateralized by the counterparties.

Basis risk. The swaps would expose the Administration to basis risk should the relationship between LIBOR and the Securities Industry and Financial Markets Association Rate converge. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Termination risk. The Administration or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The counterparty can terminate the contract if the ratings on the related bonds fall below the credit rating thresholds. If a swap is terminated, the underlying variable rate bonds may be exposed to rising interest rates. If at the time of such termination a swap has a negative fair value, the Administration would be liable to the counterparty for a payment equal to the swap's fair value along with any accrued interest.

Swap payments and associated debt. Using rates as of June 30, 2010, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (amounts expressed in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Years Ending June 30,	Hedged Variable Rate Bonds Principal	Hedged Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2011	$ 110	$ 901	$ 11,303	$ 12,314
2012		919	10,818	11,737
2013		915	10,365	11,280
2014		916	9,958	10,874
2015		916	9,588	10,504
2016-2020	6,695	4,552	41,814	53,061
2021-2025	9,560	4,385	33,236	47,181
2026-2030	21,555	4,175	28,606	54,336
2031-2035	148,505	2,554	20,628	171,687
2036-2040	77,365	997	8,944	87,306
2041-2045	31,765	247	912	32,924
Total	$295,555	$21,477	$186,172	$503,204

Fair value. Because interest rates have generally decreased since execution of the swaps, the swaps have a fair value of ($32,630,000) as of June 30, 2010. The swaps' fair value may be countered by a decrease in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the coupons on the Administration's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease.

The table below summarizes the total fair values for the Administration's interest rate swaps as of June 30, 2010 and 2009, and the changes in fair values for the year ended June 30, 2010 (amounts expressed in thousands).

	Total Fair Value at June 30, 2009	Total Fair Value at June 30, 2010	Change in Fair Value for the Period
Interest rate swaps:			
Cash flow hedges	$ (14,149)	$ (32,630)	$ (18,481)
Investment derivatives	(15,306)		15,306
Total	$ (29,455)	$ (32,630)	$ (3,175)

The fair value balances of derivative instruments (interest rate swaps) outstanding as of June 30, 2010, classified by type, and the changes in fair value as presented on the financial statements for the year ended June 30, 2010, are as follows (amounts expressed in thousands).

	Change in Fair Value		Fair Value at June 30, 2010		Outstanding Notional
	Classification	Amount	Classification	Amount	Amounts
Cash flow hedges:					
Pay fixed interest rate swaps	Deferred outflow	$(18,481)	Debt	$(32,630)	$295,555
Investment derivatives:					
Pay fixed interest rate swaps	Investment revenue	$ 15,306	Investment	$ -	$ -

The fair value of the swaps is based on market value and is affirmed by an independent advisor whose valuation method and assumptions are in accordance with accounting guidance issued by GASB. The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on each future net settlement on the swaps.

At June 30, 2009, the Administration determined that 2007 Series F, J and M interest rate swaps did not meet the criteria for effectiveness. Therefore, the swap fair values in the amount of $15,305,000 were reclassified as investment revenue and restated beginning net assets on these financial statements.

Maryland Water Quality Financing Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Environment, has issued revenue bonds for providing loans and grants. Interest rates range from 3.3% to 4.1%, payable semiannually, with annual installments from $2,625,000 to $12,920,000 to March 1, 2025. The principal amount outstanding as of June 30, 2010, is $130,416,000. These bonds are payable solely from the revenue, money or property of the Administration.

Maryland Unemployment Insurance Program - Non-Interest Loan Agreement:

The Program entered into a new non-interest loan arrangement with the U.S. Department of Labor for a maximum amount of $300,000,000 to provide liquidity to the Program. During the year, the Program was advanced $133,841,000 which is still outstanding as of June 30, 2010. The loan is due on December 31, 2010.

Short-term debt activity during fiscal year 2010 is as follows (amounts expressed in thousands).

Outstanding short-term debt as of June 30, 2009..............	$ -
Issuance..	133,841
Retirements..	-
Outstanding short-term debt as of June 30, 2010...........	$133,841

This amount of short-term debt is included in the revenue bonds payable-current on the Statement of Net Assets.

Maryland Transportation Authority Bonds:

Bonds outstanding as of June 30, 2010, are as follows (amounts expressed in thousands).

Series 1992 Capital appreciation refunding and financing revenue bonds for the Authority's Transportation Facilities Projects maturing in annual installments of original principal ranging from $721 to $5,080 from July 1, 2010, to July 1, 2015, with approximate yields to maturity of 6.3% to 6.4% and an accreted amount	$ 50,520
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002, maturing in annual installments ranging from $2,145 to $8,505 from July 1, 2010, to July 1, 2032, with interest rates ranging from 2.7% to 6.7%, payable semiannually	105,855
BWI Parking Garage Revenue Bonds, Series 2002 A and B, maturing in annual installments ranging from $4,315 to $17,470 from March 1, 2011, to March 1, 2027, with interest rates ranging from 4.0% to 5.3% payable semiannually	220,575
BWI Facilities Projects Bonds, Series 2003, maturing in annual installments ranging from $9,900 to $11,200 from July 1, 2010, to July 1, 2013, with a current variable rate of .3%, payable semiannually	42,300
WMATA Metrorail Parking Projects Bonds, Series 2004, maturing in annual installments ranging from $1,205 to $2,780 from July 1, 2010, to July 1, 2028, with interest rates ranging from 3.0% to 5.0%, payable semiannually	35,635
Series 2004 Revenue bonds, for construction and improvement of Authority's Transportation Facilities projects, maturing in annual installments of $1,155 to $15,235 from July 1, 2010, to July 1, 2032, with interest rates ranging from 4.5% to 5.3% payable semiannually	156,855
Calvert Street Parking Project Revenue bonds, Series 2005, maturing in annual installments ranging from $635 to $1,415 from July 1, 2010, to July 1, 2032, with interest rates ranging from 3.3% to 4.4% payable semiannually	21,960
Grant and Revenue Anticipation Bonds, Series 2007 (GARVEE bonds), maturing in annual installments ranging from $24,345 to $34,390 from March 1, 2011, to March 1, 2019, with an interest rate of 4.0% payable semiannually to finance the Intercounty Connector Highway Project	257,090
Series 2007 Revenue Bonds, for construction and improvement of Authority's Transportation Facilities projects, maturing in annual installments of $1,025 to $12,685 from July 1, 2012, to July 1, 2031, with interest rates ranging from 4.0% to 5.0% payable semiannually	300,000
Series 2008 Revenue Bonds, for construction and improvement of Authority's Transportation Facilities projects, maturing in annual installments of $8,885 to $31,070 from July 1, 2012, to July 1, 2038, with interest rates ranging from 4.8% to 5.1% payable semiannually	573,305
Series 2009 Revenue Bonds, for construction and improvements of the Authority's Transportation Facilities projects maturing in annual installments of $2,380 to $14,570 from July 1, 2016 to July 1, 2023 with interest rates ranging from 3.0% to 5.0% payable semiannually	549,385
Grant and Revenue Anticipation Bonds, Series 2008 (GARVEE bonds), maturing in annual installments ranging from $30,295 to $48,865 from March 1, 2011, to March 1, 2020, with an interest rate of 4.3%, payable semiannually	394,705
Unamortized premium	52,308
Total	$2,760,493

Revenue bonds are payable solely from the revenues of the transportation facilities projects. Capital assets constructed from BWI facilities, WMATA Metrorail and the Calvert Street Parking Project are not capital assets of the Authority. Capital appreciation bonds payable as of June 30, 2010, include an accreted amount of $33,894,000.

The Authority is authorized to issue Grant and Revenue Anticipation Bonds (GARVEE Bonds) to a maximum amount of $750,000,000 to build the Intercounty Connector highway project to be built in Montgomery and Prince George's Counties, Maryland. Debt service on these bonds is payable from a portion of Maryland's future Federal highway aid and other pledged moneys. These bonds are not general obligations of the Authority or legal obligations of the Maryland Department of Transportation or the State. The Authority has issued all GARVEE bonds authorized as of June 30, 2010.

During the year ended June 30, 2010, the Authority issued Series 2009 Revenue Bonds of $549,385,000 for construction and improvments to the Authority's transportation facilities projects, including bonds of $98,870,000 with interest rates ranging from 3.0%

to 5.0% and maturing serially through July, 2023 and term bonds of $450,515,000 maturing July 1, 2029 and 2043 with coupons of 5.8% and 5.9% respectively.

Obligations Under Capital Leases -

Obligations of business-type activities under capital leases as of June 30, 2010, are as follows (amounts expressed in thousands).

Years Ending June 30,	State Lottery Agency
2011	$1,286
2012	1,252
2013	1,217
2014	1,216
2015	607
Total minimum lease payments	5,578
Less: Imputed interest	317
Present value of net minimum lease payments	$5,261

The Lottery has entered into lease agreements for certain on-line gaming system equipment and a computer system. As of June 30, 2010, assets acquired under leases and the related accumulated amortization totaled $5,882,000 and $1,626,000 respectively, and are included in capital assets in the Statement of Net Assets, Business-type Activities.

C. Notes and Revenue Bonds Payable - Component Units:

Higher Education -

Certain State higher education institutions have issued revenue bonds for the acquisition, renovation, and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. Interest rates range from 2.0% to 6.1% on the revenue bonds.

Debt service requirements to maturity, excluding debt of the foundations in the amount of $4,572,000, are as follows (amounts expressed in thousands).

Years Ending	Notes Payable and Other Long-Term Debt		Revenue Bonds	
June 30,	Principal	Interest	Principal	Interest
2011	$ 5,600	$ 3,878	$ 75,725	$ 47,305
2012	6,235	4,964	78,235	42,943
2013	7,216	3,823	68,840	39,835
2014	6,298	3,618	64,035	36,861
2015	4,256	3,462	66,950	33,931
2016-2020	15,002	15,838	341,865	120,402
2021-2025	60,020	5,168	234,450	51,692
2026-2030			112,570	13,558
2031-2035			9,840	928
2036-2040			725	51
Total	104,627	40,751	1,053,235	387,506
Accumulated accreted interest and other deferred costs			28,033	
Total	$104,627	$40,751	$1,081,268	$387,506

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

As of June 30, 2010, higher education institutions have defeased debt outstanding of $133,300,000 resulting from the refunding of previously issued debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2010, cash and cash equivalents and investments were held by the trustees for the higher education institutions in the amount of $244,120,000 for the University System of Maryland (System), $626,000 for St. Mary's College of Maryland, and $5,954,000 for Morgan State University.

For the year ended June 30, 2010, the System issued $87,320,000 of 2009 Refunding Series C and D Revenue Bonds to refund $87,105,000 of existing bonds at a premium of $5,383,000. The refunding bonds bear interest at 2.0% to 4.0% and mature from 2011 to 2023. The purpose of the refunding was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is $6,732,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is $5,828,000.

On April 2, 2010, the System issued $120,000,000 of 2010 Series A and B Revenue Bonds to finance new educational and auxiliary facilities and for renovations. The bonds bear interest at 2.5% to 5.4% and mature from 2011 to 2030. The bonds were issued with a $2,854,000 premium.

Obligations under capital leases of $10,526,000 exist as of June 30, 2010, bearing interest at annual rates ranging from 1.0% to 6.8%.

Maryland Stadium Authority (Authority) - Revenue Bonds:

Debt service requirements to maturity for Maryland Stadium Authority revenue bonds and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2011	$ 18,069	$ 15,139
2012	20,693	14,388
2013	21,757	13,080
2014	30,839	11,656
2015	22,475	10,184
2016-2020	100,874	31,667
2021-2025	41,403	8,337
2026	6,080	352
Total	262,190	104,803
Unamortized discount net of unamortized premium	(15)	
Total	$262,175	$104,803

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadiums, convention center expansions in Baltimore City and the Town of Ocean City and certain other facilities. The outstanding debt is to be repaid through capital lease payments from the State, as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 2010, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium	$116,234	Variable	July 1, 2022
Football Stadium	72,672	Variable	March 1, 2026
Baltimore City Convention Center	21,395	Variable	December 15, 2014
Ocean City Convention Center	7,595	4.8% to 5.4%	December 15, 2015
Hippodrome Performing Arts Center	15,491	5.0% to 6.3%	June 15, 2022
Montgomery County Conference Center	17,971	2.0% to 5.0%	June 15, 2024
Camden Station	7,870	3.0% to 5.2%	December 15, 2024
Camden Yards Complex	2,947	5.6%	January 1, 2018
Total	$262,175		

12. Insurance:

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Non-incremental claims adjustment expenses have been included as part of the liability for claims and adjustments for the general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the following fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 2010 were as follows (amounts expressed in thousands).

	Balance June 30, 2009	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2010	Amount Due Within One Year
Property, casualty and general liability	$ 15,378	$ 5,270	$ 5,193	$ 15,455	$ 3,906
Workers' compensation	265,751	59,761	52,944	272,568	34,605
Employee health benefits	80,371	1,082,789	1,073,175	89,985	89,985
Total self-insurance costs	$361,500	$1,147,820	$1,131,312	$378,008	$128,496

As of June 30, 2010, the Program held $243,087,000 in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2009 were as follows (amounts expressed in thousands).

	Balance June 30, 2008	Claims and Changes in Estimates	Claim Payments	Balance June 30, 2009	Amount Due Within One Year
Property, casualty and general liability...	$ 16,334	$ 5,313	$ 6,269	$ 15,378	$ 3,914
Workers' compensation.....................	269,503	57,642	61,394	265,751	33,845
Employee health benefits.....................	72,958	929,793	922,380	80,371	80,371
Total self-insurance costs...............	$ 358,795	$992,748	$990,043	$361,500	$118,130

As of June 30, 2009, the Program held $230,987,000, in cash and investments designated for payments of these claims.

13. Fund Equity:

The unrestricted deficit for governmental activities on the government-wide statement of net assets is $6,664,836,000. A portion of the deficit results from the State incurring debt for the purposes of capital acquisition and construction on behalf of local governments and private organizations. Since the incurrence of this debt does not result in capital assets of the State, the debt is not reflected in the net asset category, invested in capital assets, net of related debt, but rather in the unrestricted net assets category. As of June 30, 2010, the State has reported outstanding general obligation bonds and capital leases applicable to these non-State projects of $4,016,965,000. Without State financing for these capital assets, the State would have reported an unrestricted deficit for governmental activities in the amount of $2,647,871,000.

The statement of net assets for the primary government reports $2,435,944,000 of restricted net assets, including $150,191,000 restricted by enabling legislation.

Detail of the fund balance categories and classifications shown in the aggregate on the governmental funds balance sheet are as follows (amounts expressed in thousands).

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Fund balances:				
Nonspendable – Prepaid items, inventories and long-term loans and notes receivable...........	$448,982	$171,094		$620,076
Spendable:				
Restricted for:				
Capital improvements.....................................		2,657		2,657
Debt service..			$151,317	151,317
Other purposes	398	412		810
Committed to:				
State Reserve Fund	614,706			614,706
Health and mental hygiene	222,992			222,992
Education..	43,257			43,257
Human resources..	7,689			7,689
Public safety	26,657			26,657
Transportation		161,559		161,559

Judicial	29,446			29,446
Labor, licensing and regulation	9,431			9,431
Natural resources and recreation	71,089			71,089
Housing and community development	3,972			3,972
Environment	38,398			38,398
Agriculture	9,337			9,337
Business and economic development	23,887			23,887
Capital projects			447,295	447,295
Other purposes	39,815			39,815
Unassigned	(340,964)		(358,796)	(699,760)
Total fund balances	$1,249,092	$335,722	$239,816	$1,824,630

A portion of the general fund's committed fund balance, in the amount of $614,706,000 as of June 30, 2010, includes the State Reserve Fund, consisting primarily of the Revenue Stabilization Account with a balance of $611,619,000. The Revenue Stabilization Account, authorized in Section 7-311 of the State Finance and Procurement Article, Annotated Code of Maryland, is designed to retain State revenues for future needs and reduce the need for future tax increases.

Appropriations are required to the Revenue Stabilization Account when the unappropriated general fund surplus of the second preceding fiscal year exceeds $10,000,000. Appropriations are also required in years when the account balance is less than 7.5% of estimated general fund revenues. If the account balance is at least 3% but less than 7.5%, an appropriation of $50,000,000 or whatever lesser amount is necessary to bring the account balance to 7.5% of estimated general fund revenues is required; if the account balance is less than 3%, the required appropriation is $100,000,000. For fiscal years 2011 and 2012, any appropriation is not required if it would result in the loss of Federal funds to the State. Transfer of funds from the account that does not result in a balance below 5% must be authorized by (1) an act of the General Assembly or (2) a specific provision of the State budget bill as enacted. Transfers resulting in a balance below 5% must be authorized by an act of the General Assembly other than the budget bill. The use of a budget amendment for fund transfer is prohibited.

The unrestricted deficit in net assets in other enterprise funds of $13,992,000 for the Economic Development Insurance Programs occurred because of restrictions for insuring mortgages.

14. Segment Information:

The State's Economic Development Loan Program contains two separately identifiable activities that have separately issued revenue bonds outstanding; housing loans of the Community Development Administration and water quality loans and grants of the Maryland Water Quality Administration.

The Community Development Administration (CDA) has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. The assets of the loan program and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. The bond indentures require the CDA to separately account for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

The Maryland Water Quality Administration has issued revenue bonds to encourage capital investment for wastewater treatment systems and bay restoration. These bonds are payable solely from, and secured by, the revenue, money or property of the Maryland Water Quality Administration. The bond indentures require separate accounting for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

Summary financial information for the two loan programs is presented below.

Condensed Statement of Net Assets
As of June 30, 2010
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current restricted assets..........................	$ 860,255	$ 80,199
Non-current restricted assets........................	2,857,734	588,718
Total assets................................	3,717,989	668,917
Liabilities:		
Current liabilities	195,066	16,058
Non-current liabilities	3,061,193	116,334
Total liabilities............................	3,256,259	132,392
Net Assets:		
Restricted..	461,730	536,525
Total net assets............................	$ 461,730	$536,525

Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Operating income (expenses):		
Interest on loan income........................	$ 144,355	$ 9,390
Other operating revenues......................	4,763	
Other operating expenses......................	(28,542)	(18,486)
Operating income (loss)......................	120,576	(9,096)
Non-operating revenues (expenses)...............	(78,507)	(37,979)
Change in net assets............................	42,069	(47,075)
Beginning net assets, as restated...............	419,661	583,600
Ending net assets............................	$ 461,730	$ 536,525

Condensed Statement of Cash Flows
For the Year Ended June 30, 2010
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Net cash provided (used) by:		
Operating activities................................	$ 158,958	$ 50,277
Non-capital financing activities.................	9,417	(69,455)
Investing activities..................................	8,112	680
Beginning cash and cash equivalents........	425,426	18,498
Ending cash and cash equivalents............	$ 601,913	$ -

15. Retirement Benefits:

Maryland State Retirement and Pension System (System):

The State is a sole employer in the cost-sharing multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of 100 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the Maryland State Retirement and Pension System, 120 E. Baltimore Street, Suite 1600, Baltimore, Maryland 21202-1600.

Plan Description:

The System is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland and consists of several plans which are managed by the System's Board of Trustees. All State employees and employees of participating entities are covered by the plans.

"Retirement System" - retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" - retirement programs for employees and teachers hired after January 1, 1980, and prior employees who elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after 5 years of service. A member terminating employment before attaining retirement age, but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of service credit, regardless of age. Members of the Pension Systems may retire with full benefits after attaining the age 62, or after completing 30 years of Service Credit, regardless of age. State police members may retire with full benefits after attaining age 50, or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50, or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System Members is equal to 1/55 (1.8%) of the member's highest three-year average final salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. A member of the Pension System will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average final salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.8% of the highest three consecutive year average final salary multiplied by the number of years of service credit after June 30, 1998. The annual benefit for a Pension System member who is employed by a participating governmental unit that does not provide enhanced pension benefits is equal to 0.8% of the member's highest three-consecutive year average final salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security Integration Level base. A member of either type of pension system may retire with reduced benefits after attaining age 55 and completing 15 years of service.

The annual retirement allowance for a State Police member is equal to 2.55% of the member's highest three-year average final salary multiplied by each year of service and may not exceed 71.4% of member's three years average final compensation. The annual retirement allowance for a member of the Law Enforcement Officers Pension System is 2.0% of the member's highest three-consecutive year average final salary (AFC) multiplied by each year of service up to a maximum of 30 years plus 1.0% AFC of accumulated credible service in excess of 30 years. Neither the State Police Retirement System nor Law Enforcement Officers Pension System provide for an early retirement.

Funding Policy:

In accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, employer contribution rates and the actuarial accrued liability are established by annual actuarial valuations using the entry age normal cost method and other actuarial assumptions adopted by the Board of Trustees. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages, 7.0% or 5.0% depending on the retirement plan selected. Members of the Pension System are required to contribute to the System 5.0% of their regular salaries and wages. Members of the Pension System who are employed by a participating government that does not provide enhanced pension benefits are required to contribute to the System 5.0% of their regular salaries and wages that exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 4% of earnable compensation. All contributions are deducted from each member's salary, and the resulting payments are remitted to the System on a regular and periodic basis.

The contribution requirements of the System members, as well as the State and participating governmental employers, are established and may be amended by the Board of Trustees for the System. Effective July 1, 2002, State law provides that the contribution rates may be more or less than the actuarially determined rates for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. Contributions to these Systems are based on the Modified Corridor Funding Method which establishes a budgetary contribution rate. This method effectively maintains the contribution rate in effect for the Teachers' and Employees' combined systems during the preceding fiscal year (as adjusted for any legislative changes in the benefit structure) as long as such systems remain between 90 percent and 110 percent funded. If either system falls below 90 percent funded (i.e., below the corridor), then the contribution rate in effect for the subsequent fiscal year will be the rate in effect for the preceding fiscal year plus 20 percent of the difference between the current fiscal year full funding rate and the prior fiscal year contribution rate. Conversely, if either system exceeds 110 percent funded (i.e., above the corridor), then the contribution rate in effect for the subsequent fiscal year will be the rate in effect for the preceding fiscal year minus 20 percent of the difference between the current fiscal year full funding rate and the prior fiscal year contribution rate. The methodology for computing the State's employer contribution rates for the Law Enforcement Officers' Pension System, State Police Retirement System and the Judges' Retirement System remain unchanged. For each of these three systems, the employer contribution rate is equal to the sum of the normal contribution and the accrued liability contribution rates.

During fiscal year 2010, the State paid $1,206,149,000, of the required contribution totaling $1,427,579,000 which was 12.3% of covered payroll and 84.5% of the required payment. The difference represents an additional pension cost liability in the government-wide statement of net assets. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll. As of June 30, 2010, the State's membership includes 171,811 active members, 45,154 vested former members, and 106,776 retirees and beneficiaries.

Annual Pension Cost and Net Pension Obligation:

The annual pension cost and net pension obligation as of June 30, 2010, are as follows (amounts expressed in thousands).

	Teachers' Retirement and Pension System	Employees' Retirement and Pension System	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System
Annual required contribution	$ 889,605	$ 438,176	$ 37,114	$ 19,955	$ 32,359
Interest on net pension obligation	26,555	50,337	1,804		
Actuarial adjustment to annual required contribution	(24,814)	(42,152)	(1,360)		
Annual pension cost	891,346	446,361	37,558	19,955	32,359
Contributions made	820,867	307,503	25,465	19,955	32,359
Increase in net pension obligation	70,479	138,858	12,093		
Net pension obligation, beginning of year	342,646	649,523	23,280		
Net pension obligation, end of year	$ 413,125	$ 788,381	$ 35,373	$ -	$ -
Amortization period (years rolling)	20.7	24.8	30	18.8	16.8

Three Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

	Annual Pension Cost As of June 30		
Plan	2010	2009	2008
Teachers' Retirement and Pension System	$891,346	$758,391	$ 669,341
Employees' Retirement and Pension System	446,361	383,310	357,419
State Police Retirement System	37,558	31,217	22,559
Judges' Retirement System	19,955	17,520	16,661
Law Enforcement Officers' Pension System	32,359	32,234	34,355

	Percentage of Annual Pension Cost Contributed As of June 30,		
Plan	2010	2009	2008
Teachers' Retirement and Pension System	92%	89%	94%
Employees' Retirement and Pension System	70	71	76
State Police Retirement System	68	56	59
Judges' Retirement System	100	100	100
Law Enforcement Officers' Pension System	100	100	100

Plan	Net Pension Obligation As of June 30, 2010	2009	2008
Teachers' Retirement and Pension System	$413,125	$342,646	$257,511
Employees' Retirement and Pension System	788,381	649,523	529,464
State Police Retirement System	35,373	23,280	9,277
Judges' Retirement System			
Law Enforcement Officers Pension System			

The funded status of each plan as of June 30, 2010, the most recent valuation date, is as follows (amounts expressed in thousands).

Plan	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll	(Unfunded AAL) /Excess as a Percentage of Covered Payroll
Teachers' Retirement and Pension System	$20,908,150	$31,963,421	$(11,055,271)	65.41%	$6,411,550	(172.43)%
Employees' Retirement and Pension System	9,224,784	15,451,890	(6,227,106)	59.70	3,163,684	(196.83)
State Police Retirement System	1,085,281	1,722,564	(637,283)	63.00	83,123	(766.67)
Judges' Retirement System	276,643	426,215	(149,572)	64.91	40,654	(367.91)
Law Enforcement Officers' Pension System	367,934	715,568	(347,634)	51.42	89,227	(389.61)

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits. The Schedule of Funding Progress also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded AAL relative to the capacity to pay all contributions required to fund the liability.

The significant actuarial assumptions listed below were used in the actuarial valuation as of June 30, 2010, the most recent valuation date.

Valuation method	Individual Entry Age Normal Cost Method
Cost method of valuing assets	Five-year smooth market (maximum 120% and minimum 80% of market value)
Rate of return on investments	7.75%
Projected payroll growth	3.5% - 12%
Discount rate	7.75%
Post retirement benefit increase	2.75% to 3.5% (depending on system and provisions)
Amortization method	Level Percent of Payroll
Remaining amortization period	10 years as of June 30, 2010 for prior UAAL (existing on June 30, 2000)
New layers as of June 30, 2001 – 2010	16 – 25 years as of June 30, 2010 for new UAAL. 30 years is used wherever the equivalent single amortization period exceeds 30 years.
Status of period (Open or Closed)	Closed

Effective April 2010, the July 2010 cost-of-living adjustment for retirees of the Teachers' Retirement and Pension System, Employees' Retirement and Pension System, State Police Retirement System, and the Law Enforcement Officers' Pension System was determined to be zero with the actual negative adjustment (-.0356) to be offset against a future positive cost-of-living adjustment.

Maryland Transit Administration Pension Plan (Plan):

The Plan is a single employer non-contributory plan, which covers all Maryland Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. The Maryland Transit Administration was given authority to establish and maintain the Plan under Transportation Article, Section 7-206(b)2(ii), of the Annotated Code of Maryland. For the year ended June 30, 2010, the Administration's covered and total payroll was $145,029,000. The Plan is administered and funded in compliance with the collective bargaining agreements. The Plan prepares separately audited financial statements, which can be obtained from the Maryland Transit Administration Pension Plan, William Donald Schaefer Tower, 8 Saint Paul Street, Baltimore, Maryland 21202.

Plan Description:

The Plan provides retirement, normal and early, death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.4% - 1.6% (1.3% prior to September 8, 2002) of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 2010, membership in the Plan includes 2,827 active members, 472 vested former members, and 1,373 retirees and beneficiaries. There were no investments in, loans to, or leases with parties related to the Plan. There were no Plan investments representing 5 percent or more of total Plan assets.

Funding Policy:

The Administration's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling $37,761,000 (26.0% of covered payroll) for fiscal year 2010 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2009. This amount consisted of $4,163,000 normal cost and $21,988,000 amortization of the actuarial accrued liability (2.9% and 15.2%, respectively, of covered payroll). The liquidation period for the actuarial accrued liabilities, as provided by law, is 9 years from June 30, 2010.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations. The computation of the annual required contribution for fiscal year 2010 was based on the same actuarial assumptions, benefit provisions, actuarial funding method and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Cost and Net Pension Obligation:

The Administration's annual pension cost and net pension obligation as of June 30, 2010, are as follows (amounts expressed in thousands).

Annual required contribution (ARC)	$ 24,893
Interest on net pension obligation	540
Adjustment to ARC	718
Annual pension cost	26,151
Contributions made	37,761
Decrease in net pension obligation	(11,610)
Net pension obligation, beginning of year	1,168
Net pension obligation, end of year	$(10,442)
Amortization period	13.7 years

Three Year Historical Trend Information for the Plan is as follows (amounts expressed in thousands).

Fiscal Year Ended,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$26,151	144%	$(10,442)
6/30/2009	24,659	111	1,168
6/30/2008	24,635	99	3,763

Funded Status and Funding Progress:

As of June 30, 2010, the most recent actuarial valuation date, the plan was 38.2% funded. The actuarial accrued liability for benefits was $426,041,000 and the actuarial value of assets was $162,756,000 resulting in an unfunded actuarial accrued liability (UAAL) of $263,285,000. The covered payroll (annual payroll of active employees covered by the plan) was $145,029,000 and the ratio of the UAAL to the covered payroll was (181.5)%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The significant actuarial assumptions listed below were used in the actuarial valuation as of June 30, 2010, the most recent valuation date.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing 20% market; 80% actuarial value
Rate of return on investments	7.75% Compounded per annum
Discount rate	7.75% Compounded per annum
Rate of salary increase	4.0% Compounded per annum
Postretirement benefit increase	Preceding Year Consumer Price Index, capped at 3%
Amortization method	Level percent of payroll
Remaining amortization period	9 years from June 30, 2010 for UAAL (existing on June 30, 2002)
New amortization period	17 years from June 30, 2010 for new UAAL
Status of period (Open or Closed)	Closed

During fiscal year 2010, there were no changes in actuarial assumptions or benefit provisions from 2009 that significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term.

Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. State law provides that the Governor appoint the nine member Board of Trustees of the State's Supplemental Retirement Systems. The Board is responsible for the implementation, maintenance and administration of the Plan.

The State of Maryland Match Plan and Trust was established by the State on July 1, 1999. The plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code section 401(a). Under plan provisions, the State contributes to each participant's account an amount equal to each participant's contributions to the State's Supplemental Retirement Plan during the same plan year. By statute, the maximum amount contributed to this plan for each participant is $600 for each State fiscal year. An employee's interest in his/her account is fully vested at all times. The match program continues to be established and funded in statute. During the year ended December 31, 2009, the State suspended the match contribution. For the plan year ended December 31, 2009, the State contributed $3,102,000 and participants contributed $161,570,000 to the Plan.

16. Other Postemployment Benefits, Health Benefits (OPEB)

State Employee and Retiree Health and Welfare Benefits Program:

Plan Description:

The State Employee and Retiree Health and Welfare Benefits Program (Plan) is a single-employer defined benefit healthcare plan established by State Personnel and Pensions Article, Sections 2-501 - 2-516, of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to eligible state employees, retirees and their dependents. State law grants authority to establish and amend benefit provisions to the Secretary of the Department of Budget and Management (DBM). In addition, the Secretary shall specify by regulation the types or categories of State employees who are eligible to enroll, with or without State subsidies, or who are not eligible to enroll.

The Postretirement Health Benefits Trust Fund (OPEB Trust) is established as an irrevocable trust under Section 34-101 of the State Personnel and Pensions Article to receive appropriated funds and contributions which will be used to assist the Plan in financing the State's postretirement health insurance subsidy. The OPEB Trust is administered by the Board of Trustees for the State Retirement and Pension System. A separate audited GAAP-basis postemployment benefit plan report is not available for the defined benefit healthcare plan.

Funding Policy:

The contribution requirements of Plan members and the State are established by the Secretary. Each year the Secretary recommends to the Governor the State's share of the costs of the Plan. Beginning in fiscal year 2008, State law requires DBM to transfer any subsidy received as a result of the federal Medicare Prescription Drug Improvement and Modernization Act of 2003 or similar subsidy to the OPEB Trust to prefund costs of retirees' health benefits. Also, funds may be separately appropriated in the State's budget for transfer to the OPEB Trust. Applicable administrative expenses are payable from the OPEB Trust, but may not exceed $100,000 annually. The 2009 Budget Reconciliation and Financing Act redirects the subsidy to the Plan for fiscal years 2010-2012.

Generally, a retiree may enroll and participate in the health benefit options if the retiree retired directly from State service with at least five years of creditable service, ended State service with at least 10 years of creditable service and within five years before the age at which a vested retirement allowance normally would begin, or ended State service with at least 16 years of creditable service. As of July 1, 2010, the State's Plan membership includes 82,071 active employees, 4,588 vested former employees, and 57,149 retirees and beneficiaries. Based on current practice, the State subsidizes approximately 50% to 85% of retiree premiums to cover medical, dental, prescription and hospitalization costs, depending on the type of insurance plan. The Plan assesses a charge to retirees for post-employment health care benefits, which is based on health care insurance charges for active employees. For the fiscal year ended June 30, 2010, retiree plan members contributed $69,520,000 or approximately 17% of total retiree premiums, and the State contributed $332,985,000. In fiscal year 2010, the State transferred $999,000 from the federal Medicare drug subsidy to the OPEB Trust to prefund future OPEB costs. The State also contributed $2,425,000 of additional funding to the Trust.

Annual OPEB Cost and Net OPEB Obligation:

The State's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the State's annual OPEB cost, the amount actually contributed to the Plan and the State's net OPEB obligation as of June 30, 2010 (amounts expressed in thousands).

Annual required contribution (ARC)	$ 1,184,552
ARC adjustment	(57,332)
Interest on net OPEB obligation beginning of year	63,560
Total Annual OPEB Cost (AOC)	1,190,780
Less: Contributions made	336,408
Increase in net OPEB obligation	854,372
Net OPEB obligation - beginning of year	1,478,130
Net OPEB obligation - end of year	$ 2,332,502
Percentage of annual OPEB cost contributed	28.3%

Historical trend information for the OPEB Plan since inception is as follows (amounts expressed in thousands).

Fiscal Year Ended,	AOC	Percentage of AOC Contributed	Net OPEB Obligation
6/30/10	$1,190,780	28.3%	$2,332,502
6/30/09	1,148,597	31.9	1,478,130
6/30/08	1,086,240	35.9	695,921

Funded Status:

As of June 30, 2010, the most recent actuarial valuation date, the OPEB Trust was 1.1% funded. The actuarial accrued liability for benefits was $16,098,602,000, and the actuarial value of assets was $183,388,000, resulting in an unfunded actuarial accrued liability (UAAL) of $15,915,214,000. The ratio of the actuarial value of assets to the actuarial accrued liability was 1.1%. The covered payroll (annual payroll of active employees covered under the Plan) was $4,627,379,000, and the ratio of the UAAL to the covered payroll was (343.9)%.

Actuarial Methods and Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The accompanying schedules of funding progress and employer contributions following the footnotes present information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits and amounts contributed to the plan.

The actuarial method and significant assumptions listed below were used in the actuarial valuation as of June 30, 2010.

Actuarial cost method	Entry Age Normal (percent of pay)
Asset valuation method	Five-year smoothed market.
Rate of return on investments	4.30% (blended rate)
Aggregate salary growth	3.50%
Method to determine blended rate	Blended rate of the expected long-term investment returns on plan assets (7.75%) and on the State's own assets (4.25%) calculated based on the

	funded level of the plan at the valuation date.
Healthcare cost trend rate	Medical: 8.0% for 2011 trending down to 5.0% by FYE 2019 Prescription drug: 9.0% for 2011 trending down to 5.0% by FYE 2020 Dental: 4.5% (0.0% in 2011)
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open)

Maryland Transit Administration Retiree Healthcare Benefit:

The Maryland Transit Administration Retiree Healthcare Benefit (MTA OPEB) provides retiree health care benefits under a collective bargaining agreement to all employees who are members of the MTA pension plan, except transfers from union to management positions who are required to enroll in the State Employee and Retiree Health and Welfare Benefits Program. The MTA currently funds retirees' health care on a pay-as-you-go basis. The MTA does not currently have a separate fund set aside to pay health care costs.

Plan Description:

The MTA OPEB provides medical, hospitalization, prescription drug, dental and vision insurance benefits to eligible MTA employees, retirees and their dependents. Members are eligible at age 65 with five years of service or age 52 with 30 years of services provided the member is enrolled in an MTA health plan at normal retirement. Members are also eligible at age 55 if the sum of the participant's age plus years of actual credited service equals at least 85 and the participant is enrolled in an MTA health plan at early retirement. A separate audited GAAP-basis postemployment benefit plan report is not available for the healthcare plan.

As of June 30, 2010, 2,317 active employees and 1,095 retirees and beneficiaries were covered by healthcare insurance provided by MTA.

Funding Policy:

Based on current practice, MTA subsidizes approximately 50% to 100% of retiree healthcare premiums depending on the type of insurance plan and whether the retiree receives Medicare. Retirees make the same contribution as active employees, however Medicare is handled separately.

Annual OPEB Cost and Net OPEB Obligation:

MTA's annual OPEB cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The following table shows the components of MTA's annual OPEB cost, the amount actually contributed and MTA's net OPEB obligation as of June 30, 2010 (amounts expressed in thousands).

Annual required contribution (ARC)	$ 45,500
ARC adjustment	(4,200)
Interest on net OPEB obligation beginning of year	2,900
Total annual OPEB cost (AOC)	44,200
Less: Contributions made	(10,900)
Less: Interest on contributions	(200)
Increase in net OPEB obligation	33,100
Net OPEB obligation – beginning of year	64,500
Net OPEB obligation – end of year	$ 97,600
Percentage of annual OPEB cost contributed	24.7%

Historical trend information for the MTA OPEB since adoption of GASB Statement No. 45 is as follows (amounts expressed in thousands).

Fiscal Year Ended	AOC	Percentage of AOC Contributed	Net OPEB Obligation
6/30/10	$44,200	24.7%	$97,600
6/30/09	43,300	23.3	64,500
6/30/08	41,400	23.4	31,500

Funded Status:

MTA OPEB is unfunded. As of June 30, 2009, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was $431,500,000. The covered payroll (annual payroll of active employees participating in MTA health plans) was $151,560,000, and the ratio of the AAL to the covered payroll was (284.7)%.

Actuarial Methods and Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The accompanying schedules of funding progress and employer contributions following the footnotes present information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits and amounts contributed to the plan.

The actuarial method and significant assumptions listed below were used in the actuarial valuation as of June 30, 2009.

Actuarial cost method.............................	Entry Age Normal
Asset valuation method...........................	Fair market value at fiscal year end
Rate of return on investments.....................	4.5%
Aggregate salary growth...........................	3.5%
Healthcare cost trend rate........................	Medical: 7.9% in 2009, 7.0% in FY 2010 and gradually decreasing to 5.0% in FY 2011
	Prescription drug: 5% for all future years
	Dental and vision: 5.0% for all future years
Amortization method..................................	Level annual payments over a fixed number of years
Amortization period.................................	25 years (closed)

17. Commitments:

Encumbrances for specific purposes for which resources already have been reported as restricted or committed on the governmental funds balance sheet are $184,413,000 in the general fund and $447,295,000 in other governmental funds as of June 30, 2010.

The State's governmental funds lease office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. These leases contain termination for convenience clauses providing for cancellation after a certain number of days notice to lessors. In addition, these leases contain appropriation clauses indicating that continuation of the lease is subject to appropriation by the legislature. Rent expenditures for the year ended June 30, 2010, were approximately $65,833,000.

As of June 30, 2010, the governmental funds, other than the Department of Transportation, had commitments of approximately $65,764,000 for service contracts.

As of June 30, 2010, the Department of Transportation and Maryland Transportation Authority had commitments of approximately $3.2 billion and $1.3 billion, respectively, for construction of highway and mass transit facilities.

Approximately 52% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various noncancelable operating leases with scheduled rent increases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years Ending June 30,	Amounts
2011	$124,031
2012	121,286
2013	116,668
2014	112,348
2015	110,250
2016 -2020	211,882
2021 -2025	116,650
Total	$913,115

The cost and accumulated depreciation of the assets as of June 30, 2010, are $1,477,829,000 and $606,323,000, respectively.

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately $155,501,000 for the year ended June 30, 2010.

As of June 30, 2010, the Maryland State Lottery Agency had commitments of approximately $375,000,000, for services to be rendered relating principally to the operation of, and advertising for, the lottery games and the video lottery terminal program.

As of June 30, 2010, the enterprise fund loan programs had committed to lend a total of $269,285,000 in additional loans. The Community Development Administration, also an enterprise fund loan program, has $339,820,000 of revenue bonds outstanding that are not included in the financial statements of the Administration because the bonds are not guaranteed by the State or any other program of the State or any political subdivision. The revenue bonds are secured solely by the individual multi-family project properties, related revenues, applicable credit enhancements or investments equal to the debt outstanding.

Pursuant to legislation enacted by the Maryland General Assembly in April, 1996, the Maryland Stadium Authority is required to pay $2,400,000 per year into the Public School Construction Fund over ten years, subject to availability of funds, beginning in fiscal year 2001. The Authority was relieved of its fiscal year 2010 obligation through the approval of the State's budget.

As of June 30, 2010, the higher education fund had commitments of approximately $382,439,000 for the completion of projects under construction.

18. Contingencies:

The State is party to legal proceedings that normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 2010, economic development loan programs were contingently liable to financial institutions for $4,587,000 for the repayment of loans for small businesses. Non-major enterprise funds were contingently liable as insurers of

$168,146,000 of $394,601,000 mortgage loans made by public and private lenders. Non-major component units were contingently liable as insurers of $17,510,000 of $433,221,000 economic development and growth bonds issued by financial institutions.

As of June 30, 2010, there were approved economic development bonds pending settlement which were insured by non-major component units for $1,415,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 2010, the State estimates that no material liabilities will result from such audits.

19. Tobacco Settlement:

Legislation enacted by the 1999 General Assembly established the Cigarette Restitution Fund for all revenues received from any judgment against or settlement with the tobacco industry. Expenditures from the fund are made by an appropriation in the annual State budget. The law provides that at least 50% of the appropriations shall be made for tobacco or health related purposes and the remaining appropriations may be for any public purpose. During the 2002 legislative session, legislation was enacted providing that for each of fiscal years 2003 through 2006, at least 25% of the appropriations shall be made for the Maryland Medical Assistance Program (Medicaid); the 2005 legislative session increased that percentage to 30% for each year for which appropriations are made. During the 2003 legislative session, legislation was enacted requiring that .15% of the fund be appropriated for enforcing the escrow requirements for nonparticipating tobacco product manufacturers. Transfers of $165,551,000 were made from the proceeds in the Cigarette Restitution Fund for fiscal year 2010 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2010 was $157,064,000, including the award from the arbitration panel for attorney fees. This amount does not include $12,722,000 the tobacco companies paid to the disputed account pending the outcome of litigation.

It is estimated that the payments made to the State pursuant to the Master Settlement through fiscal year 2015 will total $2.54 billion of which $149,873,000 was paid to outside counsel. The actual amount paid each year, however, will reflect adjustments for inflation and cigarette shipment volume. In addition, the State expects to receive $81,012,000 during that same period pursuant to an award for attorney fees by the national arbitration panel.

20. Landfill Closure and Postclosure Care Costs:

State and Federal laws require the Maryland Environmental Service (the Service) to cover the Midshore Regional Landfill (Midshore), which the current cell is expected to close in December 2010, and to perform certain maintenance and monitoring functions at the Midshore and Easton Landfill (Easton) sites for thirty years after closure. Although closure and postclosure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service reports a portion of these closure and postclosure care costs as a liability based upon the estimated useful life of the landfill. Midshore's current cells are approximately 98 % filled as of June 30, 2010. Total closure and postclosure care costs for the landfill is currently estimated to be $12,886,000 as determined through engineering studies, and $11,236,000 has been recognized as a liability on the June 30, 2010, Combining Statement of Net Assets, Non-Major Component Units. Actual costs may be subject to change due to inflation, deflation, technology, and changes in applicable laws and regulations.

A receivable from project participants corresponding to the accrued liability has also been recorded.

Under Federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2009. The Service expects to satisfy these requirements as of June 30, 2010, using the same criteria.

STATE OF MARYLAND
Comprehensive Annual Financial Report

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF MARYLAND
Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal Funds
For the Year Ended June 30, 2010
(Expressed in Thousands)

	General Fund			
	Budget Amounts			Variance
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
Revenues:				
Income taxes	$7,157,665	$6,600,565	$6,888,949	$ 288,384
Sales and use taxes	3,605,424	3,473,936	3,528,960	55,024
Other taxes	1,066,748	1,010,987	1,034,718	23,731
Licenses and fees	199,052	202,944	204,963	2,019
Charges for services	295,670	291,250	271,923	(19,327)
Interest and other investment income	73,000	35,000	64,759	29,759
Other	599,461	598,114	705,211	107,097
Federal revenue				
Total revenues	12,997,020	12,212,796	12,699,483	486,687
Expenditures and encumbrances by major function:				
Payments of revenue to civil divisions of the State	124,011	124,011	124,011	
Public debt				
Legislative	84,655	84,655	70,961	13,694
Judicial review and legal	498,501	493,964	462,295	31,669
Executive and administrative control	239,847	213,198	204,722	8,476
Financial and revenue administration	189,348	198,718	195,843	2,875
Budget and management	54,378	40,308	36,979	3,329
Retirement and pension				
General services	61,790	53,842	52,254	1,588
Transportation and highways				
Natural resources and recreation	53,717	46,891	45,421	1,470
Agriculture	30,369	25,645	25,626	19
Health, hospitals and mental hygiene	3,166,495	2,986,536	2,962,552	23,984
Human resources	573,424	614,170	606,280	7,890
Labor, licensing and regulation	36,036	33,283	32,970	313
Public safety and correctional services	1,050,955	1,009,875	1,004,495	5,380
Public education	7,067,918	7,016,638	6,989,558	27,080
Housing and community development	12,888	12,500	11,028	1,472
Business and economic development	97,146	85,974	67,638	18,336
Environment	47,760	45,234	39,195	6,039
Juvenile services	262,123	260,637	260,382	255
State police	172,698	166,543	160,714	5,829
State reserve fund	139,948	114,948	114,948	
Reversions	(63,680)	(63,680)		(63,680)
Total expenditures and encumbrances	13,900,327	13,563,890	13,467,872	96,018
Excess of revenues over (under) expenditures	(903,307)	(1,351,094)	(768,389)	582,705
Other sources (uses) of financial resources:				
Transfers in (out)			898,877	898,877
Excess of revenues over (under) expenditures and other sources (uses) of financial resources	(903,307)	(1,351,094)	130,488	1,481,582
Fund balances - beginning of the year	(4,119,081)	(3,216,934)	925,637	4,142,571
Fund balances - end of the year	$(5,022,388)	$(4,568,028)	$1,056,125	$5,624,153

See accompanying Notes to Required Supplementary Information.

Special Fund				Federal Fund			
Budget Amounts			Variance	Budget Amounts			Variance
Original Budget	Final Budget	Actual Amounts	Positive (Negative)	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
$ 153,638	$ 187,978	$ 202,736	$ 14,758				
221,092	217,117	224,817	7,700				
2,368,102	2,409,219	2,306,559	(102,660)				
701,290	771,483	767,541	(3,942)				
1,039,426	1,338,337	1,314,441	(23,896)				
30,550	25,690	32,013	6,323			$ 1,037	$ 1,037
1,020,474	785,894	695,130	(90,764)				
				$9,308,051	$10,338,384	9,095,525	(1,242,859)
5,534,572	5,735,718	5,543,237	(192,481)	9,308,051	10,338,384	9,096,562	(1,241,822)
784,987	784,987	776,666	8,321		857	857	
100	100	90	10				
99,420	101,344	76,896	24,448	6,693	7,178	6,160	1,018
284,709	288,353	235,365	52,988	171,200	233,157	157,523	75,634
101,977	106,154	100,077	6,077				
28,748	30,426	17,356	13,070				
39,974	39,512	31,644	7,868				
2,606	2,543	2,534	9	1,002	1,002	1,002	
2,777,816	2,488,286	2,358,259	130,027	1,081,016	1,010,289	804,900	205,389
184,820	184,403	126,123	58,280	44,973	61,542	34,287	27,255
87,068	96,305	53,129	43,176	14,623	15,703	10,964	4,739
725,868	901,904	867,516	34,388	4,418,200	4,697,467	4,666,835	30,632
88,365	135,917	132,854	3,063	1,285,008	1,682,358	1,547,816	134,542
42,161	41,037	33,558	7,479	184,143	192,262	163,469	28,793
170,866	176,328	147,438	28,890	49,367	86,187	75,243	10,944
95,738	120,889	110,996	9,893	1,662,639	1,846,705	1,393,417	453,288
92,214	98,340	46,500	51,840	366,726	474,383	294,568	179,815
92,208	92,696	30,620	62,076	3,286	3,625	3,042	583
488,892	503,080	121,994	381,086	220,578	221,553	63,587	157,966
1,343	2,039	714	1,325	15,057	16,287	10,296	5,991
76,326	75,431	65,320	10,111	35,003	39,292	24,224	15,068
6,266,206	6,270,074	5,335,649	934,425	9,559,514	10,589,847	9,258,190	1,331,657
(731,634)	(534,356)	207,588	741,944	(251,463)	(251,463)	(161,628)	89,835
		(135,121)	(135,121)			161,628	161,628
(731,634)	(534,356)	72,467	606,823	(251,463)	(251,463)		251,463
(2,563,005)	(2,616,504)	1,702,041	4,318,545	(1,687,321)	(1,687,314)		1,687,314
$(3,294,639)	$(3,150,860)	$1,774,508	$4,925,368	$(1,938,784)	$(1,938,777)	$ -	$1,938,777

STATE OF MARYLAND
Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances
June 30, 2010
(Expressed in Thousands)

	General	Special
Amount in budgetary funds, fund balance (pages 104 and 105)	$1,056,125	$1,774,508
Budgetary special funds reclassified to the general fund	961,852	(961,852)
Budgetary special funds reclassified to other funds		(557,840)
Other non-budgetary funds reclassified to governmental funds	301,352	417
Total of budgetary fund balances reclassified into the governmental funds' fund structure	2,319,329	255,233
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash	(67,992)	
Investments	36,579	
Taxes receivable	27,143	2,114
Intergovernmental receivables	154,438	
Other accounts receivable	(1,177)	2,657
Prepaid items	(219,934)	
Inventories	25,987	79,089
Loans and notes receivable	33	(1,178)
Due from other funds	2,713	16,005
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Salaries payable	(164)	
Accounts payable and accrued liabilities	(244,771)	
Due to other funds	(381,110)	
Accounts payable to political subdivisions	(12,809)	(18,198)
Deferred revenue	(311,485)	
Accrued self insurance costs	(77,688)	
Financial statement governmental funds' fund balances, June 30, 2010 (page 28)	$1,249,092	$ 335,722

See accompanying Notes to Required Supplementary Information.

STATE OF MARYLAND
Required Supplemental Schedule of Funding Progress for Maryland Pension and Retirement System
(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll(1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll(2)
TEACHERS RETIREMENT AND PENSION SYSTEM						
2010	$20,908,150	$31,963,421	$(11,055,271)	65.41%	$6,411,550	(172.43)%
2009	20,605,618	31,172,917	(10,567,299)	66.10	6,411,550	(164.82)
2008	23,784,404	29,868,705	(6,084,301)	79.63	6,117,591	(99.46)
2007	22,814,759	28,122,575	(5,307,816)	81.13	5,709,765	(92.96)
2006	21,575,451	25,617,484	(4,042,033)	84.22	5,269,185	(76.71)
2005	20,801,529	23,305,198	(2,503,669)	89.26	5,055,392	(49.52)
STATE EMPLOYEES RETIREMENT AND PENSION SYSTEM						
2010	$ 9,224,784	$15,451,890	$ (6,227,106)	59.70%	$3,163,684	(196.83)%
2009	9,230,381	15,080,783	(5,850,402)	61.21	3,250,809	(179.97)
2008	10,699,418	14,337,460	(3,638,042)	74.63	3,110,640	(116.95)
2007	10,332,264	13,363,507	(3,031,243)	77.32	3,022,476	(100.29)
2006	9,825,416	12,184,215	(2,358,799)	80.64	2,828,348	(83.40)
2005	9,544,541	11,241,813	(1,697,272)	84.90	2,743,255	(61.87)
STATE POLICE RETIREMENT SYSTEM						
2010	$ 1,085,281	$ 1,722,564	$ (637,283)	63.00%	$ 83,123	(766.67)%
2009	1,119,766	1,710,356	(590,590)	65.47	87,070	(678.29)
2008	1,343,208	1,601,575	(258,367)	83.87	86,464	(298.81)
2007	1,334,375	1,516,935	(182,560)	87.97	83,191	(219.45)
2006	1,301,877	1,325,875	(23,998)	98.19	80,649	(29.76)
2005	1,289,345	1,284,950	4,395	100.34	76,463	5.75
JUDGES RETIREMENT SYSTEM						
2010	$ 276,643	$ 426,215	$ (149,572)	64.91%	$ 40,654	(367.91)%
2009	270,870	421,039	(150,169)	64.33	40,965	(366.58)
2008	306,716	406,782	(100,066)	75.40	37,943	(263.73)
2007	293,052	371,987	(78,935)	78.78	37,638	(209.72)
2006	273,679	352,537	(78,858)	77.63	35,939	(219.42)
2005	260,125	328,033	(67,908)	79.30	33,074	(205.32)
STATE LAW ENFORCEMENT OFFICERS' PENSION SYSTEM						
2010	$ 367,934	$ 715,568	$ (347,634)	51.42%	$ 89,227	(389.61)%
2009	354,707	684,424	(329,717)	51.83	89,571	(368.11)
2008	389,793	611,367	(221,574)	63.76	85,814	(258.20)
2007	354,364	593,308	(238,944)	59.73	82,079	(291.11)
2006	316,709	504,373	(187,664)	62.79	71,678	(261.82)
2005	281,659	470,677	(189,018)	59.84	72,374	(261.17)
TOTAL OF ALL PLANS						
2010	$31,862,792	$50,279,658	$(18,416,866)	63.37%	$9,788,238	(188.15)%
2009	31,581,342	49,069,519	(17,488,177)	64.36	9,879,965	(177.01)
2008	36,523,539	46,825,889	(10,302,350)	78.00	9,438,452	(109.15)
2007	35,128,814	43,968,312	(8,839,498)	79.90	8,935,149	(98.93)
2006	33,293,132	39,984,484	(6,691,352)	83.27	8,285,799	(80.76)
2005	32,177,199	36,630,671	(4,453,472)	87.84	7,980,558	(55.80)

(1) Covered payroll includes the payroll cost of those participants for which the State pays the retirement contribution but does not pay the participants' payroll cost.

(2) (Unfunded AAL)/ excess assets over AAL as a percentage of covered payroll.

STATE OF MARYLAND

Required Supplemental Schedule of Funding Progress for Maryland Transit Administration Pension Plan

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2010	$162,756	$426,041	$(263,285)	38.20%	$145,029	(181.54) %
2009	143,319	337,667	(194,348)	42.44	155,560	(124.93)
2008	136,294	326,988	(190,694)	41.68	144,775	(131.72)

Required Supplemental Schedule of Funding Progress for Other Post-Employment Benefits Plan

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2010	$183,388	$16,098,602	$(15,915,214)	1.1%	$4,627,379	(343.9) %
2009	174,250	15,453,599	(15,279,349)	1.1	4,740,553	(322.3)
2008*	118,884	14,852,304	(14,733,420)	0.8	4,625,145	(318.6)

Required Supplemental Schedule of Employer Contributions and Other Contributing Entities for Other Post-Employment Benefits Plan

(Expressed in Thousands)

		Percentage Contributed		
Year Ended June 30,	Annual Required Contribution	Employer Contributions (a)	Other Contributing Entities (b)	Total
2010	$1,184,522	25.8%	2.5%	28.3%
2009	1,148,597	29.4	2.5	31.9
2008*	1,086,240	34.2	1.7	35.9

Required Supplemental Schedule of Funding Progress for Maryland Transit Administration Retiree Healthcare Benefit

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2009	$ -	$431,500	$(431,500)	0.0%	$151,560	(284.7)%
2007*	-	411,400	(411,400)	0.0	144,775	(284.2)

Required Supplemental Schedule of Employer Contributions for Maryland Transit Administration Retiree Healthcare Benefit

(Expressed in Thousands)

Year Ended June 30,	Annual Required Contribution	Actual Contribution	Percentage Contributed
2010	$45,500	$10,900	24.0%
2009	43,900	10,100	23.4
2008*	41,400	9,700	23.0

*Information for prior years not available.

(a) Employer contributions include pre-funding and pay-as-you-go contributions (net of retiree premiums).

(b) Other contributing entities consists of the Federal Medicare drug subsidy contributed to the OPEB Trust.

Notes to Required Supplementary Information
For the Year Ended June 30, 2010

1. Budgeting and Budgetary Control:

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the General Fund, which includes all transactions of the State, unless otherwise directed to be included in another fund and the Special Fund, which includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue fund includes only the operations (other than debt service and pension activities) of the Maryland Department of Transportation. The budgetary Federal fund revenue and expenditures are included in the GAAP General and Special Funds as Federal revenues and expenditures by function. An annual budget is also prepared for the Federal Fund, which accounts for substantially all grants from the Federal government, and the current unrestricted and restricted funds of the Universities and Colleges. In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund.

All State budgetary expenditures for the general, special and Federal funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. The legal level of budgetary control is at the program level for the general, special and Federal funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by program within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2010, the General Assembly approved a net increase in General Fund appropriations of $195,752,000. Appropriations for programs funded in whole or in part from the special or Federal funds may permit expenditures in excess of original special or Federal fund appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent of encumbrances, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special and Federal funds may be carried over to the extent of (a) available resources, and (b) encumbrances. The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. It controls expenditures at the program level to ensure legal compliance. The "Agency Appropriation Unencumbered Balance Report," which is available for public inspection at the Office of the Comptroller, provides a more comprehensive accounting of activity on the basis of budgeting at the legal level of budgetary control.

The original and amended budget adopted by the General Assembly for the general, special and Federal funds is presented in the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances-Budget and Actual-for the year ended June 30, 2010. The State's budgetary fund structure and the basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures. A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2010, is provided in the "Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances" immediately following the budgetary schedule.

STATE OF MARYLAND
Combined Summary Of Revenues,
Expenditures, Other Sources And Uses
of Financial Resources and Changes in Fund Balances,
General, Special Revenue, Debt Service and Capital Projects Funds
(Expressed in Thousands)

	Year ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Income taxes..	$6,957,811	$7,156,297	$7,868,899	$7,325,181	$7,108,573	$6,814,378	$ 5,499,953
Retail sales and use taxes...........................	3,754,326	3,851,752	3,748,933	3,447,896	3,382,851	3,153,676	2,945,060
Motor vehicle taxes and fees.........................	1,796,769	1,787,144	1,920,460	1,982,329	1,983,439	2,031,862	1,792,769
Other taxes...	2,289,006	2,267,044	2,444,883	2,243,581	2,332,968	2,105,362	1,852,417
Other licenses and fees...............................	682,756	686,806	651,079	782,712	808,617	759,953	754,995
Charges for services....................................	1,639,917	1,259,309	1,108,666	1,050,187	970,345	978,535	1,044,636
Revenues pledged as security for bonds..........	89,521	66,098	77,541	70,563	70,593	70,875	52,255
Interest and other investment income..............	121,233	161,696	307,403	315,121	219,609	102,532	32,251
Federal...	9,386,888	7,767,558	6,604,348	6,407,172	6,118,583	5,916,233	5,872,371
Other...	413,762	377,127	214,755	240,671	108,689	331,224	162,748
Total revenues...	27,131,989	25,380,831	24,946,967	23,865,413	23,104,267	22,264,630	20,009,455
Expenditures:							
Current:							
General government..................................	753,206	753,821	727,119	715,235	736,694	700,391	627,626
Health and mental hygiene..........................	9,040,549	8,286,032	7,536,747	7,252,117	6,547,288	6,329,383	6,064,735
Education (a)......................................	9,104,692	8,948,062	8,638,203	7,683,885	6,758,158	6,235,534	5,919,742
Human resources.....................................	2,291,347	2,061,959	1,761,284	1,643,078	1,622,922	1,569,032	1,560,876
Public safety and judicial...........................	2,330,049	2,410,373	2,391,708	2,318,213	2,097,175	1,897,974	1,792,078
Transportation..	1,422,085	1,333,618	1,262,973	1,219,507	1,121,714	1,273,622	1,143,520
Labor, licensing and regulation.....................	226,118	182,751	166,848	164,255	154,607	166,787	174,047
Natural resources and recreation.................	184,342	205,876	188,675	177,553	165,439	167,018	166,730
Housing and community development...........	315,630	244,208	244,581	228,105	215,940	211,577	202,346
Environment..	110,092	106,307	95,918	92,460	83,793	76,393	84,443
Agriculture...	92,954	142,804	147,494	101,252	64,044	56,624	60,537
Business and economic development...........	74,578	90,892	94,503	65,774	56,374	57,287	58,259
Intergovernmental...................................	1,187,153	1,425,506	1,597,734	1,590,590	1,562,539	1,453,408	1,461,133
Debt service..	935,867	888,629	814,979	773,715	767,691	726,516	671,952
Capital outlays......................................	1,200,176	1,430,170	1,476,506	1,437,741	1,538,927	1,531,461	1,461,067
Total expenditures....................................	29,268,838	28,511,008	27,145,272	25,463,480	23,493,305	22,453,007	21,449,091
Excess (deficiency) of revenues over expenditures....	(2,136,849)	(3,130,177)	(2,198,305)	(1,598,067)	(389,038)	(188,377)	(1,439,636)
Other sources (uses) of financial resources:							
Capital and direct financing leases......................	15,472	27,945	31,185	56,860	121,197	154,434	145,455
Proceeds from bond issues...............................	1,347,382	1,318,716	1,071,403	831,193	904,907	937,480	898,818
Other long-term liabilities.....................			102	2,411	5,320	12,321	142,015
Proceeds from refunding bonds..........................	928,535	69,433				855,840	83,591
Payments to escrow agents..............................	(924,185)	(69,213)				(940,591)	(83,537)
Operating transfers in.......................................	1,895,049	1,202,988	1,180,435	1,137,421	1,133,853	1,063,529	1,111,330
Operating transfers out.....................................	(1,280,255)	(741,794)	(702,499)	(787,865)	(676,003)	(642,709)	(675,796)
Special items...							-
Net other sources (uses) of financial resources	1,981,998	1,808,075	1,580,626	1,240,020	1,489,274	1,440,304	1,621,876
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources.....................	(154,851)	(1,322,102)	(617,679)	(358,047)	1,100,236	1,251,927	182,240
Fund balance, July 1..	1,979,481	3,301,583	3,919,262	4,277,309	3,177,073	1,925,146	1,742,906
Fund balance, June 30.......................................	$1,824,630	$1,979,481	$3,301,583	$ 3,919,262	$ 4,277,309	$ 3,177,073	$ 1,925,146

Appendix B

SUPPLEMENTARY DEBT SCHEDULES

General Obligation Bonds

General Obligation Bonds Issued and Outstanding

The following table shows the principal amounts of outstanding general obligation bonds and authorized and unissued amounts: (1) at the end of each fiscal year shown; and (2) adjusted to give effect to sale of the Bonds offered hereby.

As of June 30	Issued and Outstanding ($ in thousands)	Authorized but Unissued ($ in thousands)
2006	$4,868,471	$1,774,484
2007	5,142,154	1,911,587
2008	5,493,830	2,063,853
2009	5,873,643	2,328,351
2010	6,523,222	2,394,985
December 31, 2010	6,832,266	1,901,615
Current sale	485,000*	(485,000)*
Pro Forma	$7,317,266	$1,416,615

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*Preliminary, subject to change.

Debt Service Requirements on General Obligation Bonds

The following table shows for all general obligation bonds of the State for all future fiscal years: (1) the debt service requirements for outstanding bonds as of December 31, 2010 and (2) the debt service after giving effect to the issuance of the Bonds. Not included is debt service on general obligation bonds for which United States government obligations sufficient to provide fully for the timely payment of principal, interest, and applicable redemption premium are being held in escrow funds.

Debt Service Requirements on General Obligation Bonds
Actual - General Obligation Bonds Outstanding
($ in thousands)

Fiscal Year	Principal	Gross Interest	Gross Debt Service	Interest Subsidy (1)	Net Debt Service
2011	$334,420	$160,364	$494,784	$(5,449)	$489,335
2012	542,179	299,748	841,928	(11,060)	830,868
2013	564,299	271,663	835,963	(11,060)	824,902
2014	584,139	242,474	826,614	(11,060)	815,553
2015	563,464	214,074	777,538	(11,060)	766,478
2016	595,317	186,581	781,899	(11,060)	770,838
2017	562,769	157,412	720,182	(11,060)	709,121
2018	546,819	130,839	677,658	(11,060)	666,598
2019	499,264	105,075	604,339	(11,060)	593,279
2020	475,917	82,081	557,998	(10,326)	547,672
2021	406,319	63,193	469,512	(9,553)	459,959
2022	355,404	45,360	400,763	(8,738)	392,026
2023	302,212	29,887	332,099	(7,611)	324,489
2024	228,186	17,447	245,632	(6,148)	239,484
2025	202,261	7,924	210,185	(4,198)	205,987
2026	69,293	1,517	70,810	(1,244)	69,567
	$6,832,266	$2,015,640	$8,847,906	$(141,750)	$8,706,155

Debt Service Following Issuance of 2011 First Series Bonds
($ in thousands)

Fiscal Year	Principal	Gross Interest	Gross Debt Service	Interest Subsidy (1)	Net Debt Service
2010	$ -				
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
	$	$	$	)	$

Totals may not add due to rounding.

(1) Interest Subsidy is the Federal Subsidy for Build America Bonds, Qualified School Construction Bonds and Qualified Zone Academy Bonds.

Maryland Stadium Authority

Lease Revenue Debt Outstanding as of December 31, 2010

The following table shows the lease revenue debt of the Maryland Stadium Authority outstanding as of December 31, 2010, the uses of the proceeds thereof, and the sources of repayment of the debt. Project descriptions follow.

Use of Proceeds	Source of Repayment	Principal Amount Outstanding as of December 31, 2010 ($ in thousands)
Bonds Outstanding		
Oriole Park at Camden Yards (a)	Lease Payments/ Operating Revenues	$102,315
Baltimore City Convention Center Expansion	Lease Payments	17,585
Ocean City Convention Center	Lease Payments	6,505
Ravens Stadium	Lease Payments	66,260
Hippodrome Theater	Lease Payments	15,435
Montgomery County Conference Center	Lease Payments	17,970
Camden Station Renovation	Lease Payments	7,575
Capital Leases Outstanding		
Oriole Park at Camden Yards (Equipment)	Operating Revenues	2,638
Ravens Stadium (Equipment)	Operating Revenues	3,836
Oriole Park at Camden Yards (Energy)	Operating Revenues	5,857
Ravens Stadium (Energy)	Operating Revenues	2,395
Total Debt Outstanding (a)		$248,371

(a) Total includes $10 million of lease revenue bonds that are not tax-supported. Therefore, the total tax-supported debt of the Maryland Stadium Authority is $238.4 million as of December 31, 2010. See "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – Tax-Supported Debt Outstanding."

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Project Descriptions

Oriole Park at Camden Yards - Bonds. Currently the Maryland Stadium Authority ("Authority") operates Oriole Park at Camden Yards, which opened in 1992. In connection with the construction of that facility, the Authority issued $155.0 million in notes and bonds. In October 1993, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of the sports facility bonds using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, savings of $15.5 million was paid to the Authority on April 1, 1996. In accordance with this agreement and in consideration for the prior payment of the savings, the Authority issued its $17.9 million Sports Facilities Lease Revenue Refunding Bonds in December 1998 to refund its outstanding Sports Facility Lease Revenue Bonds Series 1989C, and issued its $121.0 million Sports Facilities Lease Revenue Refunding Bonds in December 1999 to refund its Sports Facilities Lease Revenue Bonds Series 1989D.

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

In November 2001, the Authority issued $10.3 million in bond anticipation notes, which were refunded in July 2002 with $10.3 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 April 2010, the Maryland Stadium Authority issued the Sports Facilities Taxable Revenue Bonds, Series 2010, in the amount of $10.0 million. The proceeds were used for capital repairs to Oriole Park at Camden Yards and to fund a debt service reserve account. The Series 2010 will mature on December 15, 2013.

Annual debt service on the Authority's total bond obligations for Oriole Park at Camden Yards is $15.6 million and the amount outstanding as of December 31, 2010 totaled $102.3 million.

Oriole Park at Camden Yards - Leases. 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, agreeing to purchase and install $9.0 million of new audio and video equipment funded by $5.5 million from the "Supplement Improvements Fund" and $3.5 million from the Authority. The Authority's share was financed under the State's Master Equipment Lease-Purchase Program and amortized over 10 years. The outstanding balance of the lease as of December 31, 2010 was $2.6 million.

In November 2009, the Maryland Stadium Authority entered into a contract with Pepco Energy Services to provide $6.0 million of energy upgrades and enhancements to Oriole Park at Camden Yards and the adjoining warehouse. The Authority is financing the upgrades and enhancements under the State's Energy Performance Contract Lease-Purchase Agreement over 12 years. Some of the upgrades and enhancements include the replacement of a chiller and cooling tower, replacement of light fixtures and upgrades to the generator plant. The outstanding balance as of December 31, 2010 was $5.9 million.

Baltimore City Convention Center Expansion. 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: (1) the City and the Authority each make equal annual contributions to a capital improvements reserve fund; (2) after completion of construction through fiscal year 2008, the Authority and the City contribute toward operating deficits in the proportion Authority (2/3), City (1/3); and (3) the City be solely responsible for operating deficits and capital improvements prior to completion of the expansion and after fiscal year 2008. Authority debt service in fiscal year 2010 was $5.0 million. The 2010 contribution to operating deficits and the project's capital improvements fund was approximately $6.4 million. The project has generated direct and indirect benefit to the State that offset 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 Baltimore City Convention Center project) since 1999.

In June 1998, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of its revenue bonds for the Baltimore City Convention Center using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, savings of $0.6 million was paid to the Authority on June 10, 1998. The Authority issued refunding bonds in the amount of $31.6 million of which $31.2 million was used to call the outstanding principal balance on the 1994 Series on December 15, 2006. The balance of the proceeds, $400,000 was used towards closing costs. The 1994 Series was called on December 15, 2006 in accordance with the swap agreement.

The amount outstanding of Maryland Stadium Authority Bonds related to the Baltimore City Convention Center project totaled $17.6 million as of December 31, 2010.

Ocean City Convention Center. The Authority also constructed an expansion of the Ocean City 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 Ocean City Convention Center is $1.5 million annually and the debt outstanding totaled $6.5 million as of December 31, 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 is approximately $1.5 million. The project has generated direct and indirect benefits to the State that offset 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 Ocean City Convention Center project) since 2007.

Ravens Stadium. The Authority currently operates Ravens Stadium, which opened in 1998. In connection with the construction of that facility, the Authority sold $87.6 million in lease-backed revenue bonds on May 1, 1996 for Ravens Stadium. The proceeds from the Authority's bonds, along with cash available from State lottery proceeds, investment earnings, contributions from the Ravens and other sources were used to pay project design and construction expenses of approximately $229.0 million. The bonds are solely secured by an assignment of revenues received under a lease of the project from the Authority to the State. In June 1998, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of the football lease-backed revenue bonds using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, savings of $2.6 million were paid to the Authority on June 10, 1998. The Authority issued Maryland Stadium Authority Sports Facilities Lease Revenue Refunding Bonds Football Stadium Issue Series 2007 in the amount of $73.5 million of which $73.1 million was used to call the outstanding principal balance on the 1996 Series on March 1, 2007. The balance of the proceeds, $375,000, was used for closing costs. The 1996 Series was called on March 1, 2007 in accordance with the swap agreement.

On December 15, 1997 the Authority issued $4.6 million in Sports Facilities Lease Revenue Bonds, Series 1997 whose proceeds were used toward the construction of Ravens Stadium. The Series 1997 bonds fully matured on December 15, 2007. The Authority's combined debt service on the remaining outstanding revenue bonds is $7.3 million annually. The bonds outstanding as of December 31, 2010 totaled $66.3 million.

In November 2009, the Maryland Stadium Authority entered into a contract with Pepco Energy Services to provide energy upgrades and enhancements to Ravens Stadium. The energy upgrades and enhancements will cost approximately $2.5 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 December 31, 2010 was $2.4 million.

In the spring of 2010, the Maryland Stadium Authority entered into several contracts for the replacement of the video boards and control room at Ravens Stadium. The budget for the project was estimated at $10 million. The Baltimore Ravens would fund approximately $6.0 million and the Maryland Stadium Authority would fund $4.0

million. The Maryland Stadium Authority's share was financed under the State's Equipment Lease-Purchase Program and amortized over 10 years. The outstanding balance as of December 31, 2010 was $3.8 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 will not have any operating risk for the project which was completed in February 2004. The average annual debt service for these bonds is $1.8 million. The bonds outstanding as of December 31, 2010 totaled $15.4 million.

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 was financed through a combination of funding from Montgomery County and the Authority. The Authority does not have any operating risk. The average annual debt service for these bonds is $1.75 million. The bonds outstanding as of December 31, 2010 totaled $18.0 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 since May 2000 and Geppi's Entertainment Museum leasing the balance of the building since early fall 2006. To date, lease payments have not been sufficient to cover debt service on the bonds and the shortfall has been subsidized by the Authority. The average annual debt service for these bonds is $0.8 million. Bonds outstanding as of December 31, 2010 totaled $7.6 million.

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State Tax-Supported Lease and Conditional Purchase Financings

Lease and Conditional Purchase Financings Outstanding as of December 31, 2010 *

The following table shows, by State agency, State tax-supported capital lease and conditional purchase financings, the facilities financed, and the principal amount outstanding at December 31, 2010.*

State Agency	Facilities Financed	Principal Amount Outstanding as of December 31, 2010 ($ in thousands)
Department of Transportation	Headquarters office building	$26,090
	MAA shuttle buses – BWI	7,700
Department of General Services	Multi-service office buildings	
	St. Mary's County	1,705
	Hilton Street Facility	1,635
	Prince George's County Justice Center	19,908
Maryland Environmental Service	Water and wastewater facility at Eastern Correctional Institution	665
Various State Agencies	Energy performance projects	133,293
Various State Agencies	Communications, data processing, and other equipment	46,466
Maryland Transportation Authority	State office parking facility	21,325
Total		$258,787

* On January 20, 2011, the State sold $40,900,000 of Certificates of Participation, not included on above table, to finance Video Lottery Terminals at two locations.

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Revenue and Enterprise Financings

Revenue and Enterprise Financings Outstanding as of December 31, 2010[(a)]

The following table shows, by issuing agency, certain revenue and enterprise non-tax-supported debt outstanding as of December 31, 2010, the facilities financed, and the sources of repayment of the debt.

Agency	Facilities Financed	Source of Repayment	Principal Amount Outstanding as of December 31, 2010 ($ in thousands)
Higher Education (b)			
University System of Maryland	Student housing, parking facilities, and equipment	Tuition and auxiliary enterprise facilities revenues	$1,050,640
	Communication, data processing, other equipment, and lighting fixtures	Operating revenues	66,869
Morgan State University	Student housing	Student fees	22,805
	Stadium/Fine Art	Student fees	4,615
	Student Center	Student fees	28,315
	Boiler	Maryland Higher Education Commission (c)	3,095
St. Mary's College of Maryland	Student housing/ campus center and athletic facility	Academic fees and auxiliary facilities fees	41,460
Community Development Administration of the Department of Housing and Community Development	Mortgage and construction loans	Mortgage repayments and sales	3,271,780
	Loans to local governments for infrastructure projects	Loan repayments	136,720
Maryland Environmental Service	Landfill projects	Tipping fees	1,360
	Equipment	Operating revenues	9,927
Maryland Transportation Authority	Bridges, tunnels, and highways	Tolls	2,073,416
	Parking garage at BWI	Parking revenues	220,575
	Car rental facility	Customer facility charges	103,710
	Improvements at BWI Airport	Passenger facility charges	32,400
	WMATA Metrorail parking facility	Lease rental payments	34,430
Maryland Water Quality Financing Administration	Loans to local governments for water pollution control facilities	Loan repayments	72,495
Maryland Department of Transportation			
Maryland Aviation Administration	BWI renovations, de-icing ramp	Lease revenues	19,610
	BWI Piers A/B	Airline rentals and concession revenues	201,015
Maryland Transit Administration	MARC rail station parking garage	Parking revenues	13,070
Maryland Port Administration	Masonville Automobile Terminal	Lease revenues	12,615
	Warehouse Facility South Locust Point Terminal	Lease revenues	23,830
Total			$7,444,752

(a) The table does not include debt of certain authorities that, under criteria prescribed by the Governmental Accounting Standards Board, are not considered State entities for financial reporting purposes or debt for which United States government obligations sufficient to provide fully for the timely payment of principal, interest, and applicable redemption premium are being held in escrow funds.
(b) As of December 31, 2010, the outstanding capital leases financed by the State Treasurer's office (including Capitalized interest) for University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College were $36.9 million, $4.5 million, $1.6 million and $0.05 million, respectively.
(c) The Maryland Higher Education Commission has included sufficient funds in its annual grants to Morgan State University to pay the debt service on these Academic Facilities Bonds.

Descriptions of Revenue and Enterprise Financings

Higher Education Institutions. Legislation limits the aggregate principal amount of revenue bonds outstanding and the present value of capital lease payments, less the amount of any reserves established therefore, for academic or auxiliary facilities; effective June 1, 2010 the 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. As of December 31, 2010, outstanding debt and lease purchase financings of the University System of Maryland, Morgan State University, and St. Mary's College of Maryland was $1,135.4 million, $64.4 million, and $43.6 million, respectively. Lease and Conditional Purchase Financings have been used for facilities at various colleges and universities.

Community Development Administration. The Community Development Administration ("CDA"), a unit within the Department of Housing and Community Development, is responsible for housing finance and assistance programs. CDA issues bonds and notes to provide funding for various home ownership and rental housing loan programs. The debt service on CDA's revenue bonds and notes generally is paid from mortgage repayments. As of December 31, 2010, $3,271.8 million of these bonds and notes were outstanding. CDA also issues bonds to provide loans to local governments for various infrastructure projects. The bonds are secured by the general obligation pledges of the participating local governments. As of December 31, 2010, $136.7 million of these bonds were outstanding.

Maryland Environmental Service. The Maryland Environmental Service ("MES") was established in 1993 to provide water supply, wastewater treatment, and waste management services to State agencies, local governments, and private entities. MES is authorized to issue revenue bonds secured by the revenue derived from its various facilities and projects. Outstanding debt of MES amounted to $11.3 million as of December 31, 2010.

Maryland Transportation Authority. The Maryland Transportation Authority ("MdTA") of which the Secretary of Transportation is Chairman, is responsible for the administration of the various toll revenue facilities, which consist of bridges over the Susquehanna, Patapsco, and Potomac Rivers and the Chesapeake Bay; two tunnels under the Baltimore Harbor; the John F. Kennedy Memorial Highway; and the Intercounty Connector ("ICC"). The tolls and other revenues received from these facilities are pledged as security for revenue bonds of the MdTA issued under and secured by a second amended and restated trust agreement dated as of September 1, 2007, as further supplemented, between the MdTA and a corporate trustee. In September 2007, the MdTA issued $300.0 million of its revenue bonds under this agreement. Under separate supplemental trust agreements, the MdTA issued additional revenue bonds of $573.3 million in March 2008, $549.4 million in December 2009, and $326.4 million in July 2010. In addition, in October 2010 the MdTA began monthly draws pursuant to a secured loan agreement with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 ("TIFIA"). The $516.0 million TIFIA loan, which provides funding for the ICC, was also evidenced by a revenue bond that was issued pursuant to a supplemental trust agreement. As of December 31, 2010, the MdTA had drawn $133.5 million under the TIFIA loan.

In March 2002, the MdTA issued revenue bonds in the amount of $264.1 million for the construction of projects at BWI. Parking revenues are pledged for the repayment of the bonds. In June 2002, the MdTA issued revenue bonds in the amount of $117.3 million for construction of a consolidated rental car facility at BWI. Customer Facility Charge revenues on rental cars are pledged for the repayment of the bonds. In December 2003, the MdTA issued revenue bonds in the amount of $69.7 million for the construction of additional projects at BWI. Passenger Facility Charge revenues are pledged for the payment of the bonds. In June 2004, the MdTA issued lease revenue bonds in the amount of $40.0 million to finance the costs of parking facilities projects at certain Metrorail stations operated by the Washington Metropolitan Area Transit Authority ("WMATA"). Lease revenue payable by WMATA and other amounts from Prince George's County, Maryland are pledged for the repayment of the bonds.

As of December 31, 2010, $2,464.5 million of the MdTA's revenue and enterprise financings were outstanding under various trust agreements, including the TIFIA loan.

Maryland Water Quality Financing Administration. The Water Quality Financing Administration in the Department of the Environment administers the Water Quality Revolving Loan Fund (the "Fund"). The Fund may be used to provide loans, subsidies, and other forms of financial assistance to local government units and private entities for wastewater and drinking water projects as provided by the federal Water Pollution Control Act and the federal Safe Drinking Water Act.

The Administration is authorized to issue bonds secured by revenues of the Funds, including loan repayments, fees, federal capitalization grants, and matching State grants. As of December 31, 2010, $72.5 million of the Administration's revenue bonds were outstanding.

Units of the Maryland Department of Transportation

Revenues from the following projects financed for units of the Maryland Department of Transportation ("Department") are pledged to the payment of principal and interest on the respective bonds and certificates; therefore, these financings are also not considered to be tax-supported.

Maryland Aviation Administration ("MAA"). MAA and the Department entered into a conditional purchase agreement to provide financing for capital improvements at BWI and sold $42.8 million Project Certificates of Participation for various MAA projects in May 1999. As of December 31, 2010, $19.6 million of the certificates were outstanding.

In April 2003, MEDCO issued lease revenue bonds in the amount of $223.7 million to finance the expansion and renovation of Piers A and B and the Terminal building at BWI. The Department records this financing as a capital lease, which is subject to annual appropriation by the General Assembly. Airline rentals and concession revenues are pledged to the payment of principal and interest on the bonds; therefore, this financing is not considered tax-supported. As of December 31, 2010, $201.0 million of the MEDCO lease revenue bonds were outstanding.

Maryland Transit Administration ("MTA"). MTA and the Department entered into a conditional purchase agreement in fiscal year 2001 to provide financing to expand parking in the vicinity of BWI at the Maryland Rail Commuter BWI rail station, and sold $33.0 million Project Certificates of Participation in October 2000. As of December 31, 2010, $13.1 million of the certificates were outstanding.

Maryland Port Administration ("MPA"). The Department entered into a capital lease in the amount of $18.4 million by virtue of an agreement with the MdTA for financing the MPA Masonville Automobile Terminal. As of December 31, 2010, $12.6 million was outstanding.

In addition, MPA and the Department entered into a conditional purchase agreement in fiscal year 2006 to provide financing to construct a warehouse at the South Locust Point Terminal, and the Department sold $26.5 million Project Certificates of Participation in June 2006. As of December 31, 2010, $23.8 million of the certificates were outstanding.

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Supplementary Revenue Schedules

STATE OF MARYLAND

Comparison of Combined General, Special, Federal, and Higher Education Funds Revenue Estimates and Collections

The following table shows, on a net budgetary basis, a comparison between the original revenue estimate (made 19 months before the end of the fiscal year), the revised revenue estimate (made seven months before the end of the fiscal year and reviewed four months before the end of the fiscal year), and the actual revenue collections for the combined General, Special, Federal, and Higher Education Funds for the four fiscal years ended June 30, 2010.

	(in millions) Fiscal Year 2007			(in millions) Fiscal Year 2008			(in millions) Fiscal Year 2009			(in millions) Fiscal Year 2010		
	Original Estimate	Revised Estimate	Actual Collections	Original Estimate	Revised Estimate	Actual Collections	Original Estimate	Revised Estimate	Actual Collections	Original Estimate	Revised Estimate	Actual Collections
Income Taxes	$7,444.9	$7,348.5	$7,461.2	$7,839.0	$7,773.0	$7,675.5	$8,345.3	$7,894.3	$7,226.2	$7,956.8	$6,791.0	$7,067.6
Sales and Use Taxes	3,528.9	3,485.7	3,447.8	3,652.8	3,874.0	3,748.9	4,623.5	3,946.0	3,641.9	3,942.4	3,508.8	3,747.2
Motor Vehicle User Taxes, Fees	2,169.1	2,086.5	2,068.9	2,144.2	2,099.4	2,004.5	2,199.8	1,904.4	1,790.0	1,921.2	1,853.0	1,778.0
Property, Franchise, Excise Taxes	1,920.0	1,951.7	1,790.8	1,915.6	2,048.2	1,942.0	2,023.4	2,020.0	1,940.7	1,991.3	1,914.4	1,958.3
Sundry Fees, Licenses, Charges	6,040.8	6,496.2	6,278.6	6,542.7	6,572.8	6,694.6	6,975.0	7,081.0	7,052.4	7,459.1	7,486.7	6,773.8
Federal	6,569.6	6,653.4	6,441.9	6,709.1	6,607.9	6,561.3	6,900.0	7,102.2	7,758.9	7,662.8	9,793.8	9,825.0
	$27,673.3	$28,022.0	$27,489.3	$28,803.5	$28,975.4	$28,626.8	$31,067.0	$29,947.8	$29,410.1	$30,933.5	$31,347.7	$31,149.9

Notes: The estimates and actuals exclude transfers and other actions appearing on page C-3 as extraordinary transfers. Federal revenues are generally recognized to the extent related expenditures chargeable to the federal grant have been recognized.

*Totals may not add due to rounding.

STATE OF MARYLAND

Comparison of General Fund Revenue Estimates and Collections

The following table shows, on a budgetary basis, a comparison between the original revenue estimate (made 19 months before the end of the fiscal year), the revised revenue estimate (made seven months before the end of the fiscal year and revised four months before the end of the fiscal year), and the actual revenue collections for the four years ended June 30.

	($ in millions) Fiscal Year 2007			($ in millions) Fiscal Year 2008			($ in millions) Fiscal Year 2009			($ in millions) Fiscal Year 2010		
	Original Estimate	Revised Estimate	Actual Collections	Original Estimate	Revised Estimate	Actual Collections	Original Estimate	Revised Estimate	Actual Collections	Original Estimate	Revised Estimate	Actual Collections
Income Taxes	$7,231.9	$7,167.4	$7,269.0	$7,652.5	$7,545.2	$7,491.8	$8,104.6	$7,363.8	$7,027.9	$7,798.8	$6,729.6	$6,867.6
Sales and Use Taxes	3,502.1	3,457.2	3,420.1	3,623.0	3,751.7	3,675.3	4,260.2	3,611.0	3,620.4	3,701.7	3,481.9	3,522.8
Motor Vehicle User Taxes, Fees	13.7	13.3	13.2	13.6	13.4	13.2	0.0	6.5	6.5	0.0	8.4	8.4
Property, Franchise, Excise Taxes	987.0	1,014.1	1,021.3	1,016.6	1,142.0	1,158.4	1,196.6	1,176.9	1,116.8	1,144.4	1,071.0	1,088.7
Sundry Fees, Licenses, Charges	1,030.0	1,135.6	1,138.4	1,068.1	1,084.3	1,126.3	1,101.9	993.9	1,030.3	1,031.7	1,025.7	1,005.0
Federal	78.5	77.7	78.4	79.1	80.3	80.7	79.9	88.4	90.6	61.6	66.2	67.7
	$12,843.2	$12,865.2	$12,940.2	$13,452.8	$13,616.8	$13,545.6	$14,743.1	$13,240.5	$12,892.6	$13,738.3	$12,382.7	$12,560.1

Notes: The estimates and actuals exclude transfers and other actions appearing on page C-3 as extraordinary transfers. Federal revenues are generally recognized to the extent related expenditures chargeable to the federal grant have been recognized.

*Totals may not add due to rounding.

STATE OF MARYLAND

Summary of Revenues by Source

The following table shows, on a net budgetary basis, the trend of the operating revenues of the principal sources of funds of the State for the four fiscal years ended June 30, 2010, and the most recent estimate for the year ending June 30, 2011. See the footnotes to the summary table of revenues in "STATE REVENUES" for certain information essential to the evaluation of the following data.

($ in millions)
Fiscal Year

	2007	2008	2009	2010	Estimated 2011(a)
Income Taxes					
Individuals (b)	$6,679.2	$6,940.1	$6,477.2	$6,178.2	$6,339.3
Corporations	782.0	735.3	749.0	889.4	791.7
Total	7,461.2	7,675.5	7,226.2	7,067.6	7,131.0
Sales and Use Taxes (c)	3,447.8	3,748.9	3,641.9	3,747.2	3,945.0
Motor Vehicle User Taxes, Fees					
Motor Vehicle Fuel Taxes	755.7	755.2	736.0	721.0	728.8
Motor Vehicle Licenses, Fees	609.4	599.6	540.0	514.0	517.9
Motor Vehicle Titling Tax	703.8	649.7	514.0	543.0	571.0
Total	2,068.9	2,004.5	1,790.0	1,778.0	1,817.7
Property, Franchise, Excise Taxes					
Real Property Tax	552.7	625.7	698.6	742.9	781.1
Property Transfer Tax	212.5	153.5	121.5	123.4	149.9
Business Franchise Taxes	206.6	208.0	201.4	202.5	202.9
State Tobacco Tax (d)	278.2	376.1	405.6	405.9	412.5
Tax on Insurance Companies	283.3	301.8	275.2	277.0	287.0
Tax on Distilled Spirits, Wine, Beer	28.7	29.0	29.2	29.9	30.5
Tax on Horse Racing	4.4	4.3	3.8	3.3	3.5
Death Taxes	224.3	243.5	205.5	173.5	194.7
Total	1,790.8	1,942.0	1,940.7	1,958.3	2,062.2
Sundry Fees, Licenses, Service Charges					
University and College Receipts	2,870.1	3,091.6	3,247.2	3,377.8	3,559.1
Mass Transit, Port, Aviation Income	369.2	395.0	393.0	388.6	373.7
Miscellaneous Taxes, and Other Receipts	2,200.2	2,369.5	2,683.5	2,307.3	3,209.5
Interest on Invested Funds	189.5	170.2	87.0	50.2	54.0
District Courts Fines and Fees	97.0	91.3	89.4	87.3	86.5
State Lottery Receipts	552.6	577.1	552.3	562.5	566.2
Total	6,278.6	6,694.6	7,052.4	6,773.8	7,848.9
Federal Receipts	6,441.9	6,561.3	7,758.9	9,825.0	10,308.8
Extraordinary Transfers & Revenues (e)	-	-	7..9	28.0	3.7
Grand Total	$27,489.3	$28,626.8	$29,418.0	$31,177.9	$33,117.3

(a) The estimated revenues include the general fund estimate by the Board of Revenue Estimates on December 15, 2010 and the federal and special funds authorized in the State budget as set forth in the fiscal year 2012 budget books.
(b) The State has recorded revenues from individual income taxes on a modified accrual basis.
(c) Legislation enacted by the General Assembly during the 2007 Special Session increased the sales tax rate from 5% to 6% effective January 3, 2008.
(d) Legislation enacted by the General Assembly during the 2007 Special Session increased the cigarette tax rate from $1.00 per pack to $2.00 per pack effective January 1, 2008.
(e) In fiscal year 2009, a $7.9 million GAAP surplus in the local income tax reserve account was transferred to the General Fund. In fiscal year 2010, an additional $28.0 million was collected across various tax types due to a tax amnesty program. In fiscal year 2011, an additional $3.7 million is expected to be collected across various tax types due to payment agreements enacted during the fiscal year 2010 tax amnesty program.

*Totals may not add due to rounding.

STATE OF MARYLAND

Comparison of General Fund Revenues Collected
as of December 31, 2010

The following table compares actual cash collections for the period from July 1 to December 31 during fiscal year 2011 with collections during that same period in the previous four fiscal years. The table does not reflect accruals.

($ in millions)
Fiscal Years

	2007	2008	2009	2010	2011
Individual Income Tax (a) (c)	$2,453.5	$2,618.4	$2,644.0	$2,468.2	$2,599.7
Corporate Income Tax (b) (c)	246.2	170.6	234.9	221.3	210.4
Sales and Use Tax (c)	1,380.1	1,433.8	1,545.6	1,452.2	1,507.1
State Lottery	176.9	192.2	168.0	196.9	193.9
Business Franchise Taxes	74.5	78.0	79.3	77.3	78.4
Tobacco Tax (c)	129.3	134.2	185.9	181.0	186.5
Insurance Taxes and Fees	138.6	141.5	131.7	129.5	136.5
Alcoholic Beverage Taxes	12.1	12.5	12.3	12.9	12.8
Death Taxes	131.0	134.3	110.3	95.6	110.3
Clerks of Court	27.3	25.5	18.9	20.4	17.8
Motor Fuel Taxes	4.5	4.6	4.5	4.3	4.7
Highway User Revenues (d)	N/A	N/A	N/A	N/A	168.7
Hospital Patient Recoveries	33.0	30.0	32.1	30.2	22.3
Interest on Investments	55.5	46.8	13.9	15.6	(9.3)
District Court Fees	47.9	46.5	43.6	44.2	42.3
Miscellaneous	87.0	104.0	86.6	77.0	76.5
Total	$4,997.5	$5,172.7	$5,311.7	$5,026.4	$5,358.5

(a) The State has recorded revenues from individual income taxes on a modified accrual basis.
(b) Fiscal year 2010 includes an extraordinary payment from a corporate taxpayer.
(c) These taxes were increased on January 1 and January 3, 2008, by the General Assembly through actions taken at the 2007 special session. See "STATE FINANCES – State Revenues" for details.
(d) These revenues include existing transportation related taxes whose distributions were changed for fiscal years 2010 through 2012 in the fiscal year 2011 operating budget approved by the General Assembly during the 2010 session. The fiscal year 2010 distribution was treated as a transfer.

*Totals may not add due to rounding.

STATE OF MARYLAND

General Fund Revenues
Needed to Meet Estimates During the Last Six Months of Fiscal Year 2011

The following table compares: (1) the revenues needed during the period from January 1 to June 30, 2011 (including appropriate accruals), in order to meet the most recent official estimate of revenues for the 2011 fiscal year with (2) actual collections for that same period during the previous four fiscal years (including appropriate accruals).

($ in millions)
Fiscal Years

	2007	2008	2009	2010	2011
Individual Income Tax (a) (c)	$4,225.7	$4,321.7	$3,833.1	$3,710.0	$3,742.1
Corporate Income Tax (b) (c)	343.6	381.0	315.8	339.1	401.0
Sales and Use Tax (c)	2,040.0	2,241.5	2,074.9	2,070.6	2,202.3
State Lottery	296.3	305.0	305.2	294.2	298.7
Business Franchise Taxes	132.0	130.0	122.0	125.1	124.5
Tobacco Tax (c)	148.9	241.9	219.7	224.9	226.1
Insurance Taxes and Fees	144.7	160.3	143.5	147.5	150.5
Alcoholic Beverage Taxes	16.5	16.5	16.9	17.0	17.7
Death Taxes	93.3	109.3	95.1	77.8	84.4
Clerks of Court	25.0	17.0	21.6	15.1	13.4
Motor Fuel Taxes	8.7	8.6	2.0	4.1	0.3
Highway User Revenues (d)	N/A	N/A	N/A	N/A	201.3
Hospital Patient Recoveries	52.0	56.6	64.4	42.5	52.4
Interest on Investments	123.4	119.8	69.1	34.7	63.3
District Court Fees	49.1	44.8	45.8	43.2	44.2
Miscellaneous	243.5	218.9	251.8	258.9	242.5
Total	$7,942.8	$8,372.9	$7,580.8	$7,404.7	$7,864.7

(a) The State has recorded revenues from individual income taxes on a modified accrual basis.
(b) For fiscal year 2006 includes $20.4 million from a settlement with a corporate taxpayer.
(c) These taxes were increased on January 1 and January 3, 2008, by the General Assembly through actions taken at the 2007 special session. See “STATE FINANCES – State Revenues” for details.
(d) These revenues include existing transportation related taxes whose distributions were changed for fiscal years 2010 through 2012 in the fiscal year 2011 operating budget approved by the General Assembly during the 2010 session. The fiscal year 2010 distribution was treated as a transfer.

*Totals may not add due to rounding.

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Appendix D

FORMS OF OPINIONS OF THE ATTORNEY GENERAL OF MARYLAND AND BOND COUNSEL

Form of Opinion of the Attorney General

Board of Public Works
State of Maryland
Annapolis, Maryland

____
As Representative of the Underwriters
____
____

Ladies and Gentlemen:

This opinion is rendered with respect to the $485,000,000* aggregate principal amount of the State of Maryland General Obligation Bonds, State and Local Facilities Loan of 2011, First Series, consisting of the $100,000,000* First Series A Tax-Exempt Bonds (the "First Series A Bonds"), the $378,480,000* First Series B Tax-Exempt Bonds (the "First Series B Bonds"), and the $6,520,000* First Series C Taxable Qualified Energy Conservation Bonds (the "First Series C Bonds"). The First Series A Bonds, the First Series B Bonds, and the First Series C Bonds are sometimes collectively referred to herein as "the Bonds." The Bonds consolidate various State loans or installments thereof authorized by their enabling acts and amendments thereto, and are issued pursuant to §§8-117 through 8-124, inclusive, of the State Finance and Procurement Article of the Annotated Code of the State of Maryland (2009 Replacement Volume, as amended), and §22 of Article 31 of the Annotated Code of the State of Maryland (2003 Replacement Volume, as amended) (collectively, the "Acts"). The Bonds are being issued in fully registered form in denominations of $5,000 each or any integral multiple thereof, dated the date of their issuance and delivery, and bear interest and mature as set forth in the Bonds. The First Series A Bonds, the First Series B Bonds, and the First Series C Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the First Series A Bonds, the First Series B Bonds, and the First Series C Bonds, respectively.

This office has examined such legal opinions and the originals or certified copies of such resolutions, documents, records and other proofs as we deemed pertinent.

As to questions of fact material to the opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Board of Public Works of the State of Maryland and certifications by public officials.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

No opinion is expressed regarding the federal income taxation of the interest payable on the Bonds.

Based on the foregoing, I am of the opinion that:

*Preliminary, subject to change.

(a) The Bonds have been duly authorized for issuance by the Board of Public Works of Maryland for the valid public purposes stated in the Acts.

(b) The Bonds have been lawfully issued and constitute valid and binding general obligations of the State of Maryland to the payment of which, as to both principal and interest, the full faith and credit and taxing power of the State are unconditionally pledged.

(c) By the terms of the Acts, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit realized in the sale or exchange thereof, will be exempt from taxation within the State of Maryland by the State or by any of its political subdivisions, municipal corporations, or public agencies; no opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds, their transfer, or the income therefrom.

(d) With respect to the First Series A Bonds, the Bond Purchase Agreement dated March 9, 2011 (the "Bond Purchase Agreement"), executed by the Board of Public Works and by ________________. as representative for and on behalf of the underwriters named therein (the "Representative"), has been duly authorized, executed and delivered by the Board of Public Works and, assuming the due authorization, execution and delivery by Representative, the Bond Purchase Agreement is a legal, valid and binding agreement of the State, enforceable against it in accordance with the terms thereof.

(e) The Continuing Disclosure Agreement dated March 22, 2011, executed by the Board of Public Works has been duly authorized, executed and delivered by the Board of Public Works and is a legal, valid and binding agreement of the State, enforceable against it in accordance with the terms thereof.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds, the Bond Purchase Agreement and the Continuing Disclosure Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Very truly yours,

[to be signed "Douglas F. Gansler
Attorney General"]

Form of Opinion of Bond Counsel

(Date of Delivery)

Board of Public Works
State of Maryland
Annapolis, Maryland

Ladies and Gentlemen:

This opinion is rendered with respect to the State of Maryland General Obligation Bonds, State and Local Facilities Loan of 2011, First Series, consisting of $100,000,000* First Series A Tax-Exempt Bonds (the "First Series A Bonds") and $378,480,000* First Series B Tax-Exempt Bonds (the "First Series B Bonds"), which are being simultaneously issued with the State of Maryland General Obligation Bonds, State and Local Facilities Loan of 2011, First Series, $6,520,000* First Series C Taxable Qualified Energy Conservation Bonds (the "First Series C Bonds"). The First Series A Bonds and the First Series B Bonds are sometimes collectively referred to herein as "the Bonds." The Bonds together with the First Series C Bonds consolidate various State loans or installments thereof authorized by their enabling acts and amendments thereto, and are issued pursuant to §§8-117 through 8-124, inclusive, of the State Finance and Procurement Article of the Annotated Code of the State of Maryland (2009 Replacement Volume, as amended), and §22 of Article 31 of the Annotated Code of the State of Maryland (2003 Replacement Volume, as amended) (collectively, the "Acts"). The Bonds are being issued in fully registered form in denominations of $5,000 each or any integral multiple thereof, dated the date of their issuance and delivery, and bear interest and mature as set forth in the Bonds.

The Bonds are being issued in accordance with the resolutions of the Board of Public Works of the State of Maryland (the "Board") adopted on February 9, 2011 and March 9, 2011 (the "Resolutions").

The Board, on behalf of the State of Maryland, has covenanted in a Tax Compliance Certificate executed in connection with the issuance of the Bonds that it will comply with the requirements of §148 of the Internal Revenue Code of 1986, as amended (the "Code") pertaining to arbitrage bonds and stating the reasonable expectations of the Board with respect to the proceeds on the date of issue of the Bonds. Also, the Board has filed or caused to be filed with the Internal Revenue Service reports of the issuance of the Bonds as required by §149(e) of the Code.

We have reviewed the Acts, the Resolutions and such other legal opinions and the originals or certified copies of such resolutions, documents, records and other proofs as we deemed pertinent.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Board and certifications by public officials. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

Based on our examination of the foregoing, we are of the opinion as of the date hereof and under existing law, as follows:

(a) The Bonds have been duly authorized for issuance by the Board for the valid public purposes stated in the Acts.

(b) The Bonds have been lawfully issued and constitute valid and binding general obligations of the State of Maryland to the payment of which, as to both principal and interest, the full faith and credit and taxing power of the State are unconditionally pledged.

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*Preliminary, subject to change.

(c) By the terms of the Acts, the Bonds, their transfer, and any income derived therefrom, including any profit realized in the sale or exchange thereof, will be exempt from taxation within the State of Maryland by the State or by any of its political subdivisions, municipal corporations, or public agencies; no opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds, their transfer, or the income therefrom.

(d) Interest on the Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Bonds, assuming the accuracy of the certifications of the Board and the continuing compliance by the Board with its covenants relating to the requirements of the Code. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax ("AMT"); however, interest paid to corporate holders of the Bonds (other than an S corporation, regulated investment company, or real estate investment trust) may be indirectly subject to corporate AMT because of its inclusion in the adjusted current earnings of a corporate holder. We express no opinion regarding other federal tax consequences relating to the ownership or disposition of, or the accrual of receipt of interest on, the Bonds.

Original issue premium on the First Series A Bonds and the First Series B Bonds maturing on March 15 in the years _____ through _____, inclusive, issued at an issue price that exceeds their respective principal amounts, is amortizable periodically over the term of such Bonds through reductions in the holder's tax basis for such Bonds for determining taxable gain or loss from sale of from redemption prior to maturity. Amortization of premiums does not create a deductible expense or loss.

In rendering our opinion, we wish to advise you that:

1. The rights of the holders of the Bonds and the enforceability thereof and of the documents identified in this opinion may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases.

2. We express no opinion herein as to the accuracy, adequacy or completeness of any offering material relating to the Bonds.

3. Except as set forth above, we express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on or the receipt of tax credits relating to the Bonds.

4. In rendering the opinions herein, we have relied, with permission, on the legal opinions of the Attorney General. As to the opinions set forth in paragraph (d), the Attorney General expresses no opinion and relies solely on the opinion of Ballard Spahr LLP.

This opinion is addressed to, and is solely for the benefit of, the Board and may not be relied upon by any other person without our express written consent.

Very truly yours,

(to be signed by "Ballard Spahr LLP")

(Date of Delivery)

Board of Public Works
State of Maryland
Annapolis, Maryland

Ladies and Gentlemen:

This opinion is rendered with respect to the $6,520,000* State of Maryland, General Obligation Bonds, State and Local Facilities Loan of 2011, First Series C Taxable Qualified Energy Conservation Bonds (the "First Series C Bonds"). The First Series C Bonds are being issued simultaneously with the State of Maryland General Obligation Bonds, State and Local Facilities Loan of 2011, First Series, $100,000,000* First Series A Tax-Exempt Bonds (the "First Series A Bonds"), and the $378,480,000* First Series B Tax-Exempt Bonds (the "First Series B Bonds"), which consolidate various State loans or installments thereof authorized by their enabling acts and amendments thereto, and are issued pursuant to §§8-117 through 8-124, inclusive, of the State Finance and Procurement Article of the Annotated Code of the State of Maryland (2009 Replacement Volume, as amended), and §22 of Article 31 of the Annotated Code of the State of Maryland (2003 Replacement Volume, as amended) (collectively, the "Acts"). The First Series C Bonds are being issued in fully registered form in denominations of $5,000 each or any integral multiple thereof, dated the date of their issuance and delivery, and bear interest and mature as set forth in the First Series C Bonds. The First Series C Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the First Series C Bonds.

The First Series C Bonds have been designated by the Board as qualified energy conservation bonds ("QECBs") under §54D of the Internal Revenue Code of 1986, as amended (the "Code"). As authorized by the Maryland Consolidated Capital Bond Loan of 2010, Chapter 483 of the 2010 Laws of Maryland (the "2010 MCCBL"), the Board may issue up to $250,000,000 for the Public School Construction Program, and has determined to issue $6,520,000* of that amount as QECBs (the "QECB Bonds") in accordance with the resolutions of the Board of Public Works of the State of Maryland (the "Board") adopted on February 9, 2011 and March 9, 2011 (the "Resolutions").

We have reviewed the Acts, the 2010 MCCBL and the Resolutions. We have also examined such other legal opinions and the originals or certified copies of such resolutions, documents, records and other proofs as we deemed pertinent.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Board and certifications by public officials. Our examination has been limited to the foregoing as they exist or are in effect as of the date hereof. Our opinion is limited to the matters expressly set forth herein, and we express no opinion concerning any other matters.

The Code sets forth certain other requirements which must be met for the QECB Bonds to be QECBs, including, without limitation the use of proceeds of the QECB Bonds; the maximum term of the QECB Bonds; the maximum credit rate; the aggregate amount of QECBs issued by the State of Maryland; the filing of an information return with the Internal Revenue Service; and certain arbitrage limitations and rebate requirements. The Board and the Interagency Committee of School Construction (the "Committee") have certified as to these and other requirements and have covenanted to comply with the requirements of the Code in the Tax Compliance Certificate (Qualified Energy Conservation Bonds) executed and delivered on the date hereof. Noncompliance with the requirements of the Code may cause the QECB Bonds to no longer be QECBs, retroactive to the date of issue of the

*Preliminary, subject to change.

First Series C Bonds or as of some later date, and may permit or require redemption of all or a portion of the First Series C Bonds.

Based on our examination of the foregoing, we are of the opinion as of the date hereof and under existing law, as follows:

(a) The First Series C Bonds have been duly authorized for issuance by the Board for the valid public purposes stated in the Acts.

(b) The First Series C Bonds have been lawfully issued and constitute valid and binding general obligations of the State of Maryland to the payment of the principal of which the full faith and credit and taxing power of the State are unconditionally pledged.

(c) By the terms of the Acts, the First Series C Bonds, their transfer, and any income derived therefrom, including any profit realized in the sale or exchange thereof, will be exempt from taxation within the State of Maryland by the State or by any of its political subdivisions, municipal corporations, or public agencies; no opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the First Series C Bonds, their transfer, or the income therefrom.

(d) Interest on the First Series C Bonds is not excludable from gross income for purposes of federal income tax.

In rendering our opinion, we wish to advise you that:

1. The rights of the holders of the First Series C Bonds and the enforceability thereof and of the documents identified in this opinion may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases.

2. We express no opinion herein as to the accuracy, adequacy or completeness of any offering material relating to the First Series C Bonds.

3. Except as set forth above, we express no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on or the receipt of tax credits relating to the First Series C Bonds.

4. In rendering the opinions herein, we have relied, with permission, on the legal opinions of the Attorney General. As to the opinions set forth in paragraph (d), the Attorney General expresses no opinion and relies solely on the opinion of Ballard Spahr LLP.

IRS regulations require us to advise you that, unless otherwise specifically noted, any federal tax advice in this communication (including any attachments, enclosures, or other accompanying materials) was not intended or written to be used, and it cannot be used, by any taxpayer for the purpose of avoiding penalties that the Internal Revenue Service may impose on the taxpayer; furthermore, this communication was not intended or written to support the promotion or marketing of any of the transactions or matters it addresses.

This opinion is addressed to, and is solely for the benefit of, the Board and may not be relied upon by any other person without our express written consent.

Very truly yours,
(to be signed by "Ballard Spahr LLP")

Appendix E

REVISED OFFICIAL NOTICE OF SALE

$354,230,000
STATE OF MARYLAND
General Obligation Bonds
State and Local Facilities Loan of 2011
First Series B

NOTICE IS HEREBY GIVEN that electronic bids only for the purchase of all, but not less than all, of the issue of $354,230,000 General Obligation Bonds of the State of Maryland (the "State") to be designated State and Local Facilities Loan of 2011, First Series B (the "First Series B Bonds") will be received, as provided herein. Pursuant to resolutions of the Board of Public Works of Maryland (the "Board") providing for the issuance of the First Series B Bonds, bids will be received by the Board on the date and at the time shown below:

Date and Time: **Wednesday, March 9, 2011**
11:00 a.m., Local Annapolis, Maryland Time

Description of Bonds

General. The First Series B Bonds will be dated as of the date of delivery, expected to be on or about March 22, 2011, and will be in fully registered form in the denomination of $5,000 each and any integral multiple thereof.

Interest on the First Series B Bonds will accrue from the dated date, and will be payable September 15, 2011, and semiannually thereafter on each March 15 and September 15 until maturity or earlier redemption. The First Series B Bonds will mature on March 15 of the years and in the amounts as follows:

Date of Maturity	Principal Amount	Date of Maturity	Principal Amount
2014	$11,940,000	2021	$31,320,000
2015	1,875,000	2022	33,585,000
2016	13,110,000	2023	38,375,000
2017	23,445,000	2024	40,740,000
2018	17,205,000	2025	43,505,000
2019	29,910,000	2026	35,690,000
2020	33,530,000		

Term Bond Option. Bidders may designate in their proposal two or more consecutive annual principal maturities as a term bond that matures on the maturity date of the last annual principal payment of the sequence. Any term bond so designated shall be subject to mandatory sinking fund redemption in each year on the principal payment date and in the entire principal amount for each annual principal maturity designated for inclusion in such term bond. There is no limitation on the number of term bonds in the First Series B Bonds.

Form of Bonds. The First Series B Bonds shall be issued only in fully registered form without coupons. One bond representing each maturity of the First Series B Bonds in principal amount equal to the aggregate principal amount of such maturity will be issued to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the First Series B Bonds and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the First Series B Bonds. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers will not receive physical delivery of certificates representing their interest in the bonds purchased. The winning bidder, as a condition to delivery of the First Series B Bonds, will be required to deposit the bond certificates representing each maturity with DTC.

So long as the First Series B Bonds are maintained under a book-entry only system, the Bond Registrar and Paying Agent for the First Series B Bonds will be the Treasurer or any other Bond Registrar and Paying Agent designated by the Treasurer. All payments of the principal of and interest on the First Series B Bonds shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

Optional Redemption for the First Series B Bonds

The First Series B Bonds maturing on or after March 15, 2020 are subject to redemption prior to maturity beginning on or after March 15, 2019 at the option of the State, as a whole or in part at any time on at least 30 days' notice and, if in part, in any order of maturity at the option of the State, at the redemption price of par, plus accrued interest, if any, to the redemption date.

Selection of Bonds for Redemption. If less than all of the First Series B Bonds shall be called for redemption, the particular First Series B Bonds to be redeemed shall be selected by the Paying Agent in such manner as, in its discretion, it shall determine, except that so long as DTC or its nominee is the sole registered owner of the First Series B Bonds, the particular First Series B Bond or portion to be redeemed shall be selected by DTC, in such manner as DTC shall determine.

Interest Rates and Basis of Award

All bids shall be for cash on delivery and shall be based on an offering to pay not less than 98.5% of the par value of the First Series B Bonds. Each bidder shall indicate in its bid the rate of interest to be paid on the First Series B Bonds of each maturity. All bids for First Series B Bonds of any maturity must be greater than 98.5%. Each rate of interest shall be a multiple of 1/20 or 1/8 of one percent, but all First Series B Bonds of any one maturity of the First Series B Bonds must bear interest at the same rate. Any rate named may be repeated. The difference between the maximum and minimum interest rates may not be greater than 4%. A zero rate may not be named.

Upon review of the bids, the First Series B Bonds may be awarded by the Board to the responsible bidder whose bid results in the lowest true interest cost to the State. The lowest true interest cost will be determined by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the date of the First Series B Bonds and to the amount bid for the First Series B Bonds not including interest accrued to the date of delivery. If two or more responsible bidders have made bids resulting in the same lowest true interest cost to the State, the First Series B Bonds shall be awarded by lot to one of these bidders.

The Board reserves the right, in its discretion, to reject any or all bids and to waive any irregularities in any of the bids. The judgment of the Board shall be final and binding upon all bidders with respect to the form and adequacy of any proposal received and as to its conformity to the terms of this Revised Official Notice of Sale.

Procedures for Electronic Bidding

Bidders may only submit bids via PARITY

A prospective bidder may only bid electronically for the First Series B Bonds via PARITY pursuant to this Revised Official Notice of Sale. By submitting its bid for the First Series B Bonds, a prospective bidder represents and warrants to the State that such bidder's bid for the purchase of the First Series B Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the First Series B Bonds.

Additional information concerning bidding through the system may be directed to the PARITY Help Desk (212) 849-5021.

Disclaimer. Each prospective electronic bidder shall be solely responsible to register to bid via PARITY as described above. Each qualified prospective electronic bidder shall be solely responsible to make necessary arrangements to access PARITY for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Revised Official Notice of Sale. Neither the State nor PARITY shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the State nor PARITY shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by PARITY. The State is using PARITY as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the First Series B Bonds. The State is not bound by any advice and determination of PARITY to the effect that any particular bid complies with the terms of this Revised Official Notice of Sale and in particular the "Bid Submissions" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via PARITY are the sole responsibility of the bidders; and the State is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the First Series B Bonds, such bidder should telephone PARITY New Issues Desk at (212) 849-5021 and notify the State's Treasurer's Office by facsimile at (410) 260-6057.

Electronic Bidding Procedures. Electronic bids must be submitted for the purchase of the First Series B Bonds (all or none) via PARITY. Bids will be communicated electronically to the State at **11:00 a.m.** local Annapolis, Maryland time, on Wednesday, March 9, 2011. Prior to that time, an eligible prospective bidder may (1) input the proposed terms of its bid via PARITY, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the First Series B Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via PARITY to the State each bid will constitute an irrevocable offer to purchase the First Series B Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on PARITY shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the State, as described under "Interest Rates and Basis of Award" above, represented by the rate or rates of interest and the bid price specified in their respective bids.

Bid Submissions

Each bid must be in conformity with this Revised Official Notice of Sale.

All bids must be delivered to the Treasurer VIA PARITY IN ANNAPOLIS, MARYLAND, before **11:00 a.m.**, local time, on March 9, 2011, at which time they will be received by the Treasurer. As described below, the Board reserves the right to postpone the date for receipt of bids.

Minority Business Enterprise Participation

THE STATE STRONGLY ENCOURAGES EACH BIDDER FOR THE FIRST SERIES B BONDS TO MAKE A GOOD FAITH EFFORT TO INCLUDE MINORITY BUSINESS ENTERPRISES IN THE SYNDICATE PURCHASING THE FIRST SERIES B BONDS. THE SUCCESSFUL BIDDER WILL BE REQUESTED TO PROVIDE A LIST OF SYNDICATE MEMBERS WHICH IDENTIFIES THE MINORITY BUSINESS ENTERPRISE MEMBERS AND INDICATES THEIR PERCENTAGE OF PARTICIPATION.

Preliminary Award

As promptly as reasonably practicable after the bids are received and reviewed, but not later than **12:00 noon** (local Annapolis, Maryland time) on the Bid date (unless bids have been postponed), the Treasurer will notify the apparently successful bidder of the Preliminary Award of the First Series B Bonds. Such bidder, upon such notice, shall advise the Treasurer of the initial reoffering price to the public, expressed as a percentage of par, of each maturity of the First Series B Bonds (the "Reoffering Prices"). The apparent successful bidder will also be required to wire to the State a Good Faith Deposit as further described herein. Timely notification of the Final Award is subject to the State's receipt of the Good Faith Deposit.

Good Faith Deposit

The apparently successful bidder shall wire transfer to the State $3,550,000 in immediately available funds no later than 2:00 p.m. (local Annapolis, Maryland time) on the Bid Date. In the event that the State has not received such federal funds wire transfer by the time stated, the State, in its sole discretion, may revoke its acceptance of the bid. No interest on the Good Faith Deposit will accrue to the successful bidder. The Good Faith Deposit will be applied to the purchase price of the First Series B Bonds.

IF THE SUCCESSFUL BIDDER FAILS TO COMPLY WITH THE TERMS OF ITS BID, THE GOOD FAITH DEPOSIT MAY BE RETAINED BY THE STATE AS AND FOR FULL LIQUIDATED DAMAGES.

Final Award

As promptly as reasonably practicable after receipt of the Good Faith Deposit, the Treasurer will notify the successful bidder of the Final Award of the First Series B Bonds.

Simultaneously with or before delivery of the First Series B Bonds, the successful bidder shall furnish to the State a certificate acceptable to Bond Counsel stating: (1) the Reoffering Prices; (2) that the successful bidder has made a bona fide public offering of the First Series B Bonds at the Reoffering Prices; and (3) that a substantial amount of the First Series B Bonds was sold to the public (excluding bond houses, brokers, and other intermediaries) at such Reoffering Prices. Bond Counsel advises that: (1) such certificate must be made on the best knowledge, information, and belief of the successful bidder; (2) the sale to the public of 10% or more in par amount of the First Series B Bonds of each maturity at the Reoffering Prices would be sufficient to certify as to the sale of a substantial amount of the First Series B Bonds; and (3) reliance on other facts as a basis for such certification would require evaluation by Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the First Series B Bonds.

Delivery of the First Series B Bonds

When delivered, one bond representing each maturity of the First Series B Bonds shall be duly executed and authenticated and registered in the name of Cede & Co., as nominee of DTC, as registered owner of the First Series B Bonds. It is anticipated that CUSIP identification numbers will be printed on the First Series B Bonds. However, neither the failure to print such numbers on any bond nor any error with respect thereto shall constitute a cause for a failure or refusal by the successful bidder to accept delivery of and pay for the First Series B Bonds in accordance with this Revised Official Notice of Sale. Delivery of the First Series B Bonds, without expense, will be made by the State to DTC on March 22, 2011, or on a later date determined by the Treasurer as soon thereafter as may be practicable, and, thereupon, the purchaser or purchasers thereof will be required to accept delivery of the First Series B Bonds purchased and pay, in federal funds, the amount of the successful bid, less the Good Faith deposit. The opinions, certificates, and other closing documents referred to below will be delivered to the successful bidder on the date of delivery of the First Series B Bonds at the office of the Treasurer in Annapolis, Maryland, or at such other location as the Treasurer may determine.

Legal Opinion; Certificate Concerning Official Statement; No Litigation Certificate

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the First Series B Bonds that, simultaneously with or before delivery and payment for the First Series B Bonds, the bidder without cost shall be furnished with (a) the approving opinions of the Attorney General and of Ballard Spahr LLP, Bond Counsel, dated as of the date of delivery of the First Series B Bonds, substantially in the respective forms included as Appendix D to the Preliminary Official Statement referred to below; (b) a certificate of the Attorney General dated as of the date of delivery of the First Series B Bonds to the effect that there is no litigation pending or, to the best of his knowledge, threatened, that in any manner will affect the validity of the Acts under which the First Series B Bonds will be issued or the First Series B Bonds; (c) a signed copy of the Official Statement relating to the First Series B Bonds dated as of the date of the sale of the First Series B Bonds; (d) a certificate or certificates of the members of the Board to the effect that, to the best of their knowledge and belief (except for the Reoffering Information [defined below] provided by the bidder and information regarding DTC and DTC's book-entry system provided by DTC, as to which no view will be expressed): (1) the Official Statement as of the date of sale did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (2) between the date of sale and the date of delivery of the First Series B Bonds, there has been no material adverse change in the financial condition or financial affairs of the State except as may have been disclosed in or contemplated by the Official Statement as of the date of sale; and (e) the Continuing Disclosure Agreement substantially in the form included as Appendix F to the Preliminary Official Statement referred to below.

The opinions of the Attorney General and Bond Counsel will be delivered, upon request, to the purchaser or purchasers of the First Series B Bonds, without charge. A bidder may make the legality and validity of the First Series B Bonds one of the terms of the bid by making the bid "subject to legality," or using any equivalent form of expression, which shall be deemed to refer to the opinions of the Attorney General and Bond Counsel referred to above, but no bid should purport to leave this question to the decision of the bidder or its counsel. All bids conditioned upon the approval of the bidder or its counsel, whether named or unnamed, will be treated as conditional bids and will be rejected unless the condition is waived by the bidder to the satisfaction of the Board before the award has been made.

Official Statement

Additional information concerning the State of Maryland and the First Series B Bonds is contained in the Preliminary Official Statement, dated February 23, 2011 to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Revised Official Notice of Sale. The Preliminary Official Statement is in a form "deemed final" by the State as of its date for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment, and completion in the Official Statement. Electronic copies of the Preliminary Official Statement are available on the Internet at www.treasurer.state.md.us.

In order to assist bidders in complying with SEC Rule 15c2-12(b)(5), the Board of Public Works will execute and deliver a continuing disclosure agreement on or before the date of issuance of the bonds pursuant to which it will undertake to provide certain information annually and notices of certain events. A proposed form of this agreement is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

As soon as practicable after the award of the First Series B Bonds to the successful bidder on the date of sale, the State will authorize an Official Statement, which presently is expected to be substantially in the form of the Preliminary Official Statement. The State also will authorize and issue any supplement to the Official Statement that may be necessary between the date of the authorization of the Official Statement and the date of delivery of, and payment for, the First Series B Bonds. If so requested by the successful bidder at or before the close of business on the date of the sale, the State will include in the Official Statement such pricing and other information with respect to the terms of the reoffering of the First Series B Bonds by the successful bidder ("Reoffering Information"), if any, as may be specified and furnished in writing by the successful bidder. If no Reoffering Information should be specified and furnished by the successful bidder, the Official Statement will include the interest rates on the First Series B Bonds resulting from the bid of the successful bidder and the other statements with respect to reoffering contained in the Preliminary Official Statement. The successful bidder shall be responsible to the State and its officials in all respects for the Reoffering Information in any reoffering of the First Series B Bonds, including the presentation or exclusion of any Reoffering Information in any documents, including the Official Statement. The successful bidder also will be furnished without cost within seven business days following the date of sale up to 100 copies of the Official Statement (and any amendments or supplements).

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Right to Change the Revised Official Notice of Sale and to Postpone Offering

The Board also reserves the right to make changes to the Revised Official Notice of Sale and postpone, from time to time, the date established for the receipt of bids. In the event of a change or postponement, the change or new date and time of sale will be announced via TM3. Any new date and time of sale will be announced at least 24 hours prior to the time proposals are to be submitted. On any such alternative sale date, bidders may submit bids for the purchase of the First Series B Bonds in conformity with the provisions of this Revised Official Notice of Sale, except for any changes to this Revised Official Notice of Sale, the change of the date of sale and the changes described in the next sentence. If the date fixed for receipt of bids is postponed, the expected date of delivery of the First Series B Bonds also may be postponed, the dates of the semiannual interest payments and annual principal payments and the optional redemption dates also may be changed. Such changes, if any, will be announced via TM3 at the time any alternative sale date is announced.

MARTIN O'MALLEY
Governor

PETER FRANCHOT
Comptroller

NANCY K. KOPP
Treasurer

Constituting the Board of Public Works of the
State of Maryland

Annapolis, Maryland
March 8, 2011

REVISED OFFICIAL NOTICE OF SALE

$6,520,000
STATE OF MARYLAND
General Obligation Bonds
State and Local Facilities Loan of 2011
First Series C
Taxable
Qualified Energy Conservation Bonds

Pursuant to the rights under the Notice of Sale, the State of Maryland has canceled the competitive sale for the above referenced financing.

FORM OF CONTINUING DISCLOSURE AGREEMENT

This **CONTINUING DISCLOSURE AGREEMENT** (this "Disclosure Agreement") dated as of March 22, 2011, is executed and delivered by the State of Maryland (the "State") in connection with the issuance of its $485,000,000* General Obligation Bonds, State and Local Facilities Loan of 2011, First Series, consisting of the First Series A Tax-Exempt Bonds (the "First Series A Bonds"), the First Series B Tax-Exempt Bonds (the "First Series B Bonds"), and the First Series C Taxable Qualified Energy Conservation Bonds (the "First Series C Bonds"). The First Series A Bonds, the First Series B Bonds, and the First Series C Bonds are collectively referred to herein as "the Bonds." The Bonds are being issued pursuant to resolutions passed by the Board of Public Works (the "Board") on February 9, 2011, as amended and supplemented by resolutions adopted on March 9, 2011. The State, intending to be legally bound hereby and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement.

This Disclosure Agreement is being executed and delivered by the State for the benefit of the owners and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The State's obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

Section 2. Definitions.

In addition to the definitions set forth above, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"**Continuing Disclosure Service**" shall mean the continuing disclosure service established by the Municipal Securities Rulemaking Board known as the Electronic Municipal Market Access ("EMMA") system.

"**Listed Events**" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

"**Participating Underwriter**" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"**Rule**" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, any successor provisions of similar import promulgated by the Securities and Exchange Commission in the future, and any applicable no-action and other authoritative interpretations of Rule 15c2-12 released by the Securities and Exchange Commission.

Section 3. Provision of Annual Financial Information, Operating Data and Audited Information.

(a) The State shall provide to the Continuing Disclosure Service, annual financial information and operating data as set forth in Schedule A to this Disclosure Agreement, such information and data to be updated as of the end of the preceding fiscal year and made available within 275 days after the end of the fiscal year, commencing with the fiscal year ending June 30, 2011.

(b) The State shall provide to the Continuing Disclosure Service, annual audited financial statements for the State, such information to be made available within 275 days after the end of the State's fiscal year, commencing with the fiscal year ending June 30, 2011, unless the audited financial statements are not available on or before such date, in which event said financial statements will be provided promptly when and if available. In the event that audited financial statements are not available within 275 days after the end of the State's fiscal year (commencing with the fiscal year ending June 30, 2011), the State will provide unaudited financial statements within said time period.

*Preliminary, subject to change.

(c) Except as otherwise set forth in this paragraph (c), the presentation of the financial information referred to in paragraph (a) and in paragraph (b) shall be made in accordance with the same accounting principles as utilized in connection with the presentation of applicable comparable financial information included in the final official statement for the Bonds.

> (1) The State may make changes to the presentation of the financial information required in paragraph (a) and paragraph (b) necessitated by changes in Generally Accepted Accounting Principles;
>
> (2) The State may otherwise modify the presentation of the financial information required herein, provided that this Disclosure Agreement is amended in accordance with Section 6 hereof.

(d) If the State is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) above, the State shall send in a timely manner a notice of such failure to the Continuing Disclosure Service.

Section 4. Reporting of Significant Events.

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) modifications to rights of security holders, if material;

(viii) bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the securities, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the obligated person;

(xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee, or the change of name of a trustee, if material.

(b) Whenever the State obtains knowledge of the occurrence of a Listed Event, the State shall promptly, not in excess of ten (10) business days after the occurrence of such event, file a notice of such occurrence with the Continuing Disclosure Service.

Section 5. Termination of Reporting Obligation.

The State's obligations under this Disclosure Agreement shall terminate upon the payment in full of all of the Bonds either at their maturity or by early redemption. In addition, the State may terminate its obligations under this Disclosure Agreement if and when the State no longer remains an obligated person with respect to the Bonds within the meaning of Securities and Exchange Commission Rule 15c2-12.

Section 6. Amendment.

The State may provide further or additional assurances that will become part of the State's obligations under this Disclosure Agreement. In addition, this Disclosure Agreement may be amended by the State in its discretion provided that: (i) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State as the obligated person with respect to the Bonds, or type of business conducted; (ii) the Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iii) the amendment does not materially impair the interests of holders of the Bonds, as determined by counsel selected by the State that is expert in federal securities law matters. The reasons for the State agreeing to provide any further or additional assurances or for any amendment and the impact of the change in the type of operating data or financial information being provided will be explained in information provided with the annual financial information containing the additional or amended operating data or financial information.

Section 7. Additional Information.

Nothing in this Disclosure Agreement shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any disclosure made pursuant to Section 4(a) or (b) hereof or notice of occurrence of a Listed Event in addition to that which is required by this Disclosure Agreement. If the State chooses to include any information in any disclosure made pursuant to Section 4(a) or (b) hereof or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the State shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure made pursuant to Section 4(a) or (b) hereof or notice of occurrence of a Listed Event.

Section 8. Law of Maryland.

This Disclosure Agreement, and any claim made with respect to the performance by the State of its obligations hereunder, shall be governed by, subject to, and construed according to the laws of the State of Maryland or the federal law.

Section 9. Limitation of Forum.

Any suit or other proceeding seeking redress with regard to any claimed failure by the State to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Anne Arundel County, Maryland.

Section 10. Limitation on Remedies.

The State shall be given written notice at the address set forth below of any claimed failure by the State to perform its obligations under the Disclosure Agreement, and the State shall be given 45 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the State shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the State shall be given to the State Treasurer, Louis L. Goldstein Treasury Building, 80 Calvert Street, Annapolis, Maryland 21401, or at such alternate address as shall be specified by the State with disclosures made pursuant to Section 4(a) or 4(b) hereof or a notice of occurrence of a Listed Event.

Section 11. Relationship to Bonds.

The Disclosure Agreement constitutes an undertaking by the State that is independent of the State's obligations with respect to the Bonds; any breach or default by the State under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Bonds.

Section 12. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the owners and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF this Continuing Disclosure Agreement is being executed by the Board of Public Works on behalf of the State of Maryland as of this 22nd day of March, 2011.

STATE OF MARYLAND

By:___________________________________
Martin O'Malley, Governor

By:___________________________________
Peter Franchot, Comptroller

By:___________________________________
Nancy K. Kopp, Treasurer

as Members of the Board of Public
Works of the State of Maryland

Schedule A

(1) Summary of Outstanding Tax-Supported Debt.

(2) Summary of State Revenues and Expenditures.

(3) Summary of General Fund Balances.

(4) Summary of State Reserve Fund.

(5) Budget for Current Fiscal Year.

(6) Description of material litigation based on the accountant's report contained in the Comprehensive Annual Financial Report.

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APPENDIX G

Book-Entry Only System

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of §17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries, as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participant and not of DTC, DTC's nominee, the Paying Agent or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or its Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

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