PRELIMINARY OFFICIAL STATEMENT DATED JULY 12, 2013

NEW ISSUES—BOOK-ENTRY ONLY

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

$475,000,000*
STATE OF MARYLAND
General Obligation Bonds
State and Local Facilities Loan of 2013, Second Series
consisting of

$435,000,000*	$40,000,000*
Second Series A	**Second Series B**
Tax-Exempt	**Taxable**
Bonds	**Bonds**
(Competitive)	**(Competitive)**

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

The Second Series A Bonds and the Second Series B 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 February 1, 2014 and semiannually thereafter on August 1 and February 1 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 15th day of the month immediately preceding the interest payment date.

FOR MATURITY SCHEDULES SEE INSIDE COVER

The Second Series A Bonds maturing on or after August 1, 2022 are subject to optional redemption commencing on August 1, 2021 at a redemption price equal to 100% of the principal amount thereof. The Second Series B Bonds are not subject to 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 Kutak Rock LLP, Washington, D.C., 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 Second Series A 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"). Interest on the Second Series B 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, their transfer or the income therefrom. 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 successful bids for the Bonds on Wednesday, July 24, 2013, by groups of banks and investment banking firms. The prices or yields shown on the maturity schedule were furnished by the successful bidders. Any other information concerning the terms of the reoffering of any of the Bonds should be obtained from the 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 Kutak Rock LLP, Washington, D.C., and certain other conditions specified in the Official Notices of Sale. The Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about August 6, 2013.

July __, 2013

_____
*Preliminary, subject to change.

MATURITY SCHEDULES

$435,000,000* Second Series A Tax-Exempt Bonds (Competitive)

Awarded to _____

Maturing August 1*	Principal*	Interest Rate	Price or Yield	CUSIP
2017	$16,220,000	%	%	
2018	29,605,000			
2019	31,125,000			
2020	32,720,000			
2021	34,400,000			
2022	36,160,000			
2023	38,015,000			
2024	39,965,000			
2025	41,800,000			
2026	43,510,000			
2027	45,055,000			
2028	46,425,000			

† Priced at the stated yield to the August 1, 2021 optional redemption date at a redemption price of 100%.

$40,000,000* Second Series B Taxable Bonds (Competitive)

Awarded to _____

Maturing August 1*	Principal*	Interest Rate	Price or Yield	CUSIP
2016	$27,825,000	%	%	
2017	12,175,000			

*Preliminary, subject to change.

No dealer, broker, salesman or any other person has been authorized by the State of Maryland (sometimes referred to as the "State") 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. 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 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.

CUSIP numbers on the inside cover page of this Official Statement are copyrighted by the American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and the State takes no responsibility for the accuracy thereof. These data are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service.

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

Mary Ellen Barbera
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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SECURITIES	General Obligation Bonds, State and Local Facilities Loan of 2013, Second Series A – $435,000,000* Tax-Exempt Bonds (Competitive) Second Series B – $40,000,000* Taxable Bonds (Competitive)
AGGREGATE PRINCIPAL AMOUNT OF ISSUE	$475,000,000*
INTEREST PAYMENT DATES	February 1, 2014 and semiannually thereafter on August 1 and February 1
STATE ECONOMIC FACTORS	The State of Maryland has a population of approximately 5.9 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. Metropolitan Statistical Areas, 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 36 years. The average unemployment rate in 2012 was 6.8% compared to an average national rate for the same period of 8.1%. In May 2013, the rates were 6.7% in Maryland and 7.6% in the United States. The State's per capita personal income was the fifth highest in the country in 2012, 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, 2012 were above revised estimates by $229.7 million, or 1.6%. The State ended fiscal year 2012 with a $551.2 million general fund balance on a budgetary basis. This balance reflects a $494.8 million increase compared to the balance projected at the time the 2012 Budget was enacted. In addition, there was a balance in the Revenue Stabilization Account of $671.5 million. For fiscal year 2013, the total budget was $35.9 billion, a $2.0 billion increase over fiscal year 2012. The General Fund and Budget Restoration Fund account for approximately $15.1 billion, of which the largest expenditures are for health and education, which together represent 74.9% of total general fund and budget restoration fund expenditures. General fund and budget restoration fund expenditures exclude transportation, which is funded with special fund revenues from the Transportation Trust Fund. See "STATE FINANCES – State Expenditures and Services."

*Preliminary, subject to change.

On a GAAP basis, the fiscal year 2012 non-spendable general fund balance was $485.7 million, while the restricted, committed, and unassigned fund balances were $591.4 million. By comparison, the non-spendable general fund balance was $468.3 million and the restricted, committed, and unassigned fund balance was $871.3 million at the end of fiscal year 2011. The total GAAP fund balance for fiscal year 2012 was $1,077.1 million compared with a total GAAP fund balance of $1,339.6 million for fiscal year 2011. See "STATE FINANCES."

The State Reserve Fund consists of the Revenue Stabilization Account and other reserve funds, which together totaled $674.4 million at the end of fiscal year 2012. 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 2013 project a total reserve balance of $720.4 million, of which $701.0 million is projected to be in the Revenue Stabilization Account. In the proposed 2013 Budget, the Revenue Stabilization Account balance as a percentage of general fund revenues as stated in the 2012 annual report of the Board of Revenue Estimates equaled 5.0%. The percentage has subsequently decreased to 4.7% due to increased revenue estimates. See "STATE FINANCES – State Reserve Fund."

STATE DEBT

Maryland had $10,675.7 million of net State tax-supported debt outstanding as of March 31, 2013. General obligation bonds accounted for $8,005.8 million of that amount. In fiscal year 2012, debt service on general obligation bonds was paid primarily from State property tax receipts. Department of Transportation bonds outstanding account for another $1,664.5 million of State tax-supported debt as of March 31, 2013; the debt service on those bonds is payable from taxes and fees related to motor vehicles and motor vehicle fuel, a portion of the corporate income tax and a portion of the sales and use tax on short-term vehicle rentals. Debt obligations issued by the Maryland Stadium Authority in the form of lease-backed revenue bonds and equipment lease financing account for $201.1 million of State tax-supported debt outstanding as of March 31, 2013. 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 $289.3 million as of March 31, 2013.

There was $479.0 million of Grant Anticipation Revenue Vehicle ("GARVEE") Bonds outstanding as of March 31, 2013. 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 $36.0 million as of March 31, 2013.

The State had $1,281.1 million of authorized but unissued debt as of March 31, 2013. The current offering is the first general obligation bond sale of fiscal year 2014; one additional sale is anticipated during fiscal year 2014. See "STATE TAX-SUPPORTED DEBT AND CAPITAL PROGRAM – Tax-Supported Debt Outstanding and Debt Data."

APPLICATION OF PROCEEDS

The proceeds of the 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.

CONTINUING DISCLOSURE	The State will provide annual financial and other information, including notices of certain events, in order to assist bidders in complying with Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934. 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.

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STATE OF MARYLAND
Official Statement

$475,000,000*
General Obligation Bonds
State and Local Facilities Loan of 2013, Second Series

consisting of

$435,000,000*	**$40,000,000***
Second Series A	**Second Series B**
Tax-Exempt	**Taxable**
Bonds	**Bonds**
(Competitive)	**(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 2012 population is estimated at 5,884,563 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 2012 population of 621,342 (2,753,149 for the primary metropolitan statistical area).

*Preliminary, subject to change.

THE BONDS

General

The $475,000,000* aggregate principal amount of general obligation bonds offered by this Official Statement constitutes the State and Local Facilities Loan of 2013, Second Series. The Bonds consist of $435,000,000* Second Series A Tax-Exempt Bonds (the "Second Series A Bonds") and $40,000,000* Second Series B Taxable Bonds (the "Second Series B Bonds"). The Second Series A Bonds and the Second Series B Bonds are sometimes collectively referred to herein as the "Bonds." Interest on the Bonds will accrue from the date of issuance and delivery, expected to occur on or about August 6, 2013, and will be payable on February 1, 2014 and semiannually thereafter on August 1 and February 1 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 15th day of the month immediately preceding each interest payment date. "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.

Second Series A Tax-Exempt Bonds (Competitive)

The State determined to issue the Second Series A Bonds as tax-exempt bonds, sold on a competitive basis as described herein under "SALE AT COMPETITIVE BIDDING" and pursuant to the Official Notice of Sale for the Second Series A Bonds, attached hereto as APPENDIX E.

Second Series B Taxable Bonds (Competitive)

The State determined to issue the Second Series B Bonds as taxable bonds, sold on a competitive basis as described herein under "SALE AT COMPETITIVE BIDDING" and pursuant to the Official Notice of Sale for the Second Series B Bonds, attached hereto as APPENDIX E.

*Preliminary, subject to change.

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.

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 March 31, 2013, was $1,281,125,477. 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 the sale and issuance of $475,000,000* to fund capital improvements.

It is anticipated that the proceeds of the sale of the 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 for the Second Series A Bonds. The Second Series A Bonds maturing on or after August 1, 2022 are subject to redemption prior to their respective maturities on or after August 1, 2021, 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.

No Optional Redemption for the Second Series B Bonds. The Second Series B Bonds are not subject to redemption in whole or in part at any time prior to their respective maturities.

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

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Preliminary, subject to change.

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

Second Series A Bonds and Second Series B Bonds

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

*Totals may not add due to rounding.
** The premium earned on the sale of Bonds will be applied first to pay the underwriters' discount and costs of issuance and the remainder will be deposited to the Annuity Bond Fund.
***Estimated. Includes fees for legal, rating agency, financial advisory services and other miscellaneous expenses.

Use of Proceeds

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

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

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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 annual budget.

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.

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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 may 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 308 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.

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. Several other substantial adjustments were made to Maryland's tax structure in the First Special Session of 2012 of the General Assembly. 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 2008 through 2011, regular personal exemptions were determined based on federal adjusted gross income ("FAGI"), ranging from $3,200 for those with FAGI under $150,000/$100,000 (joint/single returns) to $600 for those with FAGI over $250,000/$200,000 (joint/single returns). Also beginning in tax year 2008, the tax brackets were 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 the First Special Session of 2012, the General Assembly altered the individual income tax brackets and the personal exemption. Income tax brackets were condensed, with a new top rate of 5.75% effective at net taxable income levels of $300,000/$250,000 (joint/single returns). Personal exemptions were reduced for joint returns with FAGI of $150,000 or more, and single returns with FAGI of $125,000 or more. For those with FAGI of $200,000 (joint/single returns), personal exemptions are no longer allowed.

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%).

Beginning with tax year 2008, corporations (domestic and foreign), including financial institutions and utilities, paid tax at the rate of 8.25% on the portion of net taxable income allocable to the State. 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 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. In the First Special Session of 2012, a credit for a portion of telecommunications property taxes paid was repealed, beginning in tax year 2012.

Sales and Use Taxes. The State imposes a 6% sales and use tax on a retail sale or use of most tangible personal property in the State and certain enumerated services (including custom telephone, detective and building cleaning services among others); most services are exempt. In the 2011 Legislative Session, the sales and use tax rate on alcohol purchases was increased to 9%, effective July 1, 2011. 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. Beginning in fiscal year 2007, the State property tax rate was set at 11.2 cents and has been maintained at that constant level. 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 2012, the allocation of gross sales was 59.4% to prizes, 9.6% to administrative costs and agents' commissions, and 31.0% to State revenues. Except for administrative costs and a distribution to the Maryland Stadium Authority, the State revenues are credited to the General Fund. Beginning in fiscal year 2015, 10% of State revenue from the sales of instant tickets sourced from instant ticket lottery machines in veterans' organizations will be credited to the Maryland Veterans Trust Fund and

$20.0 million will be distributed to the Baltimore City Public Schools Construction Financing Fund in each fiscal year that related bonds are outstanding.

Video Lottery Facility Revenues. In November 2008 voters approved a constitutional amendment authorizing a maximum of 15,000 Video Lottery Terminals ("VLTs") at five geographic locations. The Video Lottery Facility Location Commission has approved all five facility licenses for the geographic locations authorized in 2008. Two facilities (Worcester and Cecil Counties) opened in fiscal year 2011, a third facility (Anne Arundel County) opened in June 2012 and a fourth facility (Allegany County) opened in fiscal year 2013. The fifth facility (Baltimore City) is projected to open early in fiscal year 2015.

State revenues from VLTs are generated by a one-time licensing fee that must be paid in order to operate a facility as well as up to two-thirds of the gross revenues from VLT play (after prize payments). All of the license fee revenues are deposited in the Education Trust Fund in order to support primary and secondary educational programs. Except for the Allegany County and Worcester County VLT facilities, the distribution of the gross VLT revenues for fiscal year 2014 currently is as follows:

- 2% to the State Lottery Agency for costs;
- 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 $100.0 million to the Account annually;
- 1.75% to a Racetrack Facility Renewal Account;
- 1.5% to a Small, Minority, and Women-Owned Businesses Account; and
- the remainder (49.25%) to the Education Trust Fund.

Under legislation enacted in 2011, the operator of the VLT facility in Allegany County was required to agree to purchase the Rocky Gap Lodge and Resort, and in return the State waived the one-time licensing fee for 500 VLTs, and set the initial distribution of gross VLT revenues for the first 10 years of operation as follows:

- 2% to the State Lottery Agency for costs;
- no more than 50% to the video lottery operation licensee;
- 2.75% in local impact grants;
- 2.5% to the Purse Dedication Account;
- 0.75% to the Small, Minority, and Women-Owned Businesses Account; and
- the remainder (42.0%) to the Education Trust Fund.

Beginning July 1, 2013, for a video lottery facility in Worcester County with less than 1,000 video lottery terminals, the video lottery operation licensee receives 43% of the gross VLT revenues provided that each year an amount equivalent to 2.5% of the proceeds is spent on capital improvements at the video lottery facility. The share received by the Education Trust Fund is reduced by an equivalent amount.

In August 2012, the General Assembly met in the Second Special Session of 2012 and enacted expanded gaming legislation subject to the approval of voters of a constitutional amendment in the November 2012 general election. The legislation authorized video lottery operation licensees to operate table games in addition to VLTs, increased from 15,000 to 16,500 the maximum number of VLTs that may be operated in the State, increased from five to six the maximum number of video lottery operation licenses that may be awarded in the State, and allowed a video lottery facility to operate in Prince George's County. The referendum was approved by the voters during the November 2012 general election. The legislation also provided for certain changes in the distribution of VLT revenues, which generally increase the distribution of VLT revenues to the video lottery operation licensee and decrease the distribution to the Education Trust Fund, established the distribution of table game revenues (80% to the video lottery operation licensee and 20% to the Education Trust Fund), and specified a schedule for the opening of a Prince George's County facility. The Video Lottery Facility Location Commission is currently evaluating the bids for the Prince George's County facility and a decision is expected in December 2014.

In addition, the expanded gaming legislation contained certain provisions not subject to referendum, including: reconstituting the State Lottery Commission as the State Lottery and Gaming Control Commission and specifying its membership; authorizing the issuance of licenses to qualifying veterans organizations in certain counties for instant ticket lottery machines; and transitioning VLT procurement from the State to VLT licensees.

The State will continue to own or lease VLTs for the Allegany and Worcester County facilities; however, these facilities may apply to the Commission to assume ownership or the right to lease their own VLTs.

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 excise tax at the wholesale level. Prior to July 2013, the rates were as follows: 23.5 cents for gasoline and motor fuels; 24.25 cents for special fuel other than aviation and turbine fuel; and 7 cents on aviation and turbine fuel. In the 2013 Legislative Session, the static excise tax rates for gasoline and special fuel were replaced by a two-prong rate setting system that adjusts the relevant excise rates annually in most years and semiannually in certain years.

The first prong is an annual adjustment to the aforementioned base excise tax rates on each July 1st, beginning July 1, 2013. The base rates are indexed to the Consumer Price Index, compounding with each adjustment, and the annual increase may not be greater than 8%. The second prong is the product of multiplying a certain percentage, which varies for the first several years, with the prior year's average daily retail price (less federal and State motor fuel excise taxes) for regular gasoline. The percentage for the July 1, 2013 calculation was 1%, increasing to 2% on January 1, 2015 and 3% on July 1, 2015. The law provides for additional increases for fiscal years 2016 and 2017, ultimately reaching 5% if federal legislation that would require remote sellers to collect and remit state sales taxes is not enacted by December 1, 2015. If such federal legislation is passed, the applicable percentage rate remains at 3% and the Transportation Trust Fund would receive 4% of total State sales and use tax revenues. The effective rates, beginning July 1, 2013, are 27 cents and 27.75 cents for gasoline and special fuels, respectively.

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 registration fee on all motor vehicles that ranges from $2.50 to $1,838 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 $135 to $187 depending on the weight of the vehicle. An annual surcharge of $17.00 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 2012 when a total of $100.1 million in transfer taxes, including $5.6 million of previously allocated revenues, was transferred to the General Fund. Pursuant to the fiscal year 2013 Budget, up to $96.9 million in fiscal year 2013 transfer taxes may be transferred to the General Fund. The 2014 Budget includes an $89.2 million transfer of transfer taxes 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. In the First Special Session of 2012, the tax on other tobacco products was increased to 70% of the

wholesale price for cigars other than premium cigars and 30% for all other tobacco products. A floor tax on all other tobacco products in inventory on July 1, 2012 was also levied.

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. In the First Special Session of 2012, legislation was enacted that exempts up to $5.0 million of qualified agricultural property for decedents dying after December 31, 2012, although the estate tax will be recaptured if, within ten years of the decedent's death, the property ceases to be used for agricultural purposes.

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. In addition, as noted above, the sales and use tax rate on retail alcoholic purchases was increased from 6% to 9% effective July 1, 2011.

Bay Restoration Fee. Through fiscal year 2012, all users of sewerage and septic systems in the State were charged a mandatory fee of $30 per year (or $30 per "equivalent dwelling unit"). During the 2012 Legislative Session, the fee was increased from $30 per year to $60 per year for most users, effective July 1, 2012. 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 years 2011 and 2012 transfers to the General Fund from Bay Restoration Fee revenue totaled $45.0 and $90.0 million, respectively. Neither the 2013 nor the 2014 Budget include any transfers from the Bay Restoration Fund. An equal amount of general obligation bonds have been provided or are planned to fund projects that otherwise would have been funded with Bay Restoration Fee revenue. Authorizations of general obligation bonds in the capital budget totaled $146.8 million in fiscal year 2012 and $18.2 million in fiscal year 2013. The 2014 Budget does not include any general obligation bond revenue for this activity.

Other Revenues. Exclusive of the proceeds of bond issues, approximately 57.1% of State revenues in fiscal year 2012 were received from sources other than taxes and lottery receipts. The largest component (27.3% 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.

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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 2008 through 2012 fiscal years.

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)
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
2011	13,537.4	12,666.3	106.82	13,223.2	102.38
2012	14,257.8	13,597.8	104.85	14,028.2	101.64

(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 and revenues.

Receipts from the State property tax, all of which are devoted to debt service on general obligation bonds and which provided approximately 84% of the current revenues available for general obligation bond debt service payment in fiscal year 2012 (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 2008 through 2012.

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)
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
2011 (c)	11.2	798.3	790.4	100.99	801.1	99.65
2012	11.2	762.3	761.8	100.06	752.9	101.25

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

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 2013 Budget, as amended, public education accounted for 49% of general fund and budget restoration fund appropriations and 36% 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 its share of 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. The higher education share of fiscal year 2012 expenditures for all funds was 16.0% and was 15.8% of the fiscal year 2013 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
2009	117,606	101,277	218,883
2010	122,969	109,788	232,757
2011	125,755	115,279	241,034
2012	129,635	115,485	245,120
2013 estimate	127,932	114,664	242,596

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 11 residential health facilities, finances medical services to the indigent, and aids local health departments on a matching formula basis. For fiscal year 2013, $9,907.7 million was budgeted for the Department of Health and Mental Hygiene, including $4,692.8 million in federal funds, $3,929.8 million in State general funds and budget restoration funds and $1,285.1 million in other State special funds.

The Department's 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 2012, $6,728.8 million was spent on this program, including services for those enrolled in the Maryland Children's Health Program and the Primary Adult Care Program. Virtually all of these expenditures were for services for which the State recovered approximately a 50% match from the federal government. For fiscal year 2012, the average monthly enrollment in these programs was 987,194. For fiscal year 2013, the budget provided for 1,068,590 Medical Assistance enrollees and funding of $6,989.3 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 2013, the transportation budget totaled $3,801.7 million; on the same basis, actual expenditures for fiscal year 2012 were $3,456.2 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; the Intercounty Connector; 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, child support enforcement, and work opportunity assistance for adults receiving public assistance. For fiscal year 2013, approximately $2,476.9 million was budgeted for the Department of Human Resources, including $1,710.1 million in federal funds, $664.4 million in State general funds and budget restoration funds, and $102.4 million in other State special funds.

Public assistance programs include Temporary Cash Assistance ("TCA"), Supplemental Nutrition Assistance Program ("SNAP"), assistance to disabled citizens, and several emergency assistance programs. The largest categories of programs are TCA, in which the State/federal government shares vary depending upon the areas to which the State directs its maintenance of effort and food stamps, which are 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 2013, approximately $1,980.3 million was budgeted for these departments, of which $1,666.9 million was from general funds and budget restoration 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 8.6% of total expenditures for fiscal year 2012 and 9.3% of the fiscal year 2013 Budget. In addition, general obligation bond debt service accounted for approximately 2.6% of total expenditures for fiscal year 2012 and 2.6% of the fiscal year 2013 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.

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, 2009 through June 30, 2012, and the estimate for the fiscal year ending on June 30, 2013.

State Reserve Fund
Fiscal Years 2009–2013
($ 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**
2009	$691.8	$10.0	$701.8	5.4%
2010 (a)	611.6	3.1	614.7	4.9
2011 (a)	624.4	4.8	629.2	4.6
2012 (a)	671.5	2.8	674.3	4.7
2013 estimate (a)	701.0	19.4	720.4	4.7

(a) 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 Estimates equaled 5.0%. Subsequently, the percentage fell below 5.0% due to increased revenues and/or lower than expected interest earnings.

FY 2008-2012 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, 2008 through June 30, 2012.

GAAP General Fund Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years 2008-2012
($ in thousands)

	2008	2009	2010	2011	2012
Revenues (a):					
Income taxes	$ 7,868,899	$ 7,156,297	$6,957,811	$7,639,285	$7,822,259
Sales and use taxes	3,748,933	3,851,752	3,754,326	3,896,876	4,076,729
Other taxes	1,816,652	1,554,732	1,542,180	1,598,321	1,597,152
Other licenses and fees	651,079	686,806	682,756	683,289	714,891
Charges for services	732,103	830,038	1,220,226	1,446,815	1,611,811
Interest and other investment income	296,636	154,895	119,635	20,768	83,924
Federal revenue	5,846,077	7,005,387	8,581,125	9,159,668	8,241,894
Other	188,575	358,044	395,238	293,164	401,447
Total revenues	21,148,954	21,597,951	23,253,297	24,738,186	24,550,107
Expenditures (a):					
General government	727,569	754,317	754,139	770,805	832,536
Health and mental hygiene	7,536,747	8,286,032	9,040,549	9,441,903	9,772,861
Education	7,997,946	8,289,393	8,539,556	8,854,150	8,700,025
Human resources	1,761,284	2,061,959	2,291,347	2,420,789	2,488,200
Public Safety	1,835,652	1,824,595	1,773,141	1,873,921	1,875,795
Judicial	556,056	585,778	556,908	577,333	590,082
Labor, licensing and regulation	166,848	182,751	226,118	246,700	261,615
Natural resources and recreation	188,675	205,876	184,342	182,229	179,682
Housing and community development	244,581	244,208	315,630	368,857	344,408
Environment	95,918	106,307	110,092	107,457	96,116
Agriculture	147,494	142,804	92,954	80,770	79,294
Business and economic development	94,503	90,892	74,578	79,284	75,835
Intergovernmental	408,208	354,617	336,703	329,094	316,863
Total expenditures	21,761,481	23,129,529	24,296,057	25,333,292	25,613,312
Excess (deficiency) of revenues over expenditures	(612,527)	(1,531,578)	(1,042,760)	(595,106)	(1,063,205)
Other sources (uses) of financial resources:					
Capital leases	31,185	27,945	15,472	19,633	4,593
Housing Bonds issued (b)	-	-	-	100	-
Operating transfers in	648,718	602,745	1,276,702	1,116,961	1,098,506
Operating transfers out	(440,755)	(474,778)	(510,244)	(451,070)	(302,402)
Net other sources (uses) of financial resources	239,148	155,912	781,930	685,624	800,697
Net change in fund balances	(373,379)	(1,375,666)	(260,830)	90,518	(262,508)
Fund balances at the beginning of the year	3,258,967	2,885,588	1,509,922	1,249,092	1,339,610
Fund balances, June 30	$ 2,885,588	$1,509,922	$1,249,092	$1,339,610	$1,077,102
Fund balance as % of revenues	13.6%	7.0%	5.4%	5.4%	4.4%

(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."

(b) Department of Housing and Community Development Bonds issued for the Home Ownership Programs in the enterprise fund.

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General Fund 2013 Budget

2013 Budget. The Governor of Maryland must, by law, submit a balanced budget for legislative review. In order to develop a balanced fiscal year 2013 Budget ("2013 Budget"), the Governor also submitted the State and Local Revenue and Financing Act of 2012 (the "2012 Revenue Act") and the Budget Reconciliation and Financing Act of 2012 (the "2012 Act"). The 2012 Revenue Act included provisions to increase revenues to the State General Fund and to special funds. The 2012 Act authorized various funding and statutory changes to support the 2013 Budget.

The General Assembly enacted the 2013 Budget on April 9, 2012. However, the General Assembly was unable to reach consensus on certain outstanding issues, including a proposed expansion of gambling in Maryland, and did not enact either the 2012 Act or the 2012 Revenue Act during the 2012 Legislative Session. The failure to enact those two pieces of legislation automatically precipitated $512.3 million of expenditure reductions in the 2013 Budget. These contingent reductions included, among other reductions: (1) $286.1 million in reductions to primary, secondary, and higher education; (2) $52.3 million from grants to local government; (3) $50.0 million by reducing State agency budgets by 8 percent; (4) $33.8 million for eliminating a 2 percent cost of living adjustment for State employees; (5) $30.0 million from eliminating 500 permanent positions statewide; and (6) $15.0 million from increasing the State employee contribution for health insurance costs.

Following the conclusion of the 2012 Legislative Session, it was determined that enacted legislation was insufficient to authorize approximately $75.9 million of the contingent reductions affecting State support for primary and secondary education. This determination reduced the total amount of the contingent reductions to $436.3 million and created an apparent fiscal year 2013 Budget imbalance of approximately $71.0 million.

The Governor called the General Assembly to meet in the First Special Session of 2012 on May 14, 2012. On May 16, 2012, the General Assembly enacted amended versions of both the 2012 Act and 2012 Revenue Act, the passage of which increased revenues, reduced expenditures, and created the Budget Restoration Fund ("BRF"), a new special fund used to restore the above-described contingent reductions in the 2013 Budget.

Exclusive of BRF spending, the 2013 Budget included $14,593.0 million in spending for, among other things: (1) funds to the State's retirement and pension systems consistent with the corridor funding methodology prescribed by statute; (2) $5,902.4 million in aid to local governments from general funds; (3) $3,890.4 million to support public health services in the Department of Health and Mental Hygiene, including $2,389.7 million for the Medicaid Program; (4) $0.7 million for capital projects; and (5) $27.8 million for the State Reserve Fund.

Pursuant to the 2013 Budget and legislation enacted during the 2012 Legislative Session and the First Special Session of 2012 as well as regulatory changes adopted by the administration and unanticipated revenue receipts, revenues in 2013 Budget were adjusted $86.1 million above Board of Revenue Estimates projections. The largest single increase was a $39.0 million increase to reflect revenue on economic activity resulting from extending the federal payroll tax cut. Other adjustments included $9.5 million in admissions and amusement taxes from electronic bingo, $9.1 million in settlements from pharmaceutical companies, and $8.0 million in unclaimed property revenues.

The 2013 Budget also included $227.6 million in spending reductions authorized by the 2012 Act. The largest reductions included $136.6 million from sharing local teachers' retirement costs with local school boards, $40.0 million in favorable Medicaid spending trends, and $10.0 million from allocating additional Cigarette Restitution Funds to Medicaid.

The 2013 Budget also included $191.7 million in deficiency appropriations for fiscal year 2012, the largest of which included: (1) $121.0 million for the State Department of Education to reflect reduced projections for video lottery terminal revenue used to support education aid to local school systems; (2) $55.5 million for the State Department of Education and the Department of Human Resources to reflect reduced projections for the Temporary Assistance for Needy Families federal grant; and (3) $18.0 million for the State Department of Education to provide funding for the development and scoring of school assessments.

The 2013 Budget included $1.4 billion in total fund contributions to the Maryland State Retirement and Pension System consistent with the corridor funding methodology prescribed by statute. The contribution amount included funding in accordance with the corridor method and an additional $190.8 million pursuant to the Budget

Reconciliation and Financing Act of 2011 (the "2011 Act"). The additional amount reflects the difference between the State's required contribution under the corridor funding method for fiscal year 2013 and the amount that would have been required had the 2011 Pension Reforms (defined herein) not been enacted, less $120.0 million. See "STATE FINANCES – Maryland State Retirement and Pension System."

The 2013 Budget funded debt service on the State's general obligation bonds with $910.5 million in special funds, primarily from State property tax revenues and $12.0 million in federal funds reflecting the interest subsidy on current outstanding American Recovery and Reinvestment Act of 2009 ("ARRA") Bonds[(a)]. 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 2012.

The 2013 Budget included $27.8 million to the Revenue Stabilization Account of the State Reserve Fund. The balance in the Revenue Stabilization Account was estimated to equal $713.5 million or 5.0% of estimated general fund revenues.

The enacted 2013 Budget estimated that the general fund balance on a budgetary basis at June 30, 2013 would be $200.4 million.

In addition, the 2012 Act authorized $433.5 million in additional revenues and fund transfers that would be deposited into the BRF and directed $430.3 million in expenditures from the BRF. Any unexpended funds remaining in the BRF at the end of fiscal year 2013 would revert to the General Fund. The revenues deposited into and the expenditures funded by the BRF would normally be assigned to the General Fund. Revenues that were ongoing would be deposited into the General Fund starting in fiscal year 2014.

The $433.5 million in revenues and transfers to the BRF provided by the 2012 Act included: (1) a $247.3 million increase from additional income tax revenues derived from increasing income tax rates and limiting certain personal exemptions for high earners; (2) an $8.8 million increase in lottery revenues from maintaining the current commission for lottery agents; (3) $8.0 million in motor fuel taxes; (4) a $7.4 million increase in corporate income taxes from the elimination of a credit for telecommunications companies; and (5) a $5.0 million increase from taxes on certain tobacco products. Additionally, the BRF received $157.0 million in transfers including, among others, (1) a $96.8 million transfer from transfer tax revenues and (2) a $50.0 million payment from the Injured Worker's Insurance Fund.

Subsequent Events. At the conclusion of the First Special Session of 2012, the Department of Budget and Management estimated that the general fund balance on a budgetary basis for the fiscal year ending on June 30, 2012 would be $320.3 million. General fund revenues and fund transfers realized in fiscal year 2012 were $230.6 million above estimates. Additionally, general fund reversions on a budgetary basis yielded slightly greater than expected returns. The total amount of general fund revenues, reversions and transfers in excess of estimates was $230.9 million. The fiscal year 2012 general fund ending balance on a budgetary basis was $551.2 million.

On September 17, 2012, the Board of Revenue Estimates released an updated fiscal year 2013 general fund revenue estimate. The Board estimated that revenues would be $180.6 million greater than assumed after passage of the 2013 Budget and legislation enacted during the First and Second Special Sessions of 2012.

On December 13, 2012, the Board of Revenue Estimates released an updated fiscal year 2013 general fund revenue estimate projecting that revenues will be $127.1 million greater than the Board's September 17, 2012 estimate.

On March 7, 2013, the Board of Revenue Estimates reduced its fiscal year 2013 general fund revenue estimate by $76.8 million.

(a) Due to federal budget sequestration, federal direct pay subsidies to the State for ARRA Bonds have been subject to an 8.7% reduction beginning March 1, 2013 and extending through September 30, 2013. If Congress fails to enact a federal budget deficit reduction plan pursuant to the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, sequestration would again reduce federal direct pay subsidies for ARRA bonds for federal fiscal year 2014 beginning October 1, 2013. The amount of such reduction for federal fiscal year 2014 is currently estimated by the federal Office of Management and Budget ("OMB") to be 7.2%, but is subject to revision.

The 2014 Budget also included deficiency appropriations of $115.3 million for fiscal year 2013, the largest of which include: (1) $50.4 million for the Department of Human Resources to offset federal funds for Local Child Welfare services that will not be attained; (2) $19.3 million to the Department of Human Resources to supplant Temporary Assistance for Needy Families block grant funds in the Temporary Cash Assistance program; (3) $17.3 million for the State Department of Education to perform school assessments; and (4) $10.0 million for the Dedicated Purpose Account to provide funds to support critical programs impacted by federal sequestration. In addition to the deficiencies enumerated above, the 2014 Budget includes a $77.6 million downward adjustment to the fiscal year 2013 Budget for the Department of Health and Mental Hygiene to reflect lower than estimated Medicaid enrollment for that year.

Based on the events and actions discussed above, it is estimated that the fiscal year 2013 general fund balance on a budgetary basis at June 30, 2013 would equal $557.6 million

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General Fund Revenues and Appropriations — Budgetary Basis
Fiscal Years 2012-2013
($ in millions)

	2012 Actual	2013 Original Budget (a)	2013 Estimate (a) (b)
General Fund Revenues			
Income Taxes	$ 7,761.2	$ 8,294.2	$ 8,559.0
Sales and Use Taxes	4,039.3	4,125.7	4,074.5
Lottery	536.3	519.5	526.2
Franchises, Excises, Licenses, Fees	1,921.1	1,792.3	1,765.6
Adjustments / Extraordinary Items	-	-	30.8
Total*	$14,257.8	$14,731.7	$14,956.2
General Fund Appropriations			
Public Education	$ 7,397.1	$ 7,367.4	$ 7,398.5
Human Resources	602.0	593.4	664.4
Public Health	3,950.8	4,008.0	3,929.8
Public Safety, State Police, and Juvenile Services	1,614.9	1,614.5	1,666.9
Capital Funding	47.5	0.7	0.7
State Reserve Fund – Revenue Stabilization & Dedicated Purpose Accounts	15.0	27.8	37.8
Administrative and Other	1,323.3	1,411.5	1,420.9
Total*	$14,950.7	$15,023.3	$15,118.9

General Fund Balance — Budgetary Basis
Fiscal Years 2012-2013
($ in millions)

	2012 Actual	2013 Estimate (a) (b)
Balance Beginning of Year (a)	$990.1	$551.2
Increases:		
Revenues	14,257.8	14,956.1
Reimbursements from Tax Credit Reserves	13.2	11.3
Transfer from other funds	225.4	158.0
	14,496.4	15,125.4
Decreases:		
Appropriations	14,950.7	15,118.9
Reversion of Prior Year Encumbrances	(15.3)	-
	14,935.4	15,118.9
Balance End of Year* (c)	$551.2	$557.6

(a) Includes the amounts budgeted in both the General Fund and the Budget Restoration Fund.
(b) Estimated revenues include revenues recommended to the Governor by the Board of Revenue Estimates in March 2013 and revenue adjustments incorporated in the fiscal year 2014 Budget. Estimated appropriations are based on the 2013 Budget as enacted and include deficiency appropriations of $115.3 million and are net of estimated reversions of $49.6 million.
(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 2014 Budget

2014 Budget. The General Assembly enacted the fiscal year 2014 Budget (the "2014 Budget") on April 5, 2013. The 2014 Budget includes $15,675.1 million in spending for, among other things: (1) funds to the State's retirement and pension systems consistent with the corridor funding methodology prescribed by statute; (2) $6,323.4 million in aid to local governments from general funds; (3) $3,906.9 million to support public health services in the Department of Health and Mental Hygiene, including $2,334.8 million for the Medicaid Program; (4) $39.9 million for capital projects; and (5) $55.3 million for the State Reserve Fund.

As part of the fiscal year 2014 Budget plan, the General Assembly enacted the Budget Reconciliation and Financing Act of 2013 (the "2013 Act"), legislation that authorizes various funding changes resulting in increased general fund revenues and decreased general fund appropriations. The largest adjustment is the redirection of $410.7 million in transfer tax revenues to the General Fund from fiscal years 2014 through 2018, including $89.2 million in fiscal year 2014. In addition, the 2013 Act repeals the requirement that the State repay $350 million to the Local Income Tax Reserve Account, including a $50 million repayment in fiscal year 2014, and defers a $50 million repayment to land preservation programs from fiscal year 2014 until at least fiscal year 2016. The 2013 Act also contains a provision that, in conjunction with the 2014 Budget, permits $87.1 million of general funds originally earmarked to be reinvested in the Teachers', Employees', State Police, and Law Enforcement Officers' Pension Systems to be used to mitigate the impact of federal sequestration. Finally, a number of other smaller adjustments to spending and revenues are implemented by the 2013 Act.

The 2014 Budget includes a $55.3 million appropriation to the Revenue Stabilization Account of the State Reserve Fund. The balance in the Revenue Stabilization Account at June 30, 2014 is estimated to equal $767.8 million, or 5.0% of general fund revenues, as estimated by the Board of Revenue Estimates in March 2013.

The 2014 Budget includes $73.4 million in total funds for a 3.0% State employee cost of living adjustment effective January 1, 2014. The 2014 Budget also includes $19.2 million for merit increases effective April 1, 2014.

The 2014 Budget includes $1.5 billion in total fund contributions to the Maryland State Retirement and Pension System. This amount includes $1.3 billion consistent with the corridor funding methodology prescribed by statute and $200 million representing the reinvestment in the State Retirement and Pension System of a portion of the savings generated by pension reform legislation enacted during the 2011 legislative session. The 2014 Budget expresses the General Assembly's intent that the Governor transfer any excess general funds, from the $87.1 million, not needed to mitigate the impact of federal sequestration to the State Retirement and Pension System on January 1, 2014. During the 2013 Legislative Session, the General Assembly enacted legislation to phase out the State's corridor funding methodology. The legislation phases out the corridor funding methodology over a ten-year span, but does not affect the 2014 Budget.

The 2014 Budget funds debt service on the State's general obligation bonds with $83.0 million in general funds, $887.7 million in special funds, primarily from State property tax revenues and $12.4 million in federal funds reflecting the interest subsidy on current outstanding ARRA Bonds[(a)]. 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 2013.

It is estimated that the general fund balance on a budgetary basis at June 30, 2014 will be $293.9 million.

(a) Due to federal budget sequestration, federal direct pay subsidies to the State for ARRA Bonds have been subject to an 8.7% reduction beginning March 1, 2013 and extending through September 30, 2013. If Congress fails to enact a federal budget deficit reduction plan pursuant to the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, sequestration would again reduce federal direct pay subsidies for ARRA Bonds for federal fiscal year 2014 beginning October 1, 2013. The amount of such reduction for federal fiscal year 2014 is currently estimated by OMB to be 7.2%, but is subject to revision.

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 nine months ended March 31, 2012 and revenues and expenditures of the General Fund and the Budget Restoration Fund for the nine months ended March 31, 2013. 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. The Budget Restoration Fund is a special fund established in fiscal year 2013 to restore certain 2013 Budget spending reductions. See "STATE FINANCES - General Fund 2013 Budget". Approximately 42.9% of revenues were accounted for in the General Fund in fiscal year 2012, and it is currently estimated that the General Fund and the Budget Restoration Fund will account for 41.7% of all revenues in fiscal year 2013. 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 and budget restoration fund revenues on a budgetary basis by major categories for the nine months ended March 31, 2012 and 2013.

General Fund Revenues
($ in millions)

	Nine Months Ended March 31			
	Fiscal Year 2012		Fiscal Year 2013(e)	
	Amount	% of FY Actual Revenues (a)	Amount	% of FY Estimated Revenues (a)
Income Taxes (b)(c)	$4,997.8	69.3 %	$5,468.1	70.5%
Sales and Use Taxes (b)	2,654.9	72.6	2,676.8	66.3
Motor Vehicle User Taxes, Fees (d)	113.8	29.8	8.7	4.6
Property, Franchise, Excise Taxes	710.1	61.7	737.3	64.1
Sundry Fees, Licenses, Charges, Etc.	555.1	36.7	581.4	44.7
Federal	28.2	40.2	23.8	38.3
Totals *	$9,059.7	66.9 %	$9,496.0	66.7%

(a) For the first nine months of fiscal year 2012, represents the percentage of actual revenues for the full fiscal year; for the first nine months of fiscal year 2013, represents the percentage of revenues as estimated by the Board of Revenues Estimates on March 7, 2013.
(b) Income taxes and sales and use taxes reflect amounts actually received from July through March, excluding amounts received in that period allocable to the preceding fiscal year.
(c) Legislation enacted by the General Assembly during the 2012 First Special Session increased the income tax rates and reduced personal exemption amounts for many taxpayers, effective for all tax years beginning after December 31, 2011. 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 Budget approved by the General Assembly during the 2010 Legislative session and later modified in fiscal year 2012 Budget approved by the General Assembly during the 2011 Legislative session.
(e) Fiscal year 2013 includes the Budget Restoration Fund.
*Totals may not add due to rounding.

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General Fund Expenditures. The following presents a summary of general fund and budget restoration fund expenditures on a budgetary basis by major category for the nine months ended March 31, 2012 and 2013 (see note (a)):

General Fund Expenditures
($ in millions)

	Nine Months Ended March 31			
	Fiscal Year 2012		Fiscal Year 2013 (d)	
	Amount	% of FY Actual Expenditures (b)	Amount	% of FY Budget Expenditures (b)
Public Education	$5,746.2	77.8%	$5,600.2	78.4%
Human Resources	424.8	70.3	409.3	69.3
Public Health	3,189.3	80.2	2,885.8	73.6
Public Safety	1,131.5	73.3	1,115.9	71.7
Administrative & Other	971.2	70.9	986.8	71.3
Capital Funding (c)	47.5	100.0	-	-
State Reserve Fund - Dedicated Purpose Account	15.0	100.0	27.8	100.0
Totals *	$11,525.5	77.1 %	$11,025.8	75.4%

(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 nine months ended March 31, 2012 and 2013. At June 30, 2011 and 2012, General Fund encumbrances charged to expenditures for the fiscal years ended totaled $78.9 million and $71.7 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 nine months of fiscal year 2012, represents the percentage of actual expenditures for the full fiscal year; for the first nine months of fiscal year 2013, represents the percentage of current budget expenditures.

(c) Capital Funding is appropriated in the General Fund and transferred to the Capital Projects Fund at the beginning of the fiscal year.

(d) Fiscal Year 2013 includes the Budget Restoration Fund.

* Totals may not add due to rounding.

Federal Stimulus Funding

ARRA provided 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 provided $4.9 billion in funding to the State of Maryland for fiscal years 2009 through 2014.

Over this time period, ARRA grants to Maryland have provided $659.6 million for educational programs, $879.5 million for infrastructure programs, and $526.3 million for other programs. These funds have provided additional federal support and have not supplanted general funds.

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Funds Supporting State General Fund Commitments

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

Medicaid funds totaled $1,914.4 million and were 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 2014
($ in Millions)

Program	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 Estimate	FY 2014 Estimate	Estimated Total Award
Supporting State General Fund Commitments							
Fiscal Stabilization – Education	$0.0	$297.3	$422.3	$0.0	$0.0	$0.0	$719.6
Fiscal Stabilization – Discretionary	1.5	79.6	79.0	0.0	0.0	0.0	160.1
Medicaid	443.5	785.8	685.0	0.0	0.0	0.0	1,914.4
Subtotal	445.0	1,162.7	1,186.3	0.0	0.0	0.0	2,794.1
Education Grants Appropriated in the State Budget							
Special Education	0.0	214.1	15.2	0.7	0.0	0.0	230.0
Title I	0.0	130.7	0.0	0.0	0.0	0.0	130.7
Race to the Top	0.0	0.0	133.3	35.3	48.1	37.3	254.1
Education Technology	0.0	8.1	0.2	0.2	0.0	0.0	8.5
School Improvement Program	0.0	0.2	13.2	12.7	0.0	0.6	26.8
Vocational Rehabilitation	0.8	5.3	1.8	0.3	0.1	0.0	8.3
Head Start	0.0	0.0	0.0	0.4	0.6	0.2	1.3
Subtotal	0.8	358.4	163.8	49.7	48.7	38.1	659.6
Infrastructure Appropriated in the State Budget							
Highways	15.0	155.8	165.9	60.5	8.5	0.0	405.7
Transit Capital	0.0	42.4	53.7	41.4	8.4	5.0	150.9
Aviation Capital	0.0	6.5	8.5	0.0	0.0	0.0	15.0
High Speed Rail	0.0	0.0	9.9	4.7	15.4	24.0	54.0
Tax Credit Assistance Program (HOME)	0.0	31.7	2.0	0.0	1.0	1.2	35.9
Section 1602 Monetization	0.0	77.2	0.0	0.0	0.0	0.0	77.2
Broadband Technology	0.0	0.0	9.5	46.1	51.7	9.8	117.1
Clean Water	0.0	19.1	0.7	0.4	0.0	0.0	20.2
Drinking Water	0.0	3.4	0.1	0.0	0.0	0.0	3.5
Subtotal	15.0	336.1	250.3	153.1	85.0	40.0	879.5
Other Grants Appropriated in the State Budget							
State Energy Programs	0.0	19.3	25.5	9.0	2.1	0.7	56.6
Energy Efficiency and Conservation Block Grant	0.0	5.7	32.3	6.6	11.7	0.1	56.4
Weatherization	6.5	52.3	3.8	4.1	0.0	0.0	66.7
Community Services Block Grant	0.0	13.7	0.1	0.0	0.0	0.0	13.8
Homelessness Prevention	0.0	5.4	0.0	0.3	0.0	0.0	5.7
Community Development Block Grant	0.0	2.1	0.0	0.0	0.0	0.0	2.1
Foster Care	7.2	7.1	4.0	0.0	0.0	0.0	18.3
Food Assistance	33.4	3.9	0.0	0.0	0.0	0.0	37.3
Temporary Assistance for Needy Families	16.1	32.8	16.2	0.0	0.0	0.0	65.1
Ind. Living, Homeless Educ. & Work Study	0.0	1.6	0.1	0.0	0.0	0.0	1.7
Child Care & Development Block Grant	4.4	18.2	0.0	0.0	0.0	0.0	22.6
Child Support Enforcement	14.1	12.2	4.1	0.0	0.0	0.0	30.4
UI/Workforce Inv./Dislocated Workers	1.8	17.1	19.6	3.3	3.2	0.0	45.0
Preventative Health BG/Immunization	0.0	1.3	2.0	1.5	0.0	0.0	4.8
Health Information Technology	1.0	0.6	2.6	3.9	2.8	0.9	11.8
Byrne Grants/Public Safety Grants	0.1	8.8	17.3	4.7	0.8	0.0	31.7
Federal Subsidy on Build America Bonds	0.0	0.9	9.2	11.5	12.0	12.4	46.0
Other Grants	0.3	3.3	3.1	2.4	0.9	0.3	10.3
Subtotal	84.9	206.3	140.0	47.2	33.5	14.4	526.3
Total State Grants *	$545.7	$2,063.5	$1,740.6	$250.0	$167.2	$92.6	$4,859.6

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

FY 2008-2012 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 2008 to 2012 ($ in thousands)

	2008		2009		2010		2011		2012	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Revenues:										
Income taxes	$7,545,165	$7,491,807	$7,363,803	$7,027,897	$6,600,565	$6,888,949	$6,948,129	$7,214,730	$7,578,192	$7,761,154
Sales and use taxes	3,691,717	3,675,263	3,610,951	3,620,431	3,473,936	3,528,960	3,672,461	3,656,044	3,979,527	4,039,348
Other taxes	1,083,077	1,100,788	1,113,177	1,056,124	1,010,987	1,034,718	1,070,967	1,092,339	1,081,247	1091,821
Licenses and fees	205,284	205,314	190,969	207,169	202,944	204,963	194,493	205,355	198,097	204,677
Charges for services	308,532	299,709	290,861	298,377	291,250	271,923	309,663	328,717	308,650	293,628
Interest and other investment income	122,585	234,289	103,000	113,607	35,000	64,759	54,000	71,373	30,000	25,438
Other	601,428	837,322	547,693	878,185	598,114	705,211	909,316	617,711	799,380	668,390
Total revenues (a)	13,557,788	13,844,492	13,220,454	13,201,790	12,212,796	12,699,483	13,159,029	13,186,269	13,975,093	14,084,456
Expenditures and encumbrances by major function:										
Payments of revenue to civil divisions of the State	149,512	149,218	120,760	120,760	124,011	124,011	121,436	121,436	119,747	119,747
Public debt	29,349	29,349	-	-	-	-	-	-	-	-
Legislative	72,258	70,838	76,397	73,650	76,403	71,590	75,608	74,859	76,837	76,837
Judicial review and legal	457,197	453,810	485,384	477,529	479,558	469,861	473,670	473,259	481,430	481,145
Executive and administrative control	195,834	193,466	254,130	248,094	200,473	197,325	207,190	205,771	253,846	251,226
Financial and revenue administration	185,550	180,191	179,818	178,792	197,695	196,070	209,357	207,804	201,590	199,517
Budget and management	31,546	28,611	38,839	36,165	38,328	37,062	42,810	41,505	46,017	43,994
General services	58,062	58,062	55,284	55,284	51,284	51,209	52,253	52,010	55,126	55,124
Natural resources and recreation	76,856	76,476	57,855	57,718	45,351	45,250	43,569	43,484	44,974	44,612
Agriculture	34,392	33,710	29,155	28,884	25,236	25,236	27,328	27,300	30,272	28,877
Health, hospitals and mental hygiene	3,671,920	3,651,019	3,373,973	3,362,742	2,985,071	2,962,979	3,235,721	3,235,650	3,950,504	3,949,174
Human resources	575,743	575,743	589,585	589,215	607,269	607,266	554,971	554,971	602,031	602,031
Labor, licensing and regulation	15,880	15,440	12,829	12,743	33,235	33,235	32,463	32,234	35,405	34,974
Public safety and correctional services	1,034,831	1,034,830	1,076,908	1,076,861	1,008,610	1,007,312	1,004,664	1,003,798	1,081,269	1,081,243
Public education	7,014,660	7,007,355	7,246,594	7,242,123	6,977,056	6,973,769	6,673,314	6,662,181	7,405,694	7,397,113
Housing and community development	13,701	13,688	9,411	9,401	4,231	4,231	3,940	3,469	4,530	4,530
Business and economic development	95,708	95,670	81,198	80,788	62,702	62,701	70,233	69,848	75,828	72,850
Environment	44,527	44,471	44,951	44,941	35,500	35,500	32,731	32,731	30,852	30,852
Juvenile services	267,188	266,734	267,002	266,941	260,637	260,636	257,516	257,514	269,192	269,179
State police	247,375	246,745	180,461	178,772	164,082	162,112	166,175	166,018	192,683	192,683
State reserve fund	262,795	262,795	211,543	211,543	114,948	114,948	15,000	15,000	15,000	15,000
Reversions:										
Current year reversions	(30,000)	-	(30,000)	-	(63,680)	-	(30,000)	-	(30,000)	-
Prior year reversions	-	(49,268)	-	(44,216)	-	(13,672)	-	(42,584)	-	(15,347)
Total expenditures and encumbrances	14,504,884	14,438,953	14,362,077	14,308,730	13,428,000	13,428,631	13,269,949	13,238,258	14,942,827	14,935,361
Changes in encumbrances during fiscal year	-	26,735	-	42,998	-	39,241	-	18,537	-	7,183
Total expenditures	14,504,884	14,465,688	14,362,077	14,351,728	13,428,000	13,467,872	13,269,949	13,256,795	14,942,827	14,942,544
Excess of revenues over (under) expenditures	(947,096)	(621,196)	(1,141,623)	(1,149,938)	(1,215,204)	(768,389)	(110,920)	(70,526)	(967,734)	(858,088)
Other sources (uses) of financial resources:										
Operating transfers in (out)	-	(72,596)	-	688,515	-	898,877	-	712,634	-	457,053
Excess of revenues over (under) expenditures and other sources of financial resources	(947,096)	(693,792)	(1,141,623)	(461,423)	(1,215,204)	130,488	(110,920)	642,108	(967,734)	(401,035)
Fund balances at the beginning of the year	2,080,852	2,080,852	1,387,060	1,387,060	925,637	925,637	1,056,125	1,056,125	1,698,233	1,698,233
Fund balances, June 30 (b)	$ 1,133,756	$ 1,387,060	$ 245,437	$ 925,637	$ (289,567)	$ 1,056,125	$945,205	$1,698,233	$730,499	$1,297,198

(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

As with all future projections, the information in this section is based on certain assumptions. One or more of these assumptions may prove to be inaccurate and may be changed in the future as new information becomes available.

Budgetary Balance. The 2014 Budget results in an estimated general fund balance on a budgetary basis at June 30, 2014 of $293.9 million. The Department of Budget and Management forecasts that the size of the existing structural budget gap will be reduced due to expenditure reductions and revenue adjustments included in the 2013 Act and in the 2014 Budget, which together reduce the State's structural budget imbalance in fiscal year 2014 to an estimated $171.8 million from an estimated $1.1 billion. The revenue adjustments include ongoing transfers between funds, the largest of which is a recurring fund transfer from Program Open Space to the General Fund. The Department of Budget and Management estimates future shortfalls in the General Fund of $270 million and $195 million in fiscal years 2015 and 2016. Beginning in fiscal year 2017 and continuing into fiscal year 2018, the Department of Budget and Management estimates that the State's budget will be structurally balanced with ongoing revenues exceeding ongoing spending. The Governor must submit and the Legislature must enact a balanced budget. See "STATE FINANCES – Budgetary System".

Revenues. Maryland's economy is on the mend from the recent recession; however, uncertainty remains, particularly with regard to potential federal budget cutbacks. Federal spending in Maryland is equivalent to approximately one-third of the State's economy and direct federal employment accounts for 5.7% of jobs in the state. In addition, many of the State's business and professional services firms largely service the federal government; such cutbacks would have a negative impact on their employment activity as well.

The Board of Revenue Estimates has assumed in several of its recent revenue forecast documents, that sequestration, the common name for the ten-year $1.2 trillion reduction in federal spending that was initially negotiated during the nation's 2011 increase of the debt ceiling, would impact general fund revenues. Sequestration took effect on March 1, 2013 and its full impact on Maryland remains uncertain. The Board of Revenue Estimates' most recent estimate in March 2013 assumed that full sequestration would be averted and replaced with other federal budget cuts relative to a no-sequester baseline. Those assumed cuts would disproportionately impact Maryland, triggering 12,600 job losses and the reduction of $2.8 billion of personal income for Maryland residents in the aggregate; however, to be clear, the impact would be far less than the estimated 65,000 job losses that would result from full sequester. Additionally, the Boardof Revenue Estimates' economic forecast includes the effect of those cuts phasing in, beginning in the tail-end of fiscal year 2013 and completing in fiscal year 2015. The impact of the Board of Revenue Estimates' assumed federal budget cuts subtracts $194.5 million from the current general fund estimate over fiscal years 2013 and 2014. The long term impacts of sequestration on the State's revenues remain uncertain. The Board of Revenue Estimates will be monitoring any developments related to the federal budget and its impact on the Maryland economy as part of its preparation for the upcoming September 2013 revenue forecast.

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. Pursuant to legislation enacted

during the regular and first special sessions of 2012, the fiscal year 2013 budget includes $21.3 million of additional support from the CRF in Medicaid programs. Net expenditures from the CRF were $149.0 million in fiscal year 2012 and are estimated to total $153.4 million in fiscal year 2013.

State Unemployment Insurance Trust Fund

In fiscal year 2012, the Maryland Unemployment Insurance Trust Fund (the "Fund"), which provides funding for unemployment benefits in the State, received approximately $925.7 million in annual contributions from employers and workers while paying out approximately $778.1 million in regular, annual state unemployment benefits (excluding benefits paid entirely by the federal government.)

In 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. In April 2010, the Fund in Maryland received $126.8 million in additional federal funding because of modernization adjustments to the State unemployment insurance laws; $29.1 million of this amount remains as part of the Fund balance which was $667.1 million as of March 31, 2013.

Transportation Trust Fund

The Transportation Trust Fund ("TTF"), 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, and fare box revenues. As of July 1, 2013, the static excise tax rates for gasoline and special fuel were replaced by a two prong rate setting system that adjusts the relevant excise rates annually in most years and semiannually in certain years. See "STATE TAX-SUPPORTED DEBT – Department of Transportation Debt." All expenditures of the Department of Transportation are made from the TTF. In addition, the various categories of transportation bonds are serviced from the TTF, 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 TTF 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 TTF be delivered to the General Fund. Legislation also has provided for the subsequent re-transfers of such funds from the General Fund to the TTF within five years of the transfer.

The 2011 Act altered the distribution of certain revenues shared by the TTF and the General Fund. Beginning in fiscal year 2012, the TTF share of the general State sales tax was permanently credited to the General Fund and the TTF share of the corporate income tax was lowered. The distribution of Highway User Revenues to the General Fund was reduced in fiscal year 2012 and is entirely credited to the TTF starting in fiscal year 2013.

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 2008-2012
($ in thousands)

	2008	2009	2010	2011	2012
Revenues	$3,341,196	$3,403,513	$3,506,266	$3,641,368	$3,587,731
Expenditures	3,769,682	3,622,653	3,785,271	3,646,568	3,822,878
Excess (deficiency) of revenues over expenditures	(428,486)	(219,140)	(279,005)	(5,200)	(235,147)
Net other sources (uses) of financial resources (a)	249,319	404,740	280,002	-	130,679
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources	(179,167)	185,600	997	(5,200)	(104,468)
Fund balance, July 1	329,418	150,251	335,851	336,848	331,648
Fund balance, June 30	$150,251	$335,851	$336,848	$331,648	$227,180

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.

(a) The Department of Transportation did not sell bonds or enter into other long term financing in fiscal year 2011.

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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 generally limited to: (1) U.S. Treasury obligations; (2) obligation of certain United States agencies or instrumentalities (collectively, "Agencies"); (3) repurchase agreements collateralized in an amount not less than 102% of principal by U.S. Treasuries or Agencies; (4) bankers' acceptances, money market mutual funds and commercial paper (limited to 10% of total investments), all only with the highest rating; and (5) the Maryland Local Government Investment Pool ("MLGIP").

Investment Portfolio Distribution
(par value)

	March 31, 2012	March 31, 2013
U.S. Treasuries	$ 895,000	$ 895,000
Agencies	4,016,611,000	4,700,540,000
Repurchase Agreements	604,088,055	646,407,350
Money Market Funds	38,504,113	50,530,142
MLGIP	221,375,038	221,665,813
Total*	$4,881,473,206	$5,620,038,305
Weighted Average Maturity in Days	1,347	1,404

* Totals may not add due to rounding.

As of March 31, 2013, approximately 84% of the portfolio was invested in U.S. Treasuries and Agencies, and 12% of the portfolio was in shorter-term repurchase agreements. Investments in U.S. Treasuries and Agencies were approximately 82% of the portfolio on March 31, 2012, while repurchase agreements were approximately 12% at that time. The monthly weighted average portfolio interest rate was 1.01% for March 2013 compared to 0.92% for March 2012.

The portfolio size on March 31, 2013 was $738.6 million more than March 31, 2012. Interest earnings are not expected to significantly increase until the Federal Open Market Committee raises rates.

Maryland State Retirement and Pension System

Introduction. The actuarial information provided in this section has been provided to the Maryland State Retirement and Pension System (the "System") by the System's Actuary, Gabriel Roeder Smith & Company ("GRS"), which was retained by the Board of Trustees of the System pursuant to statute. As with all actuarial valuations and future projections, the actuarial valuations are based on actuarial assumptions that have been presented by the actuary and adopted by the Board[1]. One or more of these assumptions may prove to be inaccurate and may be changed in the future based on the future experience of the System.

Plan Description. The Maryland State Retirement and Pension System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits in a defined benefit plan to State employees, teachers, police, judges, legislators and employees of participating governmental units. The System is administered by a 14-member Board of Trustees that has the authority to invest and reinvest the System's assets. The Board of Trustees is obligated to hold the assets of the System for the exclusive purposes of providing benefits to participants and for reasonable expenses of administration.

The Board of Trustees pays all benefits and expenses of the various plans in the System from accumulation funds[2] and expense fund, respectively, established for each plan. As additional security, if needed, the State is

[1] The actuarial assumptions adopted by the Board of Trustees on June 18, 2013 to lower the assumed rate of return to 7.55% and the price inflation assumption to 2.8% phased in over a four-year period are not reflected in any referenced projections.
[2] The accumulation funds consist of employer contributions, interest on System assets, and retired members' previous contributions.

obligated to annually pay into the System at least an amount that, when combined with the System's accumulation funds, is sufficient to provide the allowances and other benefits payable under each plan during that fiscal year.

The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool." The "State Pool" consists of State agencies, boards of education, community colleges and libraries (the "State Pool"). The "Municipal Pool" consists of the participating governmental units that elect to join the System (the "Municipal Pool"). Neither pool shares in each other's actuarial liabilities. Municipal Pool participants cost-share in the liabilities of only the Municipal Pool, which receives a separate annual actuarial valuation in order to determine the funding levels and actuarial liabilities of the Municipal Pool. The Municipal Pool covers employees of over 150 political subdivisions and other entities within the State.

The State Pool comprises five distinct systems or 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. As of June 30, 2012, the State's membership in the System included 167,512 active members, 44,625 vested former members, and 117,567 retirees and beneficiaries. Together, the Teachers' and Employees' Pension Systems account for 98.2% of membership in the State Pool. In fiscal year 2012, State retirees and beneficiaries within the "State Pool" received benefit payments totaling $2.6 billion, with an average benefit of $22,341.

Plan Benefits Pre- and Post-Reform. During the 2011 Legislative Session, pension reform legislation was proposed by the Governor and enacted by the General Assembly to ensure the long-term sustainability of the System's defined benefit structure and the affordability of the State's contribution in future years (the "2011 Pension Reforms").

The 2011 Pension Reforms increased employee contributions from 5% to 7% of annual earnable compensation, decreased future annual cost of living adjustments from a 3% cap to a 2.5% cap and linked the cap to the System's achievement of annual return on investments. For most employees who become a member of the System after July 1, 2011, the reforms establish the pension Benefit Multiplier at 1.5% rather than 1.8%, calculate Average Final Compensation based on 5 highest consecutive years of service rather than 3 years, allow vesting after 10 years of eligible service rather than 5 years, and establish more stringent requirements for early and full service retirement. Similar reforms were enacted for several of the systems in the State Pool.

With the enactment of the 2011 Pension Reforms and the additional annual contributions, the System's actuary projected that the "State Pool" portion of the System would reach approximately 80% funding by fiscal year 2023, three years faster than pre-reform projections, and would reach full funding in fiscal year 2031. These projections were based on the System achieving its assumed investment return of 7.75%. Following a fiscal year 2011 return on investments, net of fees, of 20.04%, the actuary revised its projections, with 80% funding expected by fiscal year 2021 and full funding expected by fiscal year 2030. As a result of the System achieving a fiscal year 2012 return on investment, net of fees, of 0.36%, as well as changes in demographic assumptions adopted by the Board (discussed below), as of June 30, 2012, the actuary projects that the System will exceed 80% funding by fiscal year 2023 and will achieve full funding by fiscal year 2031. Each year's investment returns will affect the actuary's projections of future funding status.

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Projected Impact of 2011 Pension Reforms on Funded Ratios of State Pool (a)

Valuation Fiscal Year	Based on 6/30/2011 Valuation	Based on 6/30/2012 Valuation (b)
2012	63.7%	63.5%
2017	74.4	69.5
2021	81.3	76.6
2023	85.2	80.7
2027	94.1	90.2
2030	101.9	98.4
2031	107.9	101.3
2037	123.4	120.8

(a) Based on current corridor funding policy for the Teachers' Combined System and Employees' Combined System.
(b) Reflects the reinvested savings required by the 2011 reforms.

Assumptions. 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/(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 of assets is limited to not more than 120% or less than 80% of the market value of assets.

With regard to economic actuarial assumptions, the plan assumed a 7.75% rate of return, price inflation of 3.0% and payroll growth of 3.5% for its fiscal year 2011 valuation. The System's Board of Trustees reviewed these actuarial assumptions per the performance of a 4-year actuarial experience study (fiscal year 2006 to fiscal year 2010) by the System's actuary and decided to retain the current economic assumptions without adjustment for the System's fiscal year 2012 actuarial valuation.

With regard to demographic actuarial assumptions, the Board of Trustees decided to adopt the following recommended adjustments to the demographic assumptions per the results of the same actuarial experience study:

- Retirement Rates: Decrease to overall rates based on experience.
- Withdrawal Rates: Maintain the service-based rates for the first 10 years of service and age-based rates thereafter.
- Mortality Rates: Change from the RP-2000 Mortality Tables, Combined Healthy Participant Mortality Table, with set-backs that vary by sex and system to the same table with rates multiplied by factors that vary by sex and system for healthy post-retirement mortality and disabled mortality, respectively.
- Disability Rates: Decrease current disability rates for most systems and adjust the rates between ordinary and accidental disability to reflect observed experience.

It should be noted that at its June 18, 2013 meeting the Board of Trustees adopted a revision to the economic assumptions for the System. The Board of Trustees voted to lower the assumed rate of return to 7.55% and the price inflation assumption to 2.8%. These assumptions will be phased in over a four-year period, with the first adjustment applying to the fiscal year 2013 valuation.

Investments Allocations and Returns. The target asset allocation is set by the Board of Trustees, with no legal limits imposed by the General Assembly. The actual allocation takes into account that private market investments are made gradually in order to prudently reach the target level over multiple years. Amounts not yet invested in private markets are currently allocated to public equity and fixed income.

	Asset Allocation Actual Allocation as of 3/31/13	**Long-Term Target Allocation**
Public Equity	41.2%	36%
Fixed Income	17.8	10
Real Return	10.3	15
Credit/Debt Strategies	8.1	10
Absolute Return	6.9	7
Real Estate	5.9	10
Private Equity	6.0	10
Cash	3.9	2
Total*	100%	100%

* Totals may not add due to rounding.

The historical rates of return on the System's investments are (as of March 31, 2013, unaudited):

	1 year (a)	3 year	5 year	10 year	20 year	25 year
Annualized Returns (gross of fees) (a)	9.90%	8.58%	4.13%	8.00%	6.84%	8.05%

(a) The difference between gross and net of fees over one year is 30 basis points.

Funding Policies. 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 plans (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 only to the Teachers' and Employees' combined plans 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 plans during the preceding fiscal year (as adjusted for any legislative changes in the benefit structure) as long as such plans remain between 90 percent and 110 percent funded. If either plan 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 plan 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 remained unchanged. For each of these three plans, the employer contribution rate is equal to the sum of the normal contribution and the accrued liability contribution.

The 2011 Pension Reforms also provide that 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, State additional contributions to the System are reduced by $120.0 million and the amount of savings reinvested in the System is $190.8 million. Beginning in fiscal year 2014, savings from the 2011 Pension Reforms, in the amount of $300.0 million, will be invested in the Teachers', Employees', State Police, and Law Enforcement Officers' Systems. The 2014 Budget permits $87.1 million of the $300.0 million originally earmarked to be reinvested in the aforementioned systems to be used to mitigate the impact of federal sequestration. This action also reduced non-general funds by $12.9 million for a total reinvested savings reduction of $100.0 million. To the extent general funds are not needed to mitigate the impact of federal sequestration, the 2014 Budget expresses the General Assembly's intent that the Governor transfer any excess general funds to the System on January 1, 2014. See "STATE FINANCES-General Fund 2014 Budget". The 2014 Budget also requires that the Department of

Budget and Management, in conjunction with the State Retirement Agency, make a determination, not later than December 1, 2013, on the appropriate funding level for the reinvested savings contribution.

Legislation Enacted for the Elimination of the Corridor Funding Policy. In the 2013 Legislative Session, the General Assembly enacted legislation that phases out the modified corridor funding method over ten years and changes the System's amortization policy so that unfunded pension liabilities will be amortized over a 25-year closed period. The legislation requires that the annual employer contribution rate be a calculated blended rate that is based on the prior year's contribution rate and the actuarially determined funding rate for the upcoming year. In year one the annual employer contribution rate would be the sum of the prior year's contribution rate multiplied by 28% and the actuarially determined funding rate multiplied by 72%. In each subsequent year the percentage weight applied to the actuarially determined funding rate is increased and the percentage weight applied to the prior year's rate is decreased until year ten when the annual employer contribution rate will equal the actuarially determined contribution rate. The legislation was effective on July 1, 2013 and will be reflected in the System's fiscal year 2013 valuation, which determines the employer contribution rates for fiscal year 2015. Holding all other assumptions constant, GRS projects that with these changes in funding policy, the System will reach 80% funding in fiscal year 2025 and will achieve full funding in fiscal year 2038. Although the anticipated impact of the 2014 Budget action that allows for a reduction in the amount of reinvested savings is projected to be minimal, these estimates do not include that impact.

Employer Contribution. In fiscal year 2012, utilizing the modified corridor funding method described above for the Teachers' and Employees' Pension plans, the State paid $1,281.0 million of the employer annual required contribution ("ARC") of $1,898.7 million, or 67.5% of the actuarial required payment. Approximately $1,106.7 million was paid from the General Fund and this represented 7.4% of fiscal year 2012 general fund expenditures. In fiscal year 2012 a portion of the employer contribution for local teachers was paid from federal stimulus funds under ARRA. In the First Special Session of 2012, the General Assembly enacted legislation that requires local school boards to pay a portion of the fiscal year 2013 actuarially determined normal cost of local teachers' retirement. For the next three fiscal years, the payment increases until fiscal year 2016 when the local school boards will pay 100% of the fiscal year 2013 normal cost. Beginning in fiscal year 2017, the local school boards will pay 100% of the local teachers' normal cost as determined by the most recent valuation of the System. County governments are required to increase education funding by the additional pension costs during the phase in period. The employer contribution paid from general funds in fiscal year 2013 is $1,075.0 million or 7.1% of the 2013 general fund budget.

The Department of Budget and Management estimates that the general fund portion of the employer contribution represents 7.4% of the 2014 general fund budget and will increase to 7.7% in fiscal year 2015 and 2016 and will be 7.5% in 2018. The following table presents estimates of the employer contribution relative to the general fund budget in fiscal years 2014 through 2018. These projections reflect the sharing of local teachers' retirement costs with county governments as discussed above, as well as recent legislative changes relating to the System's funding policy, that phase out the corridor funding method over a ten-year period, and the System's amortization policy beginning in 2015.

As with all future projections, the data in the following table are based on certain assumptions. One or more of these assumptions may prove to be inaccurate and may be changed in the future based on future experience.

Projected Employer Contributions as a Percent of the General Fund Budget

	Employer Contributions		
Fiscal Year	**State Employees**	**Local Teachers**	**Total***
2014	2.0%	5.4%	7.4%
2015	2.2	5.5	7.7
2016	2.3	5.5	7.7
2017	2.3	5.1	7.4
2018	2.4	5.1	7.5

* Totals may not add due to rounding.

Funded Status. As reported in the System's annual Actuarial Valuation Report, the funded status of each plan in the "State Pool" as of June 30, 2012 was as follows:

Funded Status of the Plans within the "State Pool" Portion of the Maryland State Retirement and Pension System ($ in thousands) As of June 30, 2012

Plan	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Funded Ratio (Assets/Liab.)	Unfunded AAL (UAAL)	Covered Payroll (Active Members) (a)	UAAL As a Percent of Payroll % (a)
Teachers' Retirement and Pension System.....	$34,252,715	$22,523,978	65.8%	$11,728,737	$6,080,603	192.9%
Employees' Retirement and Pension System.....	16,413,568	9,664,964	58.9	6,748,604	3,001,198	224.9
State Police Retirement System...	1,826,546	1,134,510	62.1	692,035	77,690	890.8
Judges' Retirement System.....	421,286	330,154	78.4	77,690	39,955	228.1
Law Enforcement Officers' Pension System.....	792,962	435,858	55.0	357,104	83,672	426.8
Total of All Plans *.....	$53,707,077	$34,089,464	63.5%	$19,617,613	$9,283,118	211.3%

(a) The Covered Payroll and UAAL 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.

* Totals may not add due to rounding.

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The following table presents information regarding the UAAL of the System, including both the "State Pool" and the "Municipal Pool" for the years 2003 to 2012 as of June 30 valuation dates, derived from a report by the System's independent actuary.

Historical Funding Progress
Maryland State Retirement and Pension System (a)
Actuarial Value of Assets
($ in thousands)

Valuation Date June 30	Actuarial Accrued Liability(AAL)	Actuarial Value Of Assets	Funded Ratio (Assets/Liab.)	Unfunded AAL (UAAL)	Covered Payroll (Active Members)	UAAL As a Percent of Payroll%
2003	$34,974,601	$32,631,465	93.3%	$ 2,343,136	$ 8,134,419	28.8%
2004	36,325,704	33,484,657	92.2	2,841,047	8,069,481	35.2
2005	39,133,450	34,519,500	88.2	4,613,950	8,603,761	53.6
2006	43,243,492	35,795,025	82.8	7,448,467	9,287,576	80.2
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(c).....	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
2011	55,917,543	36,177,656	64.7	19,739,887	10,478,800	188.4
2012……	57,869,145	37,248,401	64.4	20,620,745	10,336,537	199.5

(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.
(c) 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.

The following table presents information regarding the Asset Market Values of the System, including both the "State Pool" and the "Municipal Pool" for the years 2003 to 2012 as of June 30 valuation dates, derived from a report by the System's independent actuary.

Historical Market Value of Assets
Maryland State Retirement and Pension System (a)
($ in thousands)

Valuation Date, June 30	Market Value of Assets	Valuation Date, June 30	Market Value of Assets
2003	26,727,822	2008	36,613,710
2004	30,166,724	2009	28,570,474
2005	32,073,719	2010	31,923,637
2006	34,370,819	2011	37,592,752
2007	39,444,781	2012	37,178,726

(a) Includes both the "State Pool" and the "Municipal Pool".

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, 2012 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.

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 MTA Plan is based upon a report of the consulting actuary. The Department of Transportation's budget for fiscal year 2012 provided $32.9 million for the plan, or 100% of the employer annual required contribution. The Department's MTA budget for fiscal year 2013 provides $29.5 million for the plan.

As of June 30, 2012, membership in the MTA Plan included 2,899 active members, 456 vested former members, and 1,568 retirees and beneficiaries. The funded status of the MTA plan as of June 30, 2012 was as follows:

Funded Status of the MTA Plan
($ in thousands)

Actuarial Accrued Liability(AAL)	Actuarial Value Of Assets	Funded Ratio (Assets/Liab.)	Unfunded AAL (UAAL)	Covered Payroll (Active Members)	UAAL As a Percent of Payroll%
$451,288	$200,260	44.4%	$251,029	$152,276	164.9%

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

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Other Post-Employment Benefits

State Employee and Retiree Health and Welfare Benefits Program. Retired State employees and their eligible dependents meeting certain qualifications may participate, on a subsidized basis, in the State Employee and Retiree Health and Welfare Benefits Program (the "Program"). As of June 30, 2012, the Program membership included 78,164 active employees, 4,194 vested former employees and 64,354 retirees and beneficiaries. The Program assesses a charge to retirees for post-employment health care benefits that is based on health care insurance charges for active employees. For the nine months ended March 31, 2013 retiree program members contributed $62.3 million and the State contributed $273.1 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.

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.

2011 Employee and Retiree Health Benefits Reforms. The 2012 Budget implemented changes to employee and retiree prescription drug and health benefits (the "2011 Health Benefit Reforms") that decreased the State's projection of OPEB liability from $15.9 billion prior to the 2011 Health Benefit Reforms to $9.2 billion after the 2011 Health Benefit Reforms, and decreased the corresponding State projection of ARC from $1.22 billion to $704.4 million. The 2011 Health Benefit Reforms increased employee and retiree prescription drug copayments and increased retiree premium payments and out of pocket maximums. For new employees hired after June 30, 2011, 10 years of service rather than 5 years will be required for eligibility for retiree health benefits, and 25 years of service rather than 16 years will be required in order to receive a full State subsidy. Retirees will be required to enroll in Medicare Part D effective July 1, 2020, after the Part D coverage gap is phased out.

OPEB Projections. As of June 30, 2012, the actuary's projected actuarial accrued liability for benefits was $9.6 billion, and the actuarial value of assets was $208.8 million, resulting in a projected unfunded actuarial accrued liability ("UAAL") of $9.4 billion. The discount rate used was an unblended pay-go rate of 4.3%. The ratio of the actuarial value of assets to the actuarial accrued liability was 2.2%. The covered payroll (annual payroll of active employees covered under the Program) was $4.1 billion, and the ratio of the UAAL to the covered payroll was (226.1%).

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The following table from the Actuarial Valuation Reports as of July 1, 2011 and July 1, 2012, prepared by the State's actuary, shows the components of the State's annual OPEB cost, the contribution to the Program and the State's net OPEB obligation for the fiscal year 2012 and as projected for the fiscal year 2013:

State Employee and Retiree Health and Welfare Benefits Program
Annual OPEB Cost and Net OPEB Obligation
Fiscal Year 2012 and 2013
Projections as of July 1, 2012
($ in millions)

	2012	2013 Projected
Annual Required Contribution (ARC)	$704.4	$634.5
ARC adjustment	(123.2)	(136.0)
Interest on Net OPEB Obligation	137.5	150.1
Total Annual OPEB Cost (AOC)	718.7	648.6
Less: Contributions made	(382.8)	(393.1)
Increase in net OPEB obligation	335.9	255.5
Net OPEB obligation - beginning of year	3,198.7	3,534.6
Net OPEB obligation - end of year	$3,534.6	$3,790.1
Percentage of annual OPEB cost contributed	53.3%	60.6%

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. For the nine months ended March 31, 2013, the State did not allocate any funds to the Trust Fund. The net assets held in Trust Fund for post-retirement health benefits as of March 31, 2013 were $234.8 million. This balance also reflects the activity for investment earnings and administrative expenses during the period.

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, 2011, the most recent date for which an actuarial valuation has been performed, the actuarial liability for benefits was $527.7 million, and the actuarial value of assets was $0, resulting in UAAL of $527.7 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 $147.5 million, and the ratio of the UAAL to the covered payroll was (357.8%).

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, 2012.

Maryland Transit Pension Plan OPEB
Annual OPEB Cost and Net OPEB Obligation
Fiscal Year 2012
($ in millions)

Annual Required Contribution (ARC)	$55.9
ARC adjustment	(9.6)
Interest on Net OPEB Obligation	5.9
Total Annual OPEB Cost (AOC)	52.2
Less: Contributions made	(15.1)
Increase in net OPEB obligation	37.1
Net OPEB obligation - beginning of year	132.1
Net OPEB obligation - end of year	$169.2
Percentage of annual OPEB cost contributed	28.9%

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

Labor Management Relations

As of March 31, 2013, the State had approximately 109,105 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 31,000 State employees. Eligible State employees are assigned to one of nine bargaining units. These bargaining units are represented by six certified exclusive bargaining representatives that are entitled to negotiate with the Governor or his designee(s) regarding wages, hours, and working conditions on behalf of bargaining unit employees. The negotiating parties execute a memorandum of understanding of not less than 1 year or more than 3 years duration that incorporates all matters of agreement reached. Matters of agreement that require legislative approval or the appropriation of funds are subject to the approval of the General Assembly. Additionally, State employees may join employee associations, and the State permits the deduction of dues from employees' salaries for these associations. Approximately 36,640 employees, which includes non-union members that are required by law to pay dues, pay dues to 18 State employee associations, including the six certified exclusive bargaining representatives.

In addition to State employees, in 2001 collective bargaining was extended similarly 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. Eligible employees of these entities are assigned to one of three bargaining units at each of 15 campus locations, and are represented by a total of three certified exclusive bargaining representatives. Collectively, approximately 1,050 employees of these higher education institutions pay dues to four employee associations, including the three certified exclusive bargaining representatives.

Collective bargaining was extended in 2012 to eligible State employees of the Office of the Comptroller, Maryland Transportation Authority, State Retirement Agency and Maryland State Department of Education. As of June 2013, approximately 400 additional employees have been extended collective bargaining. This number may increase as not all representatives have conducted elections.

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 partial 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.

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 fiscal year 2013 estimate reflects a lower State obligation pursuant to legislation enacted during the 2012 legislative session that allows for sharing costs with local jurisdictions. 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 2009 through 2012, and the estimates for the 2013 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 2009–2013
($ in millions)

	2009	2010	2011	2012	2013 Estimated
Education	$5,687	$5,809	$6,020	$6,095	$6,164
Transportation	476	171	147	148	168
Health	57	37	37	38	38
Environment	20	9	15	9	17
Public Safety	109	87	88	87	91
Other	134	137	138	139	189
Total *	$6,483	$6,251	$6,445	$6,516	$6,667

* 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 March 31, 2013	As Adjusted for this Sale*
General Obligation Bonds (a)	$8,005.8	$8,480.8
Consolidated Transportation Bonds (b)	1,664.5	1,664.5
Maryland Stadium Authority Bonds and Leases (c)	201.1	201.1
Capital Leases (d)	289.3	289.3
GARVEE Bonds (e)	479.0	479.0
Bay Restoration Revenue Bonds (e)	36.0	36.0
Net Tax-Supported Debt	$10,675.7	$11,150.7

(a) As of March 31, 2013 the authorized but unissued amounts before and after giving effect to the sale of the Bonds were $1,281.1million and $806.1million, 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."
(e) See "Other Tax-Supported Debt."

*Preliminary, subject to change.

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 2013 capital program, 33% of new general obligation bond authorizations represented financing of State-owned capital facilities, 60% represented financing of grants and loans to local government units for capital improvements including public school construction, and 7% represented financing of capital improvements owned by non-profit or other private entities.

Dedication of State Property Tax to General Obligation Debt. 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. In fiscal years 2004 through 2013, property tax revenues were sufficient to make future debt service payments without any general fund subsidy except in fiscal year 2008.

In fiscal year 2012, 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 (84%), premium from bond sales (14%) and federal subsidies for ARRA Bonds and other revenues (2%). For fiscal year 2013, the primary sources of current revenues were the State property tax (81%), premium from bond sales (17%), federal subsidies for ARRA Bonds and other revenues (2%).

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. As of June 1, 2013, the law limits the outstanding aggregate principal amount of these bonds to $4.5 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 $4.5 billion. For fiscal year 2013, the limit was $1,913.3 million. At March 31, 2013, the principal amount of outstanding bonds was $1,664.5 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. In addition, beginning July 1, 2013, the static excise tax rates for gasoline and special fuel were replaced by a two prong rate setting system that adjusts the relevant excise rates annually in most years and semiannually in certain years. See "STATE FINANCES- State Revenues." Pursuant to the 2011 Act, the Department no longer receives a portion of the State's general sales and use tax; however the Department's former share of that tax remains pledged to Consolidated Transportation Bonds issued prior to July 1, 2011. The holders of the Consolidated Transportation 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. During the 2012 Legislative Session, the General Assembly established a maximum outstanding principal amount of $889.8 million as of June 30, 2013, 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 March 31, 2013, the Department's nontraditional debt outstanding was $756.2 million. 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.

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, a conference center in Montgomery County, and the Hippodrome Theater and Camden Station Renovation in Baltimore City. At March 31, 2013, the principal amount of tax-supported outstanding bonds and capital leases of the Authority was $201.1 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 March 31, 2013, the total tax-supported capital leases and conditional purchase financings outstanding was $289.3 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.

On December 8, 2011, MEDCO issued $170.9 million in Lease Revenue Bonds to finance the Public Health Lab for use by the Department of Health and Mental Hygiene, in Baltimore City, Maryland. In January 2011, the State sold $40.9 million of certificates of participation ("COPs") to finance the acquisition of video lottery terminals for VLT facilities. Local government agencies or other lessors have also issued revenue bonds or sold COPs to finance facilities such as the multi-agency office buildings in St. Mary's County and district court facilities in Prince George's County. 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 COPs for the acquisition of shuttle buses for BWI Airport. In July 2005, the 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.

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"). Through fiscal year 2011, the Bay Restoration Fund received 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 $54.5 million in revenue (cash basis) during fiscal year 2012. During the 2012 Legislative Session, the fee was increased from $30 per year to $60 per year for most users, effective July 1, 2012. Future sewer fee revenues are projected at approximately $100.0 million per year beginning in fiscal year 2013. 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 2014 and 2017, the Administration expects to issue an additional $480.0 million in Bay Restoration Revenue Bonds. The fiscal year 2010 transfer of $155.0 million, the fiscal year 2011 transfer of $45.0 million, and the fiscal year 2012 transfer of $90.0 million from the Bay Restoration Fund to the General Fund pursuant to the Budget Reconciliation and Financing Acts of 2010 and 2011, all of which were offset by authorization of equal amounts of general obligation

bonds, will not affect the security of Bay Restoration Revenue Bonds. As of March 31, 2013 the principal amount of outstanding Bay Restoration Revenue Bonds was $36.0 million.

GARVEE Bonds. The MDTA is authorized to issue GARVEE bonds in an amount not to exceed $750.0 million, with a maximum maturity of 12 years. In 2005, the General Assembly authorized funding for the Intercounty Connector highway project to be built in Montgomery and Prince George's Counties. 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. Debt service is paid from a portion of Maryland's federal highway aid. As of March 31, 2013, the principal amount of outstanding GARVEE Bonds was $479.0 million.

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 2012 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				
	2008	**2009**	**2010**	**2011**	**2012**
General Obligation Bonds (a)	$5,494	$5,874	$6,523	$6,983	$7,541
% Change (b)	6.8%	6.9%	11.1%	7.1%	8.0%
Assessed Value (c)	$617,632	$707,490	$751,568	$734,592	$683,443
Debt Ratio (d)	0.9%	0.8%	0.9%	1.0%	1.1%
Population (e)	5,706	5,758	5,810	5,846	5,882
Per Capita Debt	$963	$1,020	$1,123	$1,195	$1,282
Personal Income (f)	$277,793	$272,829	$283,634	$296,965	$308,398
Debt Ratio (d)	2.0%	2.2%	2.3%	2.4%	2.5%
General Obligation Debt Service	$693	$745	$778	$835	$878
Revenues (g)	$14,208	$13,678	$13,410	$14,624	$15,368
Debt Service Ratio (d)	4.9%	5.5%	5.8%	5.7%	5.7%

FOOTNOTES AND TABLE CONTINUED ON NEXT PAGE

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

	Fiscal Years				
	2008	2009	2010	2011	2012
Debt (a)					
General Obligation Bonds (a)	$5,494	$5,874	$6,523	$6,983	$7,541
Transportation Bonds:					
Consolidated Transportation	1,269	1,583	1,645	1,562	1,563
Capital Leases	247	267	243	167	311
Stadium Authority	272	256	244	226	218
GARVEE Bonds	301	704	652	597	539
Bay Restoration Revenue Bonds	50	47	44	42	39
Total State Tax-Supported Debt *	$7,632	$8,730	$9,350	$9,576	$10,211
Assessed Value (c)	$617,632	$707,490	$751,568	$734,592	$683,443
Debt Ratio (d)	1.2%	1.2%	1.2%	1.3%	1.5%
Population (e)	5,706	5,758	5,810	5,846	5,882
Per Capita Debt	$1,338	$1,516	$1,609	$1,638	$1,736
Personal Income (f)	$277,793	$272,829	$283,634	$296,965	$308,398
Debt Ratio (d)	2.7%	3.2%	3.3%	3.2%	3.3%
Debt Service	$929	$1,015	$1,100	$1,152	$1,214
Revenues (h)	$16,735	$16,333	$16,061	$17,525	$18,165
Debt Service Ratio (d)	5.6%	6.2%	6.9%	6.6%	6.7%

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

	Fiscal Years				
	2008	2009	2010	2011	2012
Debt (a)					
State Tax-Supported Debt	$7,632	$8,730	$9,350	$9,576	$10,211
Local Debt (i)	15,589	16,181	17,339	17,965	19,031
Total Combined Debt *	$23,221	$24,911	$26,689	$27,541	$29,242
Assessed Value (c)	$617,632	$707,490	$751,568	$734,592	$683,443
Debt Ratio (d)	3.8%	3.5%	3.6%	3.7%	4.3%
Population (e)	5,706	5,758	5,810	5,846	5,822
Per Capita Debt	$4,070	$4,326	$4,594	$4,711	$5,023
Personal Income (f)	$277,793	$272,829	$283,634	$296,965	$308,398
Debt Ratio (d)	8.4%	9.1%	9.4%	9.3%	9.5%

(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 2011 and 2012 figures are estimates.
(g) Amounts of revenue represent general fund revenues, property taxes, bond premium, U.S. Treasury subsidies, and Education Trust Fund.
(h) Amounts of revenue represent general fund revenues, property taxes, bond premium, U.S. Treasury subsidies, Education 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.
* 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 2008 through 2012; 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 2009 through 2013, 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		Authorizations	Principal			
Fiscal Year	Authorized (a)	New	Refunding	Cancelled	Redeemed	Refunded	Outstanding*	Authorized but Unissued*
2009	$ 1,112,000	$ 845,563	$ 65,800	$ 1,939	$464,725	$66,825	$5,873,643	$2,328,351
2010	1,214,543	1,140,883	798,080	7,026	482,754	806,630	6,523,222	2,394,985
2011	940,902	974,718	-	4,127	515,094	-	6,982,845	2,357,041
2012	1,090,324	1,112,400	393,295	4,525	542,179	405,260	7,541,101	2,330,440
2013(b)	-	1,043,230	348,930	6,084	564,299	363,160	8,005,802	1,281,125

(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 March 31, 2013.
* Totals may not add due to rounding.

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*
2008	$286,222	$794,833	$(1,039,012)	$168,971	$11,810	$222,824
2009	222,824	915,987	(1,027,414)	11,529	1,000	123,926
2010	123,926	1,143,530	(1,002,558)	(97,114)	-	167,784
2011	167,784	979,375	(1,134,451)	44,345	-	57,053
2012	57,053	1,112,204	(1,053,177)	3,992	47,500	167,572

(a) Includes premiums on the sale of bonds used to pay underwriter's discount and costs of issuance, net of amounts used to pay refunded bonds.
(b) Consists primarily of State property transfer tax revenues and other transfers in (out).

* Totals may not add due to rounding.

The Governor's proposed capital budget for fiscal years 2014 through 2018 includes $5.5 billion in general obligation bond sale revenue. This revenue will be used as follows:

The State's anticipated capital needs for fiscal years 2014 through 2018 for projects included in the January 2013 capital improvement plan that are to be funded through general obligation bond sales total $2,288.8 million as follows: 2014, $371.2 million; 2015, $472.1 million; 2016, $500.2 million; 2017, $506.4 million; and 2018, $438.9 million. The State's capital needs for projects included in the January 2012 capital improvement plan that were to be funded through general obligation bond sales for fiscal years 2013 through 2017 totaled $1,870.8 million.

The January 2013 capital improvement plan includes an additional $1,335.1 million in general obligation bonds in fiscal years 2014 through 2018 to improve public schools throughout the State as follows: 2014, $310.7 million; 2015, $256.1 million; 2016, $256.1million; 2017, $256.1 million; and 2018, $256.1 million. A total of $1,401.8 million was included in the January 2012 capital improvement plan for fiscal years 2013 through 2017 for public school construction.

The January 2013 capital improvement plan also includes an additional $1,868.3 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: 2014, $425.7 million; 2015, $355.6 million; 2016, $331.3 million; 2017, $325.5 million; and 2018, $430.2 million. Other capital grants projects included in the January 2012 capital improvement plan that were to be funded through general obligation bond sales for fiscal years 2013 through 2017 totaled $1,547.7 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.

As part of its process, the CDAC's reviews all tax-supported debt, including, in addition to general obligation debt, Consolidated Transportation Bonds issued by the Department of Transportation, tax-supported bonds issued by the Maryland Stadium Authority, State tax-supported capital lease transactions, GARVEE Bonds and Bay Restoration Revenue Bonds. The CDAC's most recent report, from October 2012, recommended to the Governor and the General Assembly to limit new general obligation bond authorizations to $1,075.0 million for fiscal year 2014. The Committee stated that the 2012 recommendation and future year recommendations continue to be within the adopted affordability benchmarks of 8% debt service to revenues and 4% debt outstanding to personal

income, while recognizing that there are multiple authorization levels and patterns that would result in adherence to the benchmarks, depending on future levels of personal income and relevant State revenue.

The following table compares the CDAC's recommendations for general obligation 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
2009	2010	$1,110,000	$1,112,000	$2,000 (b)
2010	2011	1,140,000	1,214,543	74,453 (c)(d)
2011	2012	925,000	940,902	15,902 (c)
2012	2013	1,075,000	1,090,324	15,324 (c)
2013	2014	1,075,000	1,079,549	4,549 (c)

(a) Actual authorizations are net of deauthorizations for prior years' projects of $30.8 million, $39.7 million and $24.1 million, $44.4 million and $34.1 million for fiscal years 2010, 2011, 2012, 2013 and 2014, respectively.
(b) An additional $2.0 million was authorized pursuant to the Local Government Infrastructure Financing Program Capital Reserve Fund Loan of 2009 – Chapter 719 of the 2009 Laws of Maryland, effective June 1, 2009.
(c) Additional authorizations were made to issue bonds under a special federal program (Qualified Zone Academy Bonds), which provides either federal tax credits to bondholders in lieu of interest or U.S. Treasury subsidies to issuers, and which the CDAC informally indicated should be considered outside its recommendation.
(d) An additional $70.0 million was authorized by Chapter 372 of the 2010 Laws of Maryland for the Program Open Space Acquisition Opportunity Loan of 2009.

Total sales of general obligation bonds during the five fiscal years 2009 through 2013 follows:

Total Sales of General Obligation Bonds
Fiscal Years 2009-2013
($ in thousands)

	2009	2010	2011	2012	2013(a)
General Construction	$455,200	$ 737,441	$771,564	$ 596,053	$621,191
State Public School Construction	380,046	329,251	189,957	339,324	281,474
Other	10,317	74,191	13,197	177,023	140,565
Total	$845,563	$1,140,883	$974,718	$1,112,400	$1,043,230
Refunding	65,800	798,080	—	393,295	348,930
Number of Sales	3	6	3	3	2

The sale of the Bonds described in this Official Statement, expected to be delivered on or about August 6, 2013, will be the first sale for fiscal year 2014.

(a) Through March 31, 2013.

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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 $7.5 billion on March 31, 2013. 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 the 2010 Census Bureau reports, Maryland's population on April 1 of that year was 5,773,563, an increase of 9.0% from the 2000 Census. Maryland's population is concentrated in urban areas. In 2012 the eleven counties and Baltimore City located in the Baltimore-Washington region contained 50.1% of the State's land area and 87.0% of its population. The 2012 population for the Baltimore Metropolitan Statistical Areas was estimated at 2,753,149 and for the Maryland portion of the Washington Metropolitan Statistical Areas, 2,365,649. Overall, Maryland's population per square mile was 598 in 2012. The following table presents estimated population of Maryland and the United States from 2003 - 2012.

Population

	Maryland		United States	
Year	**Population**	**Change**	**Population**	**Change**
2003	5,496,269	1.0%	290,107,933	0.9%
2004	5,546,935	0.9	292,805,298	0.9
2005	5,592,379	0.8	295,516,599	0.9
2006	5,627,367	0.6	298,379,912	1.0
2007	5,653,408	0.5	301,231,207	1.0
2008	5,684,965	0.6	304,093,966	1.0
2009	5,730,388	0.8	306,771,529	0.9
2010	5,787,998	1.0	309,326,225	0.8
2011	5,839,572	0.9	311,587,816	0.7
2012	5,884,563	0.8	313,914,040	0.7

Source: U.S. Department of Commerce, Bureau of the Census.
Note: Figures are estimates for July 1 of each year.

The 2011 population of Maryland and the United States was distributed by age as follows:

Age Distribution 2011

Age	Maryland	United States
Under 5 years	6.3%	6.5%
5 through 19 years	19.6	20.1
20 to 44 years	33.6	33.6
45 to 64 years	27.9	26.6
65 years and over	12.5	13.3
	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 $305.8 billion in personal income in 2012. Maryland's total personal income increased at a rate of 3.6%, slightly above the national increase of 3.5%. Additionally, per capita income remained significantly above the national average in 2012, $51,971 in Maryland compared with the national average of $42,693. In 2012, Maryland's per capita personal income ranked fifth 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	United States	Change	Maryland Ranking
2003	$38,153	2.9%	$32,295	2.6%	4
2004	40,499	6.1	33,909	5.0	4
2005	42,405	4.7	35,452	4.6	4
2006	44,858	5.8	37,725	6.4	4
2007	46,839	4.4	39,506	4.7	5
2008	48,864	4.3	40,947	3.6	6
2009	47,419	-3.0	38,637	-5.6	4
2010	48,621	2.5	39,791	3.0	5
2011	50,656	4.2	41,560	4.4	5
2012	51,971	2.6	42,693	2.7	5

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

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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 2012, the sources of personal income in the State and the comparable sources of personal income for the nation were as follows:

Sources of Personal Income
2012
($ in millions)

		Percentage of Personal Income Before Residence Adjustment	
	Maryland	**Maryland**	**United States**
Mining, forestry, fishing	$ 317	0.1%	1.1%
Construction	14,216	5.1	3.9
Manufacturing	10,137	3.6	7.4
Trade, transportation & utilities	26,228	9.4	11.3
Information services	5,674	2.0	2.4
Finance, insurance & real estate	15,104	5.4	6.5
Professional & business services	40,389	14.5	12.1
Educational & health services	27,333	9.8	9.2
Leisure & hospitality services	7,525	2.7	3.1
Other services	7,806	2.8	2.7
Government			
Federal, civilian	25,231	9.1	2.4
Military	5,144	1.8	1.4
State & local	23,719	8.5	8.7
Farm income	496	0.2	0.7
Earnings by place of work	209,318	75.1%	72.9%
Less:			
Personal contributions for social insurance	(20,962)	(7.5)	(7.1)
Plus:			
Dividends, Interest and Rent	49,442	17.7	16.5
Transfer Payments	40,820	14.7	17.7
Personal income before residence adjustment	278,617	100.0%*	100.0%*
Residence adjustment	27,209		
Total Personal Income	$ 305,826*		

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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Between 2007 and 2012, total personal income in Maryland has grown 2.9% annually, compared to a national growth rate of 2.4%. Wage and salary income, roughly half of total personal income, has grown at a higher rate in Maryland than it has nationally, as have supplements to wages and salaries – essentially nonwage benefits. Proprietor's income and investment income – income derived from dividends, interest, and rent – have also outpaced the nation as a whole. 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.

Average Annual Growth of Personal Income Components
(2007 through 2012)

	Maryland	United States
Wages and Salaries	2.1%	1.4%
Supplements to Wages and Salaries	4.4	3.2
Proprietors' Income	4.4	2.2
Contributions for Social Insurance	0.6	-0.2
Residence Adjustment	1.1	7.7
Dividends, Interest, and Rent	1.0	0.1
Transfer Payments	6.9	6.7
Total Personal Income	2.9	2.4

Source: U.S. 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 over 3.1 million individuals in 2012, 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
2012

	Maryland	United States
Construction & mining	5.6%	4.8%
Manufacturing	4.2	8.9
Trade, transportation & utilities	17.5	19.1
Information services	1.5	2.0
Financial activities	5.6	5.8
Professional & business services	15.9	13.4
Educational & health services	16.1	15.2
Leisure & hospitality services	9.5	10.3
Other services	4.4	4.1
Government		
Federal	5.7	2.1
State & local	13.9	14.3
Total	100.0%*	100.0%*

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

Following the collapse of the housing market beginning in 2008, the construction and finance industries realized significant job losses, and as the broader recession took hold, several other Maryland industries were severely impacted. As is often the case, government employment in Maryland has acted as a stabilizing factor. In the aggregate, Maryland lost 5.6% of its jobs in the recession while the nation lost 6.4%, both reaching the trough in February 2010. Subsequently, employment growth has been uncharacteristically slow for an economic recovery, though through March 2013, Maryland and the nation have gained back 95.3% and 68.6% of those lost jobs, respectively.

Average Annual Employment Growth
(2007 through 2012)

	Maryland	United States
Construction & mining	-5.2%	-4.9%
Manufacturing	-3.9	-3.0
Trade, transportation & utilities	-1.1	-0.9
Information services	-4.7	-2.5
Financial activities	-2.0	-1.4
Professional & business services	0.6	0.0
Educational & health services	2.2	2.1
Leisure & hospitality services	0.9	0.5
Other services	-1.0	-0.2
Government		
Federal	3.2	0.6
State & local	0.3	-0.4
Total Non-agricultural Employment	-0.2%	-0.6%

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 outpaced 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
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	2.0	1.4
2007	3.4	4.6	-0.6	1.1
2008	4.3	5.8	1.2	0.8
2009	7.4	9.3	0.2	-0.1
2010	7.8	9.6	0.9	-0.2
2011	7.1	8.9	0.5	-0.2
2012	6.8	8.1	1.0	0.9

Source: Maryland Department of Labor, Licensing and Regulation.
Note: In May 2013 the unemployment rate was 6.7% in Maryland and 7.6% in the United States.

Educational Levels

Maryland's workforce 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 36.9% as compared to 28.5% 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 88.9% in Maryland compared to 85.9% 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 2011

	Maryland	United States
Less than High School	11.1%	14.1%
High School Diploma	25.8	28.4
Some College	19.9	21.2
Associate's Degree	6.3	7.8
Bachelor's Degree	20.4	17.9
Graduate or Professional Degree	16.5	10.6

Source: U.S. Department of Commerce, Census Bureau (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 2014 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
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	733,884,066	708,090	734,592,156	-2.2
2012	682,650,240	793,154	683,443,394	-7.0
2013	651,908,259	753,203	652,661,462	-4.5
2014	646,385,899	755,086	647,140,985	-1.0

Source: State Department of Assessments and Taxation, March 2013.
Note: See also, "STATE FINANCES – State Revenues, Property Taxes and State Property Tax Revenue Estimates."
*Totals may not add due to rounding.

Residential Construction

The value of all residential unit permits issued in 2012 increased by 9.3%. In addition, the total number of residential building permits increased by 12.9%. Recent trends signal that the real estate market realized its trough in 2011 and is now shifting towards a growth sector. Overall, the active inventory of homes for sale declined 25.1% to 26,703 in 2012, which is about 46% less than the peak levels of 2008. According to monthly data from the Maryland Association of Realtors, unit sales through April have increased 9.1% in 2013, with the median price of houses sold up 4.4%.

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
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
2010	1,951.9	-6.6	11,931	7.3
2011	2,204.6	12.9	13,481	13.0
2012	2,409.9	9.3	15,217	12.9

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
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	53,205	13.6	255,116	-10.5
2010	54,609	2.1	245,709	-3.7
2011	53,971	-1.2	228,629	-7.0
2012	56,530	4.5	244,912	7.2

Source: Maryland Association of Realtors.

Taxable Retail Sales

The 2001 recession caused a steep slowdown in fiscal years 2002 and 2003, while a relatively strong economy, low interest rates and high levels of mortgage refinancing resulted in robust growth in fiscal years 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 most recent 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. Though sales and use tax collection growth in fiscal year 2010 finished negative, Maryland experienced four consecutive months of positive growth in sales and use tax collections in the final months of the fiscal year 2010 and that trend carried into fiscal year 2011. In fiscal year 2011, taxable sales increased at their

greatest rate since fiscal year 2006, as taxable purchases of vehicles and other goods rebounded, likely the result of improved equity markets, a relatively stabilized job market, and pent-up demand. The following table illustrates the changes in taxable sales for fiscal years 2003 through 2012.

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

Fiscal Year	Taxable Retail Sales	Change
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
2011	74,479,247	4.1
2012	76,758,835	3.1

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

Real Estate. Following several years of declining activity and values, monthly data from the Maryland Association of Realtors indicates that the residential real estate market is starting to show growth and possibly signs of a rebound. Unit sales for 2012 were up 4.5%, after declining by 1.2% in 2011. Additionally, the active housing inventory has continued to decline and is approximately 46.0% less than the peak levels of 2008. Those factors together have likely contributed to the recent upswing in median home prices, which increased 4.4% so far during calendar year 2013. However, risk remains in the outlook as the percentage of loans beginning the foreclosure process in 2012 has increased above 2010 and 2011 levels, though this was somewhat expected as Maryland employs a judicial foreclosure process, and there may be an inventory of other homes that have been held from the market in anticipation of higher prices.

The Port of Baltimore. As one of the largest ports on the East Coast by tonnage, in 2012 the Port of Baltimore handled 36.7 million tons of foreign commerce cargo valued at $53.9 billion. Owned by the State but operated by a private entity (Ports America), the Port is in an excellent position to capitalize on the widening of the Panama Canal. The project to widen the Canal, which is expected to finish in 2015, will permit longer and wider ships to pass and the Ports of Baltimore and Virginia are the only two on the East Coast with the berth depths and cranes to handle such ships.

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, a thriving pharmaceuticals industry and one of the most highly educated workforces in the country have created growth opportunities for the biotechnology companies that have located or started up here. Further, the State currently offers a biotechnology investment incentive tax credit for investments in qualified Maryland biotechnology companies. The State also provides seed and early-stage equity funding for biotechnology companies through the Maryland Venture Fund. In addition, there are more than 20 business incubators located throughout the State, providing support for the development of biotechnology enterprises.

Base Realignment and Closure. The State received more federal jobs than any other state in the country as a result of the 2005 Base Realignment and Closure ("BRAC") process. As part of BRAC, the commands of the Army Team C4ISR, Defense Information Systems Agency, Defense Media Activity, Army Research, Development, and Engineering, and Walter Reed Hospital have been moved to Maryland. It was estimated that 45,232 jobs with an average wage of $70,388 would be created in or moved to Maryland as part of the process - of that, more than

15,000 would be direct, more than 22,000 would be would be indirect, and more than 7,000 would be induced. Presumably many of these jobs are currently in place; because the direct federal job realignment had a statutory end date of September 15, 2011; many of the related indirect jobs are likely in place as well. Although much of the activity has already occurred, a substantial amount of economic upside remains as a portion of the individuals in these positions may be telecommuting at this time and will likely move to Maryland at a later date or their positions will be filled with Maryland residents as employees turn over. Also, separately but related, the U.S. Cyber Command, established at Fort Meade, Maryland in May 2010 and activated in October 2010, is expected to add 1,000 jobs annually for the next several years.

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 Kutak Rock LLP, Washington, D.C., 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 ("Goldberg case") challenging on constitutional grounds the 2007 enactment by the General Assembly of certain State-wide ground rent reforms, in particular the substitution of a lien and foreclosure remedy for the prior remedy of ejectment for a ground lease tenant's failure to pay rent. Plaintiffs allege an unconstitutional abrogation of vested rights and an unconstitutional regulatory taking of property without just compensation in violation of the United States and Maryland Constitutions and seek damages. In a related case challenging a separate ground rent reform statute ("Muskin case"), the Maryland Court of Appeals held on October 25, 2011 that the extinguishment and transfer provisions of that separate statute were unconstitutional because they take ground rent owners' private property without just compensation.

Subsequently, on December 20, 2011 the Circuit Court for Anne Arundel County concluded in the Goldberg case that the statute at issue retroactively abrogated vested rights and is unconstitutional under State law, and granted summary judgment to plaintiffs. The Circuit Court dismissed plaintiffs' federal law claims without prejudice. The State has appealed the decision of the Circuit Court, and the Court of Appeals has scheduled the case for argument on September 9, 2013. Success in the appeal is uncertain, and an unfavorable outcome for the State is a distinct possibility. If the Circuit Court decision is upheld on appeal, it would not involve a material impact on the State's finances because the relief granted would be limited to striking down the statute. That decision would, however, expose the State to lawsuits that could be brought by ground rent owners alleging a temporary taking of their ground rent property during the time period the challenged statutory provisions were in place, which could result in the State having to pay compensation of approximately $20.0 million, although the ultimate amount would depend on further factual development and, thus, could be higher or lower than the $20.0 million figure.

In the alternative, if the appeal is successful, plaintiffs would likely attempt to re-file their federal law claims and seek compensation for the full value of the approximately 116,000 ground rents they claim were "taken." Although the State's position is somewhat stronger with respect to the federal law claims, the total exposure to the State is potentially much greater (in excess of $100.0 million) and thus could have a more material impact on the State's finances than either the declaratory relief they have already received or the temporary takings claims that may follow. An adverse judgment on appeal may be the subject of curative legislation, which could reduce any material 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, the payment of any final judgments would impact a fiscal year budget only to the extent monies are appropriated in that fiscal year to pay such final judgments.

TAX MATTERS

Federal Tax Exemption - Second Series A Bonds

In General. In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Second Series A Bonds (including original issue discount treated as interest, if any), 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. 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 Internal Revenue Code of 1986, as amended (the "Code") that must be met subsequent to the issuance of the Second Series A Bonds. Failure to comply with such requirements could cause interest on the Second Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Second Series A 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 Second Series A Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Second Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax, interest on the Second Series A Bonds will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the Second Series A Bonds may otherwise affect the federal income tax liability of the owners of the Second Series A Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Second Series A Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Second Series A Bonds.

Original Issue Discount. The Second Series A Bonds that have an original yield above their respective interest rates, as shown on the inside cover of this Official Statement (collectively, the "Discount Tax-Exempt Bonds"), are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Tax-Exempt Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described above.

The amount of original issue discount that is treated as having accrued with respect to a Discount Tax-Exempt Bond is added to the cost basis of the owner of the bond in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Tax-Exempt Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Tax-Exempt Bond that are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Tax-Exempt Bond, on days that are determined by reference to the maturity date of such Discount Tax-Exempt Bond. The amount treated as original issue discount on such Discount Tax-Exempt Bond for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discount Tax-Exempt Bond (determined by compounding at the close of each accrual period) and (ii) the amount that would have been the tax basis of such Discount Tax-Exempt Bond at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discount Tax-Exempt Bond during the accrual period. The tax basis for purposes of the preceding sentence is determined by

adding to the initial public offering price on such Discount Tax-Exempt Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Tax-Exempt Bond is sold between semiannual compounding dates, original issue discount that would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Tax-Exempt 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 Tax-Exempt Bond. Subsequent purchasers of Discount Tax-Exempt Bonds that purchase such bonds for a price that is higher or lower than the "adjusted issue price" of the bonds at the time of purchase should consult their tax advisors as to the effect on the accrual of original issue discount.

Original Issue Premium. The Second Series A Bonds that have an original yield below their respective interest rates, as shown on the inside cover of this Official Statement (collectively, the "Premium Tax-Exempt Bonds"), are being sold at a premium. An amount equal to the excess of the issue price of a Premium Tax-Exempt Bond over its stated redemption price at maturity constitutes premium on such Premium Tax-Exempt Bond. A purchaser of a Premium Tax-Exempt Bond must amortize any premium over such Premium Tax-Exempt Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Tax-Exempt Bonds callable prior to their maturity, generally by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period, and the purchaser's basis in such Premium Tax-Exempt Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Tax-Exempt Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Tax-Exempt Bonds should consult 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 Tax-Exempt Bond.

Backup Withholding. As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Second Series A Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not, in and of itself, affect or alter the excludability of interest on the Second Series A Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Certain Federal Income Tax Considerations — Second Series B Bonds

General Matters. Bond Counsel is of the opinion that interest on the Second Series B Bonds is included in gross income for federal income tax purposes. The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Second Series B Bonds under the Code and the regulations thereunder, and the judicial and administrative rulings and court decisions now in effect, all of which are subject to change or possible differing interpretations. The summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. Potential purchasers of the Second Series B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Second Series B Bonds.

In general, interest paid on the Second Series B Bonds, original issue discount, if any, and market discount, if any, will be treated as ordinary income to the owners of the Second Series B Bonds, and principal payments (excluding the portion of such payments, if any, characterized as original issue discount or accrued market discount) will be treated as a return of capital.

Bond Premium. An investor that acquires a Second Series B Bond for a cost greater than its remaining stated redemption price at maturity and holds such bond as a capital asset will be considered to have purchased such bond at a premium and, subject to prior election permitted by Section 171(c) of the Code, may generally amortize such premium under the constant yield method. Except as may be provided by regulation, amortized premium will

be allocated among, and treated as an offset to, interest payments. The basis reduction requirements of Section 1016(a)(5) of the Code apply to amortizable bond premium that reduces interest payments under Section 171 of the Code. Bond premium is generally amortized over the bond's term using constant yield principles, based on the purchaser's yield to maturity. Investors of any Second Series B Bond purchased with a bond premium should consult their own tax advisors as to the effect of such bond premium with respect to their own tax situation and as to the treatment of bond premium for state tax purposes.

Market Discount. An investor that acquires a Second Series B Bond for a price less than the adjusted issue price of such bond (or an investor who purchases a Second Series B Bond in the initial offering at a price less than the issue price) may be subject to the market discount rules of Sections 1276 through 1278 of the Code. Under these sections and the principles applied by the regulations, "market discount" means (a) in the case of a Second Series B Bond originally issued at a discount, the amount by which the issue price of such bond, increased by all accrued original issue discount (as if held since the issue date), exceeds the initial tax basis of the owner therein, less any prior payments that did not constitute payments of qualified stated interest, and (b) in the case of a Second Series B Bond not originally issued at a discount, the amount by which the stated redemption price of such bond at maturity exceeds the initial tax basis of the owner therein. Under Section 1276 of the Code, the owner of such a Second Series B Bond will generally be required (i) to allocate each principal payment to accrued market discount not previously included in income and, upon sale or other disposition of the bond, to recognize the gain on such sale or disposition as ordinary income to the extent of such cumulative amount of accrued market discount as of the date of sale or other disposition of such a bond or (ii) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest or, in the case of a Second Series B Bond with original issue discount, in proportion to the accrual of original issue discount.

An owner of a Second Series B Bond that acquired such bond at a market discount also may be required to defer, until the maturity date of such bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry such bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Second Series B Bond for the days during the taxable year on which the owner held such bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Second Series B Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the owner elects to include such market discount in income currently as it accrues on all market discount obligations acquired by such owner in that taxable year or thereafter.

Attention is called to the fact that Treasury regulations implementing the market discount rules have not yet been issued. Therefore, investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

Unearned Income Medicare Contribution Tax. Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8 percent of the lesser of (a) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business and certain other listed items of gross income), or (b) the excess of "modified adjusted gross income" of the individual over $200,000 for unmarried individuals ($250,000 for married couples filing a joint return and a surviving spouse). Holders of the Second Series B Bonds should consult their own tax advisors regarding the application of this tax to interest earned on the Second Series B Bonds and to gain on the sale of a Second Series B Bond.

Sales or Other Dispositions. If an owner of a Second Series B Bond sells the bond, such person will recognize gain or loss equal to the difference between the amount realized on such sale and such owner's basis in such bond. Ordinarily, such gain or loss will be treated as a capital gain or loss.

If the terms of a Second Series B Bond were materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications that may be treated as material are those that relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential owner of a Second Series B Bond should consult its own tax advisor concerning the circumstances in which such bond would be deemed reissued and the likely effects, if any, of such reissuance.

Defeasance. The legal defeasance of the Second Series B Bonds may result in a deemed sale or exchange of such bonds under certain circumstances. Owners of such Second Series B Bonds should consult their tax advisors as to the federal income tax consequences of such a defeasance.

Backup Withholding. An owner of a Second Series B Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Second Series B Bonds, if such owner, upon issuance of the Second Series B Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

Foreign Investors. An owner of a Second Series B Bond that is not a "United States person" (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States of America in addition to its ownership of a Second Series B Bond will generally not be subject to United States income or withholding tax in respect of a payment on a Second Series B Bond, provided that the owner complies to the extent necessary with certain identification requirements (including delivery of a statement, signed by the owner under penalties of perjury, certifying that such owner is not a United States person and providing the name and address of such owner). For this purpose the term "United States person" means a citizen or resident of the United States of America, a corporation, partnership or other entity created or organized in or under the laws of the United States of America or any political subdivision thereof, or an estate or trust whose income from sources within the United States of America is includable in gross income for United States of America income tax purposes regardless of its connection with the conduct of a trade or business within the United States of America.

Except as explained in the preceding paragraph and subject to the provisions of any applicable tax treaty, a 30% United States withholding tax will apply to interest paid and original issue discount accruing on Second Series B Bonds owned by foreign investors. In those instances in which payments of interest on the Second Series B Bonds continue to be subject to withholding, special rules apply with respect to the withholding of tax on payments of interest on, or the sale or exchange of Second Series B Bonds having original issue discount and held by foreign investors. Potential investors that are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Second Series B Bond.

Tax-Exempt Investors. In general, an entity that is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business that is not substantially related to the purpose that forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation that gave rise to such interest is subject to acquisition indebtedness. Therefore, except to the extent any owner of a Second Series B Bond incurs acquisition indebtedness with respect to such bond, interest paid or accrued with respect to such owner may be excluded by such tax-exempt owner from the calculation of unrelated business taxable income. Each potential tax-exempt holder of a Second Series B Bond is urged to consult its own tax advisor regarding the application of these provisions.

ERISA Considerations. The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the

requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of any investment by an ERISA Plan in the Second Series B Bonds must be determined by the responsible fiduciary of the ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment. Government and non-electing church plans are generally not subject to ERISA. However, such plans may be subject to similar or other restrictions under state or local law.

In addition, ERISA and the Code generally prohibit certain transactions between an ERISA Plan or a qualified employee benefit plan under the Code and persons who, with respect to that plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the acquisition by one from the other of the Second Series B Bonds could be viewed as violating those prohibitions. In addition, Section 4975 of the Code prohibits transactions between certain tax-favored vehicles such as Individual Retirement Accounts and disqualified persons. Section 503 of the Code includes similar restrictions with respect to governmental and church plans. In this regard, the State or any dealer of the Second Series B Bonds might be considered or might become a "party in interest" within the meaning of ERISA or a "disqualified person" within the meaning of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Sections 4975 or 503 of the Code. Prohibited transactions within the meaning of ERISA and the Code may arise if the Second Series B Bonds are acquired by such plans or arrangements with respect to which the State or any dealer is a party in interest or disqualified person.

In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above sections of the Code, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the Second Series B Bonds. The sale of the Second Series B Bonds to a plan is in no respect a representation by the State or the Underwriter that such an investment meets the relevant legal requirements with respect to benefit plans generally or any particular plan. Any plan proposing to invest in the Second Series B Bonds should consult with its counsel to confirm that such investment is permitted under the plan documents and will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA, the Code and other applicable law.

Treasury Circular 230 Disclosure. Any federal tax advice contained in this Official Statement was written to support the marketing of the Second Series B Bonds and is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding any penalties that may be imposed under the Code. All taxpayers should seek advice based on such taxpayers' particular circumstances from an independent tax advisor. This disclosure is provided to comply with Treasury Circular 230.

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 or assessed directly on the Bonds, their transfer, or the income therefrom.

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.

SALE AT COMPETITIVE BIDDING

The Bonds will be offered by the State for sale by competitive bidding on Wednesday, July 24, 2013, in accordance with the Official Notices of Sale set forth in APPENDIX E. The interest rates shown on the inside cover pages of this Official Statement are the interest rates per annum payable by the State resulting from the award of the Bonds at the competitive bidding. The yields or prices shown on the inside cover pages of this Official Statement for Bonds were furnished by the successful bidders for the Bonds. All other information concerning the nature and terms of any reoffering of these Bonds should be obtained from the successful bidders for the Bonds and not from the State.

OTHER INFORMATION

Report of Independent Public Accountants

The General Purpose Financial Statements of the State of Maryland for the year ended June 30, 2012, 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 Advisors

Public Financial Management, Inc. of Philadelphia, Pennsylvania, is serving as financial advisor to the State for the sale and delivery 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

Moody's Investors Service, Inc. ("Moody's"), 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 the ratings 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.

In its confirmation of Maryland's Aaa rating dated July 11, 2013, Moody's continued to assign a negative outlook to the rating. Moody's stated that the negative outlook is due to Maryland's indirect linkages to the weakened credit profile of the U.S. Government, which itself was assigned a negative outlook by Moody's on August 2, 2011. In its most recent Special Comment dated February 5, 2013 entitled *Update: Ratings of Aaa Municipal Credits Indirectly Linked to the US Government*, Moody's described the factors and metrics used to evaluate affected issuers' vulnerability to sovereign (U.S. Government) risk, including economic sensitivity to federal employment, federal procurement and healthcare employment, exposure to federal Medicaid transfers, and high levels of short-term and puttable debt. Because Maryland exceeds the Moody's-determined thresholds for federal employment and federal procurement sensitivity, Moody's assigned a negative outlook to Maryland's Aaa rating. Moody's has concluded that the ratings and outlooks of such indirectly linked issuers could not exceed the rating of the U.S. Government, and that the ratings of such indirectly linked issuers with negative outlooks will move in tandem in the event of a subsequent rating action on the U.S. Government.

The complete rating reports are available at:

http://www.treasurer.state.md.us/debtmanagement/rating-agency-reports.aspx

Continuing Disclosure

In order to enable the successful bidders for the Bonds to comply with the requirements of paragraph (b)(5) of the Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, 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 service established by the Municipal Securities Rulemaking Board known as the Electronic Municipal Market Access ("EMMA") system.

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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 $475,000,000* State and Local Facilities Loan of 2013, Second Series. 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 Kutak Rock LLP, Washington, D.C., 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 Kutak Rock LLP, Washington, D.C., 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 Official Notices of Sale for the 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 the Bonds. Reference is particularly made to the Official Notices of Sale for statements of the legal opinions as to the validity of the 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 Bonds at or prior to closing as a condition to the bidders' obligations to accept delivery of and to pay for the Bonds.

BOARD OF PUBLIC WORKS
OF MARYLAND

MARTIN O'MALLEY
Governor

PETER FRANCHOT
Comptroller

NANCY K. KOPP
Treasurer

Annapolis, Maryland
July 24, 2013

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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-113 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, 2012, 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 2011. 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 activities), 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.

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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 2012 and 2011 follows.

	(in thousands)	
	2012	**2011**
Year end fund balance on budgetary basis…….……..	$1,297,198	$ 1,698,233
Fund structure reclassifications……...…….	1,062,300	980,922
Adjustments to the budgetary accounting system:		
Cash and cash equivalents……...……..	(296,158)	11,825
Investments……..…….	17,549	(32,805)
Other accounts receivable….…….…….....……..	269,292	134,703
Other assets…...……...……	(218,001)	(215,372)
Accounts payable and accrued liabilities……..……..…….	(1,005,473)	(1,074,544)
Deferred revenue……	(49,605)	(163,352)
Year end fund balance on generally accepted accounting principles basis…….	$ 1,077,102	$ 1,339,610

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 June 30, 2012 and for the year ended, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements 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	26.2 %	7.6 %	3.4 %
Maryland State Lottery Agency	2.1	0.2	50.7
Maryland Transportation Authority	48.3	45.6	13.3
Non-Major -			
Economic Development Insurance Programs	0.7	1.3	0.2
Total percentage of business-type activities	77.3 %	54.7 %	67.6 %
Component Units			
Major -			
Certain foundations included in the higher education component units	12.7 %	14.8 %	11.0 %
Non-Major -			
Maryland Food Center Authority	0.3	0.4	0.4
Maryland Technology Development Corporation	0.2	0.1	1.6
Total percentage of component units	13.2 %	15.3 %	13.0 %
Fiduciary Funds			
Investment Trust Fund	4.6 %	5.3 %	64.0 %

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.

SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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, 2012, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the State's basic financial statements. The combining financial statements, schedules, introductory and statistical sections, and financial schedules required by law, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information combining financial statements and schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of the other auditors, the information combining financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections of this report and the financial schedules required by law have 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 or provide any assurance on them.

SB & Company, LLC

Hunt Valley, Maryland
December 12, 2012

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, 2012. 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 $10.4 billion in fiscal year 2012 and $11.4 billion in fiscal year 2011.
- Of the net assets in fiscal year 2012, a deficit balance of $8.2 billion was reported as total unrestricted net assets, which includes a $10.0 billion deficit balance in governmental activities and a $1.9 billion balance in business-type activities.
- The State's total net assets decreased by $1.0 billion as a result of this year's operations. The net assets for governmental activities decreased by $1.7 billion (29.4%). Net assets of business-type activities increased by $666 million (11.6%).
- The State's governmental activities had total expenses of $31.0 billion, total revenues of $28.8 billion and net transfers from business-type activities of $593 million for a net decrease of $1.7 billion.
- Business-type activities had total expenditures of $3.8 billion; program revenues of $4.9 billion; general revenues, primarily the sale of InvestMD tax credits, of $94 million; and transfers out of $593 million for a net increase in net assets of $666 million.
- Total State revenues were $33.8 billion, while total costs for all programs were $34.8 billion.

Fund Level

- Governmental funds reported a combined fund balance of $1.6 billion, a decrease of $281 million (14.9%) from the prior year.
- The General Fund reported an unassigned fund balance deficit of $681 million and a remaining fund balance (nonspendable, restricted, and committed) of $1.8 billion, compared to an unassigned fund balance deficit of $292 million and a remaining fund balance of $1.6 billion last year. This represents a net decrease of $263 million in General Fund, fund balance. The total unassigned fund balance deficit in the governmental funds was $1.1 billion, compared to a deficit of $696 million in the prior year.
- Governmental funds reported a total nonspendable, restricted, and committed fund balance of $2.7 billion in 2012, compared to $2.6 billion in the prior year.

Long-term Debt

- Total bonds and obligations under long-term leases at year end was $16.5 billion, a net increase of $439 million in 2012 (2.7%) over the prior year.
- $1.5 billion General Obligation Bonds of which $393 million were refunding bonds, and $276 million Transportation Bonds of which $161 million were refunding 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 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 the 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-side 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 College Savings Plans of Maryland, 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-side 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 inflows and outflows 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-side 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 on 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 business 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 fund 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 – 103 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 $10.4 billion at the end of 2012 and $11.4 billion at the end of 2011.

Net Assets as of June 30,

(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 5,871	$ 5,858	$ 8,454	$ 8,308	$ 14,325	$ 14,166
Capital assets	19,496	19,248	5,039	4,657	24,535	23,905
Total assets	25,367	25,106	13,493	12,965	38,860	38,071
Long-term liabilities	16,584	14,930	6,280	6,263	22,864	21,193
Other liabilities	4,806	4,544	824	979	5,630	5,523
Total liabilities	21,390	19,474	7,104	7,242	28,494	26,716
Net assets:						
Invested in capital assets, net of related debt	13,771	13,670	2,314	2,117	16,085	15,787
Restricted	229	200	2,220	2,003	2,449	2,203
Unrestricted	(10,023)	(8,238)	1,855	1,603	(8,168)	(6,635)
Total net assets	$ 3,977	$ 5,632	$ 6,389	$ 5,723	$ 10,366	$ 11,355

The largest portion of the State's net assets, $16.1 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 $8.2 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.

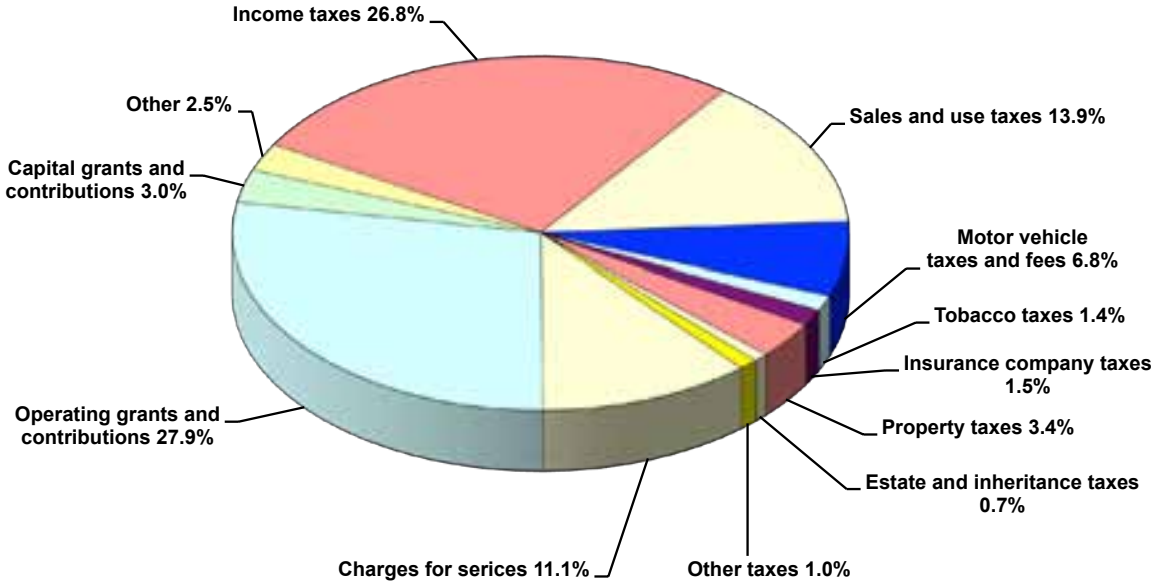
Changes in Net Assets

For the Year Ended June 30,

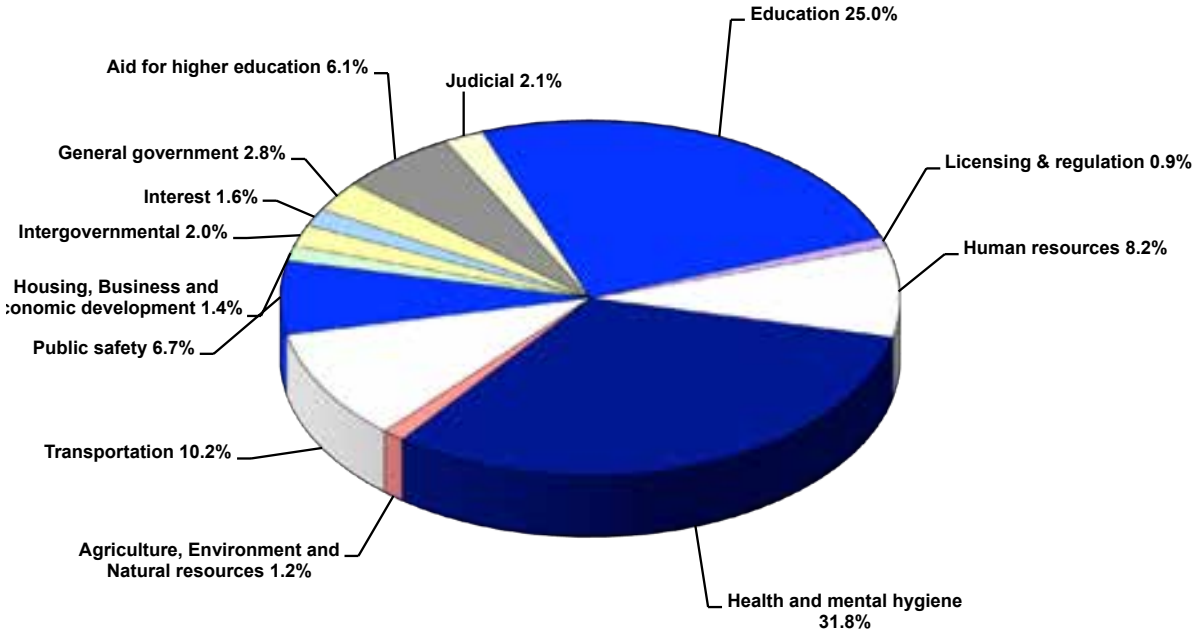
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 3,272	$ 2,946	$ 3,999	$ 3,742	$ 7,271	$ 6,688
Operating grants and contributions	8,200	9,341	917	880	9,117	10,221
Capital grants and contributions	884	715	1		885	715
General revenues:						
Income taxes	7,868	7,605			7,868	7,605
Sales and use taxes	4,078	3,898			4,078	3,898
Motor vehicle taxes	1,988	1,914			1,988	1,914
Tobacco taxes	411	408			411	408
Insurance company taxes	429	392			429	392
Property taxes	995	1,044			995	1,044
Estate & inheritance taxes	221	242			221	242
InvestMD tax credits			84		84	
Other taxes	296	302			296	302
Unrestricted investment earnings	156	79	10	5	166	84
Total revenues	28,798	28,886	5,011	4,627	33,809	33,513
Expenses:						
General government	871	865			871	865
Health and mental hygiene	9,870	9,591			9,870	9,591
Education	7,791	7,896			7,791	7,896
Aid for higher education	1,898	1,921			1,898	1,921
Human resources	2,551	2,538			2,551	2,538
Public safety	2,078	2,198			2,078	2,198
Transportation	3,156	3,177			3,156	3,177
Judicial	649	682			649	682
Labor, licensing and regulation	280	278			280	278
Natural resources and recreation	208	206			208	206
Housing and community development	347	374			347	374
Environment	108	126			108	126
Agriculture	47	91			47	91
Business and economic development	78	84			78	84
Intergovernmental grants	615	612			615	612
Interest	499	428			499	428
Economic development insurance programs			5	13	5	13
Economic development loan programs			366	365	366	365
Unemployment insurance program			1,585	1,630	1,585	1,630
State Lottery			1,332	1,254	1,332	1,254
Transportation Authority			413	355	413	355
Maryland Correctional Enterprises			51	50	51	50
Total expenses	31,046	31,067	3,752	3,667	34,798	34,734
Increase (decrease) in net assets before transfers and special items	(2,248)	(2,181)	1,259	960	(989)	(1,221)
Transfers and special items	593	527	(593)	(527)		
Change in net assets	(1,655)	(1,654)	666	433	(989)	(1,221)
Net assets - beginning	5,632	7,286	5,723	5,290	11,355	12,576
Net assets - ending	$ 3,977	$ 5,632	$ 6,389	$ 5,723	$ 10,366	$ 11,355

2012 Revenues By Source - Governmental Activities



2012 Expenses By Function - Governmental Activities



Governmental Activities

Comparing current year activities to the prior year discloses that revenues decreased by $88 million or .1%, while expenses decreased by $21 million or .1%. The revenue increases of $326 million (11.1%) in charges for services, $263 million (3.5%) in the income tax, $180 million (4.6%) in the sales and use tax, and $121 million (17.2%) in Federal transportation capital grants, were offset by a decrease of $1.1 billion (12.2%) in total Federal operating grants.

Increases in health care program expenses of $279 million (2.9%) were largely offset by decreases in expenses for public safety of $120 million (5.5%) and education of $105 million (1.3%).

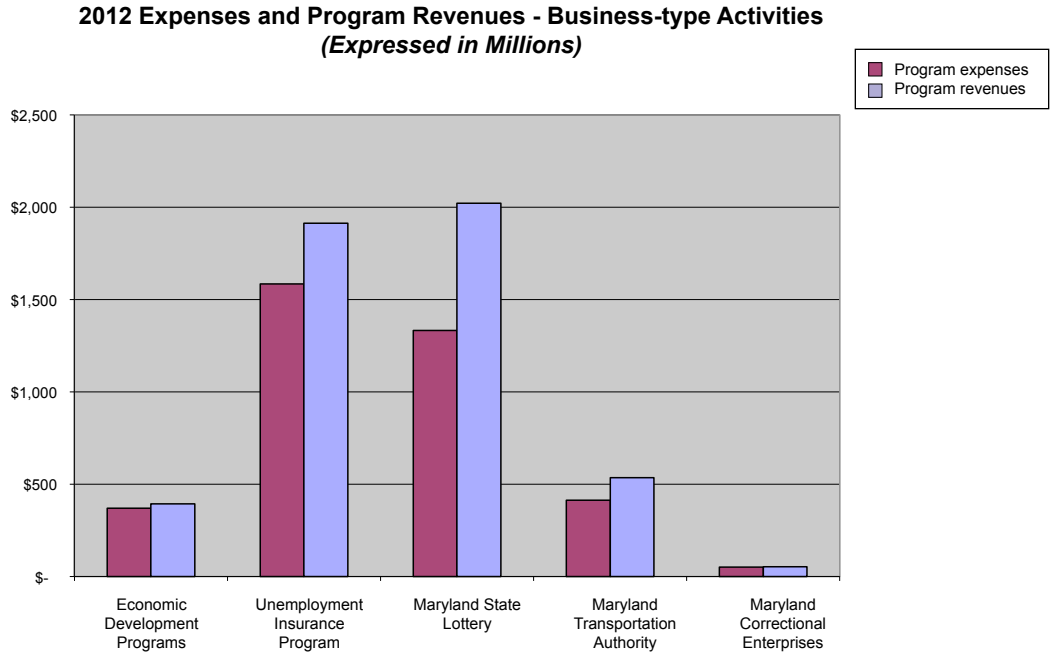
The decrease in operating grants was primarily due to decreases in federal revenues for education, $527 million, and for Medicaid, $420 million, from Federal stimulus funds. The increase in health care program expenses results from growth in payments to Medicaid providers.

Business-type Activities

Business-type activities increased the State's net assets by $1.3 billion before transfers of $593 million to governmental activities, for a net increase of $666 million in net assets. The increase compares to an increase of $960 million before transfers of $527 million in the prior year. Key elements of this increase are as follows:

- Net assets for the Maryland Transportation Authority increased by $173 million compared to an increase of $200 million in the prior year. Net operating income was $223 million compared to $259 million in the prior year. In the current year, $46 million was transferred from the State's capital projects fund for the Inter-county Connector Project. Non-operating revenues and expenses decreased by $37 million for loss on disposals due to the replacement of major infrastructure that was not fully depreciated and interest expense.

- The Unemployment Insurance Program net assets increased by $327 million in 2012. Net assets increased by $190 million in the prior year. Operating activities resulted in a deficit of $449 million compared to the prior year's operating deficit of $606 million. Charges for services (unemployment taxes) increased by $113 million (11.0%) and benefit payments were reduced $44 million (2.7%). Both the amounts of taxes paid by Maryland employers and the amount of benefits received by the unemployed are products of the economic climate. Federal payments for extended benefits and other programs decreased by $27 million (3.4%).



- Net assets for the Economic Development Loan Programs increased by $155 million compared to an increase of $68 million in the prior year. This is primarily due to the sale of $84 million of premium tax credits to insurance companies with operations in Maryland to provide start-up capital for Maryland businesses.

- Lottery ticket sales were $1.8 billion, an increase of $80 million (4.7%) over the previous year. The Lottery also regulates casinos. During the year, a third casino was opened. Gross terminal revenue generated from video lottery terminals (VLTs) at these casinos totaled $195 million, an increase of $92 million (89.2%) over the previous year. Operating expenses increased by $77 million (6.1%) in 2012. The increase in operating expenses in 2012 is attributed to prizes due to players and the costs incurred to regulate the casinos. Transfers to governmental activities by the Lottery were $685 million in 2012, an increase of $99 million (16.8%) over 2011.

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 $1.6 billion, a decrease of $281 million from the prior year. The combined fund balance includes a deficit of $1.1 billion in unassigned for governmental funds, including a deficit of $681 million for the general fund and a deficit of $431 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 the fund balance is 1) unspendable because it is in the form of prepaid items, inventories and long-term loans and notes receivable ($667 million); 2) restricted by outside parties or to pay debt service on general obligation bonds from specific taxes ($229 million); or 3) committed to legislated purposes or to liquidate contracts and purchase orders of the prior period ($1.8 billion). Included in committed fund balance is $674 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 $60,000,000. The unassigned general fund deficit plus the amount in the State Reserve Fund, is approximately .0% of the total annual expenditures in governmental funds, compared with 1.1% 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 $681 million, while total fund balance was $1.1 billion. The fund balance of the State's general fund decreased by $263 million during 2012, compared to an increase of $91 million for 2011. Revenues decreased by $188 million (.8%) to $24.6 billion while expenditures increased by $280 million (1.1%) to $25.6 billion.

The decrease in revenues of $188 million from the prior year was primarily due to a decrease in Federal revenues, $918 million (10.0%) offsetting increases in income taxes, $183 million (2.4%), sales and use taxes, $180 million (4.6%), and charges for service, $165 million (11.4%).

General fund expenditures increased by $280 million. Expenditures for health and mental hygiene increased by $331 million (3.5%) for growth in Medicaid provider payments.

Transfers out from the general fund were $302 million this year compared to $451 million for the prior year. This decrease was due primarily to a decrease of $165 million to the Maryland Department of Transportation special revenue fund largely as a result of the 2011 legislative session's redirection of 5.3% of sales tax revenues from the Transportation Trust Fund to the general fund.

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 $227 million as of June 30, 2012, a decrease of $104 million (31.6%) from the prior fiscal year. Revenues increased by $127 million (3.9%), expenditures increased by $306 million (10.0%), and other sources of financial resources increased by $79 million. The increase in revenues was primarily from an increase in motor

vehicle taxes and fees and Federal revenue, the increase in expenditures was primarily from an increase in current expenditures, and the increase in other sources of financial resources was substantially due to bonds issued during the year.

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 amended budget was an increase of $189 million or 1.3%, due primarily to an increase of $179 million in appropriations of the Department of Education.

The difference between the final budget, $15.0 billion and actual expenditures, $14.9 billion was $76 million, or .5 %. 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 and business and economic development functions.

Capital Assets and Debt Administration

Capital assets

At June 30, 2012, the State had invested $24.5 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 ($1.1 billion for governmental activities and $60 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 $629 million (an increase of $248 million for governmental activities and an increase of $381 million for business-type activities).

Capital Assets as of June 30,

(Net of Depreciation, Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land and improvements	$ 3,224	$ 3,269	$ 384	$ 411	$ 3,608	$ 3,680
Art and historical treasures	9	9			9	9
Structures and improvements	3,654	3,647	37	29	3,691	3,676
Equipment	820	857	78	64	898	921
Infrastructure	9,231	9,250	3,532	1,320	12,763	10,570
Construction in progress	2,558	2,216	1,007	2,833	3,565	5,049
Total	$ 19,496	$ 19,248	$ 5,038	$ 4,657	$ 24,534	$ 23,905

Major capital asset events during the current fiscal year for governmental activities include continued widening and/or expansion of existing highways and bridges, and various transit, port and motor vehicle administration construction projects; the preservation of agricultural and open space land through the purchase of easements; improvements to the statewide telecommunications network; energy efficiency improvements in State buildings; interior building improvements in legislative buildings; acquisition of helicopters for the State Police; and improvements at police and correctional facilities. Elements of the increases in capital assets of business-type activities include the Inter-County Connector and electronic toll lane projects, which resulted in an increase in infrastructure, 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, 2012, the State had outstanding bonds totaling $15.5 billion. Of this amount, $7.5 billion were general obligation bonds, backed by the full faith and credit of the State. The remaining $8.0 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	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds (backed by the State)	$ 7,541	$ 6,983			$ 7,541	$ 6,983
Transportation Bonds (backed by specific revenues)	1,563	1,562			1,563	1,562
Revenue bonds (backed by specific revenues)			$ 6,377	$ 6,505	6,377	6,505
Total	$ 9,104	$ 8,545	$ 6,377	$ 6,505	$ 15,481	$ 15,050

The total increase in bonded debt in the current fiscal year was $431 million ($558 million increase related to general obligation bonds, $1 million increase related to transportation bonds, and $128 million decrease related to revenue bonds). The State's general obligation bonds are rated by Aaa by Moody's and AAA by Standard and Poors and Fitch. During fiscal year 2012, the State issued general obligation debt totaling $1.5 billion at a premium of $202 million. Of this amount, $393 million and related premium of $70 million was for refunding bonds. On August 14, 2012 (fiscal year 2013), the State issued general obligation bonds aggregating $543 million for capital improvements and general obligation refunding bonds in the amount of $184 million.

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, 2012, was $1.9 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

Certain key economic factors are reflected in the development of the State's fiscal year 2013 budget. Year-to-date, Maryland's gross state product has grown at approximately 3.1%, an increase from 0.6% growth in 2011. As of September 2012, Maryland's unemployment rate stands at 6.9%, still elevated relative to a pre-recession average of 3.7%. Total wage growth is up 4.0% year-to-date after growth of 3.6% in 2011.

Total fund spending in the fiscal year 2013 budget is $35.9 billion, an increase of 2.9% over the previous year. The budget reflects reforms to the State's pension system and retiree health care program described in Notes 15 and 16 to the financial statements, but allows for a 2% State employee cost of living increase effective January 1, 2013.

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, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash	$ 209,234	$ 46,279	$ 255,513	$ 184,489
Equity in pooled invested cash	881,162	605,673	1,486,835	1,771,640
Investments	246,170	513,282	759,452	675,731
Endowment investments				194,736
Foundation investments				974,529
Inventories	114,811	15,532	130,343	13,857
Prepaid items	558,992		558,992	6,171
Deferred charges	26,026		26,026	3,061
Taxes receivable, net	1,220,335		1,220,335	
Intergovernmental receivables	1,325,990		1,325,990	
Tuition contracts receivable				238,155
Due from primary government				3,385
Due from component units	36,434		36,434	
Other accounts receivable	627,033	128,618	755,651	384,737
Loans and notes receivable, net	16,602	736,029	752,631	75,780
Investment in direct financing leases		343,373	343,373	210,676
Other assets	33,150	33,992	67,142	19,100
Collateral for lent securities	327,765		327,765	
Restricted assets:				
Cash	39,827	1,578,075	1,617,902	76,073
Equity in pooled invested cash	192,262	87,968	280,230	
Investments	6,922	1,153,384	1,160,306	36,422
Deferred charges		16,509	16,509	
Deferred outflow on interest rate swaps		35,862	35,862	
Taxes receivable, net	6,328		6,328	
Loans and notes receivable, net	2,377	2,765,468	2,767,845	
Other accounts receivable	486	394,825	395,311	
Capital assets, net of accumulated depreciation:				
Land	3,223,988	383,687	3,607,675	184,018
Art and historical treasures	9,370		9,370	
Structures and other improvements	3,653,611	37,257	3,690,868	4,043,164
Equipment	820,057	77,974	898,031	443,254
Infrastructure	9,230,396	3,532,247	12,762,643	202,044
Construction in progress	2,558,320	1,007,407	3,565,727	481,667
Total capital assets	19,495,742	5,038,572	24,534,314	5,354,147
Total assets	25,367,648	13,493,441	38,861,089	10,222,689

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Liabilities				
Salaries payable	$ 216,665		$ 216,665	$ 135,571
Vouchers payable	544,296		544,296	
Accounts payable and accrued liabilities	2,315,913	$ 354,903	2,670,816	212,688
Internal balances	(110,682)	110,682		
Due to primary government				36,434
Accounts payable to political subdivisions	207,542		207,542	
Unearned revenue	234,341	23,554	257,895	225,800
Interest rate swaps		35,862	35,862	
Accrued insurance on loan losses		14,233	14,233	4,076
Other liabilities				1,682
Collateral obligations for lent securities	327,765		327,765	
Bonds and notes payable:				
Due within one year	694,919	221,825	916,744	112,125
Due in more than one year	9,041,246	6,155,403	15,196,649	1,412,329
Other noncurrent liabilities:				
Due within one year	374,798	62,394	437,192	159,716
Due in more than one year	7,543,525	125,376	7,668,901	891,693
Total liabilities	21,390,328	7,104,232	28,494,560	3,192,114
Net Assets				
Invested in capital assets, net of related debt	13,771,338	2,314,382	16,085,720	4,079,633
Restricted for:				
Debt service	228,256	104,916	333,172	7,692
Capital improvements		43,859	43,859	20,451
Higher education-nonexpendable				651,740
Higher education-expendable				498,168
Unemployment compensation benefits		1,016,334	1,016,334	
Loan programs		967,311	967,311	74,414
Insurance programs		87,054	87,054	
Other	1,192		1,192	
Unrestricted (deficit)	(10,023,466)	1,855,353	(8,168,113)	1,698,477
Total net assets	$ 3,977,320	$ 6,389,209	$ 10,366,529	$ 7,030,575

STATE OF MARYLAND
Statement of Activities
For the Year Ended June 30, 2012
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets, Primary Government: Governmental Activities	Net (Expense) Revenues and Changes in Net Assets, Primary Government: Business-type Activities	Net (Expense) Revenues and Changes in Net Assets, Primary Government: Total	Component Units
Primary government -								
Governmental activities:								
General government	$ 871,352	$ 500,747	$ 97,606	$ 45,856	$ (227,143)		$ (227,143)	
Health and mental hygiene	9,870,227	1,332,658	4,433,819		(4,103,750)		(4,103,750)	
Education	7,790,385	95,721	1,123,114		(6,571,550)		(6,571,550)	
Aid for higher education	1,898,244	27,253	2,800		(1,868,191)		(1,868,191)	
Human resources	2,551,033	75,113	1,748,456		(727,464)		(727,464)	
Public safety	2,078,085	117,088	131,663	5,205	(1,824,129)		(1,824,129)	
Transportation	3,155,703	541,961	92,738	830,922	(1,690,082)		(1,690,082)	
Judicial	649,324	434,276	6,735		(208,313)		(208,313)	
Labor, licensing and regulation	279,632	30,900	172,465		(76,267)		(76,267)	
Natural resources and recreation	207,840	40,129	26,388	2,145	(139,178)		(139,178)	
Housing and community development	347,008	11,526	318,816		(16,666)		(16,666)	
Environment	108,213	36,292	27,980		(43,941)		(43,941)	
Agriculture	46,645	19,750	3,872		(23,023)		(23,023)	
Business and economic development	78,406	8,599	1,666		(68,141)		(68,141)	
Intergovernmental grants and revenue sharing	614,685				(614,685)		(614,685)	
Interest	498,757	394	11,498		(486,865)		(486,865)	
Total governmental activities	31,045,539	3,272,407	8,199,616	884,128	(18,689,388)		(18,689,388)	
Business-type activities:								
Economic development - insurance programs	4,689	7,952		1,069		$ 4,332	4,332	
Economic development - general loan programs	20,106	12,448	4,486			(3,172)	(3,172)	
Economic development - water quality loan programs	142,280	82,507	73,447			13,674	13,674	
Economic development - housing loan programs	204,117	151,981	59,533			7,397	7,397	
Unemployment insurance program	1,585,495	1,136,677	776,210			327,392	327,392	
Maryland State Lottery	1,331,899	2,022,445				690,546	690,546	
Maryland Transportation Authority	412,509	532,042	3,543			123,076	123,076	
Maryland Correctional Enterprises	50,754	53,026				2,272	2,272	
Total business-type activities	3,751,849	3,999,078	917,219	1,069		1,165,517	1,165,517	
Total primary government	34,797,388	7,271,485	9,116,835	885,197	(18,689,388)	1,165,517	(17,523,871)	

Component Units-								
Higher education	4,606,117	2,143,100	1,431,286	212,671				$ (819,060)
Maryland Prepaid College Trust	75,742	68,370						(7,372)
Maryland Stadium Authority	65,873	34,226	19,347					(12,300)
Other component units	136,882	116,759	21,739					1,616
Total component units	$ 4,884,614	$ 2,362,455	$ 1,472,372	$ 212,671				$ (837,116)
General revenues:								
Income taxes					7,868,089		7,868,089	
Sales and use taxes					4,078,000		4,078,000	
Motor vehicle taxes					1,988,153		1,988,153	
Tobacco taxes					411,427		411,427	
Insurance company taxes					428,023		428,023	
Property taxes					994,439		994,439	
Estate & inheritance taxes					221,206		221,206	
Other taxes					296,068		296,068	
InvestMD tax credits						84,000	84,000	
Grants and contributions not restricted to specific programs								1,192,554
Unrestricted investment earnings					155,587	10,329	165,916	54,667
Additions to permanent endowments								4,685
Transfers					593,478	(593,478)		
Total general revenues, additions to permanent endowments, and transfers					17,034,470	(499,149)	16,535,321	1,251,906
Changes in net assets					(1,654,918)	666,368	(988,550)	414,790
Net assets, beginning of the year					5,632,238	5,722,841	11,355,079	6,615,785
Net assets, end of the year					$ 3,977,320	$ 6,389,209	$ 10,366,529	$ 7,030,575

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

STATE OF MARYLAND
Balance Sheet
Governmental Funds
June 30, 2012
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash	$ 207,616	$ 1,618		$ 209,234
Equity in pooled invested cash	869,243		$ 11,919	881,162
Investments	6,432		239,738	246,170
Prepaid items	441,714	94,599		536,313
Taxes receivable, net	1,095,686	124,649		1,220,335
Intergovernmental receivables	945,780	378,912	1,298	1,325,990
Other accounts receivable	598,137	28,891	5	627,033
Due from other funds	103,685	135,752		239,437
Due from component units	36,434			36,434
Inventories	28,317	86,494		114,811
Loans and notes receivable, net	16,602			16,602
Collateral for lent securities	327,765			327,765
Restricted assets:				
Cash		15,826		15,826
Cash with fiscal agent			24,001	24,001
Equity in pooled invested cash			192,262	192,262
Investments	4,120		2,802	6,922
Taxes receivable, net			6,328	6,328
Other accounts receivable			486	486
Loans and notes receivable, net			2,377	2,377
Total assets	$ 4,681,531	$ 866,741	$ 481,216	$ 6,029,488
Liabilities:				
Salaries payable	$ 178,667	$ 37,998		$ 216,665
Vouchers payable	418,101	58,718	$ 67,477	544,296
Accounts payable and accrued liabilities	1,301,647	282,759	39,224	1,623,630
Due to other funds	624,879	36,009	17,867	678,755
Accounts payable to political subdivisions	117,764	34,730	55,048	207,542
Deferred revenue	527,440	189,347		716,787
Accrued self-insurance costs	108,166			108,166
Collateral obligations for lent securities	327,765			327,765
Total liabilities	3,604,429	639,561	179,616	4,423,606
Fund balances:				
Nonspendable	485,654	181,093		666,747
Restricted	632	560	228,256	229,448
Committed	1,271,765	45,527	504,760	1,822,052
Unassigned	(680,949)		(431,416)	(1,112,365)
Total fund balances	1,077,102	227,180	301,600	1,605,882
Total liabilities and fund balances	$ 4,681,531	$ 866,741	$ 481,216	$ 6,029,488

The accompanying notes to the financial statement 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, 2012
(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)	$	1,605,882
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		19,495,742
Taxes and other receivables that will not be available to pay for current period expenditures and, therefore, are deferred in the funds		482,446
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds		(142,282)
Deferred charges not available to pay for current period expenditures		52,540
Other assets not available to pay for current period expenditures		29,315
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds:		
General Obligation Bonds		(7,541,102)
Deferred charges to be amortized over the life of the debt		158,187
Premiums to be amortized over the life of the debt		(698,753)
Transportation Bonds		(1,562,630)
Deferred charges to be amortized over the life of the debt		15,000
Premiums to be amortized over the life of the debt		(106,867)
Accrued self-insurance costs		(224,078)
Accrued annual leave		(338,846)
Pension liabilities		(2,412,207)
Other post-employment benefits liability		(3,700,807)
Pollution remediation		(167,891)
Obligation under capital leases		(755,653)
Obligations under capital leases with component units		(210,676)
Net assets of governmental activities (page 25)	$	3,977,320

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, 2012
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	$ 7,822,259			$ 7,822,259
Sales and use taxes	4,076,729			4,076,729
Motor vehicle taxes and fees		$ 1,988,153		1,988,153
Tobacco taxes	411,427			411,427
Insurance company taxes	428,023			428,023
Property taxes	240,428		$ 754,011	994,439
Estate & inheritance taxes	221,206			221,206
Other taxes	296,068			296,068
Other licenses and fees	714,891			714,891
Charges for services	1,611,811	538,482	39	2,150,332
Interest and other investment income	83,924	2,750	1,395	88,069
Federal revenue	8,241,894	850,632	11,498	9,104,024
Other	401,447	1,607	2,209	405,263
Total revenues	24,550,107	3,381,624	769,152	28,700,883
Expenditures:				
Current:				
General government	831,756			831,756
Health and mental hygiene	9,772,861			9,772,861
Education	7,091,348		309,854	7,401,202
Aid to higher education	1,608,677		289,097	1,897,774
Human resources	2,488,200			2,488,200
Public safety	1,875,795			1,875,795
Transportation		1,472,418		1,472,418
Judicial	590,082			590,082
Labor, licensing and regulation	261,615			261,615
Natural resources and recreation	179,682			179,682
Housing and community development	344,408			344,408
Environment	96,116			96,116
Agriculture	79,294			79,294
Business and economic development	75,835			75,835
Intergovermental grants and revenue sharing	316,863	650,629	297,822	1,265,314
Capital outlays		1,231,241	43,350	1,274,591
Debt service:				
Principal retirement			645,024	645,024
Interest			399,710	399,710
Bond issuance costs	780		3,576	4,356
Total expenditures	25,613,312	3,354,288	1,988,433	30,956,033
Excess (Deficiency) of revenues over (under) expenditures	(1,063,205)	27,336	(1,219,281)	(2,255,150)
Other financing sources (uses):				
Capital leases	4,593	209,407		214,000
Bonds issued		114,981	1,112,420	1,227,401
Refunding bonds issued		161,435	393,295	554,730
Bond premium		47,562	202,455	250,017
Refunding of capital leases		(190,560)		(190,560)
Payments to refunded bond escrow agent		(213,173)	(461,809)	(674,982)
Transfers in	1,098,506	203,243	250,340	1,552,089
Transfers out	(302,402)	(464,699)	(191,510)	(958,611)
Total other sources (uses) of financial resources	800,697	(131,804)	1,305,191	1,974,084
Net changes in fund balances	(262,508)	(104,468)	85,910	(281,066)
Fund balances, beginning of the year	1,339,610	331,648	215,690	1,886,948
Fund balances, end of the year	$ 1,077,102	$ 227,180	$ 301,600	$ 1,605,882

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, 2012

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Net Activities (pages 26-27) are different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds because of the following:		
Net change in fund balances - total governmental funds (page 30)		$ (281,066)
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	$ 1,356,349	
Depreciation expense	(1,088,401)	267,948
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		(20,307)
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	47,098	
Deferred revenues for other revenues are recognized, net of revenue already recognized in the prior year	9,076	
Revenues from other assets are recognized, net of revenue already recognized in the prior year	23,264	79,438
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	(1,043,887)	
Debt issued, Transportation Bonds	(103,635)	
Capital lease financing	(23,440)	
Premiums, discounts and issuance costs	(176,178)	
Principal repayments:		
General Obligation Bonds	542,179	
Transportation Bonds	102,845	
Capital leases	27,480	(674,636)
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	(3,790)	
Compensated absences	(9,899)	
Self-insurance	7,014	
Net pension obligation	(639,605)	
Other post-employment benefits liability	(369,939)	
Pollution remediation liabilities	(10,076)	(1,026,295)
Change in net assets of governmental activities (page 27)		$ (1,654,918)

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 and the regulation of the operation of the Video Lottery Terminal program.

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, 2012
(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			$ 3,150	$ 43,129		$ 46,279
Equity in pooled invested cash	$ 503,273		86,593		$ 15,807	605,673
Investments	1,370			451,046		452,416
Other accounts receivable	63,056		41,256	18,613	5,693	128,618
Due from other funds	31,988	$ 2,664		4,532		39,184
Inventories				4,792	10,740	15,532
Loans and notes receivable, net	30,607				150	30,757
Investment in direct financing leases				1,674		1,674
Other assets	172		35	1,000	7,171	8,378
Current restricted assets:						
Cash	484,741	1,206	28,239	259,192		773,378
Cash on deposit with U.S. Treasury		804,697				804,697
Equity in pooled invested cash					87,968	87,968
Investments	23,489		17,050	400,015		440,554
Loans and notes receivable, net	104,597					104,597
Other accounts receivable	122,422	272,157	211			394,790
Total current assets	1,365,715	1,080,724	176,534	1,183,993	127,529	3,934,495
Non-current assets:						
Investments	58,847				2,019	60,866
Loans and notes receivable, net	705,005				267	705,272
Investment in direct financing leases				341,699		341,699
Other assets				25,614		25,614
Restricted non-current assets:						
Investments	653,638		59,192			712,830
Deferred charges	16,509					16,509
Deferred outflow on interest rate swaps	35,862					35,862
Loans and notes receivable, net	2,660,871					2,660,871
Other accounts receivable	35					35
Capital assets, net of accumulated depreciation:						
Land				383,687		383,687
Structures and improvements				34,436	2,821	37,257
Equipment	4		49,230	23,823	4,917	77,974
Infrastructure				3,532,211	36	3,532,247
Construction in progress				1,007,407		1,007,407
Total non-current assets	4,130,771		108,422	5,348,877	10,060	9,598,130
Total assets	5,496,486	1,080,724	284,956	6,532,870	137,589	13,532,625

	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	$ 71,256	$ 64,390	$ 77,296	$ 139,761	$ 2,200	$ 354,903
Due to other funds	759		71,449	77,658		149,866
Accrued insurance on loan losses	930				13,303	14,233
Other liabilities	6,317		43,696	11,146	1,235	62,394
Deferred revenue	35		2,685	18,711	2,123	23,554
Revenue bonds payable - current	109,390			112,435		221,825
Total current liabilities	188,687	64,390	195,126	359,711	18,861	826,775
Non-current liabilities:						
Interest rate swaps	35,862					35,862
Other liabilities	23,848		77,672	21,108	2,748	125,376
Revenue bonds payable	2,919,604			3,235,799		6,155,403
Total non-current liabilities	2,979,314		77,672	3,256,907	2,748	6,316,641
Total liabilities	3,168,001	64,390	272,798	3,616,618	21,609	7,143,416
Net Assets:						
Invested in capital assets, net of related debt	4		(6,983)	2,313,587	7,774	2,314,382
Restricted for:						
Debt service				104,916		104,916
Capital improvements				43,859		43,859
Unemployment compensation benefits		1,016,334				1,016,334
Loan programs	967,311					967,311
Insurance programs					87,054	87,054
Unrestricted	1,361,170		19,141	453,890	21,152	1,855,353
Total net assets	$ 2,328,485	$ 1,016,334	$ 12,158	$ 2,916,252	$ 115,980	$ 6,389,209

-The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2012
(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			$ 1,794,893			$ 1,794,893
Charges for services and sales	$ 71,320	$ 1,136,677	196,884	$ 524,857	$ 56,979	1,986,717
Loan and grant recoveries	4,652					4,652
Unrestricted interest on loan income	14,432				532	14,964
Restricted interest on loan income	138,674					138,674
Other	10,453		30,668	7,185	3,467	51,773
Total operating revenues	239,531	1,136,677	2,022,445	532,042	60,978	3,991,673
Operating expenses:						
Prizes and claims			1,065,654			1,065,654
Commissions and bonuses			118,305			118,305
Cost of sales and services			21,687		41,601	63,288
Operation and maintenance of facilities				231,415		231,415
General and administrative	41,717		114,525	29,739	12,361	198,342
Benefit payments		1,585,495				1,585,495
Capital grant distributions	130,447					130,447
Depreciation and amortization	4		10,817	47,919	1,363	60,103
Provision for insurance on loan losses	38,470					38,470
Other	19,275					19,275
Total operating expenses	229,913	1,585,495	1,330,988	309,073	55,325	3,510,794
Operating income (loss)	9,618	(448,818)	691,457	222,969	5,653	480,879
Non-operating revenues (expenses):						
Unrestricted interest and other investment income	5,543		811	3,975		10,329
Restricted interest and other investment income	60,158	14,609		3,543	1,069	79,379
Interest expense	(130,192)		(911)	(86,487)		(217,590)
Federal grants and distributions	77,308	761,601				838,909
InvestMD tax credits	84,000					84,000
Other	1,008			(16,949)	(118)	(16,059)
Total non-operating revenues (expenses)	97,825	776,210	(100)	(95,918)	951	778,968
Income (loss) before transfers	107,443	327,392	691,357	127,051	6,604	1,259,847
Transfers in	142,478			46,155		188,633
Transfers out	(94,589)		(685,146)		(2,376)	(782,111)
Change in net assets	155,332	327,392	6,211	173,206	4,228	666,369
Total net assets - beginning	2,173,153	688,942	5,947	2,743,046	111,752	5,722,840
Total net assets - ending	$ 2,328,485	$ 1,016,334	$ 12,158	$ 2,916,252	$ 115,980	$ 6,389,209

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

STATE OF MARYLAND
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2012
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Programs	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers	$ 470,596	$ 1,114,883	$ 2,037,011	$ 518,337	$ 58,476	$ 4,199,303
Payments to suppliers	(2,023)		(61,321)	(146,282)	(36,713)	(246,339)
Payments to employees	(14,751)		(12,382)	(138,549)	(19,562)	(185,244)
Program loan disbursements	(200,213)					(200,213)
Other receipts	74,163			12,485	2,039	88,687
Other payments	(180,134)	(1,558,309)	(184,180)		(15,499)	(1,938,122)
Lottery prize payments			(1,067,073)			(1,067,073)
Net cash from operating activities	147,638	(443,426)	712,055	245,991	(11,259)	650,999
Cash flows from non-capital financing activities:						
Proceeds from the sale of revenue bonds	135,042			67,457		202,499
Payment on revenue bonds	(265,070)					(265,070)
Interest payments	(138,889)					(138,889)
Proceeds from InvestMD tax credits	28,000					28,000
Transfers in	133,940			46,155		180,095
Transfers out	(93,830)		(702,991)		(2,376)	(799,197)
Grants	79,816	761,601				841,417
Lottery installment payments			(21,380)			(21,380)
Net cash from non-capital financing activities:	(120,991)	761,601	(724,371)	113,612	(2,376)	27,475
Cash flows from capital and related financing activities:						
Proceeds from notes payable and revenue bonds				125,941		125,941
Principal paid on notes payable and revenue bonds				(152,093)		(152,093)
Interest payments			(796)	(129,189)		(129,985)
Proceeds from sales of capital assets					3	3
Acquisition of capital assets				(398,727)	(777)	(399,504)
Payment of capital lease obligations			(10,287)			(10,287)
Net cash from capital & related financing activities			(11,083)	(554,068)	(774)	(565,925)
Cash flows from investing activities:						
Purchase of investments	(282,719)		(743)	(854,498)		(1,137,960)
Proceeds from maturity and sale of investments..	147,150		21,380	879,130		1,047,660
Interest on investments	17,372	14,609		10,834	1,069	43,884
Net cash from investing activities	(118,197)	14,609	20,637	35,466	1,069	(46,416)
Net change in cash and cash equivalents	(91,550)	332,784	(2,762)	(158,999)	(13,340)	66,133
Balance - beginning of the year, as restated	1,079,564	473,119	120,744	461,320	117,115	2,251,862
Balance - end of the year	$ 988,014	$ 805,903	$ 117,982	$ 302,321	$ 103,775	$ 2,317,995

STATE OF MARYLAND
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2012
(Continued)

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Programs	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash from operating activities:						
Operating income (loss)	$ 9,618	$ (448,818)	$ 691,457	$ 222,969	$ 5,653	$ 480,879
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	4		10,817	47,919	1,363	60,103
Deferred prize payment			743			743
Effect of changes in assets and liabilities:						
Other accounts receivable	4,001	(21,652)	(10,404)	(6,034)	3,145	(30,944)
Due from other funds	(1,324)	(142)		(187)		(1,653)
Inventories				(386)	(1,576)	(1,962)
Loans and notes receivable	114,385				35	114,420
Other assets	(172)		14		(7,386)	(7,544)
Investments	3,232					3,232
Accounts payable and accrued liabilities	(617)	27,186	21,296	(36,352)	(276)	11,237
Due to other funds	(1,021)		(1,709)	12,163		9,433
Accrued insurance on loan losses	14,824				(10,981)	3,843
Other liabilities	4,709		37	898	490	6,134
Deferred revenue	(1)		(196)	5,001	(1,726)	3,078
Total adjustments	138,020	5,392	20,598	23,022	(16,912)	170,120
Net cash from operating activities	$ 147,638	$ (443,426)	$ 712,055	$ 245,991	$ (11,259)	$ 650,999
Noncash transactions (amounts expressed in thousands):						
Unrealized gain(loss) on investments	$ 29,043		$ 811	$ 2,565		
Additions to (disposals of) capital assets			21,613	(2,517)		

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

STATE OF MARYLAND
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Postretirement Health Benefits Trust Fund	Agency Funds
Assets:				
Cash	$ 2,188,524		$ 5	$ 54,966
Equity in pooled invested cash				819,273
Investments:				
U.S. Treasury and agency obligations	1,956,925	$ 1,452,140	20,614	
Repurchase agreements		295,969		
Bonds	3,754,682		30,819	
Corporate equity securities	13,128,646		133,557	
Commercial paper		219,545		
Mortgage related securities	2,502,750			
Mutual funds	8,850,972	290,009		
Guaranteed investment contracts	784,209			
Real estate	1,517,168		21,959	
Annuity contracts	99,964			
Private equity	2,107,611			
Alternative investments	42,395			
Investments held by borrowers under securities lent with cash collateral	3,478,596			
Total investments	38,223,918	2,257,663	206,949	
Taxes receivable, net				128,997
Intergovernmental receivables				2,571
Other receivables	1,081,989	1,646		
Accounts receivable from State Treasury				550,000
Collateral for lent securities	3,452,109			
Total assets	44,946,540	2,259,309	206,954	1,555,807
Liabilities:				
Accounts payable and accrued liabilities	1,628,762	382		133,450
Accounts payable to political subdivisions				1,422,357
Collateral obligation for lent securities	3,452,109			
Total liabilities	5,080,871	382		1,555,807
Net assets:				
Held in trust for:				
Pension benefits	37,350,375			
Deferred compensation benefits	2,515,294			
Local Government Investment Pool participants		2,258,927		
Postretirement health benefits			206,954	
Total net assets	$ 39,865,669	$ 2,258,927	$ 206,954	$ -

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, 2012
(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Postretirement Health Benefits Trust Fund
Additions:			
Contributions:			
Employers	$ 733,329		$ 385,913
Members	862,160	$ 5,111,069	
Sponsors	895,691		
Total contributions	2,491,180	5,111,069	385,913
Investment earnings:			
Net increase (decrease) in fair value of investments	(1,143,048)		(4,244)
Interest	428,218	3,641	132
Dividends	1,041,358		2,420
Real estate operating net earnings	5,274		
Total investment earnings	331,802	3,641	(1,692)
Less: investment expense	241,489	808	133
Net investment earnings	90,313	2,833	(1,825)
Total additions	2,581,493	5,113,902	384,088
Deductions:			
Benefit payments	2,964,587		385,913
Distributions to participants		2,833	
Redemptions (unit transactions at $1.00 per unit)		5,370,940	
Refunds	33,819		
Administrative expenses	33,333		
Total deductions	3,031,739	5,373,773	385,913
Change in net assets	(450,246)	(259,871)	(1,825)
Net assets - beginning	40,315,915	2,518,798	208,779
Net assets - ending	$ 39,865,669	$ 2,258,927	$ 206,954

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

STATE OF MARYLAND

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, 2012
(Expressed in Thousands)

	Higher Education	Maryland Prepaid College Trust	Stadium Authority	Other Component Units	Total
Assets:					
Cash	$ 104,716	$ 30,535	$ 565	$ 48,673	$ 184,489
Equity in pooled invested cash	1,721,202	364	5,675	44,399	1,771,640
Investments	5,682	654,291		15,758	675,731
Endowment investments	194,736				194,736
Foundation investments	974,529				974,529
Tuition contracts receivable	59,866	178,289			238,155
Other accounts receivable	360,963	1,605	7,811	14,358	384,737
Due from primary government			3,385		3,385
Inventories	13,857				13,857
Prepaid items	6,171				6,171
Deferred charges	1,712		1,349		3,061
Loans and notes receivable, net	70,090		4,428	1,262	75,780
Investments in direct financing leases			210,666	10	210,676
Other assets	12,414		50	6,636	19,100
Restricted assets:					
Cash	75,674			399	76,073
Investments	26,660		7,403	2,359	36,422
Capital assets (net of accumulated depreciation):					
Land	176,002			8,016	184,018
Structures and improvements	3,875,313		124,950	42,901	4,043,164
Infrastructure	201,620			424	202,044
Equipment	428,460	41	7,299	7,454	443,254
Construction in progress	480,808			859	481,667
Total assets	8,790,475	865,125	373,581	193,508	10,222,689
Liabilities:					
Salaries payable	135,571				135,571
Accounts payable and accrued liabilities	177,765	398	9,955	24,570	212,688
Due to primary government	36,434				36,434
Unearned revenue	209,639	13,706	882	1,573	225,800
Accrued insurance on loan losses				4,076	4,076
Other liabilities	1,454			228	1,682
Bonds and notes payable:					
Due within one year	86,746		24,632	747	112,125
Due in more than one year	1,163,333		229,275	19,721	1,412,329
Other noncurrent liabilities:					
Due within one year	62,032	70,077	88	27,519	159,716
Due in more than one year	196,297	652,706	22,968	19,722	891,693
Total liabilities	2,069,271	736,887	287,800	98,156	3,192,114

	Higher Education	Maryland Prepaid College Trust	Stadium Authority	Other Component Units	Total
Net Assets:					
Invested in capital assets, net of related debt	$ 3,958,176	$ 41	$ 89,656	$ 31,760	$ 4,079,633
Restricted:					
Debt service			3,031		3,031
Capital improvements and deposits		773	4,372	251	5,396
Nonexpendable:					
Scholarships and fellowships	272,442				272,442
Research	8,603				8,603
Other	370,695				370,695
Expendable:					
Debt service	4,661				4,661
Capital projects	15,055				15,055
Loans and notes receivable	74,414				74,414
Scholarships and fellowships	117,906				117,906
Research	98,459				98,459
Other	281,803				281,803
Unrestricted (deficit)	1,518,990	127,424	(11,278)	63,341	1,698,477
Total net assets	$ 6,721,204	$ 128,238	$ 85,781	$ 95,352	$ 7,030,575

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, 2012
(Expressed in Thousands)

	Higher Education	Maryland Prepaid College Trust	Stadium Authority	Other Component Units	Total
Expenses:					
General and administrative		$ 2,226	$ 7,719	$ 17,752	$ 27,697
Operation and maintenance of facilities	$ 356,759		21,024	94,364	472,147
Provision for insurance on loan losses, net				3,406	3,406
Instruction	1,203,495				1,203,495
Research	954,926				954,926
Public service	159,007				159,007
Academic support	408,126				408,126
Student services	211,748				211,748
Institutional support	411,841				411,841
Scholarships and fellowships	106,677				106,677
Tuition benefits		73,489			73,489
Auxiliary	512,069				512,069
Hospitals	155,206				155,206
Interest on long-term debt	48,339		15,261	1,389	64,989
Depreciation and amortization		21	14,912	3,566	18,499
Foundation expenses	75,034				75,034
Other	2,890	6	6,957	16,405	26,258
Total expenses	4,606,117	75,742	65,873	136,882	4,884,614
Program revenues:					
Charges for services:					
Student tuition and fees (net of $272,016 in allowances)	1,236,759				1,236,759
Auxiliary enterprises (net of $35,070 in allowances)	571,722				571,722
Other	334,619	68,370	34,226	116,759	553,974
Total charges for services	2,143,100	68,370	34,226	116,759	2,362,455
Operating grants and contributions	1,431,286		19,347	21,739	1,472,372
Capital grants and contributions	212,671				212,671
Total program revenues	3,787,057	68,370	53,573	138,498	4,047,498
Net program revenue (expense)	(819,060)	(7,372)	(12,300)	1,616	(837,116)
General revenues:					
Grants and contributions not restricted to specific programs	1,192,554				1,192,554
Unrestricted investment earnings	44,244	9,635		788	54,667
Additions to permanent endowments	4,685				4,685
Total general revenues and additions to permanent endowments	1,241,483	9,635		788	1,251,906
Change in net assets	422,423	2,263	(12,300)	2,404	414,790
Net assets - beginning of the year	6,298,781	125,975	98,081	92,948	6,615,785
Net assets - ending of the year	$ 6,721,204	$ 128,238	$ 85,781	$ 95,352	$ 7,030,575

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, 2012

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 State 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

The discretely presented component units are those 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 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 for 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 Worker's 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, 2012, the Economic Development Loan Programs, major enterprise funds, had transactions with MEDCO that included loans, investments and grants totaling $18,347,000.

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. Revenue sources dedicated to transportation operations include the excise taxes on motor vehicle fuel and motor vehicle titles, a potion of the State's corporation income tax and the State's sales tax, wharfage and landing fees, fare box revenues, bond proceeds, Federal grants for transportation purposes and other receipts of the Department's agencies.

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 and regulates the operation of video lottery terminal (VLT) casinos.

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 and 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 Trust 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 employee's payroll.

D. *Change in Accounting Principles and Restatement of Beginning Balances*

As of June 30, 2011, the State determined that the amount reported as "equity in pooled invested cash" is a cash management pool with characteristics similar to a demand deposit rather than investments, and the amount should be included in beginning and ending cash and cash equivalents reported on the statement of cash flows. Accordingly, beginning cash and cash equivalents on the Enterprise Funds' Statement of Cash Flows are restated as follows (amounts expressed in thousands).

	Beginning Cash and Cash Equivalents, as Previously Reported	Equity in Pooled Invested Cash	Beginning Cash and Cash Equivalents, as Restated
Economic Development Loan Programs	$612,828	$466,736	$1,079,564
Maryland State Lottery Agency	5,296	115,448	120,744
Non-major Enterprise Funds	-	117,115	117,115

E. *New Pronouncements*

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in December 2010, effective for financial statement periods beginning after December 15, 2011. The State has early implemented this statement. In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for periods beginning after December 15, 2011 and June 15, 2012, respectively. In addition, in June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources*, *Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2013, and 2014, respectively. 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, Statement No. 68 is expected to have a material effect on the financial position of the State.

2. Summary of 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 it 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 Pension 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 would 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 exchanged are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on a 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 valued at cost plus interest credited which approximates fair market 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. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

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 the 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. Issuances 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. Government 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 2012 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. Otherwise, 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 both restricted and unrestricted fund balance are available, the State considers restricted resources to have been spent first. 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.

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.

Video lottery terminals (VLTs) are a self-activated video version of lottery games. The Lottery recognizes VLT revenue as gross terminal revenue equivalent to all wagers, net of related prizes. Licensed casino operators receive 33% of the gross terminal revenue to operate their casino's, which is recorded as an operating expense by the Lottery. After deducting operating costs, State law requires the Lottery to disburse the remainder of the gross terminal revenue to various general fund agencies, which are responsible for making further distributions. These distributions are recorded as non-operating expenses by the Lottery.

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, 2012, reconcile to cash deposit and investment disclosures as follows (amounts expressed in thousands).

Government-wide statement of net assets:		
Cash	$	440,002
Equity in pooled invested cash		3,258,475
Investments		2,604,448
Collateral for lent securities		327,765
Restricted cash		1,693,975
Restricted equity in pooled invested cash		280,230
Restricted investments		1,196,728
Statement of fiduciary net assets:		
Cash		2,243,495
Equity in pooled invested cash		819,273
Investments		40,688,530
Collateral for lent securities		3,452,109
Total cash and investments per basic financial statements		57,005,030
Less: Cash and investments of higher education foundations not subject to disclosure		1,032,522
Total cash and investments per Note 3	$	55,972,508

Cash Deposits:		
Governmental funds	$	216,202
Enterprise funds		869,482
Fiduciary funds		253,285
Component units		126,467
Investments:		
Governmental funds		4,971,694
Enterprise funds		2,421,537
Fiduciary funds		46,130,849
Component units		982,992
Total cash deposits and investments	$	55,972,508

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, 2012, the carrying value for the bank deposits of the governmental funds, enterprise funds, fiduciary funds and component units were $216,202,000, $869,482,000, $253,285,000 and $126,467,000, respectively. The bank balances were $216,202,000, $867,230,000, $253,285,000, and $133,642,000, respectively.

Custodial 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 and higher education component unit do not have a deposit policy for

custodial credit risk. As of June 30, 2012, $39,000 and $5,900,000, 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, 2012, $29,197,000, 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, 2012, 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)……	$ 2,363,786	$ 25,299	$ 131,967	$ 2,206,520	(b)
Repurchase Agreements ……	2,058,695	2,034,694		24,001	
Local Government Investment Pool	221,448	221,448			
Total Investments……	4,643,929	2,281,441	131,967	2,230,521	
Collateral for lent securities……	327,765	327,765			
Total Investments and collateral for lent securities……	$ 4,971,694	$ 2,609,206	$ 131,967	$ 2,230,521	

(a) Investments held by broker dealers under securities lending program are $ 261,534,000.

(b) Bonds in the amount of $2,036,424,000, mature September 2015 to June 2017, but are callable July 2012 to February 2015.

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 $24,001,000.

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 AA 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 Home Loan Mortgage Corporation and the Federal National Mortgage Association. These investments are 46.4% and 40.5% 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 in accordance with bond indentures and in direct equity investments in accordance with the stature establishing the program.

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

The investment and maturities as of June 30, 2012, 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	$ 641,829	$ 13,565	$ 3,520	$ 4,266	$ 11,898	$ 608,580
U.S Government agency obligations	740,039	198,619	531,459	2,671		7,290
Repurchase Agreements	19,632					19,632
Commercial Paper	89,879	89,879				
Guaranteed Investment Contracts	20,286		16,317	3,969		
Money market mutual funds	757,576	757,576				
Municipal Bonds	31,104		14,408	13,279	3,417	
Total	$ 2,300,345	$ 1,059,639	$ 565,704	$ 24,185	$ 15,315	$ 635,502

In addition to the investments scheduled above, as of June 30, 2012, the enterprise funds' investments also include the fair value of direct equity investments, $44,950,000.

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. As of June 30, 2012, the fair value of these investments was $75,973,000, and $269,000, respectively. Of these investments, U.S. Treasury obligations held by broker dealers under the securities lending program were $59,689,000.

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, 2012, was Aa by Moody's and AA by Fitch.

As of June 30, 2012, 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	$ 740,039	AAA/Aaa	S&P/Moody's	30.56%
Money Market Mutual Funds	757,576	AAAm/Aaa	S&P/Moody's	31.28%
Repurchase agreements - underlying securities	19,632	AAA/Aaa	S&P/Moody's	0.81%
Commercial paper	89,879	A1/P1	S&P/Moody's	3.71%
Guaranteed investment contracts	11,192	Aaa	Moody's	0.46%
Guaranteed investment contracts	9,094	Aa	Moody's	0.38%
Municipal Bonds	31,104	AAA/Aaa	S&P/Moody's	1.28%
Total	$ 1,658,516			68.49%

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, Federal Home Loan Mortgage Association and Federal National Mortgage Association. These investments are 12.0%, 10.3% and 6.1% of the enterprise funds' total investments, respectively.

3. *Investments – Fiduciary Funds:*

The Pension Trust Funds and Postretirement Health Benefits Trust Fund are authorized to make investments as stated in Note 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, 2012, 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 than 10
U.S. Treasury notes and bonds	$ 3,240,168	$ 299,950	$ 1,167,653	$ 854,091	$ 918,474
U.S. Treasury strips	27,322				27,322
U.S. Government agency obligations	1,465,193	1,253,498	132,317	66,037	13,341
Repurchase agreements	295,969	295,969			
Commercial paper	219,545	219,545			
Guaranteed investment contracts (a)	784,208		784,208		
Corporate bonds	2,020,022	78,197	673,223	918,248	350,354
International bonds	1,292,438	33,582	260,925	526,203	471,728
Other government bonds	549,043	38,702	194,150	152,029	164,162

Mortgage-backed securities	2,538,214	2,291	12,686	90,115	2,433,122
Asset-backed securities	264,011	389	98,428	39,682	125,512
Bond mutual funds	133,303	5,813		127,490	
Swaps	(591)	(578)	1,589	(1,948)	346
Alternative investments	42,395	249	31,045	11,101	
Money market mutual funds	2,280,149	2,280,149			
Total investments	15,151,389	4,507,756	3,356,224	2,783,048	4,504,361
Collateral for lent securities	3,452,109	3,452,109			
Total investments and collateral for lent securities	$ 18,603,498	$ 7,959,865	$ 3,356,224	$ 2,783,048	$ 4,504,361

(a) These investments are stated at contract value as of December 31, 2011. The fair value as of December 31, 2011, was $810,264,000, and the wrapper value was $728,000.

In addition to the investments scheduled above, as of June 30, 2012, the fiduciary funds' investments also include the fair value of stock mutual funds, $8,850,973,000, corporate equity securities, $13,262,203,000, private equity, $2,107,611,000, real estate, $1,539,127,000, annuity contracts, $99,964,000, insurance contracts, $3,903,000, and other investments, $42,395,000.

Interest Rate Risk. As of June 30, 2012, the System had $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, 2012, the fair value of these investments was $99,964,000, and $3,903,000, 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, 2012, 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	$ 22,215	AAA	0.0%
U.S. Government agency obligations	1,387,860	AA	3.2%
U.S. Government agency obligations	31,813	A	0.0%
U.S. Government agency obligations	756	BAA	0.0%
U.S. Government agency obligations	2,095	BBB	0.0%
U.S. Government agency obligations	20,453	Unrated	0.0%
Repurchase agreements - underlying securities	295,969	AAA	0.6%
Money market mutual funds	290,014	AAA	0.6%
Money market mutual funds	1,990,135	A	4.6%
Commercial paper	219,545	AAA	0.5%
Guaranteed investment contracts	779,947	AA	1.8%
Guaranteed investment contracts	4,261	Unrated	0.0%

Corporate bonds	29,750	AAA	0.0%
Corporate bonds	101,257	AA	0.2%
Corporate bonds	429,484	A	1.0%
Corporate bonds	247,492	BAA	0.5%
Corporate bonds	2,317	BA	0.0%
Corporate bonds	646,380	BBB	1.5%
Corporate bonds	133,425	BB	0.3%
Corporate bonds	170,230	B	0.4%
Corporate bonds	17,367	CAA	0.0%
Corporate bonds	50,854	CCC	0.1%
Corporate bonds	3,837	CC	0.0%
Corporate bonds	187,629	Unrated	0.4%
International bonds	833,697	AAA	1.9%
International bonds	159,171	AA	0.3%
International bonds	145,883	A	0.3%
International bonds	51,836	BAA	0.1%
International bonds	178	BA	0.0%
International bonds	53,957	BBB	0.1%
International bonds	5,665	BB	0.0%
International bonds	6,271	B	0.0%
International bonds	2,755	CAA	0.0%
International bonds	470	CCC	0.0%
International bonds	32,555	Unrated	0.0%
Other government bonds	58,977	AAA	0.1%
Other government bonds	100,094	AA	0.2%
Other government bonds	210,792	A	0.4%
Other government bonds	22,493	BAA	0.0%
Other government bonds	935	BA	0.0%
Other government bonds	115,629	BBB	0.2%
Other government bonds	24,540	BB	0.0%
Other government bonds	6,209	B	0.0%
Other government bonds	8	CAA	0.0%
Other government bonds	136	CA	0.0%
Other government bonds	147	CCC	0.0%
Other government bonds	38	C	0.0%
Other government bonds	9,045	Unrated	0.0%
Mortgage-backed securities	104,677	AAA	0.2%
Mortgage-backed securities	1,971,995	AA	4.6%
Mortgage-backed securities	73,659	A	0.1%
Mortgage-backed securities	10,098	BAA	0.0%
Mortgage-backed securities	6,353	BA	0.0%
Mortgage-backed securities	24,290	BBB	0.0%

Mortgage-backed securities	7,320	BB	0.0%
Mortgage-backed securities	13,386	B	0.0%
Mortgage-backed securities	11,300	CAA	0.0%
Mortgage-backed securities	435	CA	0.0%
Mortgage-backed securities	25,541	CCC	0.0%
Mortgage-backed securities	9,205	CC	0.0%
Mortgage-backed securities	11,164	D	0.0%
Mortgage-backed securities	268,792	Not rated	0.6%
Asset-backed securities-Other	126,994	AAA	0.3%
Asset-backed securities-Other	32,270	AA	0.0%
Asset-backed securities-Other	18,101	A	0.0%
Asset-backed securities-Other	1,820	BAA	0.0%
Asset-backed securities-Other	12,456	BBB	0.0%
Asset-backed securities-Other	1,165	BB	0.0%
Asset-backed securities-Other	15,005	B	0.0%
Asset-backed securities-Other	11,127	CAA	0.0%
Asset-backed securities-Other	20,236	CCC	0.0%
Asset-backed securities-Other	7,892	CC	0.0%
Asset-backed securities-Other	542	C	0.0%
Asset-backed securities-Other	6,511	D	0.0%
Asset-backed securities-Other	9,892	Not rated	0.0%
Bond mutual funds	133,303	Not rated	0.3%
Swaps	(591)	Not rated	0.0%
Alternative investments	42,395	Not rated	0.1%
Total	$ 11,883,899		27.8%

Foreign Currency Risk. The majority of the System's foreign currency-denominated investments are in equities. The System has an overlay program to minimize its currency risk.

The System's exposure to foreign currency risk as of June 30, 2012, is a follows (amounts expressed in thousands).

Currency	Equity	Fixed Income	Cash	Alternative Investments	Mutual Funds	Total
Argentine Peso		$ 215				$ 215
Australian Dollar	$ 289,002	54,159	$ 5,166	$ 32,956		381,283
Brazilian Real	72,053	201	1,051			73,305
Canadian Dollar	369,539	23,927	8,643	57,787		459,896
Czech koruna	5,910		1			5,911
Danish krone	55,929		1,629	3,170		60,728
Egyptian pound	1,279					1,279
Euro Currency	1,474,846	506,084	36,616	516,649$	83,186	2,617,381
Hong Kong Dollar	458,230	1,030	8,349			467,609
Hungarian forint	1,154		63			1,217
India Rupee			(534)			(534)
Indonesian rupiah	11,110		324			11,434
Israeli shekel	12,462		543			13,005
Japanese Yen	972,678	66,632	18,463	10,885		1,068,658
Malaysian Ringgit	8,806	321	286			9,413
Mexican Peso	16,336	40,913	1,176	335		58,762
Moroccan Dirham	188					188
New Russian Ruble	1,301	334	14			1,649
New Taiwan Dollar	24,941					24,941
New Turkish Lira			37			37
New Zealand dollar	2,831	21,487	241			24,559
Nigerian Naira	995		12			1,007
Norwigian Krone	69,314	1,123	51			70,488
Pakistan Rupee	1,336		1,184			2,520
Philippine peso	4,372		54			4,426
Polish zloty	10,977	9,623	430			21,030
Pound Sterling	1,061,688	127,457	17,439	332,435	19,139	1,558,158
Singapore Dollar	107,309	408	2,518			110,235
South African Rand	29,854	8,815	631	189		39,489
South Korean Won	101,456					101,456
Sir Lanka Rupee				503		503
Swedish Krona	145,486	1,690	5,336	23,622		176,134
Swiss Franc	400,815		11,235			412,050
Thailand Baht	20,041		369			20,410
Turkish lira	18,774		110			18,884
Yuan renminbi			(2)			(2)
Mutiple				395,652	1,823,766	2,219,418
Total	$ 5,751,012	$ 864,419	$ 121,435	$ 1,374,183	$ 1,926,091	$ 10,037,142

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 as of June 30, 2012		
	Classification	Amount	Classification	Amount	Notional*
Commodity futures long	Investment revenue	$ (35,760)	Futures		$ 92,357
Commodity futures short	Investment revenue	5,003	Futures		
Credit default swaps bought	Investment revenue	690	Swaps	$ 1,980	67,279
Credit default swaps written	Investment revenue	(1,919)	Swaps	1,839	195.486
Currency swaps	Investment revenue	(565)	Swaps	(1,078)	32,283
Fixed income futures long	Investment revenue	65,604	Futures		720,372
Fixed income futures short	Investment revenue	(73,896)	Futures		(702,993)
Fixed income options bought	Investment revenue	(97)	Options	1,074	38,045
Fixed income options written	Investment revenue	3,190	Options	(4,341)	(443,645)
Foreign currency options bought	Investment revenue	(80)	Options		
Foreign currency options written	Investment revenue	527	Options	(30)	(9,320)
Futures options bought	Investment revenue	(7,679)	Options	628	7,037
Futures options written	Investment revenue	17,008	Options	(649)	2,312
FX forwards	Investment revenue	131,013	Long Term Instruments	35,674	
Index futures long	Investment revenue	(10,423)	Futures		1,575
Index futures short	Investment revenue		Futures		
Index options bought	Investment revenue	11	Options		
Index options written	Investment revenue	126	Options		
Pay fixed interest rate swaps	Investment revenue	(14,581)	Swaps	2,462	211,763
Receive fixed interest rate swaps	Investment revenue	5,377	Swaps	2,808	113,034
Rights	Investment revenue	795	Common stock	186	1,377
Total return swaps bond	Investment revenue	(1,255)	Swaps		
Warrants	Investment revenue	(1,527)	Common stock	6,217	660
Grand Totals		$ 81,562		$ 46,770	

*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, 2012, was $404,793,000. 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
$230,538	AA	$ 61,029	Aaa	$280,426	AA
174,255	A	133,895	Aa	124,367	A
		203,655	A		
		6,214	Baa		
$404,793		$404,793		$404,793	

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	22%	A	A	Aa
Barclays Bank PLC Wholesale	17	AA	AA	Aa
Royal Bank of Scotland PLC	13	A	AA	Aa
HSBC Bank PLC	12	AA	AA	Aa
JP Morgan Chase Bank	10	AA	AA	Aa
Westpac Banking Corporation	8	AA	AA	Aa
Toronto Dominion Bank	7	AA	AA	Aaa
BNP Paribas SA	4	AA	AA	Aa
Royal Bank of Canada (UK)	3	AA	AA	Aa
Societe Generale	2	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 statements of GASB.

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. In June 2011, the institution entered into a new agreement with 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, 2012, for the component units were 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
US Treasury obligations	$ 39,159	$ 689	$ 20,269	$ 17,992	$ 34	$ 175
US Government agency obligations	96,946	2,000	23,726	3,442	6,266	61,512
Commercial paper	6,000	6,000				
Bond mutual funds	12,835	12,835				
Corporate debt securities	91,345	3,676	34,888	22,175	2,617	27,989
Municipal bonds	6,369	91	652	173		5,453
Money market mutual funds	113,832	113,832				
Total	$ 366,486	$ 139,123	$ 79,535	$ 43,782	$ 8,917	$ 95,129

In addition to the investments scheduled above, as of June 30, 2012, the component units' investments include the fair value of stock mutual funds, $241,205,000, corporate equity securities, $149,690,000, real estate, $35,331,000, and the share of assets invested with the foundation, $190,280,000.

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 policy 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, 2012, the component units 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. Agencies	$	9,856	AAA/Aaa	S&P & Moody's	1.0%
U.S. Agencies		71,215	AA/Aaa	S&P Moody's	7.2
U.S. Agencies		15,875	Not rated		1.6
Commercial paper		6,000	A1-P1	S&P Moody's	0.6
Money Market Mutual Funds		95,682	Aaa	Moody's	9.7
Money Market Mutual Funds		18,150	Not rated		1.8
Bond Mutual Funds		12,835	Not rated		1.3
Corporate Debt Securities		5,293	AAA/Aaa	S&P & Moody's	0.5
Corporate Debt Securities		14,843	AA/Aa	S&P & Moody's	1.5
Corporate Debt Securities		22,164	A	S&P & Moody's	2.3
Corporate Debt Securities		34,685	Less than A	Moody's	3.6
Corporate Debt Securities		88	BBB	S&P & Moody's	
Corporate Debt Securities		14,272	Not rated		1.5
Municipal Bonds		6,369	Aaa	Moody's	0.6
Total	$	327,327			33.3%

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, 2012, the Plan has $2,675,273,000, 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 pledge at a 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, 2012, 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	$261,534	$266,825	102.0%
Securities-Lottery Agency	59,689	60,940	102.1%
Total	$321,223	$327,765	102.0%

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 suites, 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, 2012.

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 Fund's 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 securities lent at year-end for cash collateral and 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 pledge 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, 2012, 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).

	Fair Value		
	Lent Securities	Collateral Received	Percent Collateralized
Lent for cash collateral:			
Fixed income securities	$1,612,666	$1,653,587	103%
Domestic equities	1,375,604	1,370,520	100%
International equities	416,777	428,002	103%
Subtotal	3,405,047	3,452,109	
Lent for noncash collateral:			
Fixed income securities	54,342	55,078	101%
Domestic equities	9,757	9,991	102%
International equities	9,451	9,991	106%
Total securities lent	$3,478,597	$3,527,169	101%

During fiscal year 2012, 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, 2012, had an average

duration of 35 days and an average final maturity of 74 days. Because the relationship between the maturities of the investment pools and the Fund's 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, 2012, consisted of the following (amounts expressed in thousands).

	Major Governmental Funds			
	General	Special Revenue	Non-Major Governmental Funds	Total Governmental Funds
Income taxes	$ 677,537			$ 677,537
Sales and use taxes	412,367			412,367
Transportation taxes, primarily motor vehicle fuel and excise		$124,649		124,649
Other taxes, principally alcohol and property	51,948		$6,328	58,276
Less: Allowance for uncollectibles	46,166			46,166
Taxes receivable, net	$1,095,686	$124,649	$6,328	$1,226,663

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to tax revenues of the current period were $5,732,000.

Other accounts receivable in the governmental funds of $627,519,000, including $70,908,000, due in excess of one year, consisted 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 $523,443,000, primarily consisted of $272,157,000, due to the Maryland Unemployment Program from employers and for benefit overpayments, $56,000,000, due to the Economic Development Loan Programs for insurance companies for sales of InvestMD tax credits, and $41,467,000, due to the Maryland State Lottery Agency from lottery retailers for ticket sale proceeds and from casino operators for gross terminal revenue.

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, 2012, 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)	$232,629		$232,629
Other receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	197,439		197,439
Receipts that have been received, but not earned (general fund)		$ 97,372	97,372
Revenue in connection with resources that have been received, but not earned (special revenue fund)		189,347	189,347
Revenue in connection with resources that have been received, but not earned (enterprise funds)		23,554	23,554
Total deferred/unearned revenue for governmental funds and enterprise funds	$430,068	$310,273	$740,341

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

A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2012, consisted of the following (amounts expressed in thousands).

	Primary Government			Component Units		
	General	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority	Other
Notes receivable:						
Political subdivisions:						
Water quality projects		$ 2,194	$ 857,157			
Public school construction		171				
Other		12				
Volunteer fire & rescue companies	$ 8,470					
Permanent mortgage loans			2,944,109			
Student and health profession loans				$ 76,360		
Shore erosion loans	7,847					
Other	285			6,949	$ 4,428	$ 1,589
Total	16,602	2,377	3,801,266	83,309	4,428	1,589
Less: Allowance for possible loan losses			299,769	13,219		327
Loans and notes receivable, net	16,602	2,377	3,501,497	70,090	4,428	1,262
Due within one year	2,026	341	135,354	7,829	488	307
Due in more than one year	$ 14,576	$ 2,036	$ 3,366,143	$ 62,261	$ 3,940	$ 955

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 4.4% to 8.8% and mature within 21 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, 2012, 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 direct financing leases as of June 30, 2012, was $343,373,000. As of June 30, 2012, the Authority held $119,858,000, 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, consisted of the following (amounts expressed in thousands).

2013	$ 27,194
2014	30,174
2015	19,729
2016	20,504
2017	20,199
2018-2022	109,953
2023-2027	130,375
2028-2032	64,090
2033	9,920
Total	432,138
Unearned interest income	31,093
Total lease payments	463,231
Restricted investments related to unexpended bond proceeds	119,858
Net investment in direct financing leases:	$ 343,373

Component Units:

As of June 30, 2012, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2012, is $210,666,000. As of June 30, 2012, the Authority held $1,419,000, 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).

2013	$ 32,202
2014	32,229
2015	30,926
2016	25,883
2017	24,542
2018-2022	95,239
2023-2027	31,865
Total	272,886
Less: unearned interest income	60,801
Net Lease payments	212,085
Less: Restricted investments related to unexpended bond proceeds	1,419
Net investment in direct financing leases	$ 210,666

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, 2012, are as follows (amounts expressed in thousands).

Amount	Purpose
Governmental Activities:	
	Represents money restricted for construction retainages related to highway projects
$ 15,826	Represents State property taxes restricted to pay debt service on general obligation debt
228,256	Represents certificates of deposit linked to funds loaned under the State's housing loan program
4,120	
$248,202	
Business-type Activities:	
$3,542,611	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
559,553	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.
1,078,060	Restricted assets represent deposits with the U.S. Treasury and amounts due from employers to pay unemployment compensation benefits in accordance with Federal statue
104,692	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
659,207	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
87,968	Assets have been restricted by the Maryland Housing Fund to pay possible future claims under insurance for losses on mortgage loans
$6,032,091	
Component Units:	
$102,334	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.
7,403	Restricted assets of Maryland Stadium Authority include cash and investments that relate to revenue bond indentures and master equipment lease financing agreements
2,758	Restricted assets include cash and investments that related to revenue bond indentures and to restricted project funds for the provision of water supply and waste-water treatment by the Maryland Environmental Service.
$112,495	

8. Interfund Receivables and Payables:

Interfund balances, as of June 30, 2012, consisted of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount	
General Fund	Special Revenue Fund	$ 31,477	(a)
	Enterprise Funds –		
	Economic Development Loan Programs	759	(b)
	Maryland State Lottery Agency	71,449	(c)
		$103,685	
Special Revenue Fund	General Fund	$58,094	(d)
	Enterprise Funds -		
	Maryland Transportation Authority	77,658	(e)
		$135,752	
Enterprise Funds -			
Economic Development Loan Programs	General Fund	$14,121	(f)
	Non-major governmental funds	17,867	(g)
Unemployment Insurance Program	General Fund	2,664	(f)
Maryland Transportation Authority	Special Revenue Fund	4,532	(h)
		$ 39,184	
Agency Fund -			
Local Income Taxes	General Fund	$550,000	(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, 2012, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Higher Education Fund	$ 36,434
Component Units –	Agency Fund –	
Maryland Stadium Authority	Local Transportation Funds and Other Taxes	$ 3,385

The receivable and payable transactions between the general fund and component unit are reported as due from component units and due to primary government. The receivable and payable transactions between the component unit and agency fund are reported as due from primary government by the component unit and accounts payable and accrued liabilities by the agency fund.

(a) The amount represents Transportation Trust Fund revenues transferred to the general fund in July and August, 2012 and an overdraft in the special revenue fund's share of pooled invested cash.
(b) This amount represents payable balances for economic development loan program transfers.
(c) The amounts represent monies collected by the Maryland State Lottery in June, 2012, and paid to the general fund in July, 2012.
(d) The amount represents income and sales tax subsidies, interest income, return of unused administrative expenses 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) These amounts represent receivable balances from general fund subsidies.
(g) Bond funds collected by the capital projects fund on behalf of the economic development loan programs.
(h) The Maryland Transportation Authority receives rent, interest income and fees for services from the special revenue fund.
(i) The loans were 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 and the Maryland Medicaid Programs.

All Interfund balances except for (i) above, are expected to be repaid by June 30, 2013. For (i) above, the General Fund is required to pay to the agency fund $50,000,000, a year in each of fiscal years 2014 through 2020 and $33,333,000, a year in each of fiscal years 2021 through 2026.

9. Interfund Transfers:

Interfund transfers, for the year ended June 30, 2012, consisted of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	$ 292,357
	Non-major Governmental Funds	26,089
	Enterprise Funds –	
	Maryland State Lottery Agency	685,146
	Economic Development Loan Programs	94,589
	Non-major Enterprise Funds	325
		$1,098,506
Special Revenue Fund	General Fund	$203,243
Non-major Governmental Funds	General Fund	$ 77,998
	Special Revenue Fund	172,342
		$250,340
Enterprise Funds -		
Loan Programs	General Fund	$ 21,161
	Non-major Governmental Funds	119,266
	Non-major Enterprise Funds	2,051
Maryland Transportation Authority	Non-major Governmental Funds	46,155
		$188,633

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 $24,917,000, of Program Open Space funds, $347,000, of interest earned on bonds, and $825,000, for expenses for bond sales to the general fund.

The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, casino operators, operating expenses and capital expenditure payments in the amount of $685,146,000, to the general fund. The general fund transferred $21,161,000, to support the operations of Enterprise Funds – Loan Programs, and the Enterprise Funds – Loan Programs transferred $94,589,000, of unused funds to the general fund. The non-major governmental funds also transferred $46,155,000, to the Enterprise Fund – Maryland Transportation Authority for the Inter-county Connector Project. Expenditures for capital projects of $119,266,000, were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of $1,195,309,000, and $207,580,000, 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 $20,000,000, that were for funds provided to supplement revenues of the Maryland Stadium Authority. The general fund transferred $16,074,000, 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, 2012, was as follows (amounts expressed in thousands).

Governmental activities:

Classification	Balance July 1, 2011	Additions	Deletions	Transfers in (out)	Balance June 30, 2012
Capital assets, not depreciated,					
Land and improvements	$ 3,269,201	$ 20,572	$ 69,748	$ 3,963	$ 3,223,988
Art and historical treasures	9,370				9,370
Construction in progress	2,215,862	707,420	8,807	(356,155)	2,558,320
Total capital assets, not depreciated	5,494,433	727,992	78,555	(352,192)	5,791,678
Capital assets, being depreciated					
Structures and improvements	6,286,102	96,213	16,252	111,419	6,477,482
Equipment	2,707,799	70,364	85,100	95,276	2,788,339
Infrastructure	19,110,079	583,682		145,497	19,839,258
Total capital assets, being depreciated	28,103,980	750,259	101,352	352,192	29,105,079
Less accumulated depeciation for,					
Structures and improvements	2,639,557	187,324	3,010		2,823,871
Equipment	1,850,617	152,354	34,689		1,968,282
Infrastructure	9,860,139	748,723			10,608,862
Total accumulated depreciation	14,350,313	1,088,401	37,699		15,401,015
Total capital assets, net	$ 19,248,100	$ 389,850	$ 142,208	$ -	$ 19,495,742

Business-type activities:

Classification	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not depreciated:				
Land and land improvements	$ 411,331		$ 27,644	$ 383,687
Construction in progress	2,833,232	$ 457,193	2,283,018	1,007,407
Total capital assets, not depreciated	3,244,563	457,193	2,310,662	1,391,094
Capital assets, being depreciated:				
Structures and improvements	51,646	9,870		61,516
Equipment	106,051	29,184	1,012	134,223
Infrastructure	2,497,275	2,273,153	33,786	4,736,642
Total capital assets, being depreciated	2,654,972	2,312,207	34,798	4,932,381
Less: accumulated depreciation:				
Structures and improvements	23,141	1,118		24,259
Equipment	42,132	15,087	970	56,249
Infrastructure	1,177,336	43,898	16,839	1,204,395
Total accumulated depreciation	1,242,609	60,103	17,809	1,284,903
Total capital assets, net	$ 4,656,926	$2,709,297	$ 2,327,651	$ 5,038,572

B. *Depreciation Expense, Primary Government*:

The depreciation expense for the year ended June 30, 2012, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government	$ 34,447
Education	3,730
Human resources	8,408
Health and mental hygiene	9,004
Environment	2,426
Public safety	40,718
Housing and community development	67
Natural resources and recreation	19,006
Transportation	940,278
Agriculture	27,441
Labor, licensing and regulation	484
Judicial	2,392
Total depreciation expense – governmental activities	$1,088,401

Business-type activities:

Function	Amount
State lottery	$ 10,817
Transportation Authority	47,919
Maryland Correctional Enterprises	1,363
Economic Development Loan Programs	4
Total depreciation expense – business-type activities	$ 60,103

11. Long-Term Obligations:

A. Governmental Activities:

Changes in governmental activities' long term debt, for the year ended June 30, 2012, were as follows (amounts expressed in thousands).

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 6,982,846	$ 1,505,695	$ 947,439	$ 7,541,102	$ 564,299
Transportation Bonds	1,561,840	276,435	275,645	1,562,630	130,620
Deferred amounts:					
Issuance premiums	634,463	250,017	78,860	805,620	
On refunding	(123,214)	(77,038)	(27,065)	(173,187)	
Total bonds and notes payable	9,055,935	1,955,109	1,274,879	9,736,165	694,919
Other Liabilities:					
Compensated absences	328,947	189,686	179,787	338,846	167,790
Self insurance costs	335,138	1,271,660	1,274,555	332,243	125,097
Net pension obligation	1,772,602	639,605		2,412,207	
Net other post employment benefits obligation	3,330,868	369,939		3,700,807	
Obligations under capital leases	755,778	214,000	214,125	755,653	59,541
Obligations under capital leases with component units	214,590		3,914	210,676	22,370
Pollution remediation	167,608	335	52	167,891	
Total other liabilities	6,905,531	2,685,225	1,672,433	7,918,323	374,798
Total long-term liabilities - governmental activities	$ 15,961,466	$ 4,640,334	$ 2,947,312	$ 17,654,488	$ 1,069,717

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, 2012. 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, bond premiums, interest subsidy payments from the Federal government, 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 2012, the State issued $1,505,695,000 of general obligations at a premium of $202,455,000, with related issuance costs of $4,356,000.

Included in bond issuances were $393,295,000, to refund certain outstanding general obligation bonds issued between 2004 and 2008. From the refunding bonds and related premium of $69,990,000, $461,809,000, 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 4.0% to 5.3%. 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 $25,227,000. 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 $21,323,000.

Refunded bonds of $1,211,890,000, maturing in fiscal years 2015-2023 and callable in fiscal years 2014-2017 were considered defeased as of June 30, 2012. Accordingly, the trust account assets and the liability for the defeased bonds were not included in these financial statements.

General obligation bonds issued and outstanding, as of June 30, 2012, were as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Annual Principal Installments			Principal Issued	Principal Outstanding
3/8/01	2004-2016	4.0-5.5%	$17,615	-	$20,535	$ 200,000	$ 76,195
7/26/01	2005-2017	5.0-5.5	16,680	-	20,285	200,000	92,180
11/21/01 (b)	2016	-			18,098	18,098	18,098
3/21/02 (a)	2003-2017	4.0-5.5	16,575	-	19,765	309,935	90,675
8/15/02 (a)	2003-2018	3.0-5.5	17,595	-	23,055	515,830	121,190
3/6/03	2006-2018	5.0-5.3	39,230	-	49,830	500,000	265,750
8/5/03	2007-2014	5.0	37,645	-	39,575	500,000	77,220
8/10/04	2008-2015	5.0	28,760	-	31,790	400,000	90,785
10/21/04 (a)	2005-2016	5.0	19,310	-	42,320	574,655	100,285
11/30/04 (b)	2020	-		-	9,043	9,043	9,043
3/17/05	2006-2015	4.0-5.3	25,220	-	27,805	350,000	79,505
3/17/05 (a)	2006-2015	4.0-5.3	11,955	-	80,015	281,185	149,185
8/11/05	2009-2021	4.3-5.0	29,370	-	43,820	430,000	170,650
8/11/05 (e)	2009-2013	4.3-4.5			4,330	20,000	4,330
3/23/06	2009-2021	4.0-5.0	19,105	-	27,955	280,000	137,180
3/23/06 (e)	2009-2013	5.0		-	4,400	20,000	4,400
8/10/06	2011-2022	4.3-5.0	22,920	-	34,870	350,000	221,115
12/20/06 (b)	2022	-			4,378	4,378	4,378
3/15/07	2010-2019	5.0	21,440	-	28,455	325,000	174,275
8/16/07	2011-2023	5.0	23,210	-	38,265	375,000	331,925
12/18/07 (b)	2023	-			4,986	4,986	4,986
3/12/08	2011-2021	4.0-5.0	24,895	-	36,785	400,000	144,090
7/28/08	2012-2024	5.0	25,335	-	41,705	415,000	390,635
12/16/08 (b)	2010-2021	1.6			464	5,563	4,172
3/16/09 (f)	2012-2023	4.0-5.0	4,475	-	28,865	199,220	173,955
3/16/09 (g)	2013-2024	2.0-5.0	5,490	-	42,125	225,780	186,265
8/18/09 Ser A	2013-2024	2.0-5.0	10,335	-	32,040	235,000	235,000
8/18/09 Ser B	2013-2024	4.0-5.3	7,845	-	25,775	200,000	200,000
8/18/09 (c)	2025	4.6			50,000	50,000	50,000
11/3/09	2013-2022	5.0	11,205	-	17,575	141,800	141,800
11/3/09 (c)	2023-2025	4.5-4.8	18,400	-	20,400	58,200	58,200
12/16/09 (d)	2025	-			50,320	50,320	50,320
12/17/09 (b)	2011-2025	1.6			371	5,563	4,822
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)	2018-2023	3.0-5.0	2,330	-	60,600	195,315	195,315

8/10/10 Ser A	2014-2019	2.0-5.0	17,625	-	41,020	$ 143,335	$ 143,335
8/10/10 Ser B	2014-2022	2.5-5.0	15,400	-	44,765	221,665	221,665
8/10/10 (c)	2023-2026	4.2-4.3	17,960	-	19,575	75,000	75,000
8/10/10 (d)	2026	4.4			45,175	45,175	45,175
12/8/10 (b)	2025	5.0			4,543	4,543	4,543
3/22/2011 (h)	2014-2026	2.0-5.0	1,635	-	28,870	130,770	130,770
3/22/2011 (i)	2014-2026	3.0-5.0	1,875	-	43,505	354,230	354,230
8/5/2011 (h)	2015-2026	2.0-5.0	975	-	29,510	71,730	71,730
8/5/2011 (i)	2015-2027	3.0-5.0	205	-	46,090	418,270	418,270
8/5/2011 (b)	2027	4.2			15,900	15,900	15,900
8/5/2011 (j)	2027	4.2			6,500	6,500	6,500
9/28/2011 (a)	2020	2.0-5.0	30,025	-	61,040	254,915	254,915
3/20/2012 (h)	2027	1.3-5.0	1,050	-	8,530	56,085	56,085
3/20/2012 (i)	2027	3.0-5.0	27,215	-	54,210	543,915	543,915
3/20/2012 (a)	2023	4.0	25,055	-	40,005	138,380	138,380
		Totals				$11,333,048	$ 7,541,102

(a) Includes refunding debt
(b) Includes Qualified Zone Academy Bonds for which the purchaser may receive 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
(e) Taxable Bond Sale
(f) Institutional Bond Sale
(g) Retail Bond Sale
(h) Negotiated Bond Sale
(i) Competitive Bond Sale
(j) Qualified Energy Construction Bond Sale

General obligation bonds authorized, but unissued, as of June 30, 2012, totaled $ 2,330,440,000.

As of June 30, 2012, general obligation debt service requirements for principal and interest in future years were as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2013	$ 564,299	$ 336,483
2014	613,979	308,168
2015	657,704	278,491
2016	692,937	246,995
2017	663,649	213,242
2018 - 2022	2,863,962	631,561
2023 - 2027	1,484,572	129,665
Total	$ 7,541,102	$ 2,144,605

Subsequent to June 30, 2012, on August 14, 2012, general obligation bonds aggregating $543,230,000, were issued for capital improvements and general obligation refunding bonds in the amount of $183,795,000, were issued to refund certain outstanding general obligation bonds issued between 2006 and 2008 in order to realize savings on debt service costs. The general obligation bonds have interest rates ranging from 0.4% to 5.0% and mature through 2028. The refunding bonds have an interest rate of 4.5% and mature through 2021.

Transportation Bonds –

Transportation bonds outstanding as of June 30, 2012, were as follows (amount expressed in thousands).

	Outstanding
Consolidated Transportation Bonds – 2.0% to 5.5%, due serially through 2027 for State transportation activity	$1,375,055
Consolidated Transportation Bonds, Refunding – 5%, due serially through 2019 for State transportation activity	187,575
Total	$1,562,630

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, 2012, and thereafter. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2012, was $1,888,995,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2012, was $1,562,630,000. Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute, a portion of the corporate income tax and a portion of the State sales 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 payments.

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 2011 session of the General Assembly established a maximum outstanding principal amount of $627,800,000, as of June 30, 2012, 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, 2012, the Department's nontraditional debt outstanding was $643,706,000, and was 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, 2012.

During the year, the Department issued Consolidated Transportation Bonds in the amount of $115,000,000, with a net premium of $15,401,000, with maturities ranging from June 2015 to June 2027 and with interest rates ranging from 2.0% to 5.0%.

The Department also issued $161,435,000, of refunding Consolidated Transportation Bonds with net premium of $32,131,000, to advance refund 2004 Consolidated Transportation Bonds during the year. The refunding bonds mature from May 2015 to May 2019 with an interest rate of 5.0%. The net proceeds of these bonds were used to purchase U.S. Government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the previously outstanding refunded bonds are considered to be defeased and liability for these bonds has been extinguished. The aggregate difference in debt services between the refunded debt and refunding debt is $14,563,000. The economic gain on the transaction is $13,599,000. As of June 30, 2012, the Department has $199,800,000 of defeased debt outstanding.

As of June 30, 2012, Department bond debt service requirements for principal and interest in future years were as follows (amounts expressed in thousands).

Years Ending June 30,	Consolidated Transportation Bonds Principal	Interest
2013	$ 109,340	$ 70,968
2014	130,620	65,619
2015	152,415	59,559
2016	158,995	52,488
2017	175,060	44,705
2018-2022	606,370	121,586
2023-2027	229,830	17,185
Total	$1,562,630	$432,110

Obligations Under Capital Leases –

Obligations under capital leases as of June 30, 2012, bore interest at annual rates ranging from 0.9% to 6.7%. Capital lease obligations with third parties in fiscal year 2012 increased by $4,593,000, 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 additions for transportation leases in the amount of $209,407,000, are related to new debt issued and for the refunding of the 2002 parking obligation. The interest savings for the Department on this transaction was $16,125,000. The capital leases with component units include the general fund's capital leases with the Maryland Stadium Authority, which are 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, 2012 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations with Third Parties	Component Units
2013	$ 95,996	$ 32,212
2014	103,230	32,229
2015	80,763	30,926
2016	78,726	25,883
2017	75,297	24,542
2018-2022	352,420	95,239
2023-2027	283,759	31,865
2028-2032	122,525	
2033-2037	8,789	
Total future minimum payments	1,201,505	272,896
Less: Amount representing interest	364,802	60,801
Less: Restricted cash and investments	81,050	1,419
Present value of net minimum payments	$ 755,653	$210,676

The reduction shown for restricted cash and investments in the amounts of $81,050,000, and $1,419,000, is monies held by the bond trustee to be used primarily for construction expenditures.

The assets acquired through capital leases were as follows (amounts expressed in thousands).

Asset	Third Parties Amount
Construction in progress	$ 115,572
Land and improvements	19,103
Buildings and improvements	1,087,570
Machinery and equipment	276,740
Infrastructure	327,833
Total acquired assets	1,826,818
Less: Accumulated depreciation	662,427
Total capital assets - net	$1,164,391

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 $646,369,000, with approximately $478,478,000, 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 low in the amount of $157,291,000. 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 $10,600,000, 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 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 $734/ton to $830/ton based on historical data, fuel costs, specific site factors and oversight costs.

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, 2012, were as follows (amounts expressed in thousands).

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds Payable:					
Revenue bonds payable	$6,504,780	$537,113	$664,665	$6,377,228	$221,825
Other Liabilities:					
Lottery prizes	79,870	5,370	21,380	63,860	17,063
Escrow deposits	27,308	21,132	13,096	35,344	14,658
Rebate liability	7,924	667	647	7,944	59
Compensated absences	12,130	7,018	6,589	12,559	2,867
Self insurance costs	11,347	2,775	2,271	11,851	1,837
Obligation under capital leases	44,886	21,613	10,287	56,212	25,910
Total other liabilities	183,465	58,575	54,270	187,770	62,394
Total long-term liabilities – business type activities	$6,688,245	$595,688	$718,935	$6,564,998	$284,219

Debt service requirements for business-type activities' notes payable and revenue bonds to maturity were as follows (amounts expressed in thousands).

Year Ended June 30,	Community Development Administration		Maryland Water Quality Financing Administration		Maryland Transportation Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 94,740	$ 116,555	$ 13,400	$ 4,240	$ 112,435	$ 144,229
2014	86,770	113,367	13,470	3,760	118,648	151,915
2015	90,825	110,078	6,560	3,192	112,252	146,979
2016	96,555	106,500	7,185	2,910	121,918	141,618
2017	96,015	103,154	4,550	2,655	123,460	135,184
2018 - 2022	430,415	457,779	40,245	9,064	545,386	579,234
2023 - 2027	373,600	370,440	11,185	1,068	446,377	463,892
2028 - 2032	478,455	285,924			464,380	350,752
2033 - 2037	530,425	195,037			510,686	232,251
2038 - 2042	395,870	91,663			559,054	100,163
2043 - 2047	198,890	24,020			146,840	11,556
2048 - 2052	38,935	3,322			18,264	232
Total	2,911,495	1,977,839	96,595	26,889	3,279,700	2,458,005
Discounts, premiums and other deferred costs	14,654		2,514		68,534	
Total	$ 2,926,149	$ 1,977,839	$ 99,109	$ 26,889	$ 3,348,234	$ 2,458,005

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 $3,542,214,000, and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 0.4% to 6.8%, with the bonds maturing serially through December, 2051. The principal amount outstanding as of June 30, 2012, was $2,926,149,000. 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 2012, the Administration issued $133,520,000, of revenue bonds with interest rates ranging from 0.2% to 5.0% and maturing serially through December, 2051.

Subsequent to June 30, 2012, the Administration issued a total of $111,495,000, and redeemed a total of $9,765,000, 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 the variable rate revenue bonds totaling $267,230,000. 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 $267,230,000, 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 0.2% or 0.3%. 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, 2012. The fair value of three swaps with one counterparty is ($9,454,000), the fair value of one swap with a second counterparty is ($5,201,000), the fair value of three swaps with a third counterparty is ($19,399,000), and the fair value of one swap with a fourth counterparty is ($1,808,000). Therefore, the Administration is not exposed to credit risk as of June 30, 2012, 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 A by Standard & Poor's and Aa by Moody's, the second counterparty is rates A by Standard & Poor's and Fitch and A by Moody's, the third counterparty is rated Aa by Moody's and AAA by Standard & Poor's, and the fourth counterparty is rated Aa 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 Security 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, 2012, 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.

Year Ended June 30,	Hedged Variable Rate Bonds Principal	Hedged Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2013	$ 7,000	$ 687	$ 10,251	$ 17,938
2014		667	9,852	10,519
2015		667	9,495	10,162
2016		668	9,162	9,830
2017		666	8,713	9,379
2018 - 2022	10,065	3,291	37,244	50,600
2023 - 2027	10,950	3,203	30,745	44,898
2028 - 2032	108,790	2,893	25,862	137,545
2033 - 2037	72,605	1,190	14,945	88,740
2038 - 2042	41,705	589	3,465	45,759
2043 - 2047	16,115	133	25	16,273
Total	$ 267,230	$ 14,654	$ 159,759	$ 441,643

Fair value. Because interest rates have generally decreased since execution of the swaps, the swaps have a fair value of ($35,862,000) as of June 30, 2012. The swap's 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, 2011 and 2012, and the changes in fair values for the year ended June 30, 2012 (amounts expressed in thousands).

	Total Fair Value at June 30, 2011	Total Fair Value at June 30, 2012	Change in Fair Value For the Period
Interest rate swaps:			
Cash flow hedges	$(26,475)	$(35,862)	$(9,387)

The fair value balances of derivative instruments (interest rate swaps) outstanding as of June 30, 2012, classified by type, and the changes in fair value as presented on the financial statements for the year ended June 30, 2012, are as follows (amounts expressed in thousands).

	Change in Fair Value		Fair Value at June 30, 2012		Outstanding Notional
	Classification	Amount	Classification	Amount	Amounts
Cash flow hedges:					
Pay fixed interest rate swaps.....	Deferred outflow	$(9,387)	Debt	$(35,862)	$267,230

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.

As of June 30, 2012, all of the Administration's swaps meet the criteria for effectiveness and the swap fair values are classified as deferred outflow.

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 $2,825,000, to $10,575,000, to March 1, 2025. The principal amount outstanding as of June 30, 2012, was $99,109,000. These bonds were payable solely from the revenue, money or property of the Administration.

Maryland Transportation Authority Bonds:
Bonds outstanding as of June 30, 2012, 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 $2,488 to $15,415 from July 1, 2012, to July 1, 2015, with approximate yields to maturity of 6.3% to 6.4% and an accreted amount	$ 23,368
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002, maturing in annual installments ranging from $2,400 to $8,505 from July 1, 2012, to July 1, 2032, with interest rates ranging from 2.7% to 6.7%, payable semiannually	101,440
BWI Parking Garage Revenue Bonds, Series 2002 A and B, maturing in annual installments ranging from $8,535 to $16,455 from March 1, 2013, to March 1, 2027, with interest rates ranging from 4.0% to 5.3% payable semiannually	190,560
BWI Facilities Projects Bonds, Series 2003, maturing in annual installments ranging from $10,800 to $11,200 from July 1, 2012, to July 1, 2013, with a current variable rate of .07%, payable semiannually	22,000
WMATA Metrorail Parking Projects Bonds, Series 2004, maturing in annual installments ranging from $1,315 to $2,780 from July 1, 2012, to July 1, 2028, with interest rates ranging from 3.0% to 5.0%, payable semiannually	33,175
Series 2004 Revenue bonds, for construction and improvement of Authority's Transportation Facilities projects, maturing in annual installments of $1,270 to $15,235 from July 1, 2012, to July 1, 2032, with interest rates ranging from 4.5% to 5.3% payable semiannually	83,995
Calvert Street Parking Project Revenue bonds, Series 2005, maturing in annual installments ranging from $675 to $1,415 from July 1, 2012, to July 1, 2032, with interest rates ranging from 3.3% to 4.4% payable semiannually	20,670
Grant and Revenue Anticipation Bonds, Series 2007 (GARVEE bonds), maturing in annual installments ranging from $25,735 to $34,390 from March 1, 2013, to March 1, 2019, with an interest rate of 4.0% payable semiannually to finance the Intercounty Connector Highway Project	209,180
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, 2041, 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, 2041, with interest rates ranging from 4.8% to 5.1% payable semiannually	573,305
Series 2008 A Revolving loan under the Transportation Infrastructure Finance and Innovation Act (TIFIA),.for the Intercounty Connector Project with a fixed interest rate at 2.6% and an accreted amount	397,497
Series 2009 Revenue Bonds, for construction and improvements of Authority's Transportation Facilities projects, maturing in annual installments of $2,380 to $14,570 from July 1, 2016 to July 1, 2043 with interest rates ranging from 3.0% to 5.9% payable semiannually	549,385
Series 2010 Revenue Bonds, for construction and improvements of the Authority's Transportation Facilities projects, maturing in annual installments ranging from $4,535 to $5,520 from July 1, 2015 to July 1, 2041 with interest rates ranging from 3.0% to 5.8% payable semiannually	326,435
Grant and Revenue Anticipation Bonds, Series 2008 (GARVEE bonds), maturing in annual installments ranging from $34,585 to $48,865 from March 1, 2013, to March 1, 2020, with an interest rate of 4.3%, payable semiannually	330,175
Passenger Facility Charge Revenue Bonds, Series 2012A, maturing in annual installments of $1,795 to $3,780 from June 1, 2013 to June 1, 2032 with a current variable rate of .07% payable semi annually	50,905
Series 2012 Revenue Refunding Bonds maturing in annual installments of $3,615 to $6,225, from July 1, 2016 to July 1, 2029 with interest rates ranging from 3.0% to 5.0% payable semiannually	67,610
Unauthorized premium and deferred costs	68,534
Total	$3,348,234

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 and TIFIA bonds included accreted amounts of $16,595,000, and $13,519,000, respectively, as of June 30, 2012.

Grant and Revenue Anticipation Bonds (GARVEE Bonds) are 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.

During the year ended June 30, 2012, the Authority issued $50,905,000, of Passenger Facility Charge Revenue Bonds, Series 2012A, at a current variable rate of .07% maturing serially through July, 2032, for construction and improvements to the Authority's transportation facilities projects. The Authority also issued $67,610,000, of Series 2012 Transportation Facilities Projects Revenue Bonds with interest rates ranging from 3.0% to 5.0% maturing serially through July 2029 to advance refund $70,495,000, of Series 2004 Transportation Facilities Project Revenue Bonds. The refunding bonds were issued to reduce total debt service payments by $12,019,000, and to obtain an economic gain (difference between the present value of the debt service on the old and new debt) of $9,697,000.

Obligations Under Capital Leases –

Obligations of business-type activities under capital leases as of June 30, 2012, were as follows (amounts expressed in thousands).

Years Ending June 30,	State Lottery Agency
2013	$25,909
2014	14,111
2015	9,287
2016	8,680
Total minimum lease payments	57,987
Less: Imputed interest	1,775
Present value of net minimum lease payments	$56,212

The Lottery has entered into lease agreements for certain on-line gaming system equipment and a computer system. As of June 30, 2012, assets acquired under leases and the related accumulated amortization totaled $68,286,000, and $18,425,000, respectively, and were 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%-6.1% on the revenue bonds.

Debt service requirements to maturity were as follows (amounts expressed in thousands).

	Notes Payable and Other Long-Term Debt		Revenue Bonds	
Year Ending June 30,	Principal	Interest	Principal	Interest
2013	$ 7,795	$ 3,823	$ 78,095	$ 50,044
2014	6,985	3,618	73,170	46,927
2015	4,942	3,462	76,780	43,892
2016	4,445	3,345	80,515	40,501
2017	3,914	3,275	79,825	36,918
2018-2022	34,876	13,882	368,045	133,189
2023-2027	33,664	505	246,635	62,987
2028-2032			115,200	13,069
2033-2037			1,825	187
2038			2,270	56
Total	96,621	31,910	1,122,360	427,770
Accumulated accreted interest and other deferred cost			31,098	
Total	$ 96,621	$ 31,910	$ 1,153,458	$ 427,770

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, 2012, higher education institutions have defeased debt outstanding of $141,358,000, resulting from the refunding of previously issued debt. Accordingly, the trust account assets and the liability for the defeased bonds were not included in these financial statements.

As of June 30, 2012, cash and investments were held by the trustees for the higher education institutions in the amount of $95,348,000, for the University System of Maryland (System), $124,000, for St. Mary's College of Maryland, and $4,661,000, for Morgan State University.

On October 6, 2011, the System issued $115,000,000, of 2011 Series A Bonds at interest rates ranging from 3.0% to 5.0% maturing from 2012 to 2031 for university facilities. The System also issued $38,075,000, of 2011 Refunding Series B Bonds to refund $38,750,000, of existing bonds at a premium of $3,642,000. The refunding bonds bear interest at 3.0% to 5.0% and mature from 2014 to 2024. 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 $1,631,000. 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 $1,357,000.

On February 9, 2012, the System also issued $70,825,000, of 2012 Refunding Series A and B Bonds to refund $69,735,000 of existing bonds at a premium of $4,419,000. The refunding bonds bear interest at 2.0% to 4.0% and mature from 2013 to 2024. 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 $9,560,000. The economic gain on the transaction is $9,054,000.

St. Mary's College issued $15,750,000, of 2012 Subordinate Revenue Bonds, Series A, maturing in 2038 on June 6, 2012. The bonds refinanced the Series A 2002 and 2003 bonds. The difference between the cash flows required to service the old and new debt is $2,619,000. The economic gain on the transaction is $2,026,000.

Obligations under capital leases of $17,344,000, existed as of June 30, 2012, and bore 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 were as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2013	$ 24,632	$ 10,969
2014	34,124	9,876
2015	34,510	8,574
2016	20,595	7,369
2017	20,159	6,464
2018-2022	84,516	18,247
2023-2026	28,422	3,933
Total	246,958	65,432
Unamortized premium net of unamortized discount	6,949	
Total	$253,907	$65,432

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, 2012, 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	$118,169	Variable	July 1, 2022
Football Stadium	66,436	Variable	March 1, 2026
Baltimore City Convention Center	13,555	Variable	December 15, 2014
Ocean City Convention Center	5,385	2.3%	December 15, 2015
Hippodrome Performing Arts Center	13,713	5.0% to 6.3%	June 15, 2022
Montgomery County Conference Ctr	15,996	2.0% to 5.0%	June 15, 2024
Camden Station	7,240	3.0% to 5.2%	December 15, 2024
Camden Yards Complex	13,413	1.3% to 5.6%	January 1, 2018
Total	$253,907		

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, worker's 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 worker's 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 the fiscal year 2012 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal Year Liability	Amounts Due Within One Year
Property, casualty and general liability	$ 15,157	$ 11,414	$ 9,854	$ 16,717	$ 7,105
Workers' compensation	231,092	44,761	51,777	224,076	26,542
Employee health benefits	88,889	1,215,484	1,212,923	91,450	91,450
Govermental activities self-insurance costs	335,138	1,271,659	1,274,554	332,243	125,097
Business-type activities workers' compensation	11,347	2,705	2,201	11,851	1,837
Component units workers' compensation	34,249	8,707	7,074	35,882	5,561
Total self-insurance costs	$ 380,734	$ 1,283,071	$ 1,283,829	$ 379,976	$ 132,495

As of June 30, 2012, the Program held $230,113,000, in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2011 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal Year Liability	Amounts Due Within One Year
Property, casualty and general liability	$ 15,455	$ 7,596	$ 7,894	$ 15,157	$ 4,070
Workers' compensation	228,501	49,946	47,355	231,092	28,438
Employee health benefits	89,985	1,146,110	1,147,206	88,889	88,889
Governmental activities self-insurance costs	333,941	1,203,652	1,202,455	335,138	121,397
Business-type activities workers' compensation	8,796	4,866	2,315	11,347	1,759
Component units workers' compensation	35,271	5,289	6,311	34,249	5,308
Total self-insurance costs	$ 378,008	$ 1,213,807	$ 1,211,081	$ 380,734	$ 128,464

As of June 30, 2011, the Program held $216,169,000, 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 $10,023,466,000. A portion of the deficit results from the State incurring a 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, 2012, the State had reported outstanding general obligation bonds and capital leases applicable to these non-State projects of $4,810,338,000. Without State financing for these capital assets, the State would have reported an unrestricted deficit for governmental activities in the amount of $5,213,128,000.

The statement of net assets for the primary government reported $2,448,922,000, of restricted net assets, including $228,256,000, restricted by enabling legislation.

Detail of the fund balance categories and classification shown in the aggregate on the governmental funds balance sheet were as follows (amounts 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	$ 485,654	$ 181,093		$ 666,747
Restricted:				
Debt service			$ 228,256	228,256
Other purposes	632	560		1,192
Committed:				
State Reserve Fund	674,354			674,354
Health and mental hygiene	277,545			277,545
Education	46,969			46,969
Aid for higher education	45			45
Human resources	1,227			1,227
Public safety	31,628			31,628
Transportation		45,527		45,527
Judicial	77,152			77,152
Labor, licensing and regulation	8,961			8,961
Natural resources and recreation	54,170			54,170
Housing and community development	3,127			3,127
Environment	27,964			27,964
Agriculture	7,730			7,730
Business and economic development	16,086			16,086
Capital projects			504,760	504,760
Other purposes	44,807			44,807
Unassigned	(680,949)		(431,416)	(1,112,365)
Total fund balances	$ 1,077,102	$ 227,180	$ 301,600	$ 1,605,882

A portion of the general fund's committed fund balance, in the amount of $674,354,000, as of June 30, 2012, includes the State Reserve Fund, which consisted primarily of the Revenue Stabilization Account with a balance of $671,528,000. The Revenue Stabilization Account, authorized in Section 7-311 of the State Finance and Procurement Article, Annotated Code

of Maryland, was 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 $60,000,000. 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. 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 $4,992,000, 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, 2012
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current restricted assets	$ 661,594	$ 73,258
Non-current restricted assets	2,880,620	486,294
Total assets	3,542,214	559,552
Liabilities:		
Current liabilities	167,935	14,676
Non-current liabilities	2,889,913	86,758
Total liabilities	3,057,848	101,434
Net Assets:		
Restricted	484,366	458,118
Total net assets	$ 484,366	$ 458,118

Condensed Statement of Revenues, Expenses and Changes in Net Assets
For The Year Ended June 30, 2012
(Expressed in Thousands)

		Community Development Administration		Maryland Water Quality Administration
Operating income (expenses):				
Interest on loan income	$	131,293	$	7,381
Other operating revenues		5,661		
Other operating expenses		(45,700)		
Operating income		91,254		7,381
Non-operating revenues (expenses)		(66,479)		(46,981)
Change in net assets		24,775		(39,600)
Beginning net assets		459,591		497,718
Ending net assets	$	484,366	$	458,118

Condensed Statement of Cash Flows
For The Year Ended June 30, 2012
(Expressed in Thousands)

		Community Development Administration		Maryland Water Quality Administration
Net cash from:				
Operating activities	$	248,660	$	66,780
Non-capital financing activities		(248,367)		(70,515)
Investing activities		(128,356)		3,735
Beginning cash and cash equivalents		612,406		
Ending cash and cash equivalents	$	484,343	$	-

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 133 participating political subdivision or other entities within the State.

The System is made up of two cost sharing pools: The “State Pool” and the “Municipal Pool”. Neither pool participates in the liabilities of the other. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. The non-state entities’ only liability is to make the contribution determined by the System. Retirement benefits are paid from the System’s pooled assets rather than from assets relating to a particular plan participant. If the required contribution of municipal pool members is insufficient to fund the actuarial liabilities of the pool, the contribution is required to be revised. Remaining members of the municipal pool are required to make the payment of benefits to all employees vested with the pool. The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits if the municipal pool is unable to pay benefits. The System is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. The system is accounted for as a single plan as defined by the codification of the Governmental accounting Standards Board (GASB) for accounting for defined benefit pension 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 services 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.

For new System members hired on or after July 1, 2011, benefit reforms enacted during the 2011 Legislative Session establish the pension benefit multiplier at 1.5% rather than 1.8%, calculate average final compensation based on the five highest consecutive years of service rather than the three highest, and allow vesting after ten years of eligible service rather than five years.

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 (LEOPS) 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. Reforms similar to those enacted for System employees and teachers were enacted for other systems in the State Pool.

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' fixed percentage of their regular salaries and wages, 7% or 5% depending on the retirement plan selected. Under the 2011 Pension Reforms, members of the Pension System are required to contribute to the System 7% 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% of the regular salaries and wages that exceed the Social Security wage base. State Police members are required to contribute 8% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 6% of earnable compensation for fiscal year 2012 and 7% thereafter. 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 General Assembly of the State of Maryland. 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 Teacher's and Employees' combined systems during the preceding fiscal year (as adjusted for any legislative changes in 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 or 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 2012, for the State Pool, the State paid $1,394,232,000, of the required contribution totaling $2,033,837,000, which was 15.0% of covered payroll and 68.6% of the required payment. The difference represents and 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, 2012, the State's membership includes 167,512, active members, 44,625, vested former members, and 117,567, retirees and beneficiaries.

Annual Pension Cost and Net pension Obligation for the System (State Pool):

The annual pension cost and net pension obligation as of June 30, 2012, were 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 contribtion	$ 1,288,884	$ 609,814	$ 54,452	$ 24,077	$ 41,868
Interest on net pension obligation	55,903	78,186	3,288		
Actuarial adjustment to annual required contribtion	(52,136)	(68,021)	(2,478)		
Annual pension cost	1,292,651	619,979	55,262	24,077	41,868
Contributions made	917,564	363,440	47,283	24,077	41,868
Increase in net pension obligation	375,087	256,539	7,979		
Net pension obligation, beginning of year	721,331	1,008,846	42,425		
Net pension obligation, end of year	$ 1,096,418	$ 1,265,385	$ 50,404	$ -	$ -
Amortization period (years rolling)	20.7	23.2	30.0	18.6	17.2

Three year historical trend information for the System (State Pool) was as follows (amounts expressed in thousands).

Plan	Annual Pension Cost As of June 30 2012	2011	2010
Teachers' Retirement and Pension System	$ 1,292,651	$ 1,227,519	$ 891,346
Employees' Retirement and Pension System	619,979	571,261	446,361
State Police Retirement System	55,262	51,967	37,558
Judges' Retirement System	24,077	23,854	19,955
Law Enforecement Officers' Pension System	41,868	39,514	32,359

Plan	Percentage of Annual Pension Cost Contributed As of June 30 2012	2011	2010
Teachers' Retirement and Pension System	71%	75%	92%
Employees' Retirement and Pension System	59	62	70
State Police Retirement System	86	88	68
Judges' Retirement System	100	100	100
Law Enforecement Officers' Pension System	100	100	100

Plan	Net Pension Obligation As of June 30 2012	2011	2010
Teachers' Retirement and Pension System	$ 1,096,418	$ 721,331	$ 431,125
Employees' Retirement and Pension System	1,265,385	1,008,846	788,381
State Police Retirement System	50,404	42,425	35,373
Judges' Retirement System			
Law Enforecement Officers' Pension System			

The funded status of each plan for both the State and Municipal Pools, as of June 30, 2012, 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 ALL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll	(Unfunded AAL) /Excess as a Percentage of Covered Payroll
State Pool						
Teachers' Retirement and Pension System	$ 22,523,977	$ 34,252,715	$ (11,728,738)	65.76%	$ 6,080,604	(193)%
Employees' Retirement and Pension System	9,664,964	16,413,568	(6,748,604)	58.88	3,001,198	(225)
State Police Retirement System	1,134,511	1,826,546	(692,035)	62.11	77,690	(891)
Judges' Retirement System	330,154	421,286	(91,132)	78.37	39,955	(228)
Law Enforcement Officers' Pension System	435,858	792,962	(357,104)	54.97	83,672	(427)
Total State Pool	$ 34,089,464	$ 53,707,077	$ (19,617,613)	63.47%	$ 9,283,119	(211)%
Municipal Pool						
Employees' Retirement and Pension System	$ 3,002,627	$ 3,869,460	$ (866,833)	77.60%	$ 997,276	(87)%
Law Enforcemtn Officers' Pension System	144,969	277,125	(132,156)	52.31	51,514	(257)
Correctional Officers' Retirement System	11,341	15,483	(4,142)	73.24	4,628	(90)
Total Municipal Pool	$ 3,158,937	$ 4,162,068	$ (1,003,131)	75.90%	$ 1,053,418	(95)%

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 the State Pool's 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, 2012, the most recent valuation date.

Valuation method	Individual Entry Age Normal Cost Method
Cost method of valuing assets	Five-year smoothed market (maximum 120% and minimum 80% of market value)
Rate of return on investments	7.75%
Projected payroll growth including wage inflation at 3.5%	3.5% - 12.0%
Discount rate	7.75%
Postretirement benefit increase	2.75% - 3.50% for service prior to July 1, 2011 1.70% - 3.50% for service after June 30, 2011 (depending on system and provisions)
Amortization method	Level Percentage of Payroll
Remaining amortization period	8 years as of June 30, 2012 for prior UAAL (existing on June 30, 2000)
New layers as of June 30, 2001 – 2012	14 – 25 years as of June 30, 2012 for new UAAL. 30 years is used wherever the equivalent single amortization period

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. 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, 2012, membership in the Plan includes 2,899 active members, 456 vested former members, and 1,568 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. For the year ended June 30, 2012, the Administration's covered and total payroll was $152,276,000.

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 $37,859,000, (24.9% of covered payroll) for fiscal year 2012 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2011. This amount consisted of $5,246,000, normal cost and $32,613,000, amortization of the actuarial accrued liability (3.4% and 21.4%, respectively, of covered payroll). The liquidation period for the actuarial accrued liabilities, as provided by law, is 7 years from June 30, 2012.

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 2012 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, 2012, are as follows (amounts expressed in thousands).

Annual required contribution (ARC)	$ 34,582
Interest on net pension obligation	(1,723)
Annual pension cost	32,859
Contributions made	37,859
Increase in net pension obligation (asset)	(5,000)
Net pension obligation (asset), beginning of year	(17,679)
Net pension obligation (asset), end of year	$(22,679)
Amortization period	12.9 years

Three year historical trend information for the Plan is as follows (amounts expressed in thousands).

Fiscal Years Ending,	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation (Asset)
6/30/2012	$32,859	115%	$(22,679)
6/30/2011	33,928	140	(17,679)
6/30/2010	26,151	144	(9,079)

Funded Status and Funding progress:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 44.4% funded. The actuarial accrued liability for benefits was $451,288,000, and the actuarial value of assets was $200,260,000, resulting in an unfunded actuarial accrued liability (UAAL) of $251,028,000. The covered payroll (annual payroll of active employees covered by the plan) was $152,276,000, and the ratio of the UAAL to the covered payroll was (164.9%). The net pension asset of $22,679,000 is included in prepaid items in the governmental activities column of the government-wide statement of net assets.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multilayer 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, 2012, the most recent valuation date.

Valuation method	Entry Age Normal, Level Dollar
Cost method of valuing assets	Five year open period smoothing (Market Value vs. Expected Actuarial Value)
Rate of return on investments	7.75%
Inflation Rate	3.5%
Rate of salary increase	3.5% - 9.5%
Postretirement benefit increase	Preceding Year Consumer Price Index, capped at 3%
Amortization method	Level dollar (years depend on type of base)
Remaining amortization period	12.9 years weighted average
Status of period (Open or Closed)	Closed

During fiscal year 2012, there were no changes in actuarial assumptions or benefit provisions from 2011 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 provision, 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, 2011, the State suspended the match contribution. For the plan year ended December 31, 2011, the State contributed $400,000 to the 401(a) plan and participants contributed $65,686,000, $2,883,000, and $90,335,000, to the 457, 403(b), and 401(k) plans, respectively.

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 medial, 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 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 ten 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. For members hired on or after July 1, 2011, they are required to complete at least 25 years of creditable service, retire directly from State service with at least ten years of creditable service, or end State service with at least ten years of creditable service and within five years before the age at which a vested retirement allowance normally would begin. As of July 1, 2012, the State's Plan membership includes 78,164, active employees, 4,194, vested former employees, and 64,354, 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 his based on health care insurance charges for active employees. For the fiscal year ended June 30, 2012, retiree plan members contributed $83,232,000, or approximately 17.9% of total retiree premiums, and the State contributed $385,913,000. During fiscal year 2012, the State did not transfer any of the Federal Medicare drug subsidy to the OPEB Trust to prefund future OPEB costs or contribute additional funds 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, 2012 (amounts expressed in thousands).

Annual required contribution (ARC)	$ 704,382
ARC Adjustment	(123,182)
Interest on net OPEB obligation beginning of year	137,544
Total Annual OPEB Cost (AOC)	718,744
Less: Contributions made	385,913
Increase in net OPEB obligation	332,831
Net OPEB obligation – beginning of year	3,198,691
Net OPEB obligation – end of year	$3,531,522
Percentage of annual OPEB cost contributed	53.7%

Three year historical trend information for the Plan is as follows (amounts expressed in thousands).

Fiscal Years Ended,	AOC	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2012	$ 718,744	53.7%	$3,531,522
6/30/2011	1,235,033	29.9	3,198,691
6/30/2010	1,190,780	28.3	2,332,502

Funded Status:

As of June 30, 2012, the most recent actuarial valuation date, the OPEB Trust was 2.1% funded. The actuarial accrued liability for benefits was $9,580,069,000, and the actuarial value of assets was $208,772,000, resulting in an unfunded actuarial accrued liability (UAAL) of $9,371,297,000. The ratio of the actuarial value of assets to the actuarial accrued liability was 2.1%. The covered payroll (annual payroll of active employees covered under the Plan) was $4,144,267,000, and the ratio of the UAAL to the covered payroll was (226.1%).

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, 2012.

Actuarial cost method	Entry Age Normal (percent of pay)
Asset valuation method	Five-year smoothed market.
Rate of return on investments	4.25%
Inflation rate	3.50%
Aggregate salary growth	3.50%
Method to determine blended rate	4.25% represents an unblended pay-go rate.
Healthcare cost trend rate	Medical: Under 65 – 7.50% graded to 5.00% over 7 years Over 65 – 7.00% graded to 5.00% over 6 years Prescription drug: 6.50% graded to 5.00% over 5 years Dental: 5.50% graded to 5.00% over 2 years
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open)

Beginning with fiscal year 2012, the explicit prescription premium subsidy for retirees was reduced from 80% to 75%, and State provided post-Medicare prescription coverage will be eliminated in 2020.

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.

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 service 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, 2012, 2,899, active employees and 1,568, 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, 2012 (amounts expressed in thousands).

Annual required contribution (ARC)	$ 55,852
ARC Adjustment	(9,589)
Interest on net OPEB obligation beginning of year	5,948
Total Annual OPEB Cost (AOC)	52,211
Less: Contributions made	15,103
Increase in net OPEB obligation	37,108
Net OPEB obligation – beginning of year	132,177
Net OPEB obligation – end of year	$169,285
Percentage of annual OPEB cost contributed	28.9%

Three year historical trend information for the MTA OPEB is as follows (amounts expressed in thousands).

Fiscal Years Ended,	AOC	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2012	$52,211	28.9%	$169,285
6/30/2011	50,554	28.2	132,177
6/30/2010	42,353	26.0	95,853

Funded Status:

MTA OPEB is unfunded. As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was $527,679,000. The covered payroll (annual payroll of active employees participating in MTA health plans) was $147,474,000, and the ratio of the AAL to the covered payroll was (357.8%).

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

term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of 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, 2011.

Actuarial cost method	Entry Age Normal, Level Dollar
Asset valuation method	N/A
Rate of return on investments	4.50% This rate represents the long-term expected rate of return on MTA's general fund assets
Inflation rate	3.50%
Aggregate salary growth	3.50%
Healthcare cost trend rate	Medical and Prescription: 6.40% in 2011, 6.40% in 2012 and increasing to 8.00% in 2013 Dental and Vision: 5.0% for all future years
Amortization method	Level annual payments over a fixed number of years
Amortization period	23 years as of June 30, 2011 (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 $155,372,000, in the general fund and $504,760,000, in other governmental funds as of June 30, 2012.

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, 2012, were approximately $64,866,000.

As of June 30, 2012, the governmental funds, other than the Department of Transportation, had commitments of approximately $58,260,000, for service contracts.

As of June 30, 2012, the Department of Transportation and Maryland Transportation Authority had commitments of approximately $2.8 billion and $950,298,000, respectively, for construction of highway and mass transit facilities.

Approximately 40% 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
2013	$ 124,171
2014	124,017
2015	123,850
2016	118,920
2017	118,142
2018-2022	394,156
Total	$1,003,256

The cost and accumulated depreciation of the assets as of June 30, 2012, were $2,248,923,000, and $720,390,000.

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 $167,690,000, for the year ended June 30, 2012.

As of June 30, 2012, the Maryland State Lottery Agency had commitments of approximately $517,560,000, for services to be rendered relating principally to the operation of, and advertising for, the lottery games and the operation of the video lottery terminal program.

As of June 30, 2012, the enterprise fund loan programs had committed to lend a total of $397,516,000, in additional loans. The Community Development Administration, also and enterprise fund loan program, has $308,340,000, 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.

As of June 30, 2012, the higher education fund had commitments of approximately $422,587,000, 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, 2012, economic development loan programs were contingently liable to financial institutions for $7,395,000, for the repayment of loans for small businesses. Non-major enterprise funds were contingently liable as insurers of $172,665,000, of $1,376,941,000, mortgage loans made by public and private lenders. Non-major component units were contingently liable as insurers of $15,724,000, of $547,952,000, economic development and growth bonds issued by financial institutions.

As of June 30, 2012, there were approved economic development bonds pending settlement which were insured by non-major component units for $5,299,000.

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, 2012, 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 appropriation are made. During the 2003 legislative session, legislation was enacted requiring that 0.15% of the fund be appropriated for enforcing the escrow requirements for nonparticipating tobacco product manufacturers. Transfers of $148,960,000, were made from the proceeds in the Cigarette Restitution fund for fiscal year 2012 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2012 was $151,131,000, including the award from the arbitration panel for attorney fees. This amount does not include $17,491,000, 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 2017 will total $2.81 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 $92,309,000, 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 that the Maryland Environmental Service (the Service) to cover and to perform certain maintenance and monitoring functions at Midshore Regional Landfill I, Easton Landfill, Midshore II and Hobbs Road Landfill sites. Although closure and postclosure care costs will be paid near or after the date the landfills stop accepting


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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, 2012
(Expressed in Thousands)

	General Fund			
	Budget Amounts			Variance
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
Revenues:				
Income taxes	$ 7,310,551	$ 7,578,192	$ 7,761,154	$ 182,962
Sales and use taxes	4,164,055	3,979,527	4,039,348	59,821
Other taxes	1,092,484	1,081,247	1,091,821	10,574
Licenses and fees	184,009	198,097	204,677	6,580
Charges for services	309,701	308,650	293,628	(15,022)
Interest and other investment income	70,000	30,000	25,438	(4,562)
Other	779,249	799,380	668,390	(130,990)
Federal revenue				
Total revenues	13,910,049	13,975,093	14,084,456	109,363
Expenditures and encumbrances by major function:				
Payments of revenue to civil divisions of the State	110,927	119,747	119,747	
Legislative	87,703	88,121	74,075	14,046
Judicial review and legal	494,402	499,769	486,766	13,003
Executive and administrative control	251,531	255,002	248,823	6,179
Financial and revenue administration	199,513	203,800	199,663	4,137
Budget and management	75,786	47,723	43,912	3,811
General services	55,395	56,954	55,616	1,338
Natural resources and recreation	43,538	45,641	45,008	633
Agriculture	26,871	30,386	28,888	1,498
Health, hospitals and mental hygiene	4,021,045	3,950,504	3,941,663	8,841
Human resources	565,469	605,730	604,416	1,314
Labor, licensing and regulation	35,001	35,438	34,765	673
Public safety and correctional services	1,064,314	1,083,040	1,082,788	252
Public education	7,236,459	7,415,083	7,386,943	28,140
Housing and community development	4,259	4,849	4,836	13
Business and economic development	92,507	93,680	75,439	18,241
Environment	33,702	33,864	32,610	1,254
Juvenile services	259,822	271,536	268,899	2,637
State police	186,767	192,688	192,687	1
State reserve fund	15,000	15,000	15,000	
Reversions	(30,000)	(30,000)		(30,000)
Total expenditures and encumbrances	14,830,011	15,018,555	14,942,544	76,011
Excess of revenues over (under) expenditures	(919,962)	(1,043,462)	(858,088)	185,374
Other sources (uses) of financial resources:				
Transfers in (out)			457,053	457,053
Excess of revenues over (under) expenditures and other sources (uses) of financial resources	(919,962)	(1,043,462)	(401,035)	642,427
Fund balances - beginning of the year	(5,223,534)	(4,775,153)	1,698,233	6,473,386
Fund balances - end of the year	$ (6,143,496)	$ (5,818,615)	$ 1,297,198	$ 7,115,813

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)
$ 171,803	$ 215,920	$ 235,806	$ 19,886				
40,655	40,467	37,220	(3,247)				
2,241,878	2,501,150	2,487,600	(13,550)				
646,486	803,545	818,670	15,125				
1,774,897	2,072,267	2,016,515	(55,752)				
4,000	8,700	12,651	3,951			$ 355	$ 355
1,482,222	930,908	805,139	(125,769)				
				$ 9,341,051	$ 9,533,961	8,964,477	(569,484)
6,361,941	6,572,957	6,413,601	(159,356)	9,341,051	9,533,961	8,964,832	(569,129)
871,203	871,203	866,712	4,491	11,060	11,498	11,498	
100	100		100				
97,141	100,623	81,349	19,274	6,539	9,974	7,371	2,603
273,222	274,686	242,132	32,554	227,018	312,020	224,050	87,970
222,605	258,204	182,166	76,038				
46,073	37,048	17,896	19,152	52,767	48,006	46,156	1,850
33,703	33,874	29,608	4,266				
2,298	3,312	3,063	249	1,052	1,052	1,052	
2,572,778	2,679,433	2,538,970	140,463	915,132	964,669	921,433	43,236
161,933	151,218	108,017	43,201	39,711	41,225	28,401	12,824
29,219	52,364	44,507	7,857	4,151	5,131	4,342	789
1,151,921	1,268,386	1,164,976	103,410	4,570,426	4,505,618	4,412,185	93,433
94,728	116,728	109,786	6,942	1,965,122	1,955,198	1,737,050	218,148
94,251	95,075	56,717	38,358	178,181	193,751	172,465	21,286
142,139	150,051	142,366	7,685	38,181	41,002	33,474	7,528
333,232	231,422	219,989	11,433	1,448,526	1,490,438	1,109,314	381,124
85,803	91,509	44,622	46,887	341,794	393,994	318,816	75,178
76,861	79,993	25,085	54,908	1,800	7,678	3,471	4,207
514,817	515,124	76,003	439,121	167,247	167,440	106,226	61,214
704	4,904	4,285	619	10,571	14,589	10,327	4,262
90,068	89,408	81,145	8,263	2,199	11,104	6,705	4,399
6,894,799	7,104,665	6,039,394	1,065,271	9,981,477	10,174,387	9,154,336	1,020,051
(532,858)	(531,708)	374,207	905,915	(640,426)	(640,426)	(189,504)	450,922
		(284,184)	(284,184)			189,504	189,504
(532,858)	(531,708)	90,023	621,731	(640,426)	(640,426)		640,426
(3,826,469)	(3,682,689)	1,545,421	5,228,110	(2,709,185)	(2,709,178)		2,709,178
$ (4,359,327)	$ (4,214,397)	$ 1,635,444	$ 5,849,841	$ (3,349,611)	$ (3,349,604)	$ -	$ 3,349,604

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, 2012
(Expressed in Thousands)

	General	Special
Amount in budgetary funds, fund balance (page 106 and 107)	$ 1,297,198	$ 1,635,444
Budgetary special funds reclassified to the general fund	702,907	(702,907)
Budgetary special funds reclassified to other funds		(737,596)
Other non-budgetary funds reclassified to governmental funds	359,393	560
Total of budgetary fund balances reclassified into the governmental funds' fund structure	2,359,498	195,501
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash	(296,158)	
Investments	17,549	
Taxes receivable	28,260	1,885
Intergovernmental receivables	173,320	
Other accounts receivable	67,712	
Prepaid items	(246,332)	
Inventories	28,317	86,494
Loans and notes receivable	14	
Due from other funds	37,193	14,102
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Salaries payable	(68,318)	
Accounts payable and accrued liabilities	(305,240)	
Due to other funds	(566,777)	
Accounts payable to political subdivisions	(9,621)	
Deferred revenue	(49,605)	(70,802)
Accrued self insurance costs	(92,710)	
Financial statement governmental funds' fund balances, June 30, 2012 (page 28)	$ 1,077,102	$ 227,180

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,	Acturial Value of Plan Assets	Actuarial Accrued Liability (AAL) Entry Age	(Unfunded AAL) /Exess of Assets over AAL	Funded Ratio	Covered Payroll(1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll(2)
			TEACHERS RETIREMENT AND PENSION SYSTEM			
2012	$ 22,523,977	$ 34,252,715	$ (11,728,738)	65.76%	$ 6,080,604	(192.89)%
2011	21,868,875	32,985,145	(11,116,270)	66.30	6,196,976	(179.38)
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)
			STATE EMPLOYEES RETIREMENT AND PENSION SYSTEM			
2012	$ 9,664,964	$ 16,413,568	$ (6,748,604)	58.88%	$ 3,001,198	(224.86)%
2011	9,508,670	16,009,640	(6,500,970)	59.39	3,019,160	(215.32)
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)
			STATE POLICE RETIREMENT SYSTEM			
2012	$ 1,134,511	$ 1,826,546	$ (692,035)	62.11%	$ 77,690	(890.76)%
2011	1,090,383	1,759,676	(669,293)	61.96	75,551	(885.88)
2010	1,085,281	1,722,564	(637,283)	63.00	83,123	(766.67)
2009	1,119,776	1,710,356	(590,580)	65.47	87,070	(678.28)
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)
			JUDGES RETIREMENT SYSTEM			
2012	$ 330,154	$ 421,286	$ (91,132)	78.37%	$ 39,955	(228.09)%
2011	293,801	433,239	(139,438)	67.81	38,810	(359.28)
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	406,482	(100,066)	75.40	37,943	(263.73)
2007	293,052	371,987	(78,935)	78.78	37,638	(209.72)
			STATE LAW ENFORCEMENT OFFICERS' PENSION SYSTEM			
2012	$ 435,858	$ 792,962	$ (357,104)	54.97%	$ 83,672	(426.79)%
2011	401,371	746,750	(345,379)	53.75	84,032	(411.01)
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)
			TOTAL OF ALL PLANS			
2012	$ 34,089,464	$ 53,707,077	$ (19,617,613)	63.47%	$ 9,283,119	(211.33)%
2011	33,163,100	51,934,450	(18,771,350)	63.86	9,414,529	(199.39)
2010	31,862,792	50,279,658	(18,416,866)	63.37	9,788,238	(188.15)
2009	31,581,342	49,069,519	(17,488,167)	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)

(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
2012	$ 200,260	$ 451,288	$ (251,028)	44.38 %	$ 152,276	(164.85) %
2011	182,918	433,637	(250,719)	42.18	147,474	(170.01)
2010	162,756	426,041	(263,285)	38.20	145,029	(181.54)

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
2012	$ 208,772	$ 9,580,069	$ (9,371,297)	2.1%	$ 4,144,267	(226.1) %
2011	196,295	9,732,430	(9,536,135)	2.0	4,633,653	(205.8)
2010	183,388	16,098,602	(15,915,214)	1.1	4,627,379	(343.9)

Required Supplemental Schedule of Employer Contributions and Other Contributing Entities for Other Post-Employment Benefits Plan

(Expressed in Thousands)

Year Ended June 30,	Annual Required Contribution	Percentage Contributed: Employer Contributions (a)	Percentage Contributed: Other Contributing Entities (b)	Percentage Contributed: Total
2012	$ 704,382	53.7%	- %	53.7%
2011	1,225,206	29.9	-	29.9
2010	1,184,522	25.8	2.5	28.3

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
2011	$ -	$ 527,679	$ (527,679)	- %	$ 147,474	(357.8)%
2009	-	431,500	(431,500)	-	151,560	(284.7)
2007	-	411,400	(411,400)	-	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 Entry Age	Percentage Contributed
2012	$ 55,852	$ 15,103	27.0%
2011	53,015	14,230	26.8
2010	45,500	10,900	24.0

(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.

STATE OF MARYLAND

Notes to Required Supplementary Information
For the Year Ended June 30, 2012

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 on 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 of 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 total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2012, the General Assembly approved a net increase in General Fund appropriations of $191,691,000. Appropriations for programs funded by 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 form the general fund 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, 2012. 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, 2012, is provided in the "Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund Balances" immediately following the budgetary schedule.

STATISTICAL

Section

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,				
	2012	2011	2010	2009	2008
Revenues:					
Income taxes	$7,822,259	$7,639,285	$6,957,811	$7,156,297	$7,868,899
Retail sales and use taxes	4,076,729	3,896,876	3,754,326	3,851,752	3,748,933
Motor vehicle taxes and fees	1,988,153	1,913,570	1,796,769	1,787,144	1,920,460
Other taxes	2,351,163	2,387,797	2,289,006	2,267,044	2,444,883
Other licenses and fees	714,891	683,289	682,756	686,806	651,079
Charges for services	2,150,332	1,878,075	1,639,917	1,259,309	1,108,666
Revenues pledged as security for bonds		95,057	89,521	66,098	77,541
Interest and other investment income	88,069	23,052	121,233	161,696	307,403
Federal	9,104,024	9,968,631	9,386,888	7,767,558	6,604,348
Other	405,263	309,902	413,762	377,127	214,755
Total revenues	28,700,883	28,795,534	27,131,989	25,380,831	24,946,967
Expenditures:					
Current:					
General government	831,756	770,217	753,206	753,821	727,119
Health and mental hygiene	9,772,861	9,441,903	9,040,549	8,286,032	7,536,747
Education	9,298,976	9,474,145	9,104,692	8,948,062	8,638,203
Human resources	2,488,200	2,420,789	2,291,347	2,061,959	1,761,284
Public safety and judicial	2,465,877	2,451,254	2,330,049	2,410,373	2,391,708
Transportation	1,472,418	1,228,659	1,422,085	1,333,618	1,262,973
Labor, licensing and regulation	261,615	246,700	226,118	182,751	166,848
Natural resources and recreation	179,682	182,229	184,342	205,876	188,675
Housing and community development	344,408	368,857	315,630	244,208	244,581
Environment	96,116	107,457	110,092	106,307	95,918
Agriculture	79,294	80,770	92,954	142,804	147,494
Business and economic development	75,835	79,284	74,578	90,892	94,503
Intergovernmental	1,265,314	1,249,592	1,187,153	1,425,506	1,597,734
Debt service	1,049,090	993,758	935,867	888,629	814,979
Capital outlays	1,274,591	1,276,049	1,200,176	1,430,170	1,476,506
Total expenditures	30,956,033	30,371,663	29,268,838	28,511,008	27,145,272
Excess (deficiency) of revenues over expenditures	(2,255,150)	(1,576,129)	(2,136,849)	(3,130,177)	(2,198,305)
Other sources (uses) of financial resources:					
Capital and direct financing leases	23,440	53,334	15,472	27,945	31,185
Proceeds from bond issues	1,375,297	1,058,166	1,347,382	1,318,716	1,071,403
Other long-term liabilities					102
Proceeds from refunding bonds	656,851		928,535	69,433	
Payments to escrow agents	(674,982)		(924,185)	(69,213)	
Operating transfers in	1,552,089	1,716,673	1,895,049	1,202,988	1,180,435
Operating transfers out	(958,611)	(1,189,726)	(1,280,255)	(741,794)	(702,499)
Special items					
Net other sources (uses) of financial resources	1,974,084	1,638,447	1,981,998	1,808,075	1,580,626
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources	(281,066)	62,318	(154,851)	(1,322,102)	(617,679)
Fund balance, July 1	1,886,948	1,824,630	1,979,481	3,301,583	3,919,262
Fund balance, June 30	$1,605,882	$1,886,948	$1,824,630	$1,979,481	$3,301,583

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.

	($ in thousands)	
As of June 30	**Issued and Outstanding**	**Authorized but Unissued**
2008	$5,493,830	$2,063,853
2009	5,873,643	2,328,351
2010	6,523,222	2,394,985
2011	6,982,845	2,357,041
2012	7,541,102	2,330,440
March 31, 2013	8,005,802	1,281,125
Current sale	475,000	(475,000)
Pro Forma	$8,480,802	$806,125

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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 March 31, 2013; 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 (a)	Net Debt Service
2013	$ -	$18,949	$18,949	$ (585)	$18,364
2014	613,980	348,709	962,689	(12,381)	950,308
2015	657,705	320,803	978,508	(12,381)	966,127
2016	753,272	289,088	1,042,360	(12,381)	1,029,979
2017	617,199	254,366	871,565	(12,381)	859,184
2018	774,314	222,885	997,199	(12,381)	984,818
2019	619,644	186,865	806,509	(12,381)	794,128
2020	726,568	156,340	882,908	(11,647)	871,261
2021	606,139	126,209	732,348	(10,873)	721,475
2022	596,749	99,306	696,055	(10,058)	685,997
2023	519,577	74,052	593,629	(8,931)	584,698
2024	455,161	54,615	509,776	(7,468)	502,308
2025	439,701	35,632	475,333	(5,518)	469,815
2026	316,478	19,875	336,353	(2,565)	333,788
2027	208,355	8,676	217,031	(874)	216,157
2028	100,960	2,323	103,283	(213)	103,070
Total *	$8,005,802	$2,218,693	$10,224,495	$(133,018)	$10,091,477

Debt Service Following Issuance of 2013 Second Series Bonds
($ in thousands)

Fiscal Year	Principal	Gross Interest	Gross Debt Service	Interest Subsidy (a)	Net Debt Service
2013	$	$	$	$ ()	$
2014				()	
2015				()	
2016				()	
2017				()	
2018				()	
2019				()	
2020				()	
2021				()	
2022				()	
2023				()	
2024				()	
2025				()	
2026				()	
2027				()	
2028				()	
Total *	$	$	$	$()	$

*Totals may not add due to rounding.

(a) Interest Subsidy is the original Federal Subsidy for Build America Bonds, Qualified School Construction Bonds, Qualified Zone Academy Bonds and Qualified Energy Conservation Bonds. Due to federal budget sequestration, federal direct pay subsidies to the State for ARRA Bonds have been subject to an 8.7% reduction beginning March 1, 2013 and extending through September 30, 2013. If Congress fails to enact a federal budget deficit reduction plan pursuant to the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, sequestration would again reduce federal direct pay subsidies for ARRA Bonds for federal fiscal year 2014 beginning October 1, 2013. The amount of such reduction for federal fiscal year 2014 is currently estimated by OMB to be 7.2%, but is subject to revision.

Maryland Stadium Authority

Lease Revenue Debt Outstanding as of March 31, 2013

The following table shows the lease revenue debt of the Maryland Stadium Authority outstanding as of March 31, 2013, 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 March 31, 2013 ($ in thousands)
Bonds Outstanding		
Oriole Park at Camden Yards (a)	Lease Payments/ Operating Revenues	$103,470
Baltimore City Convention Center Expansion	Lease Payments	9,290
Ocean City Convention Center	Lease Payments	4,095
Ravens Stadium	Lease Payments	57,810
Hippodrome Theater	Lease Payments	13,660
Montgomery County Conference Center	Lease Payments	13,985
Camden Station Renovation	Lease Payments	6,865
Capital Leases Outstanding		
Oriole Park at Camden Yards (Equipment)	Operating Revenues	1,972
Ravens Stadium (Equipment)	Operating Revenues	3,133
Oriole Park at Camden Yards (Energy)	Operating Revenues	5,106
Ravens Stadium (Energy)	Operating Revenues	2,055
Total Debt Outstanding (a)		$221,441

(a) Total includes $19.4 million of lease revenue bonds that are not tax-supported. Therefore, the total tax-supported debt of the Maryland Stadium Authority is $201.1 million as of March 31, 2013. 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 Series 1998A 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 Series 1999 in December 1999 to refund its Sports Facilities Lease Revenue Bonds Series 1989D.

In December 2011, the Authority terminated the 1998 synthetic fixed rate refinancing with AIG Financial Products ("AIG-FP"), which required payment of a termination fee in the amount of $19.7 million. The variable rate debt associated with the synthetic fixed rate refinancing was called and replaced with the Sports Facilities Lease Revenue Refunding Bonds Series 2011A Bonds in the amount of $31.4 million. The federally taxable proceeds of the Series 2011A Bonds were used to defease the Series 1998A Bonds, and to pay the termination fee due to AIG-FP, underwriter's costs and issuance costs. The Authority also issued the Sports Facilities Lease Revenue Refunding Bonds Series 2011B in the amount of $62.9 million, whose tax-exempt proceeds and premium of $7.7 million were used to defease the Series 1999 Bonds. The amounts outstanding as of March 31, 2013 are $27.7 million for the Series 2011A Bonds and $55.1 million for the Series 2011B Bonds.

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. The amount outstanding as of March 31, 2013 totaled $1.2 million.

In April 2010, the Authority issued the Sports Facilities Taxable Revenue Bonds, Series 2010 Bonds, 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 Bonds will mature on December 15, 2013. The amount outstanding as of March 31, 2013 totaled $8.5 million.

In August 2011, the Authority issued the Sports Facilities Taxable Revenue Bonds, Series 2011 Bonds, in the amount of $11.1 million. The proceeds were used for capital repairs to the warehouse located at the Camden Yards Complex. The Series 2011 Bonds will mature on December 15, 2014. The amount outstanding as of March 31, 2013 totaled $11.0 million.

Annual debt service on the Authority's total bond obligations for Oriole Park at Camden Yards is $16.9 million and the amount outstanding as of March 31, 2013 totaled $103.5 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 "Supplemental 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 March 31, 2013 was $2.0 million.

In November 2009, the 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 Program 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 March 31, 2013 was $5.1 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 2012 was $5.0 million. The 2012 contribution to operating deficits and the project's capital improvements fund was approximately $6.1 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 Bonds on December 15, 2006. The balance of the proceeds, $400,000 was used towards closing costs. The 1994 Series Bonds were called on December 15, 2006 in accordance with the swap agreement.

The amount outstanding of Authority bonds related to the Baltimore City Convention Center project totaled $9.3 million as of March 31, 2013.

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.

In March 2011, the Authority refinanced the outstanding balance of $6.5 million. A new fixed rate series was issued in the amount of $6.6 million with $6.5 million being used to call the Series 1995 Bonds and the balance used for transactional costs. The annual debt service on the Series 2011 Bonds is approximately $1.4 million annually. The amount outstanding as of March 31, 2013 totaled $4.1 million.

The Authority will also continue to pay one-half of any annual operating deficits of the facility through December 15, 2035, after which time Ocean City will be solely responsible for operating deficits. The 2012 contribution to operating deficits and the project's capital improvements fund is approximately $1.4 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 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 Bonds on March 1, 2007. The balance of the proceeds, $375,000, was used for closing costs. The 1996 Series Bonds were 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 March 31, 2013 totaled $57.8 million.

In November 2009, the 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 Program over 12 years. The outstanding balance as of March 31, 2013 was $2.1 million.

In the spring of 2010, the 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 $10.0 million. The Baltimore Ravens funded approximately $6.0 million and the Authority funded $4.0 million. The Authority's share was financed under the State's Equipment Lease-Purchase Program and amortized over 10 years. The outstanding balance as of March 31, 2013 was $3.1 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 does not have any operating risk for the project which was completed in February 2004.

In July 2012, the Authority issued the Taxable Lease Revenue Refunding Bonds, Series 2012 in the amount of $14.1 million. The Authority used $13.7 million to call the Taxable Lease-Backed Revenue Bonds, Series 2002 and the balance was used for transactional costs. The annual debt service on the Taxable Lease Revenue Refunding Bonds, Series 2012 is approximately $1.6 million annually. The bonds outstanding as of March 31, 2013 totaled $13.7 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.

In November 2012, the Authority refinanced the final 10 years of maturities on the lease-backed revenue bonds, Series 2003 totaling $15.0 million. The Authority issued the Lease Revenue Refunding Bonds, Series 2012 in the amount of $12.9 million generating $2.9 million in premium with $15.6 million being used to call the Series 2003 Bonds, in June 2013 and the balance used for transactional costs. The annual debt service on the Series 2012 Bonds is approximately $1.6 million annually. The amount outstanding as of March 31, 2013 totaled $14.0 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 March 31, 2013 totaled $6.9 million.

State Tax-Supported Lease and Conditional Purchase Financings

Lease and Conditional Purchase Financings Outstanding as of March 31, 2013

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 March 31, 2013.

State Agency	Facilities Financed	Principal Amount Outstanding as of March 31, 2013 ($ in thousands)
Department of Transportation	Headquarters office building	$22,550
	MAA shuttle buses – BWI	5,100
Department of General Services		
	St. Mary's County Multi-service office building	360
	Hilton Street Facility	1,270
	Prince George's County Justice Center	18,441
Department of Health and Mental Hygiene	Public Health Lab	170,910
Various State Agencies	Energy performance projects	6,403*
Various State Agencies	Communications, data processing, and other equipment	19,240
Maryland Transportation Authority	State office parking facility	19,995
Maryland State Lottery	Video Lottery Terminals	25,025
Total		$289,294

*Only includes Energy Performance Contract ("EPC") lease financings where guaranteed energy savings is less than corresponding lease debt service. Statute does not include $138.7 million in EPC lease financings that have guaranteed energy savings equal to or greater than corresponding lease debt service in the calculation of total tax-supported debt outstanding.

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Revenue and Enterprise Financings

Revenue and Enterprise Financings Outstanding as of March 31, 2013[(a)]

The following table shows, by issuing agency, certain revenue and enterprise non-tax-supported debt outstanding as of March 31, 2013, the facilities financed, and the sources of repayment of the debt.

Agency	Facilities Financed	Source of Repayment	Principal Amount Outstanding as of March 31, 2013 ($ in thousands)
Higher Education (b)			
University System of Maryland	Academic facilities, Student Housing, parking facilities, and equipment	Tuition and auxiliary enterprise facilities revenues	$1,135,795
	Communication, data processing, and other equipment	Operating revenues	73,071
Morgan State University	Student housing	Student fees	19,255
	Student Center/Stadium/Fine Art and Boiler	Student fees and MHEC (c)	29,230
St. Mary's College of Maryland	Student housing/ campus center and athletic facility	Academic fees and auxiliary facilities fees	34,780
Community Development Administration of the Department of Housing and Community Development	Mortgage and construction loans	Mortgage repayments and sales	2,985,770
	Loans to local governments for infrastructure projects	Loan repayments	125,485
Maryland Environmental Service	Landfill projects	Tipping fees	18,807
	Equipment	Operating revenues	6,784
Maryland Transportation Authority	Bridges, tunnels, and highways	Tolls	2,295,252
	Parking garage at BWI	Parking revenues	182,025
	Car rental facility	Customer facility charges	99,040
	Improvements at BWI Airport	Passenger facility charges	197,575
	WMATA Metrorail parking facility	Lease rental payments	31,860
Maryland Water Quality Financing Administration	Loans to local governments for water pollution control facilities	Loan repayments	47,200
Maryland Department of Transportation			
Maryland Aviation Administration	BWI renovations, de-icing ramp	Lease revenues	16,905
	BWI Piers A&B (d)	Airline rentals and concession revenues	199,555
Maryland Transit Administration	MARC rail station parking garage	Parking revenues	11,655
Maryland Port Administration	Masonville Automobile Terminal	Lease revenues	10,601
	Warehouse Facility South Locust Point Terminal	Lease revenues	21,810
Total			$7,542,455

(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 March 31, 2013, the outstanding capital leases financed by the State Treasurer's Office (including capitalized interest) for University System of Maryland, Morgan State University, and St. Mary's College of Maryland were $29.4 million, $1.8 million, and $1.3 million, respectively.

(c) In September 2012, Morgan State University issued $29,230,000 Academic Fees and Auxiliary Facilities Fees Revenue Refunding Bonds. Included in the 2012 Bond is $2,675,000 for a Boiler, funded through Maryland Higher Education Commission. 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.

(d) The BWI Piers A & B financing was refunded by MEDCO in October 2012.

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, 2011 the limits are $1,400.0 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, 2012, outstanding debt and lease purchase financings of the University System of Maryland, Morgan State University, and St. Mary's College of Maryland was $1,208.9 million, $50.7 million, and $36.1 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 March 31, 2013, $2,985.8 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 March 31, 2013, $125.5 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. In February 2011 MES issued the Midshore II Regional Landfill Project Revenue Bonds in the amount of $18.3 million. In April 2011, the MES Water Quality Bond, Series 2011A in the amount of $2.0 million was issued in connection with the closure and capping of the Hobbs Road Landfill. Repayment of the bond is derived from operating revenues of the Midshore II Landfill. Outstanding debt of MES amounted to $25.6 million as of March 31, 2013.

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, $326.4 million in July 2010, and $67.6 million in February 2012 to partially refund its 2004 Series bonds. 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 provided funding for the ICC, was also evidenced by a revenue bond that was issued pursuant to a supplemental trust agreement. As of March 31, 2013, the MDTA had drawn $397.5 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 and these bonds were refunded and redeemed on April 25, 2012 through the issuance of $190.6 million of refunding bonds. Parking revenues are pledged for the repayment of the refunding 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, April 2012, and December 2012, the MDTA issued revenue bonds in the amount of $69.7 million, $50.9 million and $135.5 million, respectively, for the construction of additional projects at BWI. Passenger facility charge revenues are pledged for the payment of these 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 are pledged for the repayment of the bonds.

As of March 31, 2013, $2,805.8 million of the MDTA's revenue and enterprise financings were outstanding under various trust agreements, including the TIFIA loan. On September 22, 2011 the MDTA approved a revised tolling plan with phased-in toll increases in 2011, 2012 and 2013.

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 March 31, 2013, $47.2 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 certificates of participation ("COPs") for various MAA projects in May 1999. The MAA Series 1999 was refunded in December 2010 for $19.6 million. As of March 31, 2013, $16.9 million of the COPs 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. The MEDCO Series 2003 was refunded in October 2012. As of March 31, 2013, $199.6 million 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 COPs in October 2000. The MTA Series 2000 was refunded in December 2010 for $13.1 million. As of March 31, 2013, $11.7 million of the COPs 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 March 31, 2013, $10.6 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 March 31, 2013, $21.8 million of the COPs 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.

	(in millions) Fiscal Year 2009			(in millions) Fiscal Year 2010			(in millions) Fiscal Year 2011			(in millions) Fiscal Year 2012		
	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	$8,345.3	$7,894.3	$7,226.2	$7,956.8	$6,791.0	$7,067.6	$7,010.5	$7,169.5	$7,419.3	$7,494.8	$7,786.0	$7,992.6
Sales and Use Taxes	4,623.5	3,946.0	3,641.9	3,942.4	3,508.8	3,747.2	3,907.3	3,951.4	3,896.7	4,064.3	4,019.8	4,076.6
Motor Vehicle User Taxes, Fees	2,199.8	1,904.4	1,790.0	1,921.2	1,853.0	1,778.0	1,943.8	1,922.9	1,993.4	1,992.7	2,063.6	2059.2
Property, Franchise, Excise Taxes	2,023.4	2,020.0	1,940.7	1,991.3	1,914.4	1,958.3	1,957.3	2,019.5	2,070.0	2,059.0	2,050.6	2,037.4
Sundry Fees, Licenses, Charges	6,975.0	7,081.0	7,052.4	7,459.1	7,486.7	6,773.8	7,291.7	7,745.2	7,609.7	8,429.3	8,532.4	7,997.7
Federal	6,900.0	7,102.2	7,758.9	7,662.8	9,793.8	9,825.0	9,345.5	10,308.8	9,940.7	9,405.4	9,437.9	9,058.3
Total *	$31,067.0	$29,947.8	$29,410.1	$30,933.5	$31,347.7	$31,149.9	$31,456.2	$33,117.3	$32,929.7	$33,445.5	$33,890.3	$33,221.9

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 2009			(in millions) Fiscal Year 2010			(in millions) Fiscal Year 2011			(in millions) Fiscal Year 2012		
	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	$8,104.6	$7,363.8	$7,027.9	$7,798.8	$6,729.6	$6,867.6	$6,867.6	$6,954.3	$7,214.7	6,650.2	7,578.2	7,761.2
Sales and Use Taxes	4,260.2	3,611.0	3,620.4	3,701.7	3,481.9	3,522.8	3,650.5	3,708.3	3,656.0	3,796.0	4,018.5	4,039.3
Motor Vehicle User Taxes, Fees	-	6.5	6.5	-	8.4	8.4	-	375.0	382.1	338.2	191.5	191.7
Property, Franchise, Excise Taxes	1,196.6	1,176.9	1,116.8	1,144.4	1,071.0	1,088.7	1,065.0	1,137.8	1,162.7	1,156.1	1,150.3	1,150.5
Sundry Fees, Licenses, Charges	1,101.9	993.9	1,030.3	1,031.7	1,025.7	1,005.0	1,020.7	979.2	1,052.1	1,596.8	1,027.7	1,052.8
Federal	79.9	88.4	90.6	61.6	66.2	67.7	62.6	68.5	69.8	60.4	61.9	62.3
Total *	$14,743.1	$13,240.5	$12,892.6	$13,738.3	$12,382.7	$12,560.1	$12,666.3	$13,223.2	$13,537.4	$13,597.8	$14,028.2	$14,257.8

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, and the most recent estimate for the year ending June 30. 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				
	2009	2010	2011	2012	Estimated 2013(a)
Income Taxes					
Individuals (b)(c)	$6,477.2	$6,178.2	$6,643.4	$7,114.7	$7,686.1
Corporations	749.0	890.3	775.8	646.5	1,015.7
Total	7,226.2	7,068.6	7,419.3	7,761.2	8,701.8
Sales and Use Taxes (d)	3,641.9	3,747.8	3,896.7	4,039.3	4,116.7
Motor Vehicle User Taxes, Fees					
Motor Vehicle Fuel Taxes	736.0	729.7	757.3	738.6	751.2
Motor Vehicle Registration, Fees	540.0	606.9	641.1	688.3	708.6
Motor Vehicle Titling Tax	514.0	543.4	594.9	632.4	682.0
Total	1,790.0	1,880.0	1,993.4	2,059.2	2,141.8
Property, Franchise, Excise Taxes					
Real Property Tax	698.6	742.9	798.3	762.3	723.5
Property Transfer Tax	121.5	123.4	118.5	121.7	138.1
Business Franchise Taxes	201.4	202.5	210.2	207.2	203.4
State Tobacco Tax	405.6	405.9	407.6	411.4	417.8
Tax on Insurance Companies	275.2	277.0	285.9	304.0	314.5
Tax on Distilled Spirits, Wine, Beer	29.2	29.9	30.4	31.0	31.1
Tax on Horse Racing	3.8	3.3	3.0	2.9	2.7
Death Taxes	205.5	173.5	216.0	196.9	217.8
Total	1,940.7	1,958.3	2,070.0	2,037.4	2,048.9
Sundry Fees, Licenses, Service Charges					
University and College Receipts	3,247.2	3,377.8	3598.4	3,773.2	4,002.7
Mass Transit, Port, Aviation Income	393.0	388.6	390.5	397.1	413.0
Miscellaneous Taxes, and Other Receipts	2,683.5	2,203.8	2,902.9	3,462.6	4,362.2
Interest on Invested Funds	87.0	50.2	58.4	17.9	10.0
District Courts Fines and Fees	89.4	87.3	86.9	79.4	77.0
State Lottery Receipts	552.3	562.5	572.6	536.3	599.9
Total	7,052.4	6,670.3	7,609.7	8,266.4	9,464.7
Federal Receipts	7,758.9	9,825.0	9,940.7	9,058.3	9,398.7
Extraordinary Transfers & Revenues (e)	7.9	28.0	-	-	32.9
Grand Total *	$29,418.0	$31,177.9	$32,929.7	$33,221.9	$35,905.4

(a) The estimated revenues include the general fund estimate by the Board of Revenue Estimates on March 7, 2013 and the general, federal and special funds authorized in the State budget as set forth in the fiscal year 2013 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 2012 Special Session increased the income tax rates and reduced personal exemption amounts for many taxpayers, effective for all tax years beginning after December 31, 2011. See "STATE FINANCES-State Revenues" for details.
(d) Legislation enacted during the 2011 Legislative Session increased the sales tax on alcohol from 6% to 9% effective July 1, 2011.
(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 2013, a $32.9 million GAAP surplus in the local income tax reserve is expected to be transferred to the general fund.

*Totals may not add due to rounding.

STATE OF MARYLAND

Comparison of General Fund Revenues Collected
as of March 31

The following table compares actual cash collections for the period from July 1 to March 31 during fiscal year 2013 with collections during that same period in the previous four fiscal years. The table does not reflect current year accruals.

($ in millions)
Fiscal Years

	2009	2010	2011	2012	2013**
Individual Income Tax (a) (b)	$4,244.7	$4,008.3	$4,197.0	$4,596.3	$4,944.0
Corporate Income Tax (c) (d)	371.3	359.7	355.6	401.5	524.1
Sales and Use Tax (e)	2,436.7	2,292.1	2,395.8	2,654.9	2,676.8
State Lottery	299.2	320.0	317.0	336.3	342.8
Business Franchise Taxes	96.7	94.1	94.1	95.8	92.7
Tobacco Tax	280.2	275.2	278.2	278.7	283.6
Insurance Taxes and Fees	161.6	162.7	161.3	172.5	171.7
Alcoholic Beverage Taxes	18.9	19.1	19.4	20.1	20.4
Death Taxes	167.7	128.7	157.9	143.0	168.8
Clerks of Court	26.6	28.1	25.1	25.6	29.1
Motor Fuel Taxes	6.5	7.2	5.0	4.4	8.7
Highway User Revenues (f)	NA	NA	222.0	109.3	NA
Hospital Patient Recoveries	58.3	43.2	38.9	31.1	27.7
Interest on Investments	52.7	17.9	28.2	5.4	12.6
District Court Fees	67.5	65.8	64.9	63.0	59.1
Miscellaneous	122.3	118.7	126.6	121.8	145.0
Total *	$8,410.9	$7,940.7	$8,487.0	$9,059.7	$9,507.0

(a) The State has recorded revenues from individual income taxes on a modified accrual basis.
(b) Legislation enacted by the General Assembly during the 2012 Special Session increased the income tax rates and reduced personal exemption amounts for many taxpayers, effective for all tax years beginning after December 31, 2011. See "STATE FINANCES-State Revenues" for details.
(c) Fiscal year 2010 includes an extraordinary payment from a corporate taxpayer.
(d) The Transportation Trust Fund receives a distribution from the corporate income tax. The distribution percentage varies from year to year.
(e) The sales and use tax rate was increased for sales of alcoholic beverages effective July 1, 2011. See "STATE FINANCES – State Revenues" for details.
(f) 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 and later modified in the fiscal year 2012 operating budget approved by the General Assembly during the 2011 session. The fiscal year 2010 distribution was treated as a transfer.

*Totals may not add due to rounding.
** Fiscal year 2013 includes budget restoration fund revenues.

STATE OF MARYLAND

General Fund Revenues
Needed to Meet Estimates During the Last Three Months of Fiscal Year 2013

The following table compares: (1) the revenues needed during the period from April1 to June 30, 2013 (including appropriate accruals), in order to meet the most recent official estimate of revenues for the 2013 fiscal year with (2) actual collections for that same period during the previous four fiscal years (including appropriate accruals).

($ in millions)
Fiscal Years

	2009	2010	2011	2012	2013**
Individual Income Tax (a) (b)	$2,232.5	$2,169.9	$2,446.4	$2,518.4	$2,742.1
Corporate Income Tax (c)	179.4	329.7	215.7	245.0	348.8
Sales and Use Tax (d)	1,183.7	1,230.6	1,260.2	1,384.5	1,397.7
State Lottery	174.0	171.0	182.4	200.0	183.4
Business Franchise Taxes	104.7	108.4	116.1	111.4	110.6
Tobacco Tax	125.4	130.7	129.4	132.7	134.2
Insurance Taxes and Fees	113.6	114.3	124.6	131.5	142.8
Alcoholic Beverage Taxes	10.2	10.8	11.0	10.9	10.7
Death Taxes	37.8	44.8	58.2	53.9	49.0
Clerks of Court	13.9	7.4	4.2	9.5	10.9
Motor Fuel Taxes	-	1.2	-	0.6	4.3
Highway User Revenues (e)	NA	NA	155.0	77.4	NA
Hospital Patient Recoveries	38.2	29.5	35.3	35.3	33.2
Interest on Investments	30.3	32.3	30.2	12.5	8.4
District Court Fees	21.9	21.5	22.0	16.4	17.9
Miscellaneous	216.0	217.2	259.6	258.1	235.1
Total *	$4,481.6	$4,619.4	$5,050.4	$5,198.1	$5,429.3

(a) The State has recorded revenues from individual income taxes on a modified accrual basis.
(b) Legislation enacted by the General Assembly during the 2012 Special Session increased the income tax rates and reduced personal exemption amounts for many taxpayers, effective for all tax years beginning after December 31, 2011. See "STATE FINANCES-State Revenues" for details.
(c) The Transportation Trust Fund receives a distribution from the corporate income tax. The distribution percentage varies from year to year.
(d) The sales and use tax rate was increased for sales of alcoholic beverages effective July 1, 2011. See "STATE FINANCES – State Revenues" for details.
(e) 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 and later modified in the fiscal year 2012 operating budget approved by the General Assembly during the 2011 session. The fiscal year 2010 distribution was treated as a transfer.

*Totals may not add due to rounding.
** Fiscal year 2013 includes budget restoration fund revenues.

APPENDIX D

FORMS OF OPINIONS OF THE ATTORNEY GENERAL OF MARYLAND AND BOND COUNSEL

Form of Opinion of the Attorney General (Date of Delivery)

Board of Public Works
State of Maryland
Annapolis, Maryland

Ladies and Gentlemen:

This opinion is rendered with respect to the $475,000,000* aggregate principal amount of the State of Maryland General Obligation Bonds, State and Local Facilities Loan of 2013, Second Series, consisting of the $435,000,000 Second Series A Tax-Exempt Bonds (the "Second Series A Bonds"), and the $40,000,000 Second Series B Taxable Bonds (the "SecondSeries B Bonds"). The Second Series A Bonds and the Second Series B 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 (2010 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 Second Series A Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the respective Bonds. The Second Series B Bonds are not subject to redemption prior to their maturities.

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 July 3, 2013 and July 24, 2013 (collectively, the "Resolutions").

This Office has 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 this opinion, without undertaking to verify the same by independent investigation, this Office has relied upon the certified proceedings of the Board and certifications by public officials. This examination has been limited to the foregoing as they exist or are in effect as of the date hereof. This opinion is limited to the matters expressly set forth herein, and I express no opinion concerning any other matters.

No opinion is expressed as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds, and 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 as of the date hereof and under existing law that:

(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.

*Preliminary, subject to change.

(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) The Continuing Disclosure Agreement dated August 6, 2013 executed by the Board has been duly authorized, executed and delivered by the Board and is a legal, valid and binding agreement of the State, enforceable against it in accordance with the terms thereof.

In rendering this opinion, I wish to advise you that 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, moratorium and other similar laws relating to or affecting creditors' rights generally, and their enforcement may also be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases.

Very truly yours,

[to be signed "Douglas F. Gansler
Attorney General"]

Form of Opinion of Bond Counsel
as to Second Series A Bonds
(Date of Delivery)

Board of Public Works
State of Maryland
Annapolis, Maryland

Ladies and Gentlemen:

This opinion is rendered with respect to the $435,000,000* aggregate principal amount of the State of Maryland General Obligation Bonds, State and Local Facilities Loan of 2013, Second Series A Tax-Exempt Bonds (the "Bonds"). The Bonds consolidate various State loans or installments thereof authorized by their enabling acts and amendments thereto, issued pursuant to Sections 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 Section 22 of Article 31 of the Annotated Code of the State of Maryland (2010 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, subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the Bonds.

We have examined such law 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 (the "Board") and certifications by public officials.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

Based on the foregoing, we are of the opinion that, under existing law:

(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.

(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.

*Preliminary, subject to change.

(d) Under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is excludable from gross income for federal income tax purposes. Interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax imposed on individuals and corporations.

However, interest on the Bonds is included in the alternative minimum taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporations over the alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations.

The opinion set forth in the first sentence of paragraph (d) regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the State with covenants regarding federal tax law contained in the authorizing resolution and the Tax Certificate and Compliance Agreement of the State executed in connection with the issuance of the Bonds. Failure to comply with such covenants could cause interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. Although we are of the opinion that interest on the Bonds is excludable from gross income for federal tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

In rendering the opinion in paragraph (d) above, we have relied upon representations and covenants of the State in the authorizing resolution and the Tax Certificate and Compliance Agreement concerning the investment and use of Bond proceeds and the use of the projects financed with the proceeds of the Bonds. In addition, we have assumed that all such representations are true and correct and that the State will comply with such covenants. We have expressed no opinion with respect to the exclusion of interest on the Bonds from gross income under Section 103(a) of the Code in the event that any of such State representations are untrue or the State should fail to comply with such covenants, unless such failure to comply is based on our advice or opinion. Except as stated above, we express no opinion as to any federal tax consequences of the ownership of, receipt of interest on, or disposition of the Bonds.

The opinion we have expressed herein as to the treatment of the Bonds or the interest borne thereon for federal income tax purposes is based upon statutes, regulations, rulings and court decisions in effect on the date hereof. We undertake no obligation to update the contents of this opinion on any future date. Each purchaser of the Bonds should consult his or her tax advisor regarding any changes in the status of any pending or proposed legislation.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds 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 by "Kutak Rock LLP")

Form of Opinion of Bond Counsel
as to Second Series B Bonds
(Date of Delivery)

Board of Public Works
State of Maryland
Annapolis, Maryland

Ladies and Gentlemen:

This opinion is rendered with respect to the $40,000,000* aggregate principal amount of the State of Maryland General Obligation Bonds, State and Local Facilities Loan of 2013, Second Series B Taxable Bonds (the "Bonds"). The Bonds consolidate various State loans or installments thereof authorized by their enabling acts and amendments thereto, issued pursuant to Sections 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 Section 22 of Article 31 of the Annotated Code of the State of Maryland (2010 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

We have examined such law 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 (the "Board") and certifications by public officials.

We express no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

We do not express any opinion herein regarding any law other than the law of the State of Maryland and the federal law of the United States of America.

Based on the foregoing, we are of the opinion that, under existing law:

(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.

(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.

*Preliminary, subject to change.

(d) Interest on the Bonds is included in gross income for federal income tax purposes.

(e) The Bonds will be characterized as indebtedness of the State rather than as an interest in the State or any assets of the State for federal income tax purposes.

Except as stated above, we express no opinion as to any federal tax consequences of the ownership of, receipt of interest on, or disposition of the Bonds. The opinion we have expressed herein as to the treatment of the Bonds or the interest borne thereon for federal income tax purposes is based upon statutes, regulations, rulings and court decisions in effect on the date hereof. We undertake no obligation to update the contents of this opinion on any future date. Each purchaser of the Bonds should consult his or her tax advisor regarding any changes in the status of any pending or proposed legislation.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds 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.

To ensure compliance with Treasury Circular 230, taxpayers are hereby notified that: (a) any discussion of U.S. federal tax issues in this opinion 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.

Very truly yours,

(to be signed by "Kutak Rock LLP")

Appendix E

REVISED OFFICIAL NOTICE OF SALE

$435,000,000*
STATE OF MARYLAND
General Obligation Bonds

State and Local Facilities Loan of 2013, Second Series A
Tax-Exempt Bonds

NOTICE IS HEREBY GIVEN that electronic bids will be received on the date and up to the time specified below:

SALE DATE: **Wednesday, July 24, 2013**

SALE TIME: **11:00 a.m. Local Annapolis, Maryland Time**

ELECTRONIC BIDS: Must be submitted through ***PARITY®*** as described below.
No other form of bid or provider of electronic bidding services will be accepted.

Pursuant to resolutions of the Board of Public Works of Maryland (the "Board"), bids will be received for the purchase of all, but not less than all, of the State and Local Facilities Loan of 2013, Second Series A Tax-Exempt Bonds (the "Second Series A Bonds") to be issued by the State of Maryland (the "State"). The Second Series A Bonds are more particularly described in the Preliminary Official Statement dated July 12, 2013 relating to the Second Series A Bonds, (the "POS") available at the State's website, www.treasurer.state.md.us

Consideration of the bids and the award will be made by the Board on the Sale Date as set forth herein. The Board also reserves the right to make certain adjustments to the aggregate principal amount and the principal amounts of each maturity of the Second Series A Bonds being offered, to eliminate maturities, to change the terms of the Second Series A Bonds, to postpone the sale of the Second Series A Bonds to a later date, or to cancel the sale of the Second Series A Bonds as further described herein. See "Adjustment of Amounts and Maturities" and "Change or Cancellation of Sale Date and/or Date of Delivery and/or Other Revised Terms."

Contact Information

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I-DEAL/PARITY® (ELECTRONIC BIDDING PLATFORM)
Client Services
Phone: (212) 849-5024
Email: parity@i-deal.com

*Preliminary, subject to change.

Bidding Parameters Table*

INTEREST		PRICING	
Dated Date:	Date of Delivery	Max. Aggregate Bid Price:	Unlimited
Anticipated Date of Delivery:	August 6, 2013	Min. Aggregate Bid Price:	98.5%
Interest Payment Dates:	February 1 and August 1		
First Interest Payment Date:	February 1, 2014	Max. Reoffering Price (each maturity):	Unlimited
Coupon Multiples:	1/8 or 1/20 of 1%	Min. Reoffering Price (each maturity):	98.5%
Maximum Coupon:	N/A		
Minimum Coupon:	N/A		
Maximum TIC:	N/A		
Maximum Difference Between Coupons:	4%		
No Zero Coupon may be specified			
PRINCIPAL		**PROCEDURAL**	
Optional Redemption:	Second Series A Bonds maturing on or before August 1, 2021 are not subject to redemption. Bonds maturing on or after August 1, 2022 are subject to redemption at par at any time on or after August 1, 2021 as a whole or in part.	Sale Date: Sale Time:	July 24, 2013 11:00 a.m., Local Annapolis, Maryland Time
Post-bid Principal Increases Each Maturity: Aggregate:	 10% 10%	Bid Submission:	Electronic bids through PARITY only
Post-bid Principal Reductions Each Maturity: Aggregate:	 10% 10%	All or None?	Yes
Term Bonds:	Two or more consecutive annual principal maturities may be designated as a term bond that matures on the maturity date of the last annual principal payment of the sequence.	Bid Award Method:	Lowest True Interest Cost (as defined herein)
		Bid Confirmation:	Notification from State Treasurer
		Awarding of Bid:	On the Sale Date by the Board
		Good Faith Deposit:	$4,350,000; as more fully described herein. See "Good Faith Deposit."

* If numerical or date references contained in the body of this Revised Official Notice of Sale conflict with the Bidding Parameters Table, the Bidding Parameters Table of this Revised Official Notice of Sale shall control. Consult the body of this Revised Official Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

Bond Amortization Schedule*

The Second Series A Bonds will be issued in serial or term bond form as designated by the successful bidder for the Bonds in its proposal, as described below. The principal of the Second Series A Bonds shall be payable in installments on the dates in the following years and in the following amounts:

$435,000,000* State and Local Facilities Loan of 2013, Second Series A

Maturing August 1	Principal Amount*	Maturing August 1	Principal Amount*
2017	$16,295,000	2023	$38,105,000
2018	29,675,000	2024	39,855,000
2019	31,195,000	2025	41,480,000
2020	32,795,000	2026	43,175,000
2021	34,475,000	2027	44,935,000
2022	36,245,000	2028	46,770,000

The Bonds

Security

The Second Series A Bonds are general obligations of the State, and its full faith and credit and taxing power are unconditionally pledged to the punctual payment of principal and interest on such Bonds when due and payable.

Use of Proceeds

The proceeds of the Second Series A 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.

Description of the Bonds

General. The Second Series A Bonds will be dated as of the Date of Delivery ("Dated Date"), expected to be on or about August 6, 2013, and will be in fully registered form in denominations of $5,000 each or any integral multiple thereof.

Interest on the Second Series A Bonds will accrue from the Dated Date, and will be payable February 1, 2014 and semiannually thereafter on each August 1 and February 1 until maturity or earlier redemption. The Second Series A Bonds will mature on August 1 of each year as specified in the Bond Amortization Schedule above.

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 Second Series A Bonds.

*Preliminary, subject to change.

Form of Bonds. The Second Series A Bonds shall be issued only in fully registered form without coupons. One bond representing each maturity of the Second Series A 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 Second Series A Bonds and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the Second Series A 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 Second Series A Bonds, must consent that the bond certificates representing each maturity will be deposited with DTC.

So long as the Second Series A Bonds are maintained under a book-entry only system, the Bond Registrar and Paying Agent for the Second Series A Bonds will be the Maryland State Treasurer (the "Treasurer") or any other Bond Registrar and Paying Agent designated by the Treasurer. All payments of the principal of and interest on the Second Series A 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

The Second Series A Bonds maturing on or after August 1, 2022 are subject to redemption prior to maturity at par at any time on or after August 1, 2021 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 redeemable Second Series A Bonds shall be called for redemption, the particular Second Series A 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 Second Series A Bonds, the particular Second Series A Bond or portion to be redeemed shall be selected by DTC, in such manner as DTC shall determine.

Adjustment of Amounts and Maturities

Prior to the Sale Date, the Board may adjust the preliminary aggregate principal amount of the Second Series A Bonds and the preliminary principal amount and maturity of each serial installment of the Second Series A Bonds as set forth in this Revised Official Notice of Sale (the "Preliminary Aggregate Principal Amount" and the "Preliminary Principal Amount", and collectively the "Preliminary Amounts"). **ANY SUCH REVISIONS MADE PRIOR TO THE OPENING OF THE BIDS** (the "Aggregate Principal Amount" and the "Principal Amount", and collectively the "Amounts") **WILL BE PUBLISHED ON THOMPSON MUNICIPAL MARKET MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 4:00 P.M., LOCAL ANNAPOLIS, MARYLAND TIME, ON THE BUSINESS DAY IMMEDIATELY PRIOR THE SALE DATE FOR THE BONDS.**

In the event that no such revisions are made prior to the opening of the bids, the Preliminary Amounts will constitute the Amounts. Bidders shall submit bids based on the Amounts, and the Amounts will be used to compare bids and select a winning bidder.

After the opening of the bids, the Board may further adjust the Amounts of the Second Series A Bonds. Changes to be made will be communicated to the successful bidder not later than three (3) hours after the bids have been received and opened and in no case will such changes reduce or increase the Aggregate Principal Amount of the Second Series A Bonds by more than 10 percent. The dollar amount bid for principal by the successful bidder will be adjusted proportionally to reflect any reduction or increase in the Aggregate Principal Amount of the Second Series A Bonds, but the interest rates specified by the successful bidder for all maturities will not change. The successful bidder may not withdraw its bid as a result of any changes within these limits. The "Underwriter's Discount" shall be defined as the difference between the purchase price of the Second Series A Bonds submitted by the bidder and the price at which the Second Series A Bonds will be issued to the public, calculated from information provided by the bidder, divided by the par amount of the Second Series A Bonds bid. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the Aggregate Principal Amount and Principal Amounts of the Second Series A Bonds. Such adjusted bid price will reflect changes in the dollar amount

of the Underwriter's Discount and original issue discount/premium, if any, but will not change the Underwriter's Discount, per $1,000 of par amount of the Second Series A Bonds from the Underwriter's Discount that would have been received based on the purchase price in the winning bid and the initial public offering prices.

Change or Cancellation of Sale Date and/or Date of Delivery and/or Other Terms

The Board may cancel or postpone the sale of the Second Series A Bonds prior to the Sale Date. Notice of a cancellation or postponement will be announced via the TM3 wire at *www.tm3.com*. Notice of any new date and time of sale will be announced at least 24 hours prior to the time bids are to be submitted and will specify changes in the principal amount or other features, if any.

The Board may change the scheduled delivery date, the dates of the semiannual interest payments and annual principal payments, or the optional redemption date or revise any other terms for the Second Series A Bonds by notice given in the same manner as that set forth above.

Preliminary Official Statement; Continuing Disclosure

The State has deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the omission of certain information permitted to be omitted by said Rule. As soon as practicable after the Sale Date, the State will publish a complete final Official Statement (the "Official Statement") that will contain this information. The State agrees to deliver to the successful bidder for its receipt no later than seven business days after the Sale Date such quantities of the Official Statement as the successful bidder shall request, provided, that the State shall deliver up to 100 copies of such Official Statement without charge to the successful bidder.

The State has made certain covenants for the benefit of the holders from time to time of the Second Series A Bonds to provide certain continuing disclosure, in order to assist bidders for the Second Series A Bonds in complying with Rule 15c2-12(b)(5). Such covenants are described in the Preliminary Official Statement.

Electronic Bidding

Bidders may only submit bids via PARITY.

A prospective bidder may only bid electronically for the Second Series A Bonds via PARITY pursuant to this Revised Official Notice of Sale. By submitting its bid for the Second Series A Bonds, a prospective bidder represents and warrants to the State that such bidder's bid for the purchase of the Second Series A 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 Second Series A Bonds.

Additional information concerning bidding through the system may be directed to the PARITY Help Desk at (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 Second Series A 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 Second Series A 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 Second Series A 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, July 24, 2013. 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 Second Series A 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 Second Series A 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 "Award of Bid" below, 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 Board via PARITY, before **11:00 a.m.**, local Annapolis, Maryland time, on Wednesday, July 24, 2013, at which time they will be received by the Board. As described above, 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 SECOND SERIES A BONDS TO MAKE A GOOD FAITH EFFORT TO INCLUDE MINORITY BUSINESS ENTERPRISES IN THE SYNDICATE PURCHASING THE SECOND SERIES A BONDS. THE SUCCESSFUL BIDDER WILL BE REQUESTED TO PROVIDE A LIST OF SYNDICATE MEMBERS WHICH IDENTIFIES THE MINORITY BUSINESS ENTERPRISE MEMBERS AND INDICATES THEIR PERCENTAGES OF PARTICIPATION.

Right of Rejection

The Board expressly reserves the right (i) to waive any informalities, (ii) to reject all bids, any incomplete bid or any bid not fully complying with all of the requirements set forth herein, and (iii) to solicit new bids or proposals for the sale of the Second Series A Bonds or otherwise provide for the public sale of the Second Series A Bonds if all bids are rejected or the winning bidder defaults, including, without limitation, sale of the Second Series A Bonds to one or more of the losing or rejected bidders without regard to their original bid or its relationship to any other bid.

Preliminary Award; Reoffering Prices and Certificate

As promptly as reasonably practicable after the bids are received and reviewed, but not later than **12:30 p.m.** local Annapolis, Maryland time on the Sale Date (unless bids have been postponed), the Treasurer will notify the apparently successful bidder of the Preliminary Award of the Second Series A Bonds. The successful bidder shall make a bona fide public offering of all of the Second Series A Bonds and shall represent to the State that such offering is in compliance with all applicable securities laws of the jurisdictions in which such Second Series A Bonds are offered. **Within 30 minutes after being notified of the Preliminary Award of the Second Series A Bonds, the successful bidder shall advise the State in writing (via facsimile or e-mail transmission) to Linda Ginty or Bora Fezga at gintyl@pfm.com or fezgab@pfm.com, respectively, of such reoffering prices of the Second Series A Bonds (the "Reoffering Prices"). The State will review the Reoffering Prices for compliance with applicable securities laws prior to final confirmation of the award.**

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.

SIMULTANEOUSLY WITH OR BEFORE DELIVERY OF THE SECOND SERIES A BONDS, THE SUCCESSFUL BIDDER SHALL FURNISH TO THE STATE A CERTIFICATE ACCEPTABLE TO BOND COUNSEL TO THE EFFECT THAT (I) THE SUCCESSFUL BIDDER HAS MADE A BONA FIDE PUBLIC OFFERING OF EACH MATURITY OF THE SECOND SERIES A BONDS AT THE REOFFERING PRICES, (II) AS OF THE DATE OF THE SALE OF THE SECOND SERIES A BONDS, THE SUCCESSFUL BIDDER REASONABLY EXPECTED TO SELL A SUBSTANTIAL AMOUNT OF EACH MATURITY OF THE SECOND SERIES A BONDS TO THE PUBLIC (EXCLUDING BOND HOUSES, BROKERS AND OTHER INTERMEDIARIES) AT THEIR RESPECTIVE REOFFERING PRICES, AND (III) A SUBSTANTIAL AMOUNT OF EACH MATURITY OF THE SECOND SERIES A BONDS WAS SOLD TO THE PUBLIC (EXCLUDING BOND HOUSES, BROKERS AND OTHER INTERMEDIARIES) AT THEIR RESPECTIVE REOFFERING PRICES OR SUCH OTHER FACTS REGARDING THE ACTUAL SALE OF THE SECOND SERIES A BONDS AS BOND COUNSEL SHALL REQUEST, AS DESCRIBED BELOW. Bond Counsel advises that (i) such certificate must be made on the best knowledge, information and belief of the successful bidder, (ii) the sale to the public of 10% or more in par amount of each maturity of the Second Series A Bonds at the Reoffering Prices would be sufficient to certify as to the sale of a substantial amount of the Second Series A Bonds, and (iii) reliance on other facts as a basis for such certification would require evaluation by Bond Counsel to assure compliance with the statutory requirement to avoid the establishment of an artificial price for the Second Series A Bonds.

Award of Bid

Award of Bid

The Board expects to make its award of the Second Series A Bonds to the winning bidder on the Sale Date. It is anticipated that all bids will be reviewed by the Board at the time stated above and will be acted on following the opening, tabulation and verification of the bids received. The decision by the Board as to the award of the Second Series A Bonds will be final. Bids may not be withdrawn prior to the 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 Second Series A Bonds. Each bidder shall indicate in its bid the rate of interest to be paid on the Second Series A Bonds of each maturity. All bids for Second Series A Bonds of any maturity must be greater than or equal to 98.5%. Each rate of interest shall be a multiple of 1/20 or 1/8 of one percent, but all Second Series A Bonds of any one maturity 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.

The Second Series A Bonds will be awarded by the Board on the Sale Date to the bidder whose bid complies with this Revised Official Notice of Sale and results in the lowest true interest cost ("TIC") to the State. The lowest TIC 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 Delivery of the Second Series A Bonds and to the aggregate amount bid for the Second Series A Bonds. If two or more responsible bidders have made bids resulting in the same lowest TIC to the State, the Second Series A Bonds shall be awarded by lot to one of these bidders.

Good Faith Deposit

A Good Faith Deposit in the amount of $4,350,000 is required only of the winning bidder for the Second Series A Bonds. The winning bidder for the Second Series A Bonds is required to submit such Good Faith Deposit payable to the order of the State in the form of a wire transfer in federal funds as instructed by the State's Financial Advisor, Public Financial Management Inc. The winning bidder shall submit the Good Faith Deposit not later than 2:00 p.m. (local Annapolis, Maryland time) on the Sale Date. The winning bidder should provide as quickly as it is available, evidence of wire transfer by providing the State the federal funds reference number. If the Good Faith Deposit is not received in the time allotted, the bid of the winning bidder may be rejected and the State may direct the next lowest bidder to submit a Good Faith Deposit and thereafter may award the sale of the Second Series A Bonds to the same. If the winning bidder fails to comply with the Good Faith Deposit requirement as described herein, that bidder is nonetheless obligated to pay to the State the sum of $4,350,000 as liquidated damages due to the failure of the winning bidder to timely deposit the Good Faith Deposit.

Submission of a bid to purchase the Second Series A Bonds serves as acknowledgement and acceptance of the terms of the Good Faith Deposit requirement.

The Good Faith Deposit so wired will be retained by the State until the delivery of the Second Series A Bonds, at which time the Good Faith Deposit will be applied against the purchase price of the Second Series A Bonds or the Good Faith Deposit will be retained by the State as partial liquidated damages in the event of the failure of the successful bidder to take up and pay for such Second Series A Bonds in compliance with the terms of this Revised Official Notice of Sale and of its bid. No interest on the Good Faith Deposit will be paid by the State. The balance of the purchase price must be wired in federal funds to the account detailed in the closing memorandum, simultaneously with delivery of the Second Series A Bonds.

Delivery and Payment

Delivery of the Second Series A Bonds will be made by the State to DTC in book-entry only form, in New York, New York on or about the anticipated Date of Delivery, or on or about such other date as may be agreed on by the Treasurer and the successful bidder.

At the time of delivery of the Second Series A Bonds, payment of the amount due for the Second Series A Bonds must be made by the successful bidder to the order of the State in immediately available federal funds or other funds immediately available to the State, or by such other means as may be acceptable to the Treasurer. Any expense incurred in providing immediately available funds, whether by transfer of federal funds or otherwise, shall be borne by the successful bidder.

CUSIP Numbers; Expenses of the Bidder

It is anticipated that CUSIP numbers will be assigned to each of the Second Series A Bonds, but neither the failure to type or print such numbers on any of the Second Series A Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Second Series A Bonds. The policies of the CUSIP Service Bureau will govern the assignment of specific numbers to the Second Series A Bonds. The successful bidder will be responsible for applying for and obtaining, subject to the CUSIP Service Bureau policy and procedures, CUSIP numbers for the Second Series A Bonds promptly upon award of the bid. All expenses of typing or printing CUSIP numbers for the Second Series A Bonds will be paid for by the State; provided the CUSIP Service Bureau charges for the assignment of the numbers shall be the responsibility of and shall be paid for by the successful bidder.

All charges of DTC and all other expenses of the successful bidder will be the responsibility of the successful bidder for the SecondSeries A Bonds.

Tax Status, Legal Opinions, Closing Documents and No Litigation

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Second Series A Bonds that, simultaneously with or before delivery and payment for the Second Series A Bonds, the bidder without cost shall be furnished with (1) the approving opinions of the Attorney General of the State of Maryland ("Attorney General") and of Kutak Rock LLP, Washington D.C., Bond Counsel, dated as of the Date of Delivery of the Second Series A Bonds, substantially in the respective forms included as Appendix D to the Preliminary Official Statement; (2) a certificate of the Attorney General dated as of the Dated Date of the Second Series A 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 Second Series A Bonds will be issued; (3) a copy of the Official Statement relating to the Second Series A Bonds dated as of the Sale Date of the Second Series A Bonds signed in a manner permitted under Maryland law; (4) 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 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): (a) the Official Statement as of the Sale Date 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 (b) between the Sale Date and the Date of Delivery of the Second Series A 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 Sale Date; and (5) the Continuing Disclosure Agreement substantially in the form included as Appendix F to the Preliminary Official Statement.

The opinions of the Attorney General and Bond Counsel will be delivered, upon request, to the purchaser of the Second Series A Bonds, without charge. A bidder may make the legality and validity of the Second Series A 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.

Additional Information

This Revised Official Notice of Sale is not a summary of the terms of the Second Series A Bonds. Reference is made to the Preliminary Official Statement for a further description of the Second Series A Bonds and the State. Prospective investors or bidders for the Second Series A Bonds must read the entire Preliminary Official Statement to obtain information essential to making an informed investment decision. The Preliminary Official Statement is deemed final by the State as of its date for purposes of the Rule but is subject to revision, amendment and completion in a final Official Statement. Additional information concerning the matters discussed in this Revised Official Notice of Sale and copies of the Preliminary Official Statement may be obtained online or by request from Amber Teitt, the State's Director of Debt Management, at (410) 260-7920 or from Linda Ginty or Bora Fezga at, respectively, gintyl@pfm.com or (410) 461-3605, or fezgab@pfm.com or (215) 567-6100.

MARTIN O'MALLEY
Governor

PETER FRANCHOT
Comptroller

NANCY K. KOPP
Treasurer

Constituting the Board of Public Works of the
State of Maryland

Annapolis, Maryland
July 22, 2013

REVISED OFFICIAL NOTICE OF SALE

$40,000,000*
STATE OF MARYLAND
General Obligation Bonds

State and Local Facilities Loan of 2013, Second Series B Taxable Bonds

NOTICE IS HEREBY GIVEN that electronic bids will be received on the date and up to the time specified below:

SALE DATE: **Wednesday, July 24, 2013**

SALE TIME: **11:15 a.m., Local Annapolis, Maryland Time**

ELECTRONIC BIDS: Must be submitted through ***PARITY®*** as described below.
No other form of bid or provider of electronic bidding services will be accepted.

Pursuant to resolutions of the Board of Public Works of Maryland (the "Board"), bids will be received for the purchase of all, but not less than all, of the State and Local Facilities Loan of 2013, Second Series B Taxable Bonds (the "Second Series B Bonds") to be issued by the State of Maryland (the "State"). The Second Series B Bonds are more particularly described in the Preliminary Official Statement dated July 12, 2013 relating to the Second Series B Bonds, (the "POS") available at the State's website, www.treasurer.state.md.us.

Consideration of the bids and the award will be made by the Board on the Sale Date as set forth herein. The Board also reserves the right to make certain adjustments to the aggregate principal amount and the principal amounts of each maturity of the Second Series B Bonds offered, to eliminate maturities, to change the terms of the Second Series B Bonds, to postpone the sale of the Second Series B Bonds to a later date, or to cancel the sale of the Second Series B Bonds as further described herein. See "Adjustment of Amounts and Maturities" and "Change or Cancellation of Sale Date and/or Date of Delivery and/or Other Terms."

Contact Information

STATE OF MARYLAND (ISSUER)
Amber Teitt, Director of Debt Management
State Treasury Office
Louis L. Goldstein Treasury Building
80 Calvert St.
Annapolis, MD 21401
Phone: (410) 260-7920 / Fax: (410) 260-6057
Email: ateitt@treasurer.state.md.us

KUTAK ROCK LLP (BOND COUNSEL)
Alicia Terry, *Partner*
1101 Connecticut Avenue, N.W.
Suite 1000
Washington, DC 20036-4374
Phone: (202) 828-2441 / Fax: (202) 828-2488
Email: alicia.terry@kutakrock.com

PUBLIC FINANCIAL MANAGEMENT, INC. (FINANCIAL ADVISOR)
Linda Ginty, *Senior Managing Consultant*
Two Logan Square, Suite 1600
18th & Arch Streets
Philadelphia, PA 19103
Phone: (410) 461-3605 / Fax: (215) 567-4180
Email: gintyl@pfm.com

I-DEAL/PARITY® (ELECTRONIC BIDDING PLATFORM)
Client Services
Phone: (212) 849-5024
Email: parity@i-deal.com

*Preliminary, subject to change.

Bidding Parameters Table*

INTEREST		PRICING	
Dated Date:	Date of Delivery	Max. Aggregate Bid Price:	Unlimited
Anticipated Date of Delivery:	August 6, 2013	Min. Aggregate Bid Price:	98.5%
Interest Payment Dates:	February 1 and August 1		
First Interest Payment Date:	February 1, 2014	Max. Reoffering Price (each maturity):	Unlimited
Coupon Multiples:	1/8, 1/20 or 1/100 of 1%	Min. Reoffering Price (each maturity):	Unlimited
Maximum Coupon:	N/A		
Minimum Coupon:	N/A		
Maximum TIC:	N/A		
Maximum Difference Between Coupons:	N/A		
No Zero Coupon may be specified			
PRINCIPAL		**PROCEDURAL**	
Optional Redemption:	Second Series B Bonds are not subject to redemption prior to maturity.	Sale Date: Sale Time:	July 24, 2013 11:15 a.m., Local Annapolis, Maryland Time
Post-bid Principal Increases Each Maturity: Aggregate:	 10% 10%	Bid Submission:	Electronic bids through PARITY only
Post-bid Principal Reductions Each Maturity: Aggregate:	 10% 10%	All or None?	Yes
		Bid Award Method:	Lowest True Interest Cost (as described herein)
		Bid Confirmation:	Notification from State Treasurer
		Awarding of Bid:	On the Sale Date by the Board
		Good Faith Deposit:	$400,000; as more fully described herein. See "Good Faith Deposit."

* If numerical or date references contained in the body of this Revised Official Notice of Sale conflict with the Bidding Parameters Table, the Bidding Parameters Table of this Revised Official Notice of Sale shall control. Consult the body of this Revised Official Notice of Sale for a detailed explanation of the items contained in the Bidding Parameters Table, including interpretation of such items and methodologies used to determine such items.

Bond Amortization Schedule

The Second Series B Bonds will be issued in serial or term bond form as designated by the successful bidder for the Bonds in its proposal, as described below. The principal of the Second Series B Bonds shall be payable in installments on the dates in the following years and in the following amounts:

$40,000,000* State and Local Facilities Loan of 2013, Second Series B

Maturing August 1*	Principal Amount*
2016	$27,845,000
2017	12,155,000

The Bonds

Security

The Second Series B Bonds are general obligations of the State, and its full faith and credit and taxing power are unconditionally pledged to the punctual payment of principal and interest on such Bonds when due and payable.

Use of Proceeds

The proceeds of the Second 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.

Description of the Bonds

General. The Second Series B Bonds will be dated as of the Date of Delivery ("Dated Date"), expected to be on or about August 6, 2013, and will be in fully registered form in the denomination of $5,000 each or any integral multiple thereof.

Interest on the Second Series B Bonds will accrue from the Dated Date, and will be payable February 1, 2014 and semiannually thereafter on each August 1 and February 1 until maturity. The Second Series B Bonds will mature on August 1 of each year as specified in the Bond Amortization Schedule above.

Form of Bonds. The Second Series B Bonds shall be issued only in fully registered form without coupons. One bond representing each maturity of the Second 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 Second Series B Bonds, and each such bond shall be immobilized in the custody of DTC. DTC will act as securities depository for the Second 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 Second Series B Bonds, must consent that the bond certificate will be deposited with DTC.

So long as the Second Series B Bonds are maintained under a book-entry only system, the Bond Registrar and Paying Agent for the Second Series B Bonds will be the Maryland State Treasurer (the "Treasurer") or any other Bond Registrar and Paying Agent designated by the Treasurer. All payments of the principal of and interest on the Second 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.

*Preliminary, subject to change.

No Optional Redemption

The Second Series B Bonds are not subject to redemption prior to maturity.

Adjustment of Amounts and Maturities

Prior to the Sale Date, the Board may adjust the preliminary aggregate principal amount of the Second Series B Bonds, add or remove serial installments and adjust the preliminary principal amount and maturity of each serial installment of the Second Series B Bonds as set forth in this Revised Official Notice of Sale (the "Preliminary Amounts"). **ANY SUCH REVISIONS MADE PRIOR TO THE OPENING OF THE BIDS** (the "Amounts") **WILL BE PUBLISHED ON THOMPSON MUNICIPAL MARKET MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 4:00 P.M., LOCAL ANNAPOLIS, MARYLAND TIME, ON THE BUSINESS DAY IMMEDIATELY PRIOR TO THE SALE DATE FOR THE SECOND SERIES B BONDS.**

In the event that no such revisions are made prior to the opening of the bids, the Preliminary Amounts will constitute the Amounts. Bidders shall submit bids based on the Amounts, and the Amounts will be used to compare bids and select a winning bidder.

After the opening of the bids, the Board may further adjust downward the Amounts of the Second Series B Bonds. Changes to be made will be communicated to the successful bidder not later than three (3) hours after the bids have been received and opened and in no case will such changes reduce the Amount of the Second Series B Bonds by more than 10 percent. The dollar amount bid for principal by the successful bidder will be adjusted proportionally to reflect any reduction in the Amount of the Second Series B Bonds, but the interest rates specified by the successful bidder will not change. The successful bidder may not withdraw its bid as a result of any changes within this limit. The "Underwriters' Discount" shall be defined as the difference between the purchase price of the Second Series B Bonds submitted by the bidder and the price at which the Second Series B Bonds will be issued to the public, calculated from information provided by the bidder, divided by the par amount of the Second Series B Bonds bid. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the Amounts of the Second Series B Bonds. Such adjusted bid price will reflect changes in the dollar amount of the Underwriters' Discount and original issue discount/premium, if any, but will not change the Underwriters' Discount, per $1,000 of par amount of the Second Series B Bonds from the underwriters' discount that would have been received based on the purchase price in the winning bid and the initial public offering prices.

Change or Cancellation of Sale Date and/or Date of Delivery and/or Other Terms

The Board may cancel or postpone the sale of the Second Series B Bonds prior to the Sale Date. Notice of a cancellation or postponement will be announced via the TM3 wire at *www.tm3.com*. Notice of any new date and time of sale will be announced at least 24 hours prior to the time bids are to be submitted and will specify changes in the principal amount or other features, if any.

The Board may change the scheduled delivery date, or the dates of the semiannual interest payments and annual principal payments, or revise any other terms for the Second Series B Bonds by notice given in the same manner as that set forth above.

Preliminary Official Statement; Continuing Disclosure

The State has deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the omission of certain information permitted to be omitted by said Rule. As soon as practicable after the Sale Date, the State will publish a complete final Official Statement (the "Official Statement") that will contain this information. The State agrees to deliver to the successful bidder for its receipt no later than seven business days after the Sale Date such quantities of the Official Statement as the successful bidder shall request, provided, that the State shall deliver up to 100 copies of such Official Statement without charge to the successful bidder.

The State has made certain covenants for the benefit of the holders from time to time of the Second Series B Bonds to provide certain continuing disclosure, in order to assist bidders for the Second Series B Bonds in complying with Rule 15c2-12(b)(5). Such covenants are described in the Preliminary Official Statement.

Electronic Bidding

Bidders may only submit bids via PARITY.

A prospective bidder may only bid electronically for the Second Series B Bonds via PARITY pursuant to this Revised Official Notice of Sale. By submitting its bid for the Second Series B Bonds, a prospective bidder represents and warrants to the State that such bidder's bid for the purchase of the Second 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 Second Series B Bonds.

Additional information concerning bidding through the system may be directed to the PARITY Help Desk at (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 Second 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 Second 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 Second Series B Bonds (all or none) via PARITY. Bids will be communicated electronically to the State at **11:15 a.m.** local Annapolis, Maryland time, on Wednesday, July 24, 2013. 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 Second 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 Second 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 "Award of Bid" below, 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 Board via PARITY, before **11:15 a.m.**, local Annapolis, Maryland time, on Wednesday, July 24, 2013, at which time they will be received by the Board. As described above, 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 SECOND SERIES B BONDS TO MAKE A GOOD FAITH EFFORT TO INCLUDE MINORITY BUSINESS ENTERPRISES IN THE SYNDICATE PURCHASING THE SECOND 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 PERCENTAGES OF PARTICIPATION.

Right of Rejection

The Board expressly reserves the right (i) to waive any informalities, (ii) to reject all bids, any incomplete bid or any bid not fully complying with all of the requirements set forth herein, and (iii) to solicit new bids or proposals for the sale of the Second Series B Bonds or otherwise provide for the public sale of the Second Series B Bonds if all bids are rejected or the winning bidder defaults, including, without limitation, sale of the Second Series B Bonds to one or more of the losing or rejected bidders without regard to their original bid or its relationship to any other bid.

Preliminary Award and Reoffering Prices

As promptly as reasonably practicable after the bids are received and reviewed, but not later than **12:30 p.m.** local Annapolis, Maryland time on the Sale Date (unless bids have been postponed), the Treasurer will notify the apparently successful bidder of the Preliminary Award of the Second Series B Bonds. The successful bidder shall make a bona fide public reoffering of all of the Second Series B Bonds and shall represent to the State that such reoffering is in compliance with all applicable securities laws of the jurisdictions in which such Second Series B Bonds are offered. **Within 30 minutes after being notified of the Preliminary Award of the Second Series B Bonds, the successful bidder shall advise the State in writing (via facsimile or e-mail transmission) to Linda Ginty or Bora Fezga at gintyl@pfm.com or fezgab@pfm.com, respectively, of the prices for such public reoffering of the Second Series B Bonds (the "Reoffering Prices"). The State will review the Reoffering Prices for compliance with applicable securities laws prior to final confirmation of the award.**

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.

Award of Bid

Award of Bid

The Board expects to make its award of the Second Series B Bonds to the winning bidder on the Sale Date. It is anticipated that all bids will be reviewed by the Board at the time stated above and will be acted on following the opening, tabulation and verification of the bids received. The decision by the Board as to the award of the Second Series B Bonds will be final. Bids may not be withdrawn prior to the 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 Second Series B Bonds. Each bidder shall indicate in its bid the rate of interest to be paid on the Second Series B Bonds of each maturity. Each rate of interest shall be a multiple of 1/8, 1/20 or 1/100 of one percent, but all Second Series B Bonds of any one maturity must bear interest at the same rate. Any rate named may be repeated. A zero rate may not be named.

The Second Series B Bonds will be awarded by the Board on the Sale Date to the bidder whose bid complies with this Revised Official Notice of Sale and results in the lowest true interest cost ("TIC") to the State. The lowest TIC

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 Delivery of the Second Series B Bonds and to the aggregate amount bid for the Second Series B Bonds. If two or more responsible bidders have made bids resulting in the same lowest TIC to the State, the Second Series B Bonds shall be awarded by lot to one of these bidders.

Good Faith Deposit

A Good Faith Deposit in the amount of $400,000 is required only of the winning bidder for the Second Series B Bonds. The winning bidder for the Second Series B Bonds is required to submit such Good Faith Deposit payable to the order of the State in the form of a wire transfer in federal funds as instructed by the State's Financial Advisor, Public Financial Management Inc. The winning bidder shall submit the Good Faith Deposit not later than 2:00 p.m. (local Annapolis, Maryland time) on the Sale Date. The winning bidder should provide as quickly as it is available, evidence of wire transfer by providing the State the federal funds reference number. If the Good Faith Deposit is not received in the time allotted, the bid of the winning bidder may be rejected and the State may direct the next lowest bidder to submit a Good Faith Deposit and thereafter may award the sale of the Second Series B Bonds to the same. If the winning bidder fails to comply with the Good Faith Deposit requirement as described herein, that bidder is nonetheless obligated to pay to the State the sum of $400,000 as liquidated damages due to the failure of the winning bidder to timely deposit the Good Faith Deposit.

Submission of a bid to purchase the Second Series B Bonds serves as acknowledgement and acceptance of the terms of the Good Faith Deposit requirement.

The Good Faith Deposit so wired will be retained by the State until the delivery of the Second Series B Bonds, at which time the Good Faith Deposit will be applied against the purchase price of the Second Series B Bonds or the Good Faith Deposit will be retained by the State as partial liquidated damages in the event of the failure of the successful bidder to take up and pay for such Second Series B Bonds in compliance with the terms of this Revised Official Notice of Sale and of its bid. No interest on the Good Faith Deposit will be paid by the State. The balance of the purchase price must be wired in federal funds to the account detailed in the closing memorandum, simultaneously with delivery of the Second Series B Bonds.

Delivery and Payment

Delivery of the Second Series B Bonds will be made by the State to DTC in book-entry only form, in New York, New York on or about the Dated Date, or on or about such other date as may be agreed on by the Treasurer and the successful bidder.

At the time of delivery of the Second Series B Bonds, payment of the amount due for the Second Series B Bonds must be made by the successful bidder to the order of the State immediately in available federal funds or other funds immediately available to the State, or by such other means as may be acceptable to the Treasurer. Any expense incurred in providing immediately available funds, whether by transfer of federal funds or otherwise, shall be borne by the successful bidder.

CUSIP Numbers; Expenses of the Bidder

It is anticipated that a CUSIP numbers will be assigned to the Second Series B Bonds, but neither the failure to type or print such numbers on the Second Series B Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Second Series B Bonds. The policies of the CUSIP Service Bureau will govern the assignment of a specific number to the Second Series B Bonds. The successful bidder will be responsible for applying for and obtaining, subject to the CUSIP Service Bureau policy and procedures, a CUSIP number for the Second Series B Bonds promptly upon award of the bid. All expenses of typing or printing a CUSIP number for the Second Series B Bonds will be paid for by the State; provided the CUSIP Service Bureau charges for the assignment of the numbers shall be the responsibility of and shall be paid for by the successful bidder.

All charges of DTC and all other expenses of the successful bidder will be the responsibility of the successful bidder for the Second Series B Bonds.

Tax Status, Legal Opinions, Closing Documents and No Litigation

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Second Series B Bonds that, simultaneously with or before delivery and payment for the Second Series B Bonds, the bidder without cost shall be furnished with (1) the approving opinions of the Attorney General of the State of Maryland ("Attorney General") and of Kutak Rock LLP, Washington, D.C., Bond Counsel, dated as of the Date of Delivery of the Second Series B Bonds, substantially in the respective forms included as Appendix D to the Preliminary Official Statement; (2) a certificate of the Attorney General dated as of the Dated Date of the Second 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 Second Series B Bonds will be issued; (3) a copy of the Official Statement relating to the Second Series B Bonds dated as of the Sale Date of the Second Series B Bonds signed in a manner permitted under Maryland law; (4) 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 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): (a) the Official Statement as of the Sale Date 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 (b) between the Sale Date and the Date of Delivery of the Second 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 Sale Date; and (5) the Continuing Disclosure Agreement substantially in the form included as Appendix F to the Preliminary Official Statement.

The opinions of the Attorney General and Bond Counsel will be delivered, upon request, to the purchaser of the Second Series B Bonds, without charge. A bidder may make the legality and validity of the Second 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.

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Additional Information

This Revised Official Notice of Sale is not a summary of the terms of the Second Series B Bonds. Reference is made to the Preliminary Official Statement for a further description of the Second Series B Bonds and the State. Prospective investors or bidders for the Second Series B Bonds must read the entire Preliminary Official Statement to obtain information essential to making an informed investment decision. The Preliminary Official Statement is deemed final by the State as of its date for purposes of the Rule but is subject to revision, amendment and completion in a final Official Statement. Additional information concerning the matters discussed in this Revised Official Notice of Sale and copies of the Preliminary Official Statement may be obtained online or by request from Amber Teitt, the State's Director of Debt Management, at (410) 260-7080 or from Linda Ginty or Bora Fezga at, respectively, gintyl@pfm.com or (410) 461-3605, or fezgab@pfm.com, or (215) 567-6100, respectively.

MARTIN O'MALLEY
Governor

PETER FRANCHOT
Comptroller

NANCY K. KOPP
Treasurer

Constituting the Board of Public Works of the
State of Maryland

Annapolis, Maryland
July 22, 2013

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This **CONTINUING DISCLOSURE AGREEMENT** (this "Disclosure Agreement") dated as of August 6, 2013 is executed and delivered by the State of Maryland (the "State") in connection with the issuance of its $475,000,000* General Obligation Bonds, State and Local Facilities Loan of 2013, Second Series, consisting of the Second Series A Tax-Exempt Bonds (the "Second Series A Bonds") and Second Series B Taxable Bonds (the "Second Series B Bonds"). The Second Series A Bonds and the Second Series B 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 July 3, 2013, as amended and supplemented by resolutions adopted on July 24, 2013. 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 Rule 15c2-12.

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.

"**Rule15c2-12**" shall mean Rule 15c2-12 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, 2013.

(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, 2013, 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, 2013), 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) The State shall promptly, not in excess of ten (10) business days after the occurrence of a Listed 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 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 6th day of August, 2013.

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.

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 securities 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, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor's rating of AA+. 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 unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. 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, interest and any premium 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, interest and any premium 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.