

OFFICIAL STATEMENT DATED NOVEMBER 30, 2016

NEW ISSUE: BOOK-ENTRY ONLY

Ratings: (See "RATINGS" herein)
Standard & Poor's Ratings Services: AA+
Moody's Investors Service, Inc.: Aa1
Fitch Ratings: AA+

In the opinion of Bond Counsel, assuming compliance with certain covenants, under existing law the interest portion of the Purchase Installments to be made by the State as Purchaser under the Conditional Purchase Agreement and to be received by the holders of the Certificates is excludable from gross income for federal income tax purposes, except with respect to any Certificate during the period that the Certificate is owned by a "substantial user" of the financed facilities or a "related person," and interest earned on the Certificates will be includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment. Interest on the Certificates will be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America. Under existing law, the interest portion of the Purchase Installments is exempt from income taxation by the State of Maryland. No opinion is expressed as to estate or inheritance taxes, or any other taxes not levied directly on the Certificates or the interest thereon. See "TAX MATTERS" herein.

\$15,040,000

**Maryland Department of Transportation
Certificates of Participation
(Maryland Port Administration Facility Project), Refunding Series 2016 (AMT)
Evidencing Proportionate Interests in a Conditional Purchase Agreement
between The Bank of New York Mellon and the State of Maryland**

Dated: Date of Delivery

Due: As shown on the inside cover

The Certificates of Participation (the "Certificates") will be issued as fully registered Certificates without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Individual purchasers ("Owners") of the Certificates will not receive physical delivery of certificates.

Principal of the Certificates, payable annually on each June 15, beginning June 15, 2017, and interest on the Certificates, payable initially on June 15, 2017, and thereafter on each December 15 and June 15, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Certificates as described herein.

The proceeds of the sale of the Certificates will be used to refund certain prior outstanding certificates of participation that were issued in 2006 to finance the construction of a 215,000 square foot warehouse facility to accommodate and store imported goods, initially consisting of forest products at the South Locust Point Terminal of the Maryland Port Administration (the "MPA"). The Certificates represent proportionate interests in a Conditional Purchase Agreement, as amended (the "Purchase Agreement") between the State of Maryland (the "State") for the use of the Maryland Department of Transportation (the "Department") (together referred to as the "Purchaser") and The Bank of New York Mellon (the "Seller") and are payable solely from and secured by (i) purchase installments payable by the Purchaser under the Purchase Agreement and (ii) amounts realized pursuant to the exercise of certain remedies under the Purchase Agreement upon the occurrence of a failure to appropriate or certain defaults by the Purchaser thereunder.

THE PRINCIPAL OR REDEMPTION PRICE OF AND THE INTEREST ON THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM THE PURCHASE INSTALLMENTS AND OTHER FUNDS PLEDGED FOR THE PAYMENT THEREOF UNDER THE CERTIFICATE OF PARTICIPATION TRUST AGREEMENT. ALL AMOUNTS PAYABLE BY THE PURCHASER UNDER THE PURCHASE AGREEMENT, INCLUDING THE PURCHASE INSTALLMENTS, ARE SUBJECT IN EACH YEAR TO APPROPRIATION BY THE MARYLAND GENERAL ASSEMBLY. THE MARYLAND GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO MAKE ANY APPROPRIATION WITH RESPECT TO THE PURCHASE AGREEMENT. THE PURCHASE AGREEMENT IS NOT A GENERAL OBLIGATION OF THE STATE OR THE DEPARTMENT AND SHALL NEVER CONSTITUTE AN INDEBTEDNESS OF THE STATE OR THE DEPARTMENT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OR THE DEPARTMENT.

FOR MATURITY SCHEDULE, INTEREST RATES AND PRICES SEE INSIDE FRONT COVER

The Certificates are offered for delivery when, and if issued, subject to the approving opinion of McKennon Shelton & Henn LLP, Baltimore, Maryland, Bond Counsel. Certain legal matters will also be passed upon for the Department by the Office of the Attorney General of the State of Maryland. It is expected that the Certificates in book-entry form will be available for delivery to DTC on or about December 15, 2016.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

Citigroup

\$15,040,000
Maryland Department of Transportation
Certificates of Participation
(Maryland Port Administration Facility Project), Refunding Series 2016 (AMT)

Maturity Schedule, Interest Rates, Prices, and CUSIP Numbers

MATURING <u>JUNE 15</u>	PRINCIPAL <u>AMOUNT</u>	INTEREST <u>RATE¹</u>	<u>PRICE¹</u>	<u>CUSIP²</u>
2017	\$1,620,000	5.000%	101.863	57420WDL2
2018	1,565,000	5.000	105.095	57420WDM0
2019	1,665,000	5.000	107.661	57420WDN8
2020	1,775,000	5.000	109.736	57420WDP3
2021	1,905,000	5.000	111.253	57420WDQ1
2022	2,035,000	5.000	112.772	57420WDR9
2023	2,180,000	5.000	113.947	57420WDS7
2024	2,295,000	5.000	114.426	57420WDT5

¹The interest rates and prices shown above were furnished by the successful bidder for the Certificates on November 30, 2016. All the information concerning the terms of the Certificates should be obtained from the successful bidder and not from the Department. See “*Sale at Competitive Bidding*”.

²CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, which is managed by S&P Capital IQ, a division of McGraw Hill Financial, and the Department 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 CUSIP Global Services.

No dealer, broker, salesman or any other person has been authorized by the State of Maryland (the "State") or the Department of Transportation (the "Department") 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 Department. 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 provided by the Department and other sources. The Department 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 contained.

The Bank of New York Mellon has neither reviewed, nor participated in the preparation of, this Official Statement and does not assume any responsibility as to the accuracy or completeness of any information contained in this Official Statement or any other disclosure documents relating to the Certificates.

The information set forth herein is not guaranteed as to accuracy or completeness by the Department or the State and is not to be construed as a representation by either the Department or the State as to information from sources other than the Department and the State. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State or the Department since the date hereof.

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 Department, the State and the purchasers or holders of any of the Certificates 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. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date hereof.

The cover page hereof, this page and the appendices attached hereto are part of this Official Statement.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO AND THE INFORMATION INCORPORATED HEREIN BY REFERENCE, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES AND THE INFORMATION INCORPORATED HEREIN BY REFERENCE, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE CERTIFICATES IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE TRUST AGREEMENT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AGENCY NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN MAKING AN INVESTMENT DECISION, INVESTORS SHOULD RELY ON THEIR OWN EXAMINATION OF THE STATE AND THE DEPARTMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

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STATE OF MARYLAND

Lawrence J. Hogan, Jr., Governor

Boyd K. Rutherford, Lieutenant Governor

Department of Transportation of Maryland

Pete K. Rahn, Secretary

James F. Ports, Jr., Deputy Secretary

R. Earl Lewis, Jr., Deputy Secretary

Cheryl A.C. Brown-Whitfield, Assistant Attorney General/Principal Counsel

David L. Fleming, Chief Financial Officer

Approving Legal Opinion

McKennon Shelton & Henn LLP
Baltimore, Maryland

Financial Advisors

Frasca & Associates, LLC
Washington, DC
and
Wye River Group, Incorporated
Annapolis, Maryland

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SUMMARY OF THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding the \$15,040,000 Maryland Department of Transportation Certificates of Participation (Maryland Port Administration Facility Project), Refunding Series 2016 (AMT) (the "Certificates") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

- Security: The Certificates are payable solely from Purchase Installments to be paid by the Purchaser pursuant to the Purchase Agreement. Purchase Installments are subject to appropriation in each year by the Maryland General Assembly. In the event of a failure to appropriate, the Trustee has certain remedies under the Purchase Agreement, including the transfer of the Revenues, hereinafter defined.
- Purpose: Proceeds of the Certificates will be used to refund the outstanding Maryland Department of Transportation, Certificates of Participation (Maryland Port Administration Facility Project), Series 2006 (AMT) (the "Series 2006 Certificates") that were issued to finance the construction of a 215,000 square foot warehouse facility at the South Locust Point Terminal of the Maryland Port Administration (the "MPA") to accommodate, accept and store imported goods, initially consisting of forest products.
- Denominations: \$5,000 or integral multiples thereof.
- Record Date: The first calendar day of the month in which the applicable interest payment is due.
- Principal Payments: Annually commencing June 15, 2017, by electronic transfer to the registered owner as of the record date.
- Interest Payments: Semiannually on June 15 and December 15, commencing June 15, 2017, by electronic transfer to the registered owner as of the record date.
- Optional Redemption: The Certificates *will not* be subject to optional redemption.
- Professional Consultants: *Financial Advisors:* Frasca & Associates, LLC
Washington, DC
and
Wye River Group, Incorporated
Annapolis, Maryland
- Bond Counsel:* McKennon Shelton & Henn LLP
Baltimore, Maryland
- Trustee/Seller:* The Bank of New York Mellon
- Legal Matters: Legal matters incident to the authorization and issuance of the Certificates are subject to the approving opinion of McKennon Shelton & Henn LLP, as to validity and tax exemption. Certain legal matters will also be passed upon for the Department by the Office of the Attorney General of the State of Maryland. The opinion of Bond Counsel will be substantially in the form set forth in Appendix C attached hereto.
- Delivery: Expected on or about December 15, 2016, to The Depository Trust Company on behalf of the purchaser of the Certificates.
- Book-Entry Only: The Certificates will be issued as book-entry only securities through The Depository Trust Company.

No Litigation: There is no litigation now pending or, to the knowledge of the State or the Department officials, threatened, which questions the validity of the Certificates or of any proceedings of the State or the Department taken with respect to the issuance or sale thereof.

Continuing Disclosure: The Department on behalf of itself and the State will provide annual financial and other information, including notice of certain events, in order to assist the successful bidder in complying with United States Securities and Exchange Commission Rule 15c2-12(b)5. See "CONTINUING DISCLOSURE" herein and "FORM OF CONTINUING DISCLOSURE AGREEMENT" in Appendix G.

Upon request, appropriate periodic credit information will be provided to the rating agencies maintaining ratings on the Certificates.

Questions regarding the Certificates or the Official Statement can be directed to and additional copies of the Official Statement may be obtained from Frasca & Associates, LLC, 1455 Pennsylvania Avenue, N.W. Suite 400, Washington, DC 20004 (202-349-3676), Wye River Group, Incorporated, 522 Chesapeake Avenue, 2nd Floor, Annapolis, Maryland 21403 (410-267-8811) or Mr. David L. Fleming, Director, Office of Finance, Maryland Department of Transportation, 7201 Corporate Center Drive, Hanover, Maryland 21076 (410-865-1035).

Neither the delivery of this Official Statement nor any sale of the Certificates made hereunder shall, under any circumstances, create any implication that there have been no changes in the affairs of the State since the date of this Official Statement or the earliest date as of which certain information contained herein is given. All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections or the like, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized.

Brief descriptions of the Certificates, the Purchase Agreement, the Trust Agreement, the State and certain other documents and matters are included in this Official Statement and the Appendices hereto. The descriptions of the documents, statutes, reports or other instruments included herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document, statute, report or other instrument. During the offering period of the Certificates, copies of the documents described herein may be obtained from the Underwriter.

OFFICIAL STATEMENT

\$15,040,000

Maryland Department of Transportation Certificates of Participation (Maryland Port Administration Facility Project), Refunding Series 2016 (AMT) Evidencing Proportionate Interests in a Conditional Purchase Agreement Between The Bank of New York Mellon and the State of Maryland

DESCRIPTION OF THE CERTIFICATES

Authorization and Purpose of the Certificates

The \$15,040,000 Maryland Department of Transportation Certificates of Participation (Maryland Port Administration Facility Project), Refunding Series 2016 (AMT) (the “Certificates”) represent proportionate interests in a Conditional Purchase Agreement dated as of June 15, 2006 (the “Original Purchase Agreement”), as supplemented and amended by the First Amendment to Conditional Purchase Agreement, dated as of December 1, 2016 (the “First Amendment to Purchase Agreement” and, together with Original Purchase Agreement, the “Purchase Agreement”). The First Amendment to Purchase Agreement to be entered into by the State of Maryland (the “State”) for the use of the Maryland Department of Transportation (the “Department”) (hereinafter together referred to as the “Purchaser”) and The Bank of New York Mellon, the successor to The Bank of New York, (the “Seller”) for the purpose of refunding the outstanding Series 2006 Certificates which were issued for the purpose of financing the construction of a 215,000 square foot warehouse facility to accommodate, accept and store imported goods, initially consisting of forest products at the South Locust Point Terminal of the Maryland Port Administration (the “MPA”). As of the date of issuance of the Certificates, the Purchaser will have entered into the First Amendment to Purchase Agreement.

The Purchase Agreement requires the Purchaser to make periodic purchase installments (the “Purchase Installments”) in amounts sufficient to pay the scheduled debt service on the Certificates until the Purchaser shall pay the entire price necessary to acquire the Project (as defined herein) (the “Purchase Price”), which Purchase Price shall be equal to the amount necessary to pay the principal of and interest on all outstanding Certificates. The ability of the Purchaser to pay the Purchase Installments due under the Purchase Agreement depends upon the appropriation each year by the Maryland General Assembly (the “General Assembly”) of sufficient funds for such purpose. It is the intention of the Purchaser that the Purchase Installments will be made from funds in the Department’s Transportation Trust Fund (the “Transportation Trust Fund”), from which all expenditures of the Department are made. The payment of the Purchase Installments due June 15, 2017 will be paid from funds appropriated in the 2016 Session of the General Assembly for the payment of the Series 2006 Certificates. Purchase Installments for December 15, 2017 and June 15, 2018 are expected to be appropriated during the 2017 Session of the General Assembly. (See “Security - Appropriation by General Assembly” and “Department of Transportation - Transportation Trust Fund” herein.)

The Certificates will be issued pursuant to a Certificate of Participation Trust Agreement dated as of June 15, 2006 (the “Original Trust Agreement”), as supplemented and amended by the First Supplemental Trust Agreement dated as of December 1, 2016, (the “First Supplemental Trust Agreement” and, together with the Original Trust Agreement, the “Trust Agreement”) each between the Seller, as trustee (the “Trustee”) and the Purchaser. Under the Trust Agreement, the Trustee, for the benefit of the holders of the Certificates, holds all of the rights of the Seller under the Purchase Agreement, including the right to receive the Purchase Installments and the right to enforce payment of the Purchase Installments when due. (See “Security” herein.)

THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO MAKE ANY APPROPRIATION WITH RESPECT TO THE PURCHASE AGREEMENT. THE PURCHASE AGREEMENT IS NOT A GENERAL OBLIGATION OF THE STATE OR THE DEPARTMENT AND SHALL NEVER CONSTITUTE AN INDEBTEDNESS OF THE STATE OR THE DEPARTMENT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OR THE DEPARTMENT.

Board of Public Works of Maryland (the “Board of Public Works”) approved participation in the issuance of the Certificates on October 19, 2016. The Governor, Comptroller and Treasurer are the members of the Board of Public Works. A constitutional body, the Board of Public Works supervises the expenditure of all sums obtained by State loans and all funds appropriated for capital improvements other than roads, bridges, and highways.

Sources and Uses of Funds

Estimated sources and uses of funds are presented in Table 1 below.

TABLE 1

<u>Sources of Funds</u>	<u>Amount</u>
Par Amount of Certificates	\$15,040,000.00
Net Premium	<u>1,519,688.15</u>
Total Sources	<u>\$16,559,688.15</u>
<u>Uses of Funds</u>	
Redemption of Series 2006 Certificates	\$16,270,000.00
Costs of Issuance ⁽¹⁾	169,942.53
Underwriter’s Discount	<u>19,745.62</u>
Total Uses	<u>\$16,559,668.15</u>

(1) Includes fees for financial advisor, bond counsel, printing, and other costs.

Description of the Facility Project

The MPA, a business unit of the Department, used the proceeds of the sale of the Series 2006 Certificates to construct a 215,000 square foot warehouse facility at the South Locust Point Terminal, for demolition and land preparation, to construct a Roll-on/Roll-off ramp at the dock, and to extend railroad tracks to the warehouse (the “Project”). The purpose of the Project is to accommodate, accept and store imported products, consisting initially of forest products.

Sale at Competitive Bidding

The Certificates were offered by the Department at a competitive sale on November 30, 2016. The interest rates shown on the inside front cover of this Official Statement are the interest rates that resulted from the award of the Certificates at the competitive sale. The initial prices shown on the inside front cover of this Official Statement are based on the information supplied to the Department by Citigroup Global Markets Inc., the successful bidder for the Certificates. Other information concerning the terms of the reoffering of the Certificates, if any, should be obtained from the successful bidder and not from the Department.

Security

General

The Certificates are payable as to principal, interest and redemption price solely from Purchase Installments to be paid by the Purchaser pursuant to the Purchase Agreement, and amounts from time to time on deposit in certain funds and accounts established by the Trust Agreement. Pursuant to the Trust Agreement, the Purchaser has assigned to the Trustee all of its rights (but none of its obligations) under the Purchase Agreement, and all amounts on deposit from time to time in such funds and accounts for the benefit of the holders of the Certificates. (See “Security - Purchase Agreement” herein.)

The Purchaser is required under the Purchase Agreement to pay Purchase Installments from appropriated funds. Although the sources of funds appropriated to pay the Purchase Installments are not limited to any particular source of State revenues, it is intended that the Purchase Installments will be paid from funds in the Transportation Trust Fund and more specifically from forest product revenue of MPA. The Purchase Installments used to pay principal and interest payments on Series 2006 Certificates were paid from the Transportation Trust Fund and it is expected that the lower Purchase Installments resulting from the refunding with the Certificates will be paid solely from the Transportation Trust Fund. All expenditures of the Department and its units are paid from the Transportation Trust Fund. Certain of the Department’s revenues deposited in the Transportation Trust Fund are pledged to the payment of the Department’s bonds. (See “Department of Transportation - Transportation Trust Fund” herein.)

If the Purchaser fails to pay Purchase Installments, the Trustee has the right to seek certain remedies under the Purchase Agreement, including the termination of the Purchase Agreement, as well as (i) the transfer of revenues derived from the leasing or operation of the Project (the “Project Revenues”) and, (ii) if the Project Revenues are insufficient to pay the Purchase Installments, the transfer of any additional revenues derived from leases by the MPA of other facilities for the acceptance and storage of imported forest products (“Additional Revenues”). (See “Events of Default and Remedies” herein.)

Title to the Project

Under the Purchase Agreement, title to the Project will be held by the Purchaser at all times.

The Purchase Agreement entitles the Trustee to obtain all amounts on deposit in the funds and accounts established by the Trust Agreement subject to the provisions therein and other revenues derived from the Purchase Agreement, respectively, the Project Revenues and Additional Revenues, as more specifically set forth in the Purchase Agreement and the Trust Agreement (collectively the “Revenues”) if (i) the Purchaser fails to pay any Purchase Installment when due, (ii) the General Assembly fails to appropriate moneys required to make the timely payment of Purchase Installments or (iii) certain other defaults under the Purchase Agreement occur. The Purchaser is not liable for the payment of any deficiency if the Revenues are less than the amount due on the Certificates.

The Purchaser is required under the Purchase Agreement to insure the Project against damage and destruction. The Purchaser will continue to provide the insurance required under the Purchase Agreement through the State’s current insurance program. Net insurance proceeds, as well as condemnation awards, must be applied to the repair or replacement of the Project or to the redemption of all or a portion of the outstanding Certificates under the Trust Agreement.

Appropriation by General Assembly

All amounts payable by the Purchaser under the Purchase Agreement, including the Purchase Installments, are subject in each year to appropriation by the General Assembly. The General Assembly meets annually for a ninety-day session beginning the second Wednesday in January. It is expected that during the 2017 session of the General Assembly, appropriations will be made for the next succeeding fiscal year, which includes the December 15, 2017 and June 15, 2018 Purchase Installments. Purchase Installments from which principal and interest on the Certificates are to be paid will be made from funds in the Transportation Trust Fund and more specifically from forest product revenue of MPA. (See “Department of Transportation - Transportation Trust Fund”). The Purchase Installments due

June 15, 2017 will be paid from funds appropriated in the 2016 Session of the General Assembly for the payment of the Series 2006 Certificates.

The Purchaser has covenanted in the Purchase Agreement to use its best efforts to obtain the authorization and appropriation of such funds, including, without limitation, the recommendation for inclusion of such funds in the budget of the Governor to be submitted to the General Assembly and a request for adequate funds to meet its obligations under the Purchase Agreement in full in its next fiscal year budget.

THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO MAKE ANY APPROPRIATION WITH RESPECT TO THE PURCHASE AGREEMENT. THE PURCHASE AGREEMENT IS NOT A GENERAL OBLIGATION OF THE STATE OR THE DEPARTMENT AND SHALL NEVER CONSTITUTE AN INDEBTEDNESS OF THE STATE OR THE DEPARTMENT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OR THE DEPARTMENT.

In the event that the General Assembly fails to make any such annual appropriation (“Failure to Appropriate”), (i) the Department shall surrender the Revenues necessary to pay the debt service on the Certificates to the Trustee and (ii) the Trustee may take only those actions permitted by the Purchase Agreement (See Appendix B - “Document Summaries”). Upon the occurrence of a Failure to Appropriate, neither the State nor the Department shall be obligated to pay Purchase Installments beyond the last day of the fiscal year for which an appropriation is available and the Trustee shall not have any right to compel the Department to make such payments. THE REMEDIES AVAILABLE TO THE TRUSTEE IN THE EVENT OF A FAILURE TO APPROPRIATE ARE LIMITED AND DO NOT INCLUDE THE RIGHT TO INSTITUTE LEGAL PROCEEDINGS TO COMPEL PAYMENT OF ANY PURCHASE INSTALLMENTS FOR WHICH THERE IS NOT AN APPROPRIATION NOR MAY THE TRUSTEE SEEK A JUDGMENT AGAINST THE STATE OR THE DEPARTMENT. THE FAILURE TO APPROPRIATE IS NOT AN EVENT OF DEFAULT.

Purchase Agreement

The Purchaser and the Seller have entered into the Purchase Agreement with respect to the Project, the term of which began June 15, 2006, and remains in effect until Purchaser has paid the Purchase Price to the Seller, unless terminated earlier in accordance with the Purchase Agreement. The Purchase Installments due under the Purchase Agreement are sufficient to pay the scheduled debt service on the Certificates, and the Purchaser has agreed to pay the fees and expenses of the Trustee and the Seller. The Purchaser is also obligated under the Purchase Agreement to pay all expenses associated with the operation and maintenance of the Project, including repairs, insurance and taxes, if any. The Purchase Installments are payable semi-annually on June 15 and December 15 of each year so long as any of the Certificates are outstanding and will be paid directly to the Trustee.

The ability of the Purchaser to pay the Purchase Installments and make other payments under the Purchase Agreement is subject to the annual appropriation of sufficient funds for such purpose by the General Assembly. (See “Security - Appropriation by General Assembly.”) The Purchaser has covenanted to apply funds that are appropriated and received by it for the Project to the payment of its obligations under the Purchase Agreement.

Issuance of Additional Certificates

As long as the Purchase Agreement is in effect and no Event of Default shall have occurred, one or more series of Additional Certificates may be issued on a parity with the Certificates for the purpose of providing additional funds necessary for the repair or restoration of the Project due to damage and to refund outstanding Certificates. Each series of Additional Certificates shall be issued in such principal amount, mature on such dates, bear interest at such rates and have such provisions for redemption and other terms and conditions as specified in a Supplemental Trust Agreement authorizing such Additional Certificates.

Redemption Provisions

Optional Redemption

The Certificates *are not* subject to optional redemption.

Special Mandatory Redemption

The Certificates are subject to special mandatory redemption as soon as practicable after such moneys are available therefor in whole at any time or in part on any Interest Payment Date at par plus accrued interest to the date fixed for redemption from amounts deposited in the Principal Account of the Certificate Fund from (i) the amount remaining from the gross proceeds of any insurance claim or condemnation award after deducting all expenses (including reasonable attorney's fees) incurred in the collection of such claim or reward (the "Net Proceeds") of insurance or condemnation awards not used to replace, repair, rebuild, restore or modify the Project after the damage, destruction or condemnation of the Project, or (ii) Net Proceeds and amounts, if any, deposited by the State with the Trustee after the State's election to prepay the Purchase Price in accordance with the provisions of the Purchase Agreement, with such redemption to be made as soon as possible after monies are available.

Events of Default and Remedies

Any one or more of the following are defined in the Purchase Agreement to be Events of Default: a) failure by the Purchaser to pay any Purchase Installment at the time specified in the Purchase Agreement, or to pay any other payment required to be paid under the Purchase Agreement (other than any Purchase Installments or any payments by the Purchaser to the Trustee as compensation for services rendered by the Trustee under the Trust Agreement); or b) failure by the Purchaser to observe and perform any other covenant, condition or agreement on its part to be observed or performed under the Purchase Agreement, other than as referred to in the preceding clause (a) hereof, for a period of 30 days after written notice is given to the Purchaser by the Seller, specifying such failure and requesting that it be remedied, unless the Seller shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Seller will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Purchaser within the applicable period and diligently pursued until the default is corrected.

Upon an Event of Default, the Seller shall have the right to obtain any Project Revenues. The Project Revenues are expected to be sufficient to cover debt service on the Certificates. Should the Project Revenues be insufficient, the Seller has the right to Additional Revenues necessary to pay debt service on the Certificates. Whenever any Event of Default outlined above shall have happened and be continuing, the Seller shall have its rights and remedies under the Purchase Agreement, and without limiting the generality of the foregoing, the Seller shall have the right, at its sole option, without any further demand or notice, to terminate the Purchase Agreement and cause the Project Revenues and if necessary the Additional Revenues to be transferred to the Seller (as more explicitly defined in the Purchase Agreement and more completely described in "Summary of Certain Provisions of the Conditional Purchase Agreement-Remedies on Default" included in Appendix B herein.)

Interest Computation

Interest on the Certificates will be computed on a 360-day year, 30-day month basis. Payments coming due on a non-business day will be paid on the following business day as if paid on the date due.

Registration

The Certificates will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Certificate Holders will not receive certificates representing their interest in the Certificates purchased. (See Appendix F - "Book-Entry Only System.")

Ratings

S&P Global Ratings, a division of Standard & Poor's Financial Services, LLC, Moody's Investors Service, Inc. and Fitch Ratings have given the Certificates ratings of AA+, Aa1, and AA+, respectively. An explanation of the significance of each rating may be obtained only from the rating agency furnishing it. The Department furnished to such rating agencies certain materials and information about the Certificates and the Department. 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 ratings may be changed at any time and that no assurance can be given that they will not be revised downward, suspended or withdrawn by any or all rating agencies, if in the judgment of any or all, circumstances should warrant such actions. Any downward revision, suspension or withdrawal of any of the ratings could have an adverse effect on the market price of the Certificates.

CERTAIN RISKS IN OWNERSHIP OF THE CERTIFICATES

THE PURCHASE OF THE CERTIFICATES IS SUBJECT TO RISKS. EACH PROSPECTIVE INVESTOR IN THE CERTIFICATES IS ENCOURAGED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY, INCLUDING ALL APPENDICES HERETO. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE FACTORS DESCRIBED BELOW THAT, AMONG OTHERS, COULD AFFECT THE TIMELY PAYMENT OF PRINCIPAL OF AND INTEREST ON THE CERTIFICATES AND THAT COULD ALSO AFFECT THE MARKET PRICE OF THE CERTIFICATES TO AN EXTENT THAT CANNOT BE DETERMINED.

Failure to Appropriate

The primary source of funds for payment of the Certificates is the Purchaser's payment of Purchase Installments. Purchase Installments are payable from funds budgeted and appropriated by the General Assembly in each successive fiscal year. The General Assembly is not obligated under the Purchase Agreement to make any appropriation, or to make a sufficient appropriation, to pay Purchase Installments in any fiscal year. A failure to obtain a sufficient appropriation to pay all Purchase Installments coming due during the next ensuing fiscal year would not constitute an Event of Default; provided, however, that such a failure would constitute a Failure to Appropriate.

While the appropriate officers of the Purchaser are directed, pursuant to the Purchase Agreement, to include in successive annual budget proposals items for all Purchase Installments coming due during the ensuing fiscal year and to use their best efforts to secure the timely approval and appropriation of Purchase Installments by the General Assembly prior to the beginning of each ensuing fiscal year during the term of the Purchase Agreement, there is no assurance that the General Assembly will appropriate money sufficient to pay Purchase Installments in each ensuing fiscal year until maturity of the Certificates. The likelihood of any future appropriation is dependent upon factors beyond the control of the Department, its officers and employees, and the owners of the Certificates, including, without limitation, (i) the financial condition of the Department and the State and (ii) demographic and economic conditions which would affect the need for the Project. It is the intention of the Purchaser that the amounts payable under the Purchase Agreement, including Purchase Installments, will be made from funds in the Transportation Trust Fund. (See "THE DEPARTMENT OF TRANSPORTATION - Transportation Trust Fund" herein.)

In the event of Failure to Appropriate, neither the State nor the Department would be obligated to make any Purchase Installments beyond those appropriated during the then current fiscal year. The Trustee may pursue those remedies available to it under the Purchase Agreement (as set forth in Appendix B - "Document Summaries").

THE REMEDIES AVAILABLE TO THE TRUSTEE IN THE EVENT OF A FAILURE TO APPROPRIATE ARE LIMITED AND DO NOT INCLUDE THE RIGHT TO INSTITUTE LEGAL PROCEEDINGS TO COMPEL PAYMENT OF ANY PURCHASE INSTALLMENTS FOR WHICH THERE IS NOT AN APPROPRIATION NOR MAY THE TRUSTEE SEEK A JUDGMENT AGAINST THE STATE OR THE DEPARTMENT. THE FAILURE TO APPROPRIATE IS NOT AN EVENT OF DEFAULT.

THE DEPARTMENT OF TRANSPORTATION OF MARYLAND

The Department was established as a principal department of the State government in 1971. The head of the Department is the Secretary of Transportation (the "Secretary") who is appointed by the Governor with the advice and consent of the Senate.

The Department has the responsibility for most State-owned transportation facilities and programs. This responsibility includes the planning, financing, construction, operation and maintenance of various modes of transportation and carrying out various related licensing and administrative functions. The statutorily created

transportation agencies, which are encompassed by the Department, are the MPA, the Maryland Aviation Administration (the “MAA”), the Motor Vehicle Administration, the Maryland Transit Administration (the “MTA”), and the State Highway Administration (the “Administrations”).

The Secretary is empowered, on behalf of the Department, to exercise or perform any power or duty, which any of the Administrations may exercise or perform. These powers and duties involve, among others, the operation by the MPA of various State-owned buildings and marine terminals in the Port of Baltimore, including the power to fix and collect rental and other fees for the use of these facilities; the operation of the Baltimore/Washington International Thurgood Marshall Airport (the “BWI Marshall Airport”) including the power to fix landing fees and to rent space to airlines and concessionaires; the construction and maintenance of the State Highway System; the operation of all transit facilities in the Baltimore Metropolitan Transit district, including the operation of the bus and rail systems in the Baltimore Metropolitan District, and the power to fix and collect the fares for these systems; the licensing and registration of all motor vehicles and motor vehicle operators in the State; and the power to acquire any property by purchase or condemnation that is necessary to exercise or perform these powers and duties

Certain transportation facilities, which are not part of the Department, are operated as toll facilities by the Maryland Transportation Authority (the “Authority”). Although the Authority acts on behalf of the Department, none of the tolls and other revenues received from these facilities are initially credited to the Transportation Trust Fund (see “*Transportation Trust Fund*”). These facilities include the Chesapeake Bay Bridges, the Fort McHenry Tunnel, the Baltimore Harbor Tunnel, the Francis Scott Key Bridge, the John F. Kennedy Memorial Highway (including the I-95 Express Toll Lanes), the Potomac River Bridge, the Susquehanna River Bridge, and the Intercounty Connector (“ICC”). The Authority also developed an intermodal container transfer rail yard which is managed by the MPA. The Authority consists of eight members, who are appointed by the Governor, and the Secretary, who is the *ex officio* Chairman of the Authority.

Transportation Trust Fund

The Transportation Trust Fund was established in 1971 by Chapter 526 of the Laws of Maryland of 1970. The Transportation Trust Fund is credited with taxes, fees, charges, bond proceeds, federal grants for transportation purposes and other receipts (excluding PFC and rental car customer facility charges and, to the extent required for debt service on obligations issued on behalf of the Department by the Authority, certain parking revenues) of the Department. All expenditures of the Department are made from the Transportation Trust Fund. The Department may use funds in the Transportation Trust Fund for any lawful purpose related to the exercise of its powers, duties and obligations, after meeting its debt service requirements. Unexpended funds remaining in the Transportation Trust Fund at the close of each fiscal year do not revert to the General Fund but remain in the Transportation Trust Fund.

Under existing law, the following sources of funds are available to the Transportation Trust Fund.

Taxes and Fees

Highway User Revenues: Within the Transportation Trust Fund there is a Gasoline and Motor Vehicle Revenue Account wherein Highway User Revenues (“HUR”) are collected. HUR include the following taxes and fees after the deduction of certain programmatic expenses provided by law:

1. Motor Vehicle Fuel Tax and Fees (“Base Tax Rate”) — these taxes and fees that are a component of HUR consist of the following:
 - (a) The 23 1/2¢ on each gallon other than aviation gasoline and 24 1/4¢ on each gallon of special fuels other than turbine fuel after deductions for certain refunds and collection costs, a 2.3% distribution to the Chesapeake Bay 2010 Trust Fund and/or the General Fund and a .5% distribution to the Waterway Improvement Fund; and
 - (b) The fee for a 15-day trip permit for a commercial vehicle at an amount equal to the tax rate on special fuel other than turbine fuel, in effect at the time the permit is issued, and payable on 174 gallons of motor vehicle fuel.

2. Motor Vehicle Titling Tax — two-thirds of the excise tax imposed at the rate of 6% of the fair market value, excluding trade in allowance, of certain motor vehicles for which certificates of title are issued.
3. Motor Vehicle Registration Fees — a registration fee on all motor vehicles that ranges from \$2.50 to \$1,800.00 per vehicle.
4. Corporation Income Tax — a percentage of the revenues derived from the State’s 8.25% corporation income tax after certain General Fund reductions. For fiscal years 2014 through 2016, the percentage distribution was 19.5%. For fiscal year 2017 and future fiscal years, the percentage distribution will be 17.2%.
5. Sales and Use Tax on Short-Term Vehicle Rentals — 80% of 45% of the revenues from the collection of the sales and use tax on short-term vehicle rentals.

Allocation of Highway User Revenues — Pursuant to Chapter 397, which became effective on July 1, 2011, the allocation of total HUR for fiscal year 2014 and all fiscal years thereafter is 90.4% to the Department and 9.6% to pay allocations to the counties, municipalities and Baltimore City.

Additional Transportation Trust Fund Revenue — The following revenues of the Department are not HUR:

1. Motor Vehicle Titling Tax — One-third of the excise tax imposed at the rate of 6% of the fair market value, excluding trade in allowance, of certain motor vehicles for which certificates of title are issued. (see “Highway User Revenues – 2. Motor Vehicle Titling Tax”)
2. Motor Vehicle Fuel Tax — The following increases to the motor fuel tax were enacted under Chapter 429:
 - (a) Effective July 1, 2013, there is an annual adjustment to the motor fuel tax in excess of the Base Tax Rate. The increases in the tax are indexed to the Consumer Price Index (the “CPI”), compounding with each adjustment. The annual increase may not be greater than 8%. While the Base Tax Rate is part of HUR, the adjustments are not.
 - (b) Effective July 1, 2013, there was an increase in the motor fuel tax attributable to a sales and use tax equivalent on motor fuel based upon the product of the average annual retail price of motor fuel, less state and federal taxes, multiplied by specified percentage rates. The percentage beginning July 1, 2013 was 1%, and increased to 2% on January 1, 2015 and 3% on July 1, 2015. Effective December 1, 2015, the percentage increased to 4% on January 1, 2016 and 5% on July 1, 2016.
3. Sales and Use Tax Revenues on Short-Term Vehicle Rentals — The Department receives 20% of 45% of the sales and use tax revenues on short-term vehicle rental.
4. Operating Revenues — Revenues of the Transportation Trust Fund are produced by operations of the MPA, the MTA and the MAA. Under legislation enacted in the 2008 Session of the General Assembly, the MTA must recover from fares and other operating revenues at least 35% of the total operating costs for the MTA’s bus, light rail and Metro railway services in the Baltimore Region and all MARC passenger railroad services provided under contracts with CSX and Amtrak. For fiscal year 2016 the bus, light rail and subway systems combined achieved a 26% fare box recovery. The MARC fare box recovery for fiscal year 2016 was 44%. Beginning with 2015, MTA is required to increase base fare prices at specified intervals based on the change in the CPI.
5. Other Revenues — All other revenues include other taxes, fees, charges, and revenues of every kind collected or received by, paid or appropriated to, or to be credited to the Transportation Trust Fund for the Department in the exercise of its rights, powers, duties, obligations or functions.

Federal Aid

Federal aid, representing 19 percent of the total funding in the Department’s Transportation Trust Fund, supports the multimodal investments in the fiscal years 2017 – 2022 draft Consolidated Transportation Program. The continued support of the Federal Highway Trust Fund is critical to the Department’s ability to enhance, improve, and rebuild our

infrastructure to compete in a modern economy. The Department receives federal aid for road, rail, transit and port projects through a multitude of programs aimed at improving infrastructure and achieving national objectives.

The subsidy for the Department’s Consolidated Transportation Bonds, Series 2010B (Federally Taxable – Issuer Subsidy – Build America Bonds) was reduced by 6.8% in federal fiscal year (“FFY”) 2016 and by 6.9% in FFY 2017.

Department of Transportation Fund Balances

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

**Department of Transportation Fund Balances
Fiscal Years 2012-2016
(\$ in thousands)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Revenues	\$3,587,731	\$3,719,684	\$3,890,784	\$4,049,561	\$4,170,716
Expenditures	<u>3,822,878</u>	<u>3,856,525</u>	<u>4,192,914</u>	<u>4,487,894</u>	<u>4,742,229</u>
Excess (deficiency) of revenues over expenditures	(235,147)	(136,841)	<u>(302,130)</u>	(438,333)	(571,573)
Net other sources (uses) of financial resources (a)	<u>130,679</u>	<u>218,450</u>	<u>360,811</u>	<u>427,128</u>	<u>342,822</u>
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources.....	(104,468)	81,609	58,681	(11,205)	(228,691)
Fund balance, July 1	<u>331,648</u>	<u>227,180</u>	<u>308,789</u>	<u>367,470</u>	<u>356,265</u>
Fund balance, June 30	<u>\$227,180</u>	<u>\$308,789</u>	<u>\$367,470</u>	<u>\$356,265</u>	<u>\$127,574</u>

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 Authority is not part of the Transportation Trust Fund. The above summary was prepared from the audited financial statements of the Department which are prepared in accordance with Generally Accepted Accounting Principles.

* Unaudited for fiscal year 2016 – Final Audited Financial Statements are expected by January 2017.

Consolidated Transportation Bonds

In accordance with certain provisions of State law, the aggregate principal amount of Consolidated Transportation Bonds that may be outstanding is \$4,500,000,000. In addition, provisions of State law provide for the General Assembly to establish in the budget for any fiscal year a maximum outstanding aggregate amount of these bonds as of June 30 of the respective fiscal year that does not exceed \$4,500,000,000. For fiscal year 2017, the maximum aggregate amount of Consolidated Transportation Bonds that may be outstanding as of June 30, 2017 is \$2,773,900,000. As of November 10, 2016, the Department has \$2,563,630,000 in outstanding Consolidated Transportation Bonds.

Nontraditional Debt

The Department’s nontraditional debt (“Nontraditional Debt”) is defined by the General Assembly as any debt instrument that is not a Consolidated Transportation Bond or a Grant Anticipation Revenue Vehicle Bond. Such debt includes, but is not limited to, certificates of participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation (“MEDCO”) or any third party on behalf of the Department. The General Assembly established that as of June 30, 2017, the total aggregate outstanding and unpaid principal balance of Nontraditional Debt may not exceed a budgetary limit of \$685,370,000. The principal amount of outstanding Nontraditional Debt was \$650,370,000 as of June 30, 2016. The following paragraphs outline certain issues of Nontraditional Debt outstanding, all of which are subject to the budgetary limit set forth hereinabove.

Lease and Conditional Purchase Financings

The Department has from time to time financed the construction and acquisition of various facilities through conditional purchase, sale-leaseback, and similar transactions. Such transactions are subject to approval by the Board of Public Works. Financings of this type are as follows:

<u>Conditional Purchase Financings</u>	<u>Projects</u>	<u>Issuance Amount</u>	<u>Outstanding as of June 30, 2016</u>
Project Certificates of Participation (MAA), Refunding Series 2010	BWI Marshall Airport Facilities	\$ 19,610,000	\$ 12,410,000
Project Certificates of Participation (MTA), Refunding Series 2010	MTA Rail Station Parking Garage at BWI Marshall Airport	13,070,000	9,475,000
Project Certificates of Participation (MPA), Series 2006 ¹	MPA South Locust Point Warehouse Construction	26,530,000	16,270,000
Project Certificates of Participation (MAA), Series 2004	BWI Marshall Airport Shuttle Bus Fleet	15,500,000	1,200,000
Total			<u>\$ 39,355,000</u>

¹The Series 2006 Certificates are to be refunded and redeemed on the Redemption Date from proceeds of the Refunding Certificates being offered hereby.

All of the lease payments under these conditional purchase financings are subject to annual appropriation by the General Assembly. In the event that such appropriations are not made, the Department may not be held contractually liable for the payments.

<u>Capital Leases</u>	<u>Projects</u>	<u>Issuance Amount</u>	<u>Outstanding as of June 30, 2016</u>
MEDCO Refunding Lease Revenue Bonds, Series 2010	Construction of the Headquarters Building for the Department	\$ 22,715,000	\$ 14,580,000
MEDCO Refunding Lease Revenue Bonds, Series 2010	Expansion and renovation of Piers A, B and Terminal Building At BWI Marshall	\$ 199,555,000	\$ 157,235,000
Total Outstanding Leases with MEDCO			<u>\$ 171,815,000</u>

The Department's payments to MEDCO for debt service on all MEDCO Lease Revenue Bonds are subject to the General Assembly's annual appropriation.

In addition to the conditional purchase and lease financings described above, as of June 30, 2016, the Department had a capital lease in the amount of \$5,866,172 by virtue of an agreement with the Authority for financing the MPA Masonville Automobile Handling Facility. The lease was terminated on August 25, 2016.

The Department has entered into several lease agreements as lessee for the financing of various projects at the BWI Marshall airport. The Authority was the conduit issuer. Those financings are as follows:

<u>Capital Leases</u>	<u>Projects</u>	<u>Issuance Amount</u>	<u>Outstanding as of June 30, 201</u>	<u>Liability as of June 30, 2016</u>
Maryland Transportation Authority Taxable Consolidated Rental Car Facility Series 2002	Acquisition, construction and equipping of a new rental car facility	\$ 117,345,000	\$ 90,900,000	\$ 79,738,000
Maryland Transportation Authority Airport Parking Revenue Bonds Refunding Series 2012	Refunded Series 2002 original issue \$264,075,000 used to construct a parking garage, make improvements to the Central Utility Plant, to public access, and to widen roads	190,560,000	148,055,000	136,455,000
Maryland Transportation Authority Passenger Facility Charge Revenue Bonds Series 2012A	Finance a portion of the costs to construct a passenger connector hall between the secured Concourses B and C, expansion of C, and expansion and relocation of security checkpoint	50,905,000	43,500,000	42,166,000
Maryland Transportation Authority Passenger Facility Charge Revenue Bonds Series 2012B	Finance a portion of the costs of runway safety improvements and paving	92,070,000	75,360,000	68,913,000
Maryland Transportation Authority Variable Rate Passenger Facility Charge Revenue Bonds Series 2012C	Finance a portion of the costs of runway safety improvements and paving	43,400,000	43,400,000	41,205,000
Maryland Transportation Authority Passenger Facility Charge Revenue Bonds Series 2014	Finance a portion of the costs of to construct a passenger connector hall between the secured Concourses D and E	40,000,000	37,985,000	36,229,000
Total Outstanding MAA Leases with the Authority			<u>\$ 439,200,000</u>	<u>\$ 404,706,000</u>

The estimated liability of \$404,706,000 represents bonds outstanding less cash on hand in certain restricted accounts as of June 30, 2016. The revenues derived from airport parking, rental car customer facility charges and passenger facility charges are pledged to the payment of the bonds financing these projects, respectively, and no other Transportation Trust Fund revenues are pledged as security for these bonds.

Maryland Port Administration

The General Assembly established the former Maryland Port Authority in 1956 (Chapter 2, Acts of Special Session of 1956). In 1971, the Maryland Port Authority became the MPA (Chapter 526, Acts of 1970) and a unit of the Department of Transportation. The mission of the MPA is to stimulate the flow of waterborne commerce through the State in a manner that provides benefit to the citizens of the State.

The Maryland Port Commission was authorized in 1988 (Chapter 541, Acts of 1988) to oversee the MPA. By devising flexible procedures, particularly for personnel and procurement, the Commission works to give the MPA the competitive edge in maritime trade. The Commission has seven members. The Governor, with Senate advice and consent, appoints six members to three-year terms. The Secretary serves as chair (Transportation Article, 6-201 through 6-204).

In marketing, promoting and facilitating trade through the Helen Delich Bentley Port of Baltimore (the "Port"), the MPA supports both the private sector and private port facilities in addition to its own general cargo facilities and operations. The MPA is also responsible for development and operation of dredged material placement facilities such as Masonville, Poplar Island and Cox Creek. In conjunction with the United States Army Corps of Engineers, the MPA manages the placement of dredged material from navigation channels to provide safe and efficient water access to the Port.

The MPA has approximately 215 employees and an annual operating budget of more than \$50 million. The MPA oversees six major public marine terminals:

- Seagirt (284 acres) is the primary container terminal.
- Dundalk (575 acres) is a multi-purpose terminal handling containers, roll-on/roll-off cargo, automobiles and forest products.
- North Locust Point (90 acres) handles salt, autos, steel, molasses and other liquid bulk.
- South Locust Point (87 acres) is primarily a forest products import terminal, and it is also the site of MPA's dedicated passenger cruise terminal.
- Fairfield (60 acres) and Masonville (114 acres) are separate but contiguous terminals specializing in automobile imports and exports.
- Hawkins Point (19 acres) has been leased to East Alcoa for over 40 years for dry bulk (alumina, cement and fertilizer)

The Port is a major source of personal and business revenues in the State.

- The Port is responsible for \$2.9 billion in personal wage and salary income annually.
- The Port generates \$2.2 billion in business revenues annually.
- Local purchases by businesses directly dependent on port activity amount to \$525.7 million.
- Activities of the Port generate State, county and municipal taxes of \$310 million.

Approximately 33,920 jobs in the State are generated by port activity.

- 13,650 are direct jobs generated by cargo and vessel activities. Examples include jobs with railroads, trucking companies, terminal operators, cargo handling (International Longshoreman Association), manufacturing, towing, pilots, ocean carriers, agents, etc.
- 15,890 are induced jobs, (jobs supported by the local purchases of goods and services by direct employees). These jobs would be lost in the short term if the direct jobs were lost. Examples include sales clerks, mechanics, teachers, and government employees.
- 4,380 are indirect jobs, (jobs supported by the business purchases of the employers who create the direct jobs). These jobs, too, would be lost in the short term if the direct jobs were lost. Examples include those who provide office supplies and equipment, utilities, communications, repair, legal and financial services.

The Port has achieved leading market positions in commodities and cargo types identified as targets by the MPA's Strategic Plan. In 2015, cargo growth at the MPA public terminals remained strong.

- The MPA handled 674,628 tons of total forest products.
- A record 523,848 total containers were handled.
- 574,964 import and export automobiles passed through the public terminals.
- Non-auto roll-on/roll-off cargo was 760,211 tons, giving Baltimore the highest United States market share.
- Over 200,000 passengers boarded cruises leaving from South Locust Point.
- For 2016 YTD, MPA's general cargo tonnage is up 3% over the same period of the prior year.

In 2010, the MPA entered into a 50-year public-private partnership (P3) with Ports America Chesapeake, LLC. ("Ports America"). Ports America began running the day-to-day operations at Seagirt Marine Terminal, and in 2015, the Port of Baltimore was recognized as the most efficient United States container port. As part of the P3 agreement, Ports America also constructed a new 50-foot berth. With the expansion of the Panama Canal complete, the MPA is seeing increased traffic from new mega-ships which are accommodated by the 50-foot berth. The first such ship arrived in Baltimore in July 2016. Baltimore is one of only three east coast ports able to accommodate these supersized vessels.

In 2006, South Locust Point became the MPA's dedicated passenger cruise terminal. The MPA began offering year-round cruising in 2010. In 2016 the MPA executed multi-year agreements with both Royal Caribbean Cruises and Carnival Cruise Line.

Following the events of September 11, 2001 the United States Congress passed the Maritime Transportation Security Act of 2002 which required a significantly enhanced, nationwide port security program. An important element of that legislation mandated annual port security inspections by the United States Department of Homeland Security, specifically the United States Coast Guard. In addition, the act required each sector of the United States Coast Guard to form an Area Maritime Security Committee in an effort to improve communications between the federal government and the port community and to develop and implement best practices within the realm of security procedures and protocol; the MPA is an active member of Sector Maryland committee. In addition, in 2006 Congress passed the Safe Ports Act which required a biometric identification system for port workers identified as the Transportation Worker Identification Credential, a program administered by the Transportation Security Administration and currently in use at MPA terminals.

The MPA has received seven straight excellent security inspections as determined by the United States Coast Guard. The Office of Security is a recipient of grant monies awarded annually by the Federal Emergency Management Agency via the Federal Port Security Grant Program allowing the MPA to enhance its physical security posture. The entire staff of the Office of Security are certified Facility Security Officers.

In addition to the 50-year P3 agreement with Ports America, the MPA continues to secure future activity and revenues through a variety of long-term agreements. In 2015, the MPA announced that Maersk, the largest container-shiping line in the world, would return business to Baltimore. Later in the year, the MPA announced a new 30-year agreement with Wallenius Wilhelmsen Logistics, the Port's top roll-on/roll-off customer. In 2016, the Port announced a 10-year contract extension with forest customer UPM.

- The Port of Baltimore continues as the nation's number one auto and roll-on/roll-off port.
- Long-term agreements and partnerships provide stability.

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, or the Governor may call special sessions, but no extended or special session may last for longer than 30 days except for the purpose of enacting the 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 elected by 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, including the Transportation Trust Fund and the special accounts therein, to prescribe the form of completing and stating these accounts and to superintend and enforce the collection of all taxes and revenues. 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. Among the State funds for which the Treasurer is responsible are the monies in the Transportation Trust Fund.

Board of Public Works

The Governor, Comptroller, and Treasurer are the members of the Board of Public Works. The Constitution of Maryland (the "State Constitution"), Article XII, Section 2, provides that a majority of the Board of Public Works shall be competent to act. A constitutional body, the Board of Public Works 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 of Public Works must review and approve all contracts for such capital expenditures after review by the legislatively authorized control agency, principally, the Department, the Department of General Services, the Department of Budget and Management or the University System of Maryland. The Board of Public Works 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, the State program for payments to the counties and Baltimore City for public school construction.

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, unlike the other major departments of the State, 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 Board for a four-year term.

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.

STATE FINANCES

Budgetary System

The State has a strong executive system of government. Under the State 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 State 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 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 State 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 requirement places the normal budget deadline in early April, almost three months before the start of the next fiscal year.

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. The State 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) 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 (v) 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 State 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, Section 34 of the State Constitution and all laws enacted pursuant thereto.

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.

The General Assembly is prohibited by the State Constitution from amending the budget to affect certain specified provisions, including the obligations or debt of the State under Article III, Section 34 of the State 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 State's General Fund (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 Transportation Trust Fund constitutes such a fund in that revenues are derived from non-General Fund sources (see "The Department of Transportation Trust Fund" herein.)

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.

The Department of Legislative Services ("DLS") provides full-time professional assistance to all committees and subcommittees of the General Assembly including those involved with budget, taxation and fiscal matters. DLS also conducts research into fiscal and policy issues. The Office of Legislative Audits is part of DLS and is required by law to examine and report on the books and accounts of all agencies of State government at an interval ranging from three to four years unless the legislative auditor determines, on a case by case basis, that more frequent audits are required.

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 Financial Overview

For fiscal year 2017 Maryland passed a structurally balanced budget without the need for a Budget Reconciliation and Financing Act. This was accomplished through prudent fiscal management, favorable trends in Medicaid enrollment, and a slightly improving economy. The fiscal year 2017 budget is expected to close with a fund balance over \$24.0 million and a Rainy Day Fund Balance above \$1.0 billion.

State Revenues

The State derives most of its revenue from a combination of specialized taxes and user charges. The following are principal sources of the State's revenues: income taxes, corporate taxes, sales and use taxes, property taxes, lottery revenue, casino gaming revenue, public service company franchise taxes, insurance taxes, motor vehicle fuel and titling taxes and registration fees, transfer taxes, tobacco taxes, estate and inheritance taxes, alcoholic beverage taxes, bay restoration fees, and other revenue such as federal grants, court fees, interest and tuition fees paid to institutions of higher education.

Receipts from the State property tax, all of which are devoted to debt service on general obligation bonds and which provided approximately 71.1% of revenues available for general obligation bond debt service payment in fiscal year 2015, are credited to a separate account known as the Annuity Bond Fund.

State Expenditures

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 area of education.

Summary of State Revenue and Expenditures

Fiscal Year 2011-2015 GAAP General Fund Results of Operations

The GAAP (defined below) 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, 2011 through June 30, 2015. The information for fiscal year June 30, 2016 will be available in January 2017.

**GAAP General Fund Comparative Statement of Revenues,
Expenditures, and Changes in Fund Balance
Fiscal Years 2011-2015
(\$ in thousands)**

	2011	2012	2013	2014	2015
Revenues (a):					
Income taxes	\$7,639,285	\$7,822,259	\$8,652,063	\$8,743,986	\$9,418,584
Sales and use taxes	3,896,876	4,076,729	4,114,462	4,196,314	4,410,080
Other taxes	1,598,321	1,597,152	1,639,504	1,678,552	1,737,057
Other licenses and fees	683,289	714,891	678,648	607,785	641,478
Charges for services	1,446,815	1,611,811	1,733,460	1,740,718	1,562,196
Interest and other investment income	20,768	83,924	(91,919)	106,866	61,938
Federal revenue	9,159,668	8,241,894	8,211,036	8,983,031	10,188,633
Other	293,164	401,447	468,415	396,472	373,876
Total revenues.....	<u>24,738,186</u>	<u>24,550,107</u>	<u>25,405,669</u>	<u>26,453,724</u>	<u>28,393,844</u>
Expenditures (a):					
General government	770,805	832,536	878,773	832,136	853,446
Health and mental hygiene.....	9,441,903	9,772,861	9,949,816	11,160,187	12,007,975
Education	8,854,150	8,700,025	8,795,130	9,007,495	9,394,548
Human resources	2,420,789	2,488,200	2,557,386	2,542,075	2,543,937
Public Safety.....	1,873,921	1,875,795	1,879,264	1,888,200	1,972,570
Judicial.....	577,333	590,082	594,522	638,115	689,975
Labor, licensing and regulation.....	246,700	261,615	304,289	319,814	322,158
Natural resources and recreation.....	182,229	179,682	171,206	186,486	232,514
Housing and community development	368,857	344,408	293,743	292,494	266,912
Environment	107,457	96,116	87,728	96,901	107,103
Agriculture.....	80,770	79,294	80,353	87,110	75,226
Business and economic development.....	79,284	75,835	69,425	103,253	100,030
Intergovernmental	329,094	316,863	329,028	355,307	364,409
Total expenditures	<u>25,333,292</u>	<u>25,613,312</u>	<u>25,990,663</u>	<u>27,509,573</u>	<u>28,930,802</u>
Excess (deficiency) of revenues over expenditures	<u>(595,106)</u>	<u>(1,063,205)</u>	<u>(584,994)</u>	<u>(1,055,849)</u>	<u>(536,958)</u>
Other sources (uses) of financial resources:					
Capital leases	19,633	4,593	3,184	167,717	3,676
Housing Bonds issued (b)	100	-	-	-	-
Transfers in.....	1,116,961	1,098,506	1,023,818	1,069,971	1,117,818
Transfers out.....	(451,070)	(302,402)	(159,875)	(401,750)	(439,907)
Net other sources (uses) of financial resources.....	<u>685,624</u>	<u>800,697</u>	<u>867,127</u>	<u>835,938</u>	<u>681,587</u>
Net change in fund balances.....	90,518	(262,508)	282,133	(219,911)	144,629
Fund balances at the beginning of the year.....	<u>1,249,092</u>	<u>1,339,610</u>	<u>1,077,102</u>	<u>1,359,235</u>	<u>1,139,325</u>
Fund balances, June 30	<u>\$1,339,610</u>	<u>\$1,077,102</u>	<u>\$1,359,235</u>	<u>\$1,139,325</u>	<u>\$1,283,953</u>
Fund balance as % of revenues	5.4%	4.4%	5.4%	4.3%	4.5%

(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.

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 above 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.

For fiscal year 2017-2020, the Governor is required to include an appropriation to the State Retirement System equal to half of the unappropriated General Fund balance in excess of \$10.0 million up to \$50.0 million for the State Retirement System. For fiscal year 2021 and thereafter the Governor is required to appropriate the entirety of the unappropriated General Fund balance in excess of \$10.0 million to the Revenue Stabilization Account.

Withdrawals that do not result in a Revenue Stabilization Account balance below 5% of estimated General Fund revenues must be authorized by an act in fiscal year 2018. In fiscal year 2019 and beyond withdrawals that do not result in a balance below 5% must 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% 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, 2013 through June 30, 2016, and the estimate for the fiscal year ending on June 30, 2017.

**State Reserve Fund
Fiscal Years 2013–2017
(\$ in millions)**

Fiscal Year	Revenue Stabilization Account	Balance at Fiscal Year End		Revenue Stabilization Account as a % of General Fund Revenue
		Other Accounts	Total State Reserve Fund	
2013 ^(a)	\$700.4	\$19.8	\$720.2	4.7
2014	763.6	8.9	772.5	5.1
2015 ^(b)	773.5	6.5	780.0	4.8
2016	832.4	38.9	871.3	5.1
2017 (estimate).....	1,000.3	28.7	1,029.0	6.0

- (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.
- (b) In the proposed budget, the Revenue Stabilization Account balance as a percentage of General Fund revenue as stated in the annual report of the Board of Revenue Estimates equaled 5.0%. Subsequently, \$20 million was transferred from the Revenue Stabilization Account to provide relief to areas affected by the April 2015 unrest in Baltimore, Maryland and the percentage fell below 5.0%. On June 23, 2015 the Board of Public Works approved the transfer of \$6.9 million back to the Revenue Stabilization Account.

General Fund 2017 Budget

The General Assembly enacted the fiscal year 2017 Budget (the “2017 Budget”) on April 12, 2016. The 2017 Budget includes \$17,205.6 million in General Fund spending for, among other things: (1) \$7,381.5 million in aid to local governments from general funds; (2) \$4,362.6 million to support public health services in the Department of Health and Mental Hygiene, including \$3,044.9 million for the Medicaid Program; (3) \$155.4 million for the State Reserve Fund; and (4) funds to the State’s retirement and pension systems. The General Assembly also restricted \$132.8 million in general funds for certain purposes; the preceding figures do not use these funds and will be discussed more below.

The 2017 Budget includes a \$155.4 million appropriation to the State Reserve Fund. The balance in the Revenue Stabilization Account at June 30, 2017 is estimated to equal \$1,000.3 million, or 6.0% of General Fund revenues, as estimated by the Board of Revenue Estimates in September 2016.

The 2017 budget includes \$1.6 billion in state funding for the pension system. In accordance with the 2015 Act the State will move to full actuarial funding in fiscal year 2017. The 2015 Act also required additional supplemental contributions to the pension system of \$75 million each year until is 85% funded. In addition, the State altered its sweeper provision for unappropriated fund general fund balance left at the end of the fiscal year. For year 2017-2020, the Governor is required to deposit half of the unappropriated General Fund balance in excess of \$10.0 million up to \$50 million for the State Retirement system.

As part of the 2017 Budget, the General Assembly restricted \$132.8 million in general funds for certain purposes. These funds may only be used for the purposes described by the General Assembly, but the Governor is not required to spend the funds. If the funds go unspent, they will revert to the General Fund at the end of fiscal year 2017.

The 2017 Budget funds debt service on the State’s general obligation bonds with \$283.0 million in general funds, \$892.6 million in special funds, primarily from State property tax revenues, and \$11.5 million in federal funds reflecting the interest subsidy on current outstanding American Recovery and Reinvestment Act of 2009 Build America Bonds (this number reflects estimated sequester reductions of 6.9% for federal fiscal year 2017). 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 2016.

The September 2016 Board of Revenue Estimates revised their revenue estimates for fiscal year 2017 down \$265 million to \$16.635 billion. As a result of this, the Governor decided to take an \$82 million General Fund reduction to the Board of Public Works on Wednesday November 2, and those actions were approved.

Based on the events and actions discussed above, it is estimated that the General Fund balance on a budgetary basis at June 30, 2017 will be \$24.1 million.

State Tax-Supported Debt

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 there under 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.

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

Tax-Supported Debt Outstanding (\$ in millions)	
	Outstanding at <u>June 30, 2016</u>
General Obligation Bonds	\$9,465
Consolidated Transportation Bonds	2,146
Maryland Stadium Authority Bonds and Leases .	106
Capital Leases	218
GARVEE Bonds	280
Bay Restoration Revenue Bonds	<u>302</u>
Net Tax-Supported Debt.....	<u>\$12,517</u>

The above table excludes local debt as well as revenue and enterprise debt, all of which are not State tax-supported debt.

State Demographic and Economic Data is contained in Appendix A.

LITIGATION

There is no litigation pending which will restrain or enjoin the execution or delivery of the Purchase Agreement or affect the validity of the Purchase Agreement or the Certificates.

FINANCIAL ADVISOR

Frasca & Associates, LLC, Washington, DC and Wye River Group, Incorporated, Annapolis, Maryland have been retained as Co-Financial Advisors to the Department in connection with the sale of the Certificates and other matters pertinent thereto.

TAX MATTERS

In the opinion of McKennon Shelton & Henn LLP, Bond Counsel, assuming compliance with the covenants described herein, (i) under existing law the interest portion of the Purchase Installments to be made by the State as Purchaser under the Purchase Agreement and to be received by the holders of the Certificates is excludable from gross income for federal income tax purposes, except with respect to any Certificate during the period that the Certificate is owned by a “substantial user” of the financed facilities or a “related person” (as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended [the “Code”])and (ii) under existing law the interest portion of such Purchase Installments is exempt from income taxation by the State of Maryland. No opinion is expressed as to estate or inheritance taxes, or any other Maryland taxes not levied or assessed directly on the Certificates or the interest thereon.

Under the provisions of the Code, there are certain restrictions that must be met subsequent to the delivery of the Certificates in order for interest on the Certificates to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Certificates. These include the following: (i) a requirement that certain investment earnings received from the investment of the proceeds of the Certificates be rebated to the United States of America under certain circumstances (or that certain payments in lieu of rebate be made); (ii) other requirements applicable to the investment of the proceeds of the Certificates; and (iii) other requirements applicable to the use of the proceeds of the Certificates and the facilities financed or refinanced with such proceeds. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Certificates in gross income for federal income tax purposes, effective from the date of their issuance. The Department has made certain covenants regarding actions required to maintain the excludability of

interest on the Certificates from gross income for federal income tax purposes. It is the opinion of Bond Counsel that, assuming compliance with such covenants, the interest on the Certificates will remain excludable from gross income for federal income tax purposes under the provisions of the Code.

The Code imposes an alternative minimum tax equal to 20%, in the case of corporations, and a maximum marginal rate equal to 28%, in the case of non-corporate taxpayers, of the taxpayer's alternative minimum taxable income, i.e., his or her regular taxable income increased by items of tax preference and other specific adjustments. The alternative minimum tax is imposed only to the extent that it exceeds the regular tax. Interest on the Certificates will be treated as an enumerated item of tax preference for purposes of calculating the alternative minimum tax income of individuals, corporations and other taxpayers under the Code. In addition, interest income on the Certificates will be includable in the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States.

In rendering its opinion, Bond Counsel will rely without investigation on the Department's Tax and Section 148 Certificate with respect to certain material facts within the knowledge of the Department relevant to the tax-exempt status of the Certificates.

Bond Counsel will express no opinion as to the treatment for federal or State of Maryland income tax purposes of any payment made to the Seller or its assigns from sources other than the Purchase Installments paid by the State that may result upon the failure of the State to make an appropriation to provide for the payment of the Purchase Installments.

Certain Other Federal Tax Consequences

There are other federal tax consequences of ownership of obligations such as the Certificates under certain circumstances, including the following: (i) deductions are disallowed for certain expenses of taxpayers allocable to interest on tax-exempt obligations, as well as interest on indebtedness incurred or continued to purchase or carry tax-exempt obligations and interest expense of financial institutions allocable to tax-exempt interest; (ii) for property and casualty insurance companies, the amount of the deduction for losses incurred must be reduced by 15% of the sum of tax-exempt interest income and the deductible portion of dividends received by such companies; (iii) interest income that is exempt from tax must be taken into account for the purpose of determining whether, and what amount of, social security or railroad retirement benefits are includable in gross income for federal income tax purposes; (iv) for S corporations having Subchapter C earnings and profits, the receipt of certain levels of passive investment income, which includes interest on tax-exempt obligations such as the Certificates, can result in the imposition of tax on such passive investment income and, in some cases, loss of S corporation status; and (v) net gain realized upon the sale or other disposition of the Certificates must be taken into account when computing the 3.8% Medicare tax with respect to investment income imposed on certain higher income individuals and specified trusts and estates.

Purchase, Sale and Retirement of Certificates

Except as noted below in the case of market discount, the sale or other disposition of a Certificate will normally result in capital gain or loss to its holder. A holder's initial tax basis in a Certificate will be its cost. Upon the sale or retirement of a Certificate, for federal income tax purposes a holder will recognize capital gain or loss upon the disposition of such security (including sale, early redemption or payment at maturity) in an amount equal to the difference between (a) the amount received upon such disposition and (b) the tax basis in such Certificate, determined by adding to the original cost basis in such Certificate the amount of original issue discount that is treated as having accrued as described below under "Tax Accounting Treatment of Discount Certificates." Such gain or loss will be long-term capital gain or loss if, at the time of the sale or retirement the Certificate has been held for more than one year. Present law taxes both long and short-term capital gains of corporations at the rates applicable to ordinary income. For noncorporate taxpayers, however, short-term capital gains are taxed at rates applicable to ordinary income, while net capital gains are taxed at lower rates. Net capital gains are the excess of net long-term capital gains (gains on capital assets held for more than one year) over net short-term capital losses.

Market Discount

If a holder acquires a Certificate after its original issuance at a discount below its principal amount (or in the case of a Certificate issued at an original issue discount, at a price that produces a yield to maturity higher than the yield to maturity at which such Certificate was first issued), the holder will be deemed to have acquired the Certificate at “market discount,” unless the amount of market discount is de minimis, as described in the following paragraph. If a holder that acquires a Certificate with market discount subsequently realizes a gain upon the disposition of the Certificate, such gain shall be treated as taxable interest income to the extent such gain does not exceed the accrued market discount attributable to the period during which the holder held such Certificate, and any gain realized in excess of such market discount will be treated as capital gain. Potential purchasers should consult their tax advisors as to the proper method of accruing market discount.

In the case of a Certificate not issued at an original issue discount, market discount will be de minimis if the excess of the Certificate’s stated redemption price at maturity over the holder’s cost of acquiring the Certificate is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years between the date the holder acquires the Certificate and its stated maturity date. In the case of a Certificate issued at an original issue discount, market discount will be de minimis if the excess of the Certificate’s revised issue price over the holder’s cost of acquiring the Certificate is less than 0.25% of the revised issue price multiplied by the number of complete years between the date the holder acquires the Certificate and its stated maturity date. For this purpose, a Certificate’s “revised issue price” is the sum of (i) its original issue price and (ii) the aggregate amount of original issue discount that is treated as having accrued with respect to the Certificate during the period between its original issue date and the date of acquisition by the holder.

Amortizable Premium

A Certificate will be considered to have been issued at a premium if, and to the extent that, the holder’s tax basis in the Certificate exceeds the amount payable at maturity. Under the tax regulations applicable to the Certificates, the amount of premium would be determined with reference to the amount payable on that call date (including for this purpose the maturity date) which produces the lowest yield to maturity on the Certificate. The holder will be required to reduce his tax basis in the Certificate for purposes of determining gain or loss upon disposition of the Certificate by the amount of amortizable Certificate premium that accrues (determined on a constant yield method) during his period of ownership. No deduction (or other tax benefit) is allocable in respect of any amount of amortizable Certificate premium on the Certificates.

Tax Accounting Treatment of Discount Certificates

Certain maturities of the Certificates may be issued at an initial public offering price, which is less than the amount payable on such Certificates at maturity (the “Discount Certificates”). The difference between the initial public offering price at which a substantial amount of the Discount Certificates of each maturity was sold and the principal amount of such Discount Certificates payable at maturity constitutes original issue discount. In the case of any holder of Discount Certificates, the amount of such original issue discount which is treated as having accrued with respect to such Discount Certificates is added to the original cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, early redemption or repayment at maturity). For federal income tax purposes (i) any holder of a Discount Certificate will recognize gain or loss upon the disposition of such security (including sale, early redemption or payment at maturity) in an amount equal to the difference between (a) the amount received upon such disposition and (b) the sum of (1) the holder’s original cost basis in such Discount Certificate, and (2) the amount of original issue discount attributable to the period during which the holder held such Discount Certificate, and (ii) the amount of the basis adjustment described in clause (i)(b)(2) will not be included in the gross income of the holder.

Original issue discount on Discount Certificates will be attributed to permissible compounding periods during the life of any Discount Certificates in accordance with a constant rate of interest accrual method. The yield to maturity of the Discount Certificates of each maturity is determined using permissible compounding periods. In general, the length of a permissible compounding period cannot exceed the length of the interval between debt service payments on the Discount Certificates and must begin or end on the date of such payments. Such yield then is used to determine an amount of accrued interest for each permissible compounding period. For this purpose, interest is treated as

compounding periodically at the end of each applicable compounding period. The amount of original issue discount that is treated as having accrued in respect of a Discount Certificate for any particular compounding period is equal to the excess of (i) the product of (a) the yield for the Discount Certificate (adjusted as necessary for an initial short period) divided by the number of compounding periods in a year multiplied by (b) the amount that would be the tax basis of such Discount Certificate at the beginning of such period if held by an original purchaser who purchased at the initial public offering price, over (ii) the amount actually payable as interest on such Discount Certificate during such period. For purposes of the preceding sentence the tax basis of a Discount Certificate, if held by an original purchaser, can be determined by adding to the initial public offering price of such Discount Certificate the original issue discount that is treated as having accrued during all prior compounding periods. If a Discount Certificate is sold or otherwise disposed of between compounding dates, then interest, which would have accrued for that compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Holders of Discount Certificates should note that, under the tax regulations, the yield and maturity of a Discount Certificate is determined without regard to commercially reasonable sinking fund payments and any original issue discount remaining unaccrued at the time that a Discount Certificate is redeemed in advance of the stated maturity will be treated as taxable gain. Moreover, the tax regulations prescribe special conventions for determining the yield and maturity of certain debt instruments that provide for alternative payment schedules applicable upon the occurrence of certain contingencies.

The prices or yields furnished by the successful bidder for the Certificates as shown in the insider cover of this Official Statement may not reflect the initial issue prices for the purposes of determining the original issue discount for federal income tax purposes.

The foregoing summarizes certain federal income tax consequences of original issue discount with respect to the Discount Certificates but does not purport to deal with all aspects of federal income taxation that may be relevant to particular investors or circumstances, including those set out above. Prospective purchasers of Discount Certificates should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on Discount Certificates. In addition, prospective corporate purchasers should consider possible federal tax consequences arising from original issue discount on such Discount Certificates under the alternative minimum tax or the branch profits tax. The amount of original issue discount considered to have accrued may be reportable in the year of accrual for state and local tax purposes or for purposes of the alternative minimum tax or the branch profits tax without a corresponding receipt of cash with which to pay any tax liability attributable to such discount. Purchasers with questions concerning the detailed tax consequences of transactions in the Discount Certificates should consult their tax advisors.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete; holders of the Certificates should consult their own tax advisors as to the effects, if any, of the Code (and any proposed or subsequently enacted amendments to the Code) in their particular circumstances.

See Appendix C hereto for the proposed form of opinion of Bond Counsel.

Legislative Developments

Legislative proposals currently under consideration or proposed after the issuance and delivery of the Certificates could adversely affect the market value of the Certificates. Further, if enacted into law, any such proposal could cause the interest on the Certificates to be subject, directly or indirectly, to federal income taxation and could otherwise alter or amend one or more of the provisions of federal tax law described above or their consequences. Prospective purchasers of the Certificates should consult with their tax advisors as to the status and potential effect of pending proposed legislative proposals, as to which Bond Counsel expresses no opinion.

CONTINUING DISCLOSURE

In order to enable the successful bidder for the Certificates to comply with the requirements of paragraph (b) (5) of Rule 15c2-12, the Department will execute and deliver, on or before the date of issuance and delivery of the Certificates, a Continuing Disclosure Agreement, the form of which is attached as Appendix G. Potential purchasers should note that certain of the 14 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 Certificates, specifically those events relating to credit enhancements and liquidity providers, and property or other collateral.

The Department believes it has complied in all material respects with its obligations under its previous continuing disclosure undertakings pursuant to Rule 15c2-12 during the last five years; however, the Department acknowledges that during such period, certain financial information, while publicly available and filed with EMMA and linked to CUSIPs assigned to the Department's outstanding bonds on EMMA, in some limited cases were not properly linked to certain outstanding CUSIPs on EMMA at the time of filing. Certain State of Maryland financial and operating information for fiscal years 2011 through 2015, while publicly available on EMMA, was not properly linked to certain of the Department's outstanding debt issuances, including Certificates of Participation, on a timely basis. MDOT believes it has taken corrective action to properly link all such informational filings with all relevant CUSIPs and has implemented procedures designed to assure proper linkage of filings in the future.

LEGAL MATTERS

The Certificates are offered for delivery when, and if issued, subject to the approving opinion of McKennon Shelton & Henn LLP, Baltimore, Maryland, Bond Counsel. Certain legal matters will also be passed upon for the Department by the Office of the Attorney General of the State of Maryland. It is expected that the Certificates in definitive form will be available for delivery on or about December 15, 2016. A copy of the opinion of Bond Counsel will be substantially in the form set forth in Appendix C herein.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Department's financial advisors are selected by the Department periodically through a competitive process in accordance with State procurement law. Compensation of the financial advisors is not contingent on the sale of the Certificates. Bond Counsel was selected by the Office of the Attorney General of the State through a process of review of responses to a request for proposals. Compensation of Bond Counsel is not contingent on the sale of the Certificates.

This Official Statement is not to be construed as a contract or agreement between the Department and the purchasers or the owners of any of the Certificates.

DEPARTMENT OF TRANSPORTATION OF MARYLAND

by order of

/s/ Pete K. Rahn
Secretary of Transportation

**STATE OF MARYLAND
SELECTED ECONOMIC, SOCIAL AND EMPLOYMENT 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 5,773,552, an increase of 9.0% from the 2000 Census. Maryland's population is concentrated in urban areas. In 2015, the eleven counties and Baltimore City located in the Baltimore-Washington region contained 50.1% of the State's land area and 87.2% of its population. The 2015 population for the Baltimore Metropolitan Statistical Areas was estimated at 2,797,407 and for the Maryland portion of the Washington Metropolitan Statistical Areas was estimated at 2,441,686. Overall, Maryland's population per square mile was 610 in 2015. The following table presents estimated population of Maryland and the United States from 2006 - 2015.

<u>Year</u>	<u>Population Trends</u>			
	<u>Maryland</u> <u>Population</u>	<u>Change</u>	<u>United States</u> <u>Population</u>	<u>Growth</u>
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	5,773,552	1.0	309,346,863	0.8
2011	5,844,171	1.0	311,718,857	0.8
2012	5,890,740	0.8	314,102,623	0.8
2013	5,936,040	0.8	316,427,395	0.7
2014	5,975,346	0.6	318,907,401	0.8
2015	6,006,401	0.5	321,418,820	0.8

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

The 2015 population of Maryland and the United States was distributed by age as follows:

<u>Age</u>	<u>Maryland</u>	<u>United States</u>
Under 5 years	6.1%	6.2%
5 through 19 years.....	18.9	19.4
20 to 44 years	33.4	33.4
45 to 64 years	27.5	26.2
65 years and over	<u>14.1</u>	<u>14.9</u>
	100.0%*	100.0%*

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

Personal Income

Maryland residents received approximately \$337.5 billion in personal income in 2015. Maryland's total personal income increased at a rate of 4.2%, below the national increase of 4.4%. Additionally, per capita income remained significantly above the national average in 2015, \$56,127 in Maryland compared with the national average of \$47,669. In 2015, 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

<u>Year</u>	<u>Maryland</u>	<u>Change</u>	<u>United States</u>	<u>Change</u>	<u>Maryland Ranking</u>
2006	\$45,904	6.0%	\$38,144	6.2%	4
2007	47,708	3.9	39,821	4.4	5
2008	49,307	3.4	41,082	3.2	4
2009	48,739	-1.2	39,376	-4.2	4
2010	49,683	1.9	40,277	2.3	4
2011	51,800	4.3	42,453	5.4	4
2012	53,078	2.5	44,266	4.3	6
2013	52,545	-1.0	44,438	0.4	6
2014	54,176	3.1	46,049	3.6	7
2015	56,127	3.6	47,669	3.5	5

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 2015, 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
2015
(\$ in millions)

	<u>Maryland</u>	<u>Percentage of Personal Income Before Residence Adjustment</u>	
		<u>Maryland</u>	<u>United States</u>
Mining, forestry, fishing.....	\$ 329	0.1%	1.4%
Construction	16,425	5.2	4.2
Manufacturing	9,885	3.2	6.8
Trade, transportation & utilities.....	28,140	9.0	11.0
Information services	7,056	2.3	2.5
Finance, insurance & real estate	18,260	5.8	6.7
Professional & business services	43,654	13.9	12.1
Educational & health services	30,187	9.6	9.1
Leisure & hospitality services	9,100	2.9	3.2
Other services	8,590	2.7	2.6
Government			
Federal, civilian.....	24,283	7.7	2.1
Military.....	3,948	1.3	0.9
State & local.....	27,792	8.9	8.9
Farm income.....	<u>634</u>	<u>0.2</u>	<u>0.6</u>
Earnings by place of work	228,283	72.8%	72.0%
Less:			
Personal contributions for social insurance	(25,146)	(8.0)	(7.8)
Plus:			
Dividends, Interest and Rent	63,728	20.3	18.5
Transfer Payments.....	<u>46,517</u>	<u>14.8</u>	<u>17.4</u>
Personal income before residence adjustment.....	313,381	<u>100.0%*</u>	<u>100.0%*</u>
Residence adjustment	<u>24,123</u>		
Total Personal Income	<u>\$337,504*</u>		

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 2010 and 2015, total personal income in Maryland has grown 3.3% annually, compared to a national growth rate of 4.2%. During this period, wage and salary income, roughly half of total personal income, has grown at a slower rate in Maryland than it has nationally, while supplements to wages and salaries – essentially nonwage benefits – have grown at similar rates. Investment income – income derived from dividends, interest, and rent – did not keep pace with the nation as a whole. The nation’s proprietors’ income outpaced Maryland’s, growing 6.1% and 4.7%, respectively. 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 7.1% of Maryland personal income, but less than three basis points of national personal income. The different growth rates between several of the income components, most notably Wages and Salaries, Residence Adjustment, and Proprietors’ Income, are likely the result of federal budget sequestration and the relatively greater impact it has had on Maryland.

**Average Annual Growth of Personal Income Components
(2010 through 2015)**

	<u>Maryland</u>	<u>United States</u>
Wages and Salaries	3.0%	4.2%
Supplements to Wages and Salaries	3.0	3.0
Proprietors' Income	4.7	6.1
Contributions for Social Insurance	2.8	4.1
Residence Adjustment	-0.1	4.1
Dividends, Interest and Rent	4.4	5.8
Transfer Payments	3.5	2.8
Total Personal Income	3.3	4.2

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.

While Maryland remains significantly wealthier than the nation as a whole, it should be noted that the period of comparison in the above table reflects the recovery from the Great Recession. Employment and personal income declined at a lesser rate in Maryland during the depths of the global recession of 2009; for example, national wages and salaries fell 4.4% in 2009 relative to a 0.8% decline for Maryland. The slower post-recession trajectory for Maryland’s principal income measures may be partially a function of the lesser rate of decline; coming out of a deeper trough, the nation as a whole would require higher income and employment growth than Maryland in order to recover to pre-recession levels. Maryland’s slower post-recession trajectory may also reflect the economic hurdles faced during that time frame. Relative to the nation as a whole, Maryland’s economy has been disproportionately affected by federal budget uncertainty, federal budget sequestration, and higher income tax rates.

Annual Personal Income and Wages and Salaries Growth

	Personal Income		Wages and Salaries	
	<u>Maryland</u>	<u>United States</u>	<u>Maryland</u>	<u>United States</u>
2006	6.7%	7.3%	5.7%	6.4%
2007	4.4	5.4	4.6	5.6
2008	3.9	4.1	2.3	2.2
2009	-0.4	-3.3	-0.8	-4.4
2010	3.0	3.1	2.2	2.0
2011	5.3	6.2	3.6	4.0
2012	3.3	5.1	3.1	4.5
2013	-0.2	1.2	0.8	2.7
2014	3.8	4.4	3.4	5.1
2015	4.2	4.4	4.3	4.8

Source: U.S. Bureau of Economic Analysis.

Employment

Maryland's labor force totaled 3.1 million individuals in 2015, including agricultural and non-agricultural 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 2015

	<u>Maryland</u>	<u>United States</u>
Construction & mining	5.8%	5.1%
Manufacturing	3.9	8.7
Trade, transportation & utilities	17.4	19.0
Information services	1.4	1.9
Financial activities	5.5	5.7
Professional & business services	16.2	13.9
Educational & health services	16.4	15.6
Leisure & hospitality services	10.1	10.7
Other services	4.3	4.0
Government		
Federal	5.4	1.9
State & local	<u>13.5</u>	<u>13.6</u>
Total	<u>100.0%*</u>	<u>100.0%*</u>

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. In the aggregate, Maryland lost 5.7% of its jobs in the recession while the nation lost 6.3%, both reaching the trough in February 2010. Subsequently, employment growth has been uncharacteristically slow for an economic recovery, though through December 2015, Maryland and the nation have gained back 102.6% and 103.4% of those lost jobs, respectively.

Average Annual Employment Growth (2010 through 2015)

	<u>Maryland</u>	<u>United States</u>
Construction & mining	1.4%	3.2%
Manufacturing	-1.8	1.3
Trade, transportation & utilities	1.1	1.8
Information services	-2.7	0.3
Financial activities	0.3	1.1
Professional & business services	2.1	3.3
Educational & health services	1.8	2.0
Leisure & hospitality services	3.1	3.0
Other services	0.0	1.1
Government		
Federal	0.6	-1.6
State & local	-0.1	-0.3
Total Non-agricultural Employment	1.1%	1.7%

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

Historical employment in Maryland's five largest sectors is shown in the table below. Maryland's five largest sectors represented approximately 79.0% of total employment in 2015. As is often the case, government employment in Maryland acted as a stabilizing factor during the recession. However, Maryland federal government employment detracted from overall employment in 2013 and 2014, decreasing 1.2% and 1.1% respectively. Although Maryland accounted for approximately 5.2% of total federal government employment since 2013, Maryland only represented 3.3% of federal government jobs lost in 2013 and 4.4% in 2014. This indicates that despite federal government employment detracting from Maryland employment growth in 2013 and 2014, other states lost a disproportionately larger share of federal government employment. However, as direct federal employment accounts for roughly 5.4% of jobs in Maryland, the impact was relatively acute. Furthermore, it is widely speculated that the same federal budget sequester has hindered the growth in Maryland's private sector. The degree to which private sector employment growth has been impacted is unknown, but it is suspected to have engendered a relatively stronger negative impact in Maryland compared to the nation as a whole. In 2015 federal government employment in Maryland grew by 0.7%.

**Annual Employment Growth
Maryland's Five Largest Employment Sectors**

	<u>Government</u>	<u>Trade, Transportation, & Utilities</u>	<u>Educational & Health Services</u>	<u>Professional & Business Services</u>	<u>Leisure & Hospitality Services</u>	<u>Total MD Employment</u>	<u>Total US Employment</u>
2006	1.1%	1.0%	2.7%	1.7%	2.1%	1.3%	1.8%
2007	1.6	0.1	2.6	0.5	1.5	0.7	1.1
2008	1.9	-2.3	2.8	0.0	1.0	-0.3	-0.5
2009	1.2	-5.4	2.6	-3.4	-2.4	-2.9	-4.3
2010	1.6	-0.4	1.5	1.0	-0.3	-0.2	-0.7
2011	0.6	1.4	1.6	3.1	1.6	1.0	1.2
2012	0.0	1.3	2.5	2.7	4.6	1.2	1.7
2013	-0.1	0.3	1.4	1.7	3.9	0.9	1.6
2014	0.0	1.0	1.6	1.5	2.5	0.9	1.9
2015	0.0	1.7	2.0	1.5	3.1	1.5	2.1

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 was lower than the rest of the country for over a decade, while the labor force growth has outpaced the rest of the country in four of the last ten years.

Employment Trends

<u>Calendar Year</u>	<u>Unemployment Rate in Maryland</u>	<u>Unemployment Rate in the United States</u>	<u>Growth in Maryland Labor Force</u>	<u>Growth in United States Labor Force</u>
2006	3.9%	4.6%	1.3%	1.4%
2007	3.5	4.6	0.2	1.1
2008	4.4	5.8	1.1	0.8
2009	7.1	9.3	1.2	-0.1
2010	7.6	9.6	1.3	-0.2
2011	7.2	8.9	0.7	-0.2
2012	6.9	8.1	0.7	0.9
2013	6.5	7.4	0.2	0.3
2014	5.8	6.2	0.0	0.3
2015	5.2	5.3	0.8	0.8

Source: Maryland Department of Labor, Licensing and Regulation.

Note: In March 2015 the unemployment rate was 5.4% in Maryland and 5.5% in the United States.

Educational Levels

Maryland's workforce is more highly educated than that of the rest of the United States as a whole. As of 2014, the most recent year for which data was available, the percentage of the population (25 years and over) with a bachelor's degree or higher is 38.2% as compared to 30.1% for the nation as a whole. 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 89.6% in Maryland compared to 86.9% 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 2014

	<u>Maryland</u>	<u>United States</u>
Less than High School	10.4%	13.1%
High School Diploma	25.7	27.7
Some College	19.1	21.0
Associate's Degree	6.5	8.2
Bachelor's Degree	20.7	18.7
Graduate or Professional Degree	17.5	11.4

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 State's Annuity Bond Fund to pay debt service on Maryland General Obligation Bonds. In 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 2017, 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)

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Utility Operating Real Property</u>	<u>Total</u>	<u>Change in Assessed Values</u>
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	651,655,464	714,633	652,370,097	-5.0
2014	642,571,751	737,924	643,309,675	-1.4
2015	669,161,466	786,952	669,948,355	4.1
2016	695,336,368	766,641	696,119,320	3.9

Source: State Department of Assessments and Taxation, March 2016.

*Totals may not add due to rounding.

Residential Construction

In 2015 the value of all residential unit permits issued increased by 6.6%. In addition, the total number of residential building permits increased by 4.4%. Recent trends signal that the real estate market realized its trough in 2011 and has shifted towards a growth sector. Overall, the active average inventory of units for sale increased 3.0% to 29,028 in 2015, which is just over half the peak levels of 2008. That increase follows a 15.0% increase in inventory in 2014. According to data from the Maryland Association of Realtors, unit sales for 2015 increased 16.3%, with the median unit price up just 0.4%. The recent increase in supply and the still relatively elevated inventory of foreclosures likely continues to restrain price growth while volume increases.

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

<u>Year</u>	<u>Value of Construction in Current Dollars (\$ in millions)</u>	<u>Change</u>	<u>Number of Permits Issued</u>	<u>Change</u>
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
2013	2,811.2	16.7	17,918	17.7
2014	2,889.2	2.8	16,331	8.9
2015	3,080.6	6.6	17,057	4.4

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

Home Sales and Median Home Price

<u>Year</u>	<u>Unit Home Sales</u>	<u>Growth</u>	<u>Median Home Price</u>	<u>Growth</u>
2006	79,056	-21.0%	\$307,227	7.1%
2007	60,784	-23.1	306,585	-0.2
2008	44,563	-26.7	285,224	-7.0
2009	49,237	10.5	258,284	-9.4
2010	50,877	3.3	247,280	-4.3
2011	51,042	0.3	228,275	-7.7
2012	54,068	5.9	243,913	6.9
2013	61,073	13.0	256,355	5.1
2014	62,791	2.8	258,494	0.8
2015	73,044	16.3	259,638	0.4

Source: Maryland Association of Realtors.

Taxable Retail Sales

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. Although 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. Fiscal years 2012 and 2013 continued the upward trend as the economy continued to improve. Growth slowed in fiscal year 2013 as federal budget sequestration, the fiscal cliff of 2012, and the expiration of the federal payroll tax reduction weighed on income growth and confidence. Fiscal years 2014 and 2015 saw improvement from 2013, though the acceleration was largely attributable to vehicle sales. Basic taxable spending increased 1.6% in 2014 before rebounding to 5.2% in fiscal year 2015. Fiscal year 2015 also includes the first nine months of sales tax collections from internet retailer Amazon. While we cannot disclose the amount of those collections or the adjusted growth rate, it is safe to say those amounts had a significantly positive revenue impact. The following table illustrates the changes in taxable sales for fiscal years 2006 through 2015.

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

<u>Fiscal Year</u>	<u>Taxable Retail Sales</u>	<u>Change</u>
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
2013	78,254,038	1.9
2014	80,415,065	2.8
2015	84,825,062	5.5

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, data from the Maryland Association of Realtors indicates that the residential real estate market has somewhat stabilized. Following the housing price trough in 2011, prices have increased for four consecutive years, albeit at a slower pace in 2014 and 2015. Unit sales have increased each year since 2009. Notably, the median price in 2015 was 15.5% less than its 2006 peak and sales volume in 2015 was 27.1% below its 2005 peak. Of course, a return to prior peaks would not be expected in the short run in the absence of an unsustainable housing bubble. As a result of the housing bubble, risk remains in the outlook as the percentage of loans beginning the foreclosure process has remained elevated in comparison to pre-recession levels, and there may be an inventory of other units that have been held from the market in anticipation of higher prices. The elevated number of foreclosures was expected as Maryland employs a judicial foreclosure process.

The Port of Baltimore. As one of the largest ports on the East Coast by tonnage, in 2015 the Port of Baltimore handled 32.4 million tons of foreign commerce cargo valued at \$51.5 billion. This represented a 9.7% increase in tons from 2014; however, valuation decreased 2.5%. 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 was completed in 2016, will permit longer and wider ships to pass and other than Baltimore, few east coast ports have 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 in the State. 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 by 2020 and of that, more than 15,000 would be direct, more than 22,000 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; for this reason, 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. 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.

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**SUMMARY OF CERTAIN PROVISIONS OF THE
LEGAL AND FINANCING DOCUMENTS
DEFINITIONS OF CERTAIN TERMS**

In addition to the terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in this Official Statement. Terms used but not defined in this Official Statement shall have the meanings set forth in the Conditional Purchase Agreement and the Trust Agreement.

Recitals and Definitions in Other Agreements. Certain terms used herein are defined in Appendix A to the Conditional Purchase Agreement and the Trust Agreement, respectively. Terms used in the Conditional Purchase Agreement and the Trust Agreement shall have the meanings set forth in Appendix A to the Conditional Purchase Agreement and the Trust Agreement, respectively, unless a different meaning clearly appears from the context.

“Acquisition Costs” means all costs paid or to be paid to acquire the Project in accordance with the Conditional Purchase Agreement.

“Failure to Appropriate” means that sufficient funds for the payment of the Purchase Installments due under the Conditional Purchase Agreement in the next succeeding Fiscal Year have not been appropriated by the Maryland General Assembly in its annual appropriations.

“Interest Payment Date” means June 15 and December 15 of each year, commencing June 15, 2017.

“Net Proceeds” means the amount remaining from the gross proceeds of any insurance claim or condemnation award after deducting all expenses (including reasonable attorney’s fees) incurred in the collection of such claim or award.

“Purchase Price” means the amount so characterized as the price to acquire the Project outright on a payment date for Purchase Installments as set forth in Exhibit D attached to the Conditional Purchase Agreement and shall (with respect to any prepayment) be equal to the then outstanding principal balance of the total purchase price due with respect to the Project.

“Revenues” means (i) all payments to be made by the State to the Seller pursuant to the Conditional Purchase Agreement, (ii) the proceeds of the Certificates and all amounts from time to time on deposit in the funds and accounts established by the Trust Agreement (except for the amounts on deposit in the Rebate Fund), (iii) all other revenues derived from the leasing or operation of the Project (the “Project Revenues”), and (iv) any additional revenues derived from leases by the MPA of all other facilities for the acceptance and storage of imported forest products (the “Additional Revenues”).

**SUMMARY OF CERTAIN PROVISIONS OF THE
CONDITIONAL PURCHASE AGREEMENT**

The following is a summary of certain provisions of the Conditional Purchase Agreement . This summary is not a complete recital of the terms of the Conditional Purchase Agreement, and reference is made to the Conditional Purchase Agreement for a complete statement of its terms.

Term of Agreement (Sections 4.01 and 4.02)

The Conditional Purchase Agreement shall be in effect beginning on the date specified therein and shall remain in effect until the Purchaser has paid the Purchase Price to the Seller. The Conditional Purchase Agreement is subject to earlier termination as set forth in Section 4.02, and, if such termination occurs prior to the full payment of the Purchase Price of the Project, the Purchaser shall have no right to receive any refund of any Purchase Installments made by the Purchaser.

The Term will terminate upon the earliest of any of the following events: (a) the termination of the Conditional Purchase Agreement in the event of nonappropriation of funds pursuant to Section 6.06 of the Conditional Purchase Agreement; (b) the obtaining by the Purchaser of full ownership rights to the Project granted under the provisions of Article IX or Article XI of the Conditional Purchase Agreement; (c) a default by the Purchaser and the Seller's election to terminate the Conditional Purchase Agreement under Article XIII thereof; or (d) the payment by the Purchaser of all Purchase Installments required to be paid by the Purchaser under the Conditional Purchase Agreement and any other sums required to be paid under the Conditional Purchase Agreement and the delivery of a release of lien on the Revenues from the Seller to the Purchaser.

Nonappropriation (Section 6.06)

In the event sufficient funds shall not be appropriated for the payment of the Purchase Installments required to be paid under Exhibit D to the Conditional Purchase Agreement to continue the acquisition of the Seller's interest in the Project, the Purchaser may terminate the Conditional Purchase Agreement at the end of the last Fiscal Year or earlier date for which an appropriation is available and the Purchaser shall not be obligated to make payment of the Purchase Installments provided for in the Conditional Purchase Agreement beyond the last date for which an appropriation is available. The Purchaser shall deliver written notice to the Seller of such termination no later than seven (7) days after the Purchaser has knowledge that an appropriation will not be available. The failure to give such notice shall neither extend the Term beyond such Fiscal Year nor affect the termination of the Conditional Purchase Agreement pursuant to Section 6.06. Upon termination of the Conditional Purchase Agreement for nonappropriation, the obligations of the Purchaser requiring the expenditure of money will cease so long as all payments previously approved or appropriated have been made.

Commencing with the immediately succeeding Fiscal Year, all interest of Purchaser in the Revenues necessary to pay the debt service on the Certificates will be collected by the MPA and conveyed to the Seller, until the date the Purchase Price is paid. No assurance is given that such Revenues will be sufficient to pay the Purchase Installments, when due, or the Purchase Price. The occurrence of a Failure to appropriate shall not constitute an Event of Default.

Purchase Installments to be Unconditional (Section 6.03)

The obligation of the Purchaser to make payment of the Purchase Installments required under the Conditional Purchase Agreement and to perform and observe the other covenants and agreements contained therein shall be absolute and unconditional in all events except as expressly provided in the Conditional Purchase Agreement. Notwithstanding any dispute between the Purchaser and the Seller or any other person, or any defects, breakdowns or malfunctions in any portion of the Project, the Purchaser shall make all payments of Purchase Installments when due and shall not withhold any part of any Purchase Installments pending final resolution of such dispute or repair of the Project or any portion thereof nor shall the Purchaser assert any right of set-off, cross-claim, recoupment, or counterclaim against its obligation to make such payments required under the Conditional Purchase Agreement. The Purchaser's obligation to make Purchase Installments during the Term shall not be abated through accident or unforeseen circumstances.

Continuation of Term by the Purchaser (Section 6.04)

The Purchaser agrees, subject to the provisions of Section 6.06 of the Conditional Purchase Agreement, to pay the Purchase Installments due thereunder. The Purchaser reasonably believes that funds of an amount sufficient to make all Purchase Installments during the Term will be available. The Purchaser agrees to use its best efforts and to do all things lawfully within its power annually to recommend the inclusion of such funds in the budget of the Governor to be submitted to the Maryland General Assembly in its next Fiscal Year budget from which the Purchase Installments may be made.

Promptly upon approval by the Maryland General Assembly in subsequent years of such appropriations pertaining to the Project, but in any event not later than sixty (60) days prior to the final day of the Fiscal Year, the Purchaser shall furnish a fully-executed certificate to the Trustee (with a copy to the Seller) in the form of Appendix B to the Conditional Purchase Agreement which shall certify that the Maryland General Assembly has authorized appropriations sufficient to enable the Purchaser to make the payments required under the Conditional Purchase Agreement for the immediately succeeding Fiscal Year.

Nonsubstitution (Section 6.05)

The Purchaser agrees, to the extent permitted by law and subject to applicable public policy, not to terminate the Conditional Purchase Agreement under Section 6.06 in any Fiscal Year for which sufficient funds are appropriated for the payment of Purchase Installments due in that Fiscal Year for the acquisition, retention and/or operation of any portion of the Project. The Purchaser shall not fail to seek or obtain an appropriation for the Project in order to acquire (through construction, purchase, lease or otherwise) other facilities or equipment in substitution for the Project. It is the intention of the parties to the Conditional Purchase Agreement that any official or agency of the State, for the use of the Department, that may be required to take any action in order to carry out the provisions of the Conditional Purchase Agreement (including, without limitation, the Department and its officials) shall take such actions. The Purchaser agrees to apply funds that are appropriated for the Project to the payment of its obligations under the Conditional Purchase Agreement.

Essential Use (Section 6.07)

The Purchaser represents that the Project will be essential for the operations of the Purchaser and in order to meet the needs of the State of Maryland and that the Purchaser is in immediate need of the Project in order to meet such needs.

Ownership of the Project (Section 7.01)

Ownership of the Project and any and all additions, accretions, repairs, replacements or modifications will vest in the Purchaser, subject to the terms of the Conditional Purchase Agreement. In the event of default as set forth in Section 13.01 or nonappropriation as set forth in Section 6.06, the Purchaser shall cause all of the Revenues necessary to pay the debt service on the Certificates to be transferred to the Seller or its assignee in the manner set forth in Section 6.06.

The Purchaser's rights of possession in the Project shall not limit, waive or prejudice any right of the Seller to receive all of the Revenues as necessary to pay debt service on the Certificates, as provided in Section 13.02(b) of the Conditional Purchase Agreement, if an Event of Default shall have occurred and be continuing or if a non-appropriation shall have occurred pursuant to the Conditional Purchase Agreement.

Financing Statements (Section 7.02)

The Purchaser agrees to execute any documents, including financing statements, affidavits, notices and similar instruments, in form satisfactory to the Seller, which the Seller deems necessary or appropriate to give notice of the Seller's and Trustee's interest in the Revenues and, upon assignment, the interest of any assignee of the Seller in the Revenues, and to permit Seller to exercise its rights and obligations under the Conditional Purchase Agreement.

Operation and Maintenance of Project by Purchaser (Section 8.01)

The Purchaser shall cause proceeds of the Certificates, to the extent available, to be applied, pursuant to the provisions of the Trust Agreement, to the acquisition, construction, renovation and improvement of the Project. The Purchaser agrees that during the Term, the Purchaser, at the Purchaser's own cost and expense, will provide for or cause the Project and every part and parcel thereof to be operated and maintained in good repair, working order and condition and that the Purchaser, from time to time, will make or cause to be made all necessary and proper repairs, replacements and renewals necessary for the same. The Seller shall have no responsibility under the Conditional Purchase Agreement in any of these matters or for the making of improvements or additions to the Project.

Taxes, Other Governmental Charges and Utility Charges (Section 8.03)

The parties to the Conditional Purchase Agreement contemplate that the Project will be used for a governmental or proprietary purpose of the Purchaser and, therefore, that the Project will be exempt from all taxes presently assessed and levied with respect to real or personal property. In the event that the use, possession or acquisition of the Project is found to be subject to taxation in any form, the Purchaser will pay or cause to be paid

during the Term, as the same respectively become due, subject to reasonable rights to defer and contest the applicability of any such charge (and as to which the Seller agrees, upon reasonable notice from the Purchaser, to join and assist, at no expense or liability to the Seller), all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project and any land, improvements, personal property or other property acquired by the Purchaser in substitution for, as a renewal or replacement of, or a modification, improvement, accretion, accessory or addition to the Project, or with respect to the Purchaser's possession or use of the Project, together with any interest or penalty thereon, as well as all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project; provided that, with respect to any governmental charges that may lawfully be paid in installments over a period of years, the Purchaser shall be obligated to pay such installments as are accrued during such time as the Conditional Purchase Agreement is in effect.

Insurance (Section 8.04)

The Purchaser shall, during the Term, cause property insurance or self-insurance (by means of a self-insurance fund set aside and maintained for that purpose) to be carried and maintained with respect to the Project in the amounts customarily maintained for real and personal property of the nature of those comprising the Project. All insurance proceeds from property losses shall be payable as provided in the Conditional Purchase Agreement. The Purchaser, on or before the expiration date of any coverage, shall furnish to the Seller and the Trustee a duly executed certificate as evidence that such coverage is continuing throughout the Term. The Purchaser may insure the Project under a blanket insurance policy or policies of self-insurance which covers not only the Project but other properties. Notwithstanding anything in the Conditional Purchase Agreement to the contrary, the Purchaser shall at all times cause property damage insurance to be maintained or self-insurance in an amount equal to the principal amount of the Certificates at the time outstanding and interest thereon for the next succeeding 6-month period.

During the Term, with respect to insurance coverage for public liability regarding the Project, the Purchaser shall maintain in effect such insurance or self-insurance as the State generally maintains for similar liabilities and occurrences. Any insurance coverage issued pursuant to Section 8.04 shall be so written or endorsed as to make losses, if any, payable to the Purchaser, the Seller and the Trustee as their respective interests may appear under the Conditional Purchase Agreement. The Net Proceeds of the insurance required in Section 8.04 shall be paid to the Trustee and applied as provided in Sections 9.01 and 9.02. The insurance coverage provided for in Section 8.04 shall contain a provision to the effect that the insurer shall not cancel the policy or modify it materially or adversely to the interest of the Seller and the Trustee without first giving written notice thereof to the Seller and the Trustee at least 20 days in advance of such cancellation.

If the Purchaser provides the insurance described in the Conditional Purchase Agreement through self-insurance, the Purchaser shall deliver to the Seller and the Trustee a letter certifying that such insurance is being provided by the Purchaser and setting forth the coverage provided by such self-insurance, and such other information as the Seller may reasonably require. To the extent that the Purchaser provides any portion of the required insurance required under the Conditional Purchase Agreement under a program of self-insurance, the Purchaser shall provide the Trustee within 120 days after the end of the Purchaser's Fiscal Year an independent actuarial review of such self-insurance program.

In the event the Purchaser shall fail to cause the full insurance coverage required by the Conditional Purchase Agreement to be maintained or shall fail to cause the Project to be kept in good repair and operating condition, upon written notice to the Purchaser, the Seller may (but shall be under no obligation to) purchase the required property insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof. The Purchaser agrees to pay all amounts so advanced therefor by the Seller, which amounts shall be added to the Purchase Installment for the then current Fiscal Year of the Purchaser.

Damage, Destruction and Condemnation (Section 9.01)

If prior to the termination of the Term (a) the Project or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty or (b) title to, or the temporary use of, the Project or any part thereof or the estate of the Purchaser or the Seller in the Project or any part thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Purchaser shall give notice of its intention to file an insurance claim and the Seller will cause the Net Proceeds of

any insurance claim or condemnation award to be deposited in the Insurance and Condemnation Fund under the Trust Agreement. The Net Proceeds of any insurance, including the proceeds of any self-insurance fund but not including the proceeds of any public liability insurance, and of any condemnation award received on account of any damage, destruction or taking of the Project shall be made available to the Purchaser upon its request to replace, repair, rebuild, restore or modify the Project pursuant to the requisition procedures set forth in Section 4.05 of the Trust Agreement. Pending such application, such proceeds may be invested by the Trustee at the direction of the Purchaser in Qualified Investments (as defined in the Trust Agreement) that mature or are redeemable at the option of the holder not later than such times as shall be necessary to provide moneys when needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the Purchaser shall notify the Trustee, within 60 days of the receipt by the Purchaser of written notice from the Trustee that the Trustee has received insurance or condemnation award proceeds, whether the Purchaser intends to replace or repair the property in respect of which such proceeds were received. The Net Proceeds of any insurance, including the proceeds of any self-insurance fund or of any condemnation award but not including the proceeds of any public liability insurance, not applied to repairing or replacing damaged, destroyed or taken property, or in respect of which notice in writing by the Purchaser of its intention to apply the same to the work of repairing or replacing the property damaged, destroyed or taken shall not have been given to the Trustee within six months of receipt of such proceeds by the Trustee, or which the Purchaser shall at any time during such period have notified the Trustee are not to be so applied, shall forthwith be applied to the redemption of Certificates in the manner specified in the Trust Agreement.

Notwithstanding any provisions of the Conditional Purchase Agreement relating to the application of amounts in any fund under the Trust Agreement, upon or after the occurrence of an Event of Default under the Conditional Purchase Agreement or the Trust Agreement, the Trustee shall apply amounts in the various funds and accounts therein as provided in the Trust Agreement. Except as provided above, the Purchaser shall not, however, be entitled to any diminution of the amounts payable under Article VI of the Conditional Purchase Agreement.

Insufficiency of Net Proceeds (Section 9.02)

If the Net Proceeds are insufficient to pay in full the cost of any replacement, repair, rebuilding, restoration or modification referred to in Section 9.01 of the Conditional Purchase Agreement, the Purchaser shall either (a) complete the work and pay any cost in excess of the amount of the Net Proceeds (the Purchaser agrees that, if by reason of such insufficiency of the Net Proceeds, the Purchaser shall make any payments pursuant to the provisions of Section 9.02, the Purchaser shall not be entitled to any reimbursement therefor from the Seller or the Trustee nor shall the Purchaser be entitled to any diminution of the amounts payable under Article VI of the Conditional Purchase Agreement), or (b) if the Purchaser is not in default under the Conditional Purchase Agreement and the Trustee has received all compensation due and owing pursuant to Section 1.01(j) of the Conditional Purchase Agreement, pay to the Seller the amount of the then applicable Purchase Price as set forth on Exhibit D to the Conditional Purchase Agreement, plus a pro rata allocation of interest, at the rate or rates utilized to establish the then unpaid Purchase Installments, from the prior due date of a Purchase Installment until the date of the payment, and, upon such payment, the Term shall terminate. The amount of the Net Proceeds in excess of the then applicable Purchase Price, if any, may be retained by the Purchaser.

Assignment by the Seller (Section 12.02)

(a) The Seller may assign its interest in the Revenues and its rights under the Conditional Purchase Agreement, including but not limited to the right of the Seller to receive payments thereunder, to one or more persons in connection with any financing of the Project or for any other lawful purpose.

(b) No assignment or reassignment of the Seller's right, title or interest in the Conditional Purchase Agreement or the Revenues shall be effective unless and until the Purchaser shall have received a duplicate original counterpart of the document by which the assignment or reassignment is made, disclosing the name and complete mailing address of each such assignee (provided, however, that if such assignment is made to a bank or trust company as paying or escrow agent for holders of participation certificates in the Conditional Purchase Agreement, it shall thereafter be sufficient that a copy of the agency or trust agreement shall have been deposited with the Purchaser until the Purchaser shall have been advised that such agency or trust agreement is no longer in effect).

(c) Upon receipt of the notice described above, the Purchaser agrees to make all payments to the assignee designated in the assignment, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Conditional Purchase Agreement or otherwise) that the Purchaser may from time to time have against the Seller, or the assignee, and shall, if so requested, acknowledge the assignment in writing, but such acknowledgment shall in no way be deemed necessary to make the assignment effective. The Purchaser agrees to execute all documents, including, but not limited to, notices of assignment, security agreements, chattel mortgages and financing statements which may be reasonably requested by the Seller or its assignee to protect their interests in the Revenues and under the Conditional Purchase Agreement. The Seller agrees that any assignment shall include a designation of a single assignee or trustee or paying agent who will act as the recipient of Purchase Installments and be solely responsible for further distribution, if any, of moneys to other assignees.

Consummation of Purchase (Section 11.01)

The Conditional Purchase Agreement and the Seller's interest in the Revenues shall terminate: (a) at the end of the Term, upon payment in full of all Purchase Installments due under the Conditional Purchase Agreement and all other sums required to be paid thereunder; or (b) prior to the end of the Term, on any timely date for the payment of a Purchase Installment, upon payment by the Purchaser of the then applicable Purchase Price in conjunction with the Purchase Installment then due and owing, as provided in Section 11.02 of the Conditional Purchase Agreement; or (c) upon payment of the applicable Purchase Price and interest to the Seller pursuant to Section 9.02 of the Conditional Purchase Agreement.

Upon the occurrence of any of the above, the Seller shall deliver to the Purchaser written releases of its rights in the Revenues and other documents and instruments as the Purchaser shall reasonably require to evidence the transfer of all right and interest of the Seller in the Revenues free and clear of all liens and encumbrances created by or arising, directly or indirectly, through the Seller, together with such terms, stipulations and further assurances as the Purchaser may reasonably request.

Prepayment (Section 11.02 and First Amendment to Conditional Purchase Agreement)

(a) The Purchaser may prepay in full the remaining balance of the Purchase Price, without premium, at any time if the Net Proceeds from insurance received upon damage or destruction of the Project or from condemnation of the Project are insufficient to replace, repair, rebuild, restore or modify the Project and the Purchaser determines not to use its own funds for such purpose.

(b) There shall be applied as a prepayment of the Purchase Price, at any time, after the damage, destruction or condemnation of the Project, any excess insurance or condemnation proceeds remaining after the replacement, repair, rebuilding, restoration or modification of the Project.

(c) Upon any partial prepayment of the Purchase Price, the Trustee, upon the written direction of the Purchaser, shall amend Exhibit D to the Conditional Purchase Agreement to pay in such order of maturity as directed by the Purchaser the principal components of all remaining Purchase Installments and shall recalculate the amount of the interest component of each remaining Purchase Installment using the instructions set forth in Exhibit E to the Conditional Purchase Agreement.

Certificates to be Tax Exempt (Section 14.12)

The Purchaser covenants that, unless and until the Purchaser has been advised by Bond Counsel that failure to comply will not cause interest on the Certificates to become subject to federal income taxation, the Purchaser shall comply with the provisions of the Code applicable to the Certificates, including, without limitation, any provisions regulating or restricting the times within which, or the purposes for which, proceeds of the Certificates may be expended, any provisions restricting the yields that may be earned on the investment of proceeds of the Certificates or other funds relating to the Certificates, any provisions requiring the rebate to the United States of earnings received from the investment of proceeds of the Certificates or other funds relating to the Certificates, and any provisions requiring the filing of information or reports regarding the Certificates with the Internal Revenue Service.

The Purchaser further covenants that it shall make such use of the Project and of the proceeds of the Certificates, regulate the investment of the proceeds thereof, and take such other and further actions as may be required under the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Certificates (unless and until the Purchaser has been advised by Bond Counsel that failure to comply will not cause interest on the Certificates to become subject to federal income taxation).

All officers, employees and agents of the Purchaser shall take such actions, provide such certifications of facts and estimates and enter into such further covenants and agreements regarding the application and investment of the proceeds of the Certificates as may be necessary or appropriate from time to time, in the opinion of Bond Counsel, to comply with, or to evidence the Purchaser's compliance with, the covenants set forth above. The Purchaser shall be permitted to enter into an agreement with the Trustee or other persons under which such persons assume responsibility for such actions as are necessary to comply with such covenants.

The Tax and Section 148 Certificate, concerning use of the proceeds of the Certificates and the Project, to be executed by the Department and dated the date of issuance and delivery of the Certificates shall constitute a certificate of the Purchaser. The Purchaser agrees to be bound by the covenants and representations set forth therein.

Events of Default Defined (Section 13.01)

The following shall be "Events of Default" under the Conditional Purchase Agreement and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Conditional Purchase Agreement, any one or more of the following events:

(a) Failure by the Purchaser (i) to pay any Purchase Installment at the time specified in the Conditional Purchase Agreement; or (ii) to pay any other payment required to be paid under the Conditional Purchase Agreement (other than any Purchase Installments and those payments to the Trustee provided for in Section 1.01(j)) of the Conditional Purchase Agreement, at the time specified therein and expiration of a grace period of fifteen (15) days; however, payments required by Section 8.03 of the Conditional Purchase Agreement shall be subject to the Purchaser's rights as set forth therein to defer and contest; or (iii) to observe and perform its obligations referred to in Sections 8.01, 9.01, 9.02 of the Conditional Purchase Agreement and those regarding insurance or self-insurance for casualty and property damage; or

(b) Failure by the Purchaser to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in Section 13.01(a), for a period of 30 days after written notice to the Purchaser by the Seller, specifying such failure and requesting that it be remedied, unless the Seller shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated on the notice cannot be corrected within the applicable period, the Seller will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Purchaser within the applicable period and diligently pursued until the default is corrected.

The foregoing provisions are subject to the provisions of Section 6.06 of the Conditional Purchase Agreement. The provisions of paragraph (b) above are further subject to the limitation that, if by reason of acts of God, strikes, lockouts or other industrial disturbances, acts of public enemies, orders or restraint of any kind of the government of the United States of America or any of its departments, agencies or officials, or any civil or military authority, insurrections, riots, landslides, earthquakes, fires, storms, droughts, floods, explosions, breakage or accident to machinery, transmission pipes or canals, or any other cause or event not reasonably within the control of the Purchaser and arising without its fault or negligence, the Purchaser is unable in whole or in part to carry out its agreements referred to in paragraph (b) above, the Purchaser shall not be deemed to be in default under the Conditional Purchase Agreement during the continuance of such inability.

Remedies on Default (Sections 13.02)

Whenever any Event of Default referred to in Section 13.01 of the Conditional Purchase Agreement shall have happened and be continuing, the Seller shall have the rights, at its sole option, without any further demand or notice, to take any one or any combination of the following remedial steps:

(a) Terminate the Conditional Purchase Agreement and direct the Purchaser to cause the MPA to transfer the Revenues necessary to pay the debt service on the Certificates to the Trustee without any court order or other process of law until the date of payment of the Purchase Price.

(b) Institute appropriate legal proceedings to require the Purchaser to cure any such Event of Default by observing, complying with or performing its obligations under the Conditional Purchase Agreement.

Revenues necessary to pay the debt service on the Certificates transferred to the Seller following any non-appropriation or Event of Default shall be applied in the following manner:

FIRST, to pay all proper and reasonable costs and expenses associated with the collection of the Revenues and any amounts otherwise due and owing to the Trustee under the Conditional Purchase Agreement or the Trust Agreement;

SECOND, to the payment to the persons entitled thereto of the unpaid principal of and interest on any Outstanding Certificate that shall have become due and payable, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal of and interest on such Certificates due and payable on any particular date, together with such interest, then first to the payment of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal, ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in such Certificates;

THIRD, to the payment of the interest on and the principal of the Outstanding Certificates becoming due and payable in such month; and

FOURTH, any balance remaining on the last day of each month after the foregoing payments shall be paid to the Purchaser.

Whenever moneys are to be applied by the Trustee pursuant to the provisions herein, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee may determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; provided, however, that the Trustee shall in all events liquidate Qualified Investments in the Certificate Fund and apply amounts credited to such fund to the payment of the principal or Redemption Price of and interest on the Certificates secured thereby on the due dates for such payments. The setting aside of such moneys in trust for the benefit of all Certificate Holders shall constitute proper application by the Trustee, and the Trustee shall incur no liability whatsoever to the Purchaser, to any Certificate Holder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Trust Agreement as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date for the Certificates unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal of the Certificates to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. However, the provisions of this paragraph shall be subject in all respects to the provisions of the Certificates with respect to the payment of defaulted interest on the Certificates. The Trustee shall not be required to make payment to the Holder of any Certificates unless such Certificates shall be presented to the Trustee directly or through the appropriate securities depository for appropriate endorsement.

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement. This summary is not a complete recital of the terms of the Trust Agreement, and reference is made to the Trust Agreement for a complete statement of its terms.

Creation of Funds and Accounts (Section 4.01)

The following funds and accounts are created for the benefit of the holders of the Certificates, and to the extent provided in the Trust Agreement, any Additional Certificates Outstanding under the Trust Agreement, and shall be held by the Trustee under the Trust Agreement:

Project Fund:
Costs of Issuance Account;

Certificate Fund:
Interest Account;
Principal Account;
Redemption Account;

Insurance and Condemnation Fund; and

Rebate Fund

For purposes of internal accounting, the funds and accounts created pursuant to Article IV of the Trust Agreement may contain one or more accounts and subaccounts.

The moneys held by the Trustee under the Trust Agreement are irrevocably held in trust for the purposes specified in the Trust Agreement, and such moneys shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Seller, the State, the Trustee or any Certificate Holder.

Establishment and Application of Project Fund (Section 4.02)

There is established in trust a special fund designated the "Project Fund" and within the Project Fund a "Costs of Issuance Account" which shall be held by the Trustee for the benefit of the Certificate Holders and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The Trustee shall administer the Project Fund as provided in Article IV of the Trust Agreement.

(a) Moneys on deposit in the Project Fund shall be paid by the Trustee from the Costs of Issuance Account for the costs of issuance of the Certificates upon receipt from the State of a duly executed Requisition Form in substantially the form attached as Exhibit B to the Trust Agreement, provided that the Trustee shall be authorized to pay such amount from the Costs of Issuance Account pursuant to a facsimile form of such duly executed Requisition Form. Payment shall be made directly to the person(s) specified in such form. Any moneys in the Costs of Issuance Account not otherwise needed to pay costs of issuance may at the direction of the Purchaser be used to pay other costs of the financings or the costs of the acquisition of the Project in accordance with Section 4.02(c) of the Trust Agreement.

(b) Moneys on deposit in the Project Fund shall be paid by the Trustee to pay the costs of the Project provided that no money shall be disbursed from the Project Fund to pay any portion of the costs of the Project unless, prior to or simultaneously with the disbursement of such money, the Trustee shall have received a duly executed Requisition Form in substantially the form attached as Exhibit B to the Trust Agreement and signed by a State Representative (including a facsimile form thereof). Upon receipt of such Requisition Form, the Trustee shall make payment either directly to the payee named therein, or, if the State can establish that it has already made such payment, to the State as reimbursement.

(c) Upon the earlier of (i) three years from the date of initial authentication and delivery of the Certificates and (ii) the payment of all of the Acquisition Costs and the filing with the Trustee of the Acceptance Certificate by the State, the Trustee shall transfer any moneys remaining in the Project Fund to the Certificate Fund upon the written direction of the State; provided that the proceeds of the sale of the Certificates, including any premium paid for such Certificates in excess of the face amount thereof, together with investment earnings on such proceeds and premium, may be transferred upon the direction of the State from time to time from the Project Fund to the Certificate Fund for the purpose of paying the maturing principal of and interest on the Certificates as they become due.

(d) If the State shall at any time determine that the amount on deposit in the Project Fund exceeds the amount necessary to pay the costs of the Project, the Trustee shall transfer the amount of the excess to the Certificate Fund as the State shall direct in writing, upon advice of Bond Counsel.

Establishment and Application of Certificate Fund (Section 4.03)

There is established in trust a special fund designated the "Certificate Fund," which shall be held by the Trustee for the benefit of the Certificate Holders and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The Trustee shall administer the Certificate Fund as provided in Article IV of the Trust Agreement. Within the Certificate Fund there are established the Interest Account, the Principal Account and the Redemption Account.

(a) Except as expressly provided for the deposit of proceeds in Section 2.03, the Trustee shall deposit Revenues immediately upon their receipt, including (without limitation) amounts received by the Trustee pursuant to the Conditional Purchase Agreement, as follows.

FIRST: to the Interest Account, the amount, if any, necessary to make the amount on deposit in the Interest Account equal to the interest to accrue on the Certificates until the earlier of (i) the immediately succeeding Interest Payment Date and (ii) any redemption date ;

SECOND: to the Principal Account or the Redemption Account (as the case may be), the amount, if any, necessary to make the amount on deposit therein equal to the principal amount or Redemption Price of the Certificates due on the earlier of (i) the immediately succeeding Interest Payment Date and (ii) any redemption date ; and

THIRD: to the Trustee, the accrued fees and expenses of the Trustee as set forth in Section 8.03 invoiced and remaining unpaid for a period of 60 days, with 15 days prior written notice to the State.

After making the payments required by items FIRST through THIRD above, the Trustee shall deposit any balance of the Revenues (other than proceeds deposited) held by the Trustee into the Interest Account or, upon the written request and direction of a State Representative, into the Redemption Account.

(b) Notwithstanding the foregoing provisions of the Trust Agreement, voluntary prepayments of Purchase Installments received by the Trustee and paid in accordance with Section 11.02 of the Conditional Purchase Agreement shall be deposited by the Trustee on the date of receipt in the Redemption Account or, in the case of the interest portion of any such prepayment, in the Interest Account.

(c) Notwithstanding subsection (a), upon receipt of any late payment of a Purchase Installment, the Trustee shall deposit such Purchase Installment as follows:

FIRST: to the Interest Account, an amount equal to the amount of interest, if any, theretofore due to Certificate Holders and unpaid;

SECOND: to the Principal Account or Redemption Account (as the case may be), an amount equal to the amount of principal, if any, or Redemption Price of the Certificates theretofore due to the Certificate Holders and unpaid;

THIRD: to the Trustee, the accrued and unpaid fees and expenses of the Trustee as set forth in Section 8.03;

FOURTH: to the Interest Account, the amount, if any, necessary to make the amount on deposit in the Interest Account equal to the interest to accrue on the Certificates until the earlier of (i) the immediately succeeding Interest Payment Date and (ii) any redemption date fixed in accordance with Article V; and

FIFTH: to the Principal Account, the amount, if any, necessary to make the amount on deposit therein equal to the principal amount or Redemption Price of the Certificates due on the earlier of (i) the immediately succeeding Interest Payment Date and (ii) any redemption date of which the Trustee shall then have knowledge.

After making the payments required by items FIRST through FIFTH above, the Trustee shall deposit any balance of such Purchase Installment in the Interest Account.

(d) On any Interest Payment Date and redemption date, the Trustee shall pay or cause to be paid out of the Interest Account the interest due on the Certificates on such date. On each Interest Payment Date and redemption date, the Trustee shall pay or cause to be paid out of the Principal Account or the Redemption Account (as the case may be) the principal or Redemption Price due on the Certificates on such date.

(e) If the State shall at any time determine that the amount on deposit in the Certificate Fund exceeds the amount necessary to pay the interest on the Certificates, the Trustee shall transfer the amount of the excess to any other fund or account established under the Trust Agreement, as the State shall direct, upon the advice of Bond Counsel.

(f) At the written request and direction of the State, the Trustee or its agent shall endeavor to purchase Certificates from amounts on deposit in the Principal Account or the Redemption Account for the most advantageous price then obtainable with reasonable diligence; provided, however, that amounts deposited in the Principal Account for the payment of the principal for the Certificates due on any date shall be applied solely to the purchase of Certificates maturing on such date until all such Certificates shall have been purchased or paid and provided further that no such purchase shall be made by the Trustee (i) within a period of 45 days immediately preceding any date fixed for redemption, except from moneys other than the moneys set aside or deposited for the payment of the principal of the Certificates due on such date, or (ii) at a price, including any brokerage or other charges, greater than the principal amount thereof and accrued interest thereon. The Trustee shall pay the interest due on such Certificates upon such purchase from the Interest Account.

(g) Upon the direction of a State Representative, the Trustee shall transfer to the Principal Account any amount on deposit in the Redemption Account not required to pay the Redemption Price of any Certificates. Upon the written direction of a State Representative, the Trustee shall set aside any amount on deposit in the Redemption Account for the redemption of particular Certificates and such direction, in which event all of the provisions of Article XII of the Trust Agreement shall be applicable to such Certificates and the amounts set aside for the payment of such Certificates. Amounts set aside for the redemption of Certificates and investment earnings on such amounts shall be applied to the payment of the interest due on such Certificates on or prior to the redemption date of such Certificates to the extent provided in such direction. The provisions of Section 4.03 shall in all respects be subject to Section 4.07.

Surplus (Section 4.04)

On June 15 and December 15 of each year, after the payment of all amounts due and payable on such date with respect to all of the Certificates and the amount of any fees and expenses of the Trustee, the Trustee shall, upon the State's request, pay any amount on deposit in the Interest Account of the Certificate Fund to the State for deposit into the Transportation Trust Fund.

Establishment and Application of Insurance Fund and Condemnation Fund (Section 4.05)

There is established in trust a special fund designated the "Insurance and Condemnation Fund," which shall be held by the Trustee for the benefit of the Certificate Holders and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The Trustee shall administer the Insurance and Condemnation Fund as provided in Article IV of the Trust Agreement.

Anything contained in the Trust Agreement to the contrary notwithstanding, Net Proceeds of any insurance claim or condemnation award received in accordance with Section 9.01 of the Conditional Purchase Agreement shall be deposited immediately upon their receipt by the Trustee in the Insurance and Condemnation Fund. The Trustee shall notify the State in writing of its receipt of any insurance or condemnation proceeds.

Moneys in the Insurance and Condemnation Fund shall be applied by the Trustee in accordance with Article IX of the Conditional Purchase Agreement for the following purposes:

(a) disbursement to or at the direction of the State to pay the costs of repair or replacement of lost, damaged, destroyed or taken property upon receipt from the State of a duly executed Requisition Form in substantially the form attached as Exhibit C to the Trust Agreement, provided that the Trustee shall be authorized to pay such amount from the Insurance and Condemnation Fund pursuant to a facsimile form of such duly executed Requisition Form;

(b) if the State shall not elect, in the manner provided by Section 9.01 of the Conditional Purchase Agreement, to repair or replace any lost, damaged, destroyed or taken property for which such moneys were received within six (6) months of such loss, damage, destruction or taking, the Trustee shall transfer such moneys to the Redemption Account of the Certificate Fund to be applied to the special mandatory redemption of Certificates on the earliest practicable redemption date fixed in accordance with Article V; provided, however, that in the event of the issuance of any Additional Certificates, such moneys shall be allocated by the Trustee between the payment of Certificates and Additional Certificates proportionately on the basis of the respective aggregate principal amount of Certificates and Additional Certificates then Outstanding; or

(c) if the State shall elect to prepay the Purchase Price as provided by Section 11.02 of the Conditional Purchase Agreement, the Trustee shall transfer such moneys to the Redemption Account of the Certificate Fund in an amount sufficient to provide for payment of the Redemption Price and to the Interest Account accrued interest on all outstanding Certificates to be applied to the special mandatory redemption of Certificates on the earliest practicable redemption date fixed in accordance with Article V; provided, however, that in the event of the issuance of any Additional Certificates, such moneys shall be allocated by the Trustee between the payment of Certificates and Additional Certificates proportionately on the basis of the respective aggregate principal amount of Certificates and Additional Certificates then outstanding and, then, to the State.

No-Arbitrage Covenants; Rebate Fund (Section 4.07)

The State covenants that it will not make, or (to the extent it exercises control or direction) permit to be made, any use of the proceeds of the Certificates, or of any moneys, securities or other obligations that may be deemed to be proceeds of the Certificates (collectively, the "Certificate Proceeds") within the meaning of Section 148 ("Section 148") of the Internal Revenue Code of 1986, as amended (the Code), and the regulations issued or proposed thereunder (the "arbitrage regulations") that would cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 and the arbitrage regulations. To the extent that provisions of Section 148 and the arbitrage regulations apply only to a portion of the Certificates, it is intended that the covenants of the State contained in Section 4.07 be construed so as only to require compliance with Section 148 and the arbitrage regulations to the extent of such applicability.

The Trustee shall hold and invest Certificate Proceeds in accordance with instructions of the State delivered pursuant to Section 4.06.

There is established in trust a special fund designated the "Rebate Fund," which shall be held by the Trustee for provision of any rebate to be made to the United States of America and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The Trustee shall administer the Rebate Fund as provided in Article IV.

Upon receipt of a written direction delivered to the Trustee given by the State directing the transfer of amounts on deposit in any fund or account created by the Trust Agreement to the Rebate Fund in order to provide for the rebate of such amounts to the United States of America pursuant to the Code, the Trustee shall make the transfer referred to therein, any other provision of the Trust Agreement to the contrary notwithstanding. The Trustee assumes no

responsibility for determining the amount of such rebate and will only transfer to the Rebate Fund or remit to the United States of America such amounts as the State so directs.

Amounts on deposit in the Rebate Fund from time to time required to be rebated to the United States of America pursuant to the Code shall be applied by the Trustee to the payment of such rebates in accordance with the written directions of the State Representative and shall not be pledged to the payment of the principal or Redemption Price of or interest on the Certificates. If amounts on deposit in the Rebate Fund are determined not to be required to be rebated to the United States of America, then such amounts shall be transferred by the Trustee to the Interest Account of the Certificate Fund at the written direction of the State.

Investments Authorized (Section 4.06)

Moneys held by the Trustee under the Trust Agreement shall be invested upon written order of a State Representative by the Trustee in Qualified Investments. Such investments shall be registered in the name of the Trustee and held by the Trustee except as indicated below. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration for the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment.

“Qualified Investments” means (a) direct obligations of the United States of America and securities the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America (“Government Obligations”); (b) receipts, certificates or other similar documents evidencing ownership of future principal or interest payments due on Government Obligations which are held in a custody or trust account in safe-keeping on behalf of the holders of said receipts or certificates by a bank which is a member of the Federal Deposit Insurance Corporation (“FDIC”) and which has combined capital, surplus and undivided profits of not less than \$25 million; (c) obligations of the Export-Import Bank of the United States, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the Federal National Mortgage Association, the Government National Mortgage Corporation, the Federal Financing Bank, the Small Business Administration, the Washington Metropolitan Area Transit Authority or the General Services Administration; (d) direct obligations of any state of the United States, or any subdivision or agency thereof, to the payment of which the full faith and credit of the state is pledged, rated “Aa” or better by Moody’s Investors Service, Inc. (“Moody’s”) and “AA” or better by Standard & Poor’s Ratings Services (“S&P”), or any obligation unconditionally guaranteed by any of the foregoing; (e) interest-bearing time deposits, bankers acceptances, certificates of deposit or similar instruments of any bank or trust company which has, or the parent, holding company or other controlling entity of which has, and whose obligations have, or the obligations of the parent, holding company or other controlling entity of which have, a rating in either of the two highest rating categories of either Moody’s or S&P; (f) deposits of any commercial bank or savings and loan association which is a member of FDIC and has combined capital, surplus and undivided profits of not less than \$3 million, provided that (i) such deposits are fully insured by FDIC; or (ii) to the extent not so insured, are secured by Government Obligations and (A) the securities are held by (1) the Trustee, (2) a Federal Reserve Bank, or (3) a bank which is a member of FDIC and which has combined capital, surplus and undivided profits of not less than \$25 million; and (B) the securities have a fair market value at least equal to 116% of the amount of the deposit, with the additional requirement that the Trustee liquidate the securities if any deficiency in the required percentage is not restored within two (2) business days of a monthly valuation; (g) investments in a money-market or other fund rated “AAAm” or “AAAm-G” by S&P, the investments of which fund are exclusively in obligations or securities described in clause (a), (b) or (c) above; and (h) repurchase agreements collateralized by Government Obligations or securities described in clause (a) above with (i) a registered broker/dealer subject to the jurisdiction of the Securities Investors Protection Corporation, or (ii) any bank which is a member of FDIC and which has combined capital, surplus and undivided profits of not less than \$50 million, provided that (A) the securities are held by the Trustee or a third party which is (1) a Federal Reserve Bank, or (2) a bank which is a member of FDIC and which has capital, surplus and undivided profits of not less than \$25 million and the Trustee shall have received written confirmation from said third party that it holds said securities; (B) a perfected first security interest under the Uniform Commercial Code or the book entry procedures described in 31 C.F.R. 306.1 or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; (C) the percentage of the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least (1) 100%, if the financial institution has an unsecured, unsecured and unguaranteed obligation rated Prime-1 or “A3” or better by Moody’s and “A-1” or “A” or better by S&P, or (2) 116%, if the financial institution does not carry the ratings specified in (1) above, with the

additional requirement that the repurchase agreement will have a term to maturity of thirty (30) days or less, or that the Trustee or custodian will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation.

For the purpose of determining the amount on deposit in any fund or account created by the Trust Agreement, all Qualified Investments credited to such fund or account shall be valued at the greater of market value and amortized cost (exclusive of accrued interest after the first interest payments following purchase). The Trustee may sell at the best price obtainable, or present for redemption, any Qualified Investment so purchased by the Trustee, whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Qualified Investment is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment.

Subject to the further provisions of the Trust Agreement, interest earned, profits realized or losses suffered by reason of the investment of any fund or account created by the Trust Agreement shall be credited or charged, as the case may be, to the fund or account for which such investment shall have been made.

The Trustee may sell or redeem any obligations in which moneys shall have been invested as provided in Section 4.06 to the extent necessary to provide cash in the respective funds or accounts to make any payments required to be made therefrom or to facilitate the transfers of moneys between various accounts as may be required or permitted from time to time pursuant to the provisions of the Trust Agreement. The proceeds from the sale of any investment shall be paid into the fund or account for which the sale thereof was made.

In determining the value of the assets of the accounts created by the Trust Agreement, investments and accrued interest thereon shall be deemed a part thereof. Investments shall be valued at amortized cost or current market value, whichever is greater, or at the Redemption Price thereof, if then redeemable at the option of the holder (in any case net of the cost of liquidating such investments).

Issuance of Additional Certificates (Section 7.10)

So long as the Conditional Purchase Agreement is in effect and no Event of Default shall have occurred and be continuing thereunder or under the Trust Agreement, Additional Certificates in addition to the Certificates may be issued from time to time under and secured by the Trust Agreement, subject to the conditions provided in Section 7.10 of the Trust Agreement, for the purpose of providing additional funds necessary (a) to acquire or renovate the Project for which the Certificates shall have theretofore been issued, (b) to pay all or a portion of the costs of repairing or restoring any damage to or destruction to the Project, and (c) to refund or advance refund any Outstanding Certificates. The authority to issue Additional Certificates shall include the authority to issue Additional Certificates in order to obtain funds to pay the costs to be incurred in connection with the issuance of any Additional Certificates. Each series of Additional Certificates shall be issued in such principal amounts, mature on such dates, bear interest at such rates and have such provisions for redemption and other terms and conditions not inconsistent with the Trust Agreement as shall be specified in a Supplemental Trust Agreement authorizing such Additional Certificates. Additional Certificates shall not bear interest at a variable rate.

Prior to the issuance of each series of Additional Certificates and the execution and delivery of a Supplemental Trust Agreement in connection therewith, the State and the Seller, or its assignee, shall enter into an amendment to the Conditional Purchase Agreement which shall provide among other things that, with the consent of the State, the Purchase Price and the Purchase Installments shall be increased and computed so as to amortize in full the principal of and interest on such Additional Certificates and any other costs in connection therewith.

Each series of Additional Certificates shall be authenticated in the form and manner set forth in the Trust Agreement, shall be deposited with the Trustee and thereupon shall be authenticated by the Trustee. Upon payment of the proceeds of sale of such series of Additional Certificates, including the interest, if any, accrued on such series of Additional Certificates to the date of delivery, such Additional Certificates shall be delivered by the Trustee to or upon the order of the purchasers thereof, but only upon receipt by the Trustee of:

- (a) a written request from a State Representative to issue such series of Additional Certificates;
- (b) original, executed counterparts of such Supplemental Trust Agreement and such amendment to the Conditional Purchase Agreement;
- (c) a certified copy of the proceedings of the State authorizing the issuance of such Additional Certificates, providing the terms thereof and providing for the sale thereof to the purchaser or purchasers thereof and further authorizing the execution and delivery of the supplement to or modification or amendment of the Conditional Purchase Agreement and the Trust Agreement required to provide for such Additional Certificates thereunder and under the Trust Agreement;
- (d) a request and authorization to the Trustee on behalf of the State to authenticate and deliver such Additional Certificates to the purchaser or purchasers therein identified upon payment to the Trustee of a sum specified in such request and authorization, plus any accrued interest on such Additional Certificates to the date of such delivery, the proceeds of such payment to be deposited as provided in such Supplemental Trust Agreement;
- (e) a written opinion of Bond Counsel, which may rely on the opinion of other counsel and which may be, without limitation, counsel to the Trustee or the State as to the matters set forth in clause (ii) below, to the effect that (i) the issuance of such Additional Certificates has been duly authorized, (ii) such Supplemental Trust Agreement and such amendments to the Conditional Purchase Agreement have been duly authorized, executed and delivered between the parties thereto and constitute valid and binding obligations of such parties and (iii) the issuance of such Additional Certificates will not adversely affect the tax-exempt status for Federal income tax purposes of interest paid on any Certificates or Additional Certificates outstanding and as to such other matters as may reasonably be requested by the Trustee; and
- (f) a written report of each Rating Agency then maintaining a rating on Outstanding Certificates and Additional Certificates (if any such rating is then maintained) that the rating to be assigned to such Additional Certificates is not lower than the rating then maintained by such rating agency on the Additional Certificates.

Subject to the provisions of the Supplemental Trust Agreement under which Additional Certificates are issued, Additional Certificates:

- (1) shall be dated, shall bear interest at such rate or rates, shall be payable and shall mature by their terms at such time or times as may be determined by the State;
- (2) shall be payable as to principal, redemption premium, if applicable, and interest at such place or places as the State may determine in any coin or currency of the United States of America which, at the time of payment, shall be legal tender for the payment of public and private debts;
- (3) shall have such particular designations added to their title as the State may determine and shall be in such form and denominations as may be determined by the State;
- (4) may be limited as to the maximum principal amount thereof which may be authenticated by the Trustee and delivered or which may be at any time outstanding, and an appropriate insertion in respect of such limitation may, but need not, be made in the Additional Certificates;
- (5) may contain provisions for the redemption thereof at such Redemption Price or prices, at such time or times, upon such notice, in such manner and upon such other terms and conditions, not inconsistent with the provisions of the Trust Agreement, as may be determined by the State and permitted by applicable law;
- (6) may have mandatory redemption provisions requiring payments for sinking fund installments in such amounts, at such time or times, in such manner and upon such terms and conditions, not inconsistent with the provisions of the Trust Agreement, as may be determined by the State;

- (7) may contain such provisions with respect to acceleration of maturity on the happening of specified events, not contrary to the provisions of the Trust Agreement; and
- (8) may contain such other additional terms and conditions, not contrary to the provisions of the Trust Agreement, as may be determined by the State.

Modifications and Supplements to Trust Agreement (Section 10.01)

Without the consent of the Certificate Holders, the State and the Trustee may from time to time, and at any time, enter into such Supplemental Trust Agreements as shall not be inconsistent with the terms and provisions of Sections 10.01 and 10.02 and, in the opinion of the State and the Trustee, shall not be detrimental to the interests of the Certificate Holders, which Supplemental Trust Agreements shall thereafter form a part thereof:

- (a) to cure any ambiguity or formal defect or omission or to correct any inconsistent provisions in the Trust Agreement or in any Supplemental Trust Agreement;
- (b) to grant to or upon the Trustee or the Certificate Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Trustee or the Certificate Holders;
- (c) to authorize the issuance of Additional Certificates pursuant to Section 7.10;
- (d) to confirm, as further assurance, any pledge under and the subjection to any lien on, or claim or pledge of (whether created or to be created by the Trust Agreement), the trusts created under the Trust Agreement;
- (e) to surrender any right, power or privilege reserved to or conferred upon the State by the Trust Agreement; or
- (f) to make any other change in the Trust Agreement that, in the opinion of the State and the Trustee, shall not prejudice in any material respect the rights of the Holders of Certificates Outstanding at the date as of which such change shall become effective.

Not less than thirty (30) days prior to the execution of any Supplemental Trust Agreement for any of the purposes of Sections 10.01 and 10.02, the Trustee shall cause a notice of the proposed execution of such Supplemental Trust Agreement to be mailed, postage prepaid, to all Certificate Holders at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Trust Agreement and shall state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Certificate Holders.

Modifications of Trust Agreement with Consent of Certificate Holders; Restrictions on Modification; Notice; Binding Effect (Section 10.02)

Subject to the terms and provisions contained in Section 10.02 and not otherwise, Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding shall have the right from time to time, anything contained in the Trust Agreement to the contrary notwithstanding, to consent to and approve the execution by the State and the Trustee of a Supplemental Trust Agreement for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement or in any Supplemental Trust Agreement; provided, however, that nothing in the Trust Agreement shall permit or be construed as permitting:

- (a) a preference or priority of any Certificate or Certificates over any other Certificate or Certificates;
- (b) a change in the interest rates, payment terms or payment dates of any of the Certificates;
- (c) a reduction in the aggregate principal amount of the Certificates without the consent of the holders of such Certificates; or

- (d) the adoption of a provision in any Supplemental Trust Agreement which decreases the obligations of the State under the Conditional Purchase Agreement.

Nothing contained in the Trust Agreement, however, shall be construed as making necessary the approval by Certificate Holders of the execution of any Supplemental Trust Agreement as authorized in Section 10.01.

If at any time the Trustee shall be requested to enter into any Supplemental Trust Agreement for any of the purposes of Section 10.02, the Trustee shall promptly cause notice of the proposed execution of such Supplemental Trust Agreement to be mailed, postage prepaid, to all Certificate Holders at their addresses as they appear on the registration books of the Trustee. Such notice shall briefly set forth the nature of the proposed Supplemental Trust Agreement and shall state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Certificate Holders.

If the Holders of not less than a majority in aggregate principal amount of the Certificates at the time of the execution of such Supplemental Trust Agreement shall have consented to and approved the execution thereof as provided in the Trust Agreement, no Certificate Holder shall have any right to object to the execution of such Supplemental Trust Agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the State from executing the same or from taking any action pursuant to the provisions thereof.

No Supplemental Trust Agreement which affects any rights or duties of the Trustee shall be effective until the written consent thereto of the Trustee is obtained.

Events of Default (Section 11.01)

The occurrence of an Event of Default (as such term is defined in the Conditional Purchase Agreement) under the Conditional Purchase Agreement is defined as and declared to be and constitute an Event of Default under the Trust Agreement.

Except as provided in Section 6.06 of the Conditional Purchase Agreement, the failure by the Trustee to receive from the State sufficient amounts (in funds satisfactory to the Trustee) to pay the principal or Redemption Price of or interest on the Certificates when due or to redeem Certificates on any date fixed for redemption of Certificates, or the failure by the Trustee to pay (the State having deposited sufficient funds with the Trustee for such payment) to the Certificate Holders the interest on or principal of any Certificate when due, are also declared to be and constitute Events of Default under the Trust Agreement.

Trustee to Enforce Rights (Section 11.03)

The Trustee, as the Seller under the Conditional Purchase Agreement, may, in its discretion, enforce each and every right or remedy granted to the Seller pursuant to the Conditional Purchase Agreement.

Collection of Indebtedness and Suits for Enforcement by Trustee (Section 11.04)

Upon the happening of any Event of Default, the Trustee may, and shall, upon the written request of the Holders of not less than a majority in aggregate principal amount of the Certificates then Outstanding and receipt of indemnity to its satisfaction:

- (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Certificate Holders and require the State to carry out any agreements with or for the benefit of the Certificate Holders and to perform its duties under the Conditional Purchase Agreement and the Trust Agreement;
- (b) bring suit against the State upon the Conditional Purchase Agreement (subject to the limitations contained in the Conditional Purchase Agreement);

- (c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Certificate Holders;
- (d) intervene in proceedings involving the rights of the Seller, the Trustee or the Certificate Holders; or
- (e) exercise any other rights or remedies of the Trustee as the Seller under the Conditional Purchase Agreement.

Restoration of Right and Remedies (Section 11.05)

In case any proceeding taken by the Trustee on account of the occurrence of any Event of Default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then in every such case, the Trustee, the State, the Seller and the Certificate Holders shall be restored to their former positions and rights under the Trust Agreement, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Trustee May Enforce Claims Without Possession of Certificates (Section 11.07)

All rights of action under the Trust Agreement or under any of the Certificates secured thereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Certificates, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Certificate Holders in respect of which such proceeding has been instituted, subject to the provisions of the Trust Agreement.

Defeasance (Article XII)

(a) If the State shall pay or cause to be paid the principal or Redemption Price of and interest on all of the Certificates and all amounts due and owing to the Seller and the Trustee, then the pledge of the Trust Estate and all other rights granted to the Trustee or the Certificate Holders shall be discharged and satisfied. In such event, upon the request of the State, the Trustee shall execute and deliver to the State all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee, without any request required, shall pay or deliver all moneys, securities and funds held by it pursuant to the Trust Agreement that are not required for the payment or redemption of Certificates not theretofore surrendered for such payment or redemption to the State or to such officer, board or body as may then be entitled by law to receive the same.

(b) A Certificate shall be deemed to have been paid within the meaning of and with the effect expressed in Article XII if (i) sufficient money for the payment of the principal or Redemption Price of and interest on such Certificate shall then be held by the Trustee (through deposit by the State of moneys for such payment or otherwise, regardless of the source of such moneys), whether at or prior to the maturity or the redemption date of such Certificates or (ii) if the maturity or redemption date of such Certificate shall not then have arrived, provision shall have been made for the payment of the principal or Redemption Price of and interest on such Certificate on the due dates for such payments, by deposit with the Trustee (or other method satisfactory to the Trustee) of Government Obligations, the principal of and the interest on which when due, together with any uninvested cash, will provide sufficient moneys for such payment and the Trustee shall have given notice, at the expense of the State, by first class mail, postage prepaid, to all Certificate Holders at their addresses as they appear on the registration books maintained by the Trustee, that such moneys are so available for such payment; provided, however, that if any such Certificate is to be redeemed prior to the maturity thereof, provisions shall have been made for the giving of notice of such redemption.

(c) Anything in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Certificates that remain unclaimed for three (3) years (or such earlier or later date then specified under applicable law) after the date on which such Certificates became due and payable either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such dates or for three (3) years (or such earlier or later date then specified under applicable law) after the date of deposit of such moneys if deposited with the Trustee after such date, shall, at the written request of the State Representative, be repaid by the Trustee to the State or to such officer, board or body as may then be entitled by law to receive such moneys, as its absolute property and free from trust, and the Trustee shall thereupon be released and

discharged; provided, however, that, before being required to make any such payment, the Trustee may, at the expense of the State, give notice, by first class mail, postage prepaid, to all Certificate Holders at their addresses as they appear on the registration books maintained by the Trustee, that such moneys remain unclaimed and that, after a date named in such notice which date shall be not fewer than forty (40) nor more than ninety (90) days after the date of giving of such notice, the balance of such moneys then unclaimed shall be returned to the State.

Trustee Entitled to Indemnity; Trustee May Act Without Indemnity; Reimbursement of Trustee (Section 8.02)

The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Trust Agreement, the Conditional Purchase Agreement or the Certificates, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created or in the enforcement of any rights and powers under the Trust Agreement, until it shall be indemnified by the Certificate Holders to its satisfaction for any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability except as a consequence of its own willful misconduct or negligence. The Trustee, nevertheless, may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as Trustee, without indemnity, and in such case, the Trustee may reimburse itself from the Revenues after making provision for the payment of the principal or Redemption Price of or the interest on Certificates as provided in Section 4.03.

Limitation on Duties of Trustee (Section 8.05)

The Trustee shall not have any duty or obligation to manage, control, use, sell or otherwise transfer title to or dispose of or otherwise deal with any part of the assets constituting the Trust Estate, or to otherwise take or refrain from taking any action under or in connection with the Conditional Purchase Agreement or the Certificates, except as expressly provided by the terms of the Conditional Purchase Agreement and the Trust Agreement or as expressly provided in written instructions from the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding. Whenever the Seller is required to give any consent, approval, permission or otherwise act affirmatively under the terms of the Conditional Purchase Agreement, the Trustee at its discretion may give such consent, approval, permission or otherwise act affirmatively as it may deem appropriate.

Resignation and Removal of Trustee (Sections 8.09 and 8.10)

The Trustee may resign and thereby become discharged from the trusts created by notice in writing given to the State and the Holders of the Certificates. Such resignation shall take effect immediately upon, but only upon (i) the appointment of a new Trustee under the Trust Agreement, (ii) upon acceptance by the new Trustee of the trusts created and the duties of the Trustee under the Trust Agreement, and (iii) upon assignment by the Trustee and acceptance and assumption by the new Trustee of all the rights, title and interest, duties and obligations of the Seller under the Conditional Purchase Agreement. Upon the occurrence of any such resignation, the Trustee, by appropriate documentation, shall transfer all rights title and interest it may have as Trustee under the Trust Agreement and as the Seller under the Conditional Purchase Agreement to the successor Trustee under the Trust Agreement.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing executed by the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding. The Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Trust Agreement with respect to the duties and obligations of the Trustee, by any court of competent jurisdiction upon the application of the State or the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding. Upon any such removal of the Trustee, the Trustee, by appropriate documentation, shall transfer all right, title and interest it may have as Trustee under the Trust Agreement and as the Seller under the Conditional Purchase Agreement to the successor Trustee under the Trust Agreement. Removal of the Trustee shall take effect immediately upon (i) the appointment of a new Trustee under the Trust Agreement and (ii) upon acceptance by the new Trustee of the trusts created under the Trust Agreement and the duties of the Trustee under the Trust Agreement and of the Seller under the Conditional Purchase Agreement.

Appointment of Successor Trustee; Qualifications of Trustee (Section 8.11)

If at any time the Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as the Trustee shall be taken over by a governmental official, agency, department or board, the position of Trustee shall thereupon become vacant. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, the State shall appoint a successor Trustee to fill such vacancy and shall mail notice of any such appointment to the Trustee and the Certificate Holders.

At any time within one year after any such vacancy shall have occurred, the Holders of not less than a majority in aggregate principal amount of the Certificates Outstanding, by an instrument or concurrent instruments in writing, executed by such Certificate Holders and filed with the State may appoint a successor Trustee, which appointment shall supersede any appointment theretofore made by the State. Copies of each such instrument shall be delivered promptly by the State to the predecessor Trustee and the Trustee so appointed by the Certificate Holders.

If no appointment of a successor Trustee shall be made, the Holders of not less than a majority in aggregate principal amount of the Certificates outstanding or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Any successor Trustee appointed under the provisions of the Trust Agreement shall (i) be a commercial bank or trust company duly authorized to exercise corporate trust powers and subject to examination by federal or state authority, of good standing and having a combined capital and surplus aggregating not less than \$100,000,000; and (ii) have, in the opinion of the State, substantial prior experience as a trustee for the benefit of municipal bondholders or certificate holders if such a bank or trust company is available and willing to assume the position of successor Trustee upon reasonable and customary terms. If the Trustee has or shall acquire any conflicting interest, it shall, within ninety (90) days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign and thereby become discharged from the trusts created by giving notice as provided in Section 8.09, such resignation to become effective immediately upon the appointment of a successor Trustee and such successor Trustee's acceptance of such appointment. The Trustee shall be deemed to have a conflicting interest if such interest is a conflicting interest within the meaning of Section 310(b)(1) to (9), inclusive, of the Trust Indenture Act of 1939, as amended.

Limitations on Liability of Trustee and State (Sections 8.14 and 8.15)

Except as expressly provided in the Trust Agreement, the Trustee shall have no obligation or liability to the Certificate Holders with respect to the payment of the Purchase Installments when due, or with respect to the performance by the State of any other covenant made by the State in the Conditional Purchase Agreement. The Trustee shall be under no liability to any person for interest earned on any money received by it under the Trust Agreement for deposit in the Certificate Fund. Any money deposited with the Trustee for the payment of the principal, premium (if any) or interest on the Certificates and remaining unclaimed for three (3) years (or such earlier or later date then specified under applicable law) after the Certificate has become due and payable, will be paid by the Trustee to the State, and the Holder of such Certificate shall thereafter look only to the State for payment thereof, and all liability of the Trustee with respect to such moneys shall thereupon cease. The Trustee shall in no event be liable to any Holder or Holders of any Certificate or any other person for any amount due on any Certificate from its own funds.

The liability of the State is limited solely to its obligations under the Conditional Purchase Agreement. No recourse shall be had for the payment of the principal or Redemption Price of and interest on any Certificate or for any claims based thereon, on the Conditional Purchase Agreement or on the Trust Agreement against any officer, official, employee or agent of the State, all such liability, if any, being expressly waived and released by every Holder of a Certificate by the acceptance of such Certificate.

FORM OF BOND COUNSEL OPINION

State of Maryland
Department of Transportation
Hanover, Maryland 21076

Ladies and Gentlemen:

In connection with the issuance of the \$15,040,000 Maryland Department of Transportation Certificates of Participation (Maryland Port Administration Facility Project), Refunding Series 2016 (AMT), dated as of December 15, 2016 (the "Certificates") we have examined:

(i) the Conditional Purchase Agreement dated as of June 15, 2006, as amended and supplemented by the First Amendment to Conditional Purchase Agreement dated as of December 1, 2016, both by and between the State of Maryland, for the use of the Maryland Department of Transportation, (the "State") and The Bank of New York Mellon, as trustee under the Trust Agreement (defined herein), acting as seller (the "Seller") (as so amended and supplemented, the "Conditional Purchase Agreement");

(ii) the Certificate of Participation Trust Agreement dated as of June 15, 2006, as amended and supplemented by the First Supplemental Trust Agreement dated December 1, 2016 both by and among the State, for the use of the Department, and The Bank of New York Mellon as trustee (the "Trustee") (as so amended and supplemented, the "Trust Agreement");

(iii) the form of Certificate;

(iv) relevant provisions of the Internal Revenue Code of 1986, as amended (the "Code"); and

(v) other proofs submitted to us relative to the issuance of the Certificates.

The Conditional Purchase Agreement provides for the payment by the State of purchase installments (the "Purchase Installments"). Each Purchase Installment has a principal portion and an interest portion, in the amounts and on the dates set forth in the Conditional Purchase Agreement.

The Certificates are in registered form in denominations of \$5,000 or any integral multiple thereof. The Certificates bear interest, mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein and in the Trust Agreement.

In rendering this opinion, we have relied without investigation on the Department's Tax and Section 148 Certificate with respect to certain material facts within the knowledge of the Department relevant to the tax-exempt status of the Certificates.

We have made no investigation of, and are rendering no opinion regarding the title to real or personal property or the priority or perfection of any lien or security interest in real or personal property.

Based upon the foregoing, it is our opinion that:

(a) The Certificates have been duly authorized and issued pursuant to, and are permitted by the terms of, the Trust Agreement, constitute valid and binding obligations evidencing direct and proportionate interests of the owners thereof in principal and interest components of Purchase Installments, and are equally and ratably secured under the Trust Agreement. Additional Certificates secured equally and ratably with the Certificates may be issued from time to time under the conditions, limitations and restrictions set forth in the Trust Agreement.

(b) The Certificates are payable from the Purchase Installments to be made by the State under the Conditional Purchase Agreement and other moneys pledged under the Trust Agreement. The State's obligation to make Purchase Installments is subject to and dependent upon annual appropriations of the Maryland General Assembly for such purpose. Such obligation does not constitute a debt of the State within the meaning of any constitutional or statutory limitation nor a liability of or a lien or charge upon funds or property of the State beyond any fiscal year for which the State has appropriated moneys to make such payments. The State has not pledged its full faith and credit or its taxing powers to the payment of the Purchase Installments.

(c) The Conditional Purchase Agreement and the Trust Agreement have been duly authorized, executed and delivered by the State and, assuming the due authorization, execution and delivery thereof by the other parties thereto, constitute the valid and binding obligation of the State enforceable against the State in accordance with their terms.

(d) The Conditional Purchase Agreement, the Trust Agreement and the Certificates are subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights, the exercise of judicial discretion and the application of general principles of equity.

(e) Under existing law, the interest portion of Purchase Installments on the Certificates is exempt from income taxation by the State of Maryland; no opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the Certificates, their transfer or the income therefrom.

(f) Assuming compliance with the covenants referred to herein, the interest portion of the Purchase Installments is excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions, except with respect to any Certificate during the period that the Certificate is owned by a "substantial user" of the financed facilities or a "related person" (as such terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended [the "Code"]). It is noted that under the provisions of the Code, there are certain restrictions that must be met subsequent to the delivery of the Certificates in order for interest on the Certificates to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Certificates. These include the following: (i) a requirement that certain earnings received from the investment of the proceeds of the Certificates

be rebated to the United States of America under certain circumstances (or that certain payments in lieu of rebate be made); (ii) other requirements applicable to the investment of the proceeds of the Certificates; and (iii) other requirements applicable to the use of the proceeds of the Certificates and the facilities financed or refinanced with proceeds of the Certificates. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Certificates in gross income for federal income tax purposes, effective from the date of their issuance. The State has covenanted to regulate the investment of the proceeds of the Certificates and to take such other actions as may be required to maintain the excludability from gross income for federal income tax purposes of the interest on the Certificates. It is our opinion that, assuming compliance with such covenants, the interest on the Certificates will remain excludable from gross income for federal income tax purposes under the provisions of the Code.

(g) The interest portion of the Purchase Installments will be included in the alternative minimum taxable income of individuals, corporations or other taxpayers for income tax purposes. The Code imposes an alternative minimum tax at a rate equal to 20% in the case of corporations, and at a maximum marginal rate equal to 28% in the case of noncorporate taxpayers, of the taxpayer's alternative minimum taxable income. In addition, interest income on the Certificates will be subject to the branch profits tax imposed by the Code on foreign corporations engaged in a trade or business in the United States

No opinion is expressed as to the treatment for federal or State of Maryland income tax purposes of any payment made to the Seller or its assigns from sources other than the Purchase Installments paid by the State that may result upon the failure of the State to make an appropriation to provide for the payment of the Purchase Installments.

We assume no obligation to supplement this opinion if any applicable laws or interpretations thereof change after the date hereof or if we become aware of any facts or circumstances that might change the opinions expressed herein after the date hereof. The opinions expressed herein are limited to the matters set forth above, and no other opinions should be inferred beyond the matters expressly stated.

Very truly yours,

McKennon Shelton & Henn LLP

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**INFORMATION WITH RESPECT TO
THE MARYLAND DEPARTMENT OF TRANSPORTATION
INCLUDED BY REFERENCE**

Certain financial information with respect to the Maryland Department of Transportation, including its comprehensive financial statements for the fiscal year ended June 30, 2015 are on file with the Electronic Municipal Market Access (“EMMA”) system of the Municipal Securities Rulemaking Board (“MSRB”) and is included in this Official Statement by reference.

Any statement contained in a document included or deemed to be included by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement made herein or in any other subsequently filed document which also is or is deemed to be included by reference herein modified or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Any person may view the information described above by logging on the EMMA system. Such information is available under CUSIP number 574204 (Maryland Department of Transportation). The Department and the underwriter for the Certificates make no representation as to the scope of services provided by the MSRB or as to the cost for the provision of such services by the MSRB.

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**INFORMATION WITH RESPECT TO
THE STATE OF MARYLAND INCLUDED BY REFERENCE**

Certain financial information with respect to the State of Maryland, including its comprehensive financial statements for the fiscal year ended June 30, 2015 are on file with the Electronic Municipal Market Access (“EMMA”) system of the Municipal Securities Rulemaking Board (“MSRB”) and is included in this Official Statement by reference.

Any statement contained in a document included or deemed to be included by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement made herein or in any other subsequently filed document which also is or is deemed to be included by reference herein modified or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Any person may view the information described above by logging on the EMMA system. Such information is available under CUSIP number 574192 (State of Maryland). The State, the Department, and the underwriter for the Certificates make no representation as to the scope of services provided by the MSRB or as to the cost for the provision of such services by the MSRB.

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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 Certificates (as hereinafter defined). The Certificates 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 certificate of the \$15,040,000 Maryland Department of Transportation Certificates of Participation (Maryland Port Administration Facility Project), Refunding Series 2016 (AMT) (the "Certificates"), will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 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, and 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 the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 the Certificates with DTC and their registration in the name of Cede & Co. do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and interest payments on the Certificates will be made to Cede & Co. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 Participant and not of DTC or the Department of Transportation of Maryland (the "Department"), subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividends to Cede & Co. (or other such nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department, and 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.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered.

BOOK-ENTRY ONLY SYSTEM — MISCELLANEOUS

The information in the section "Book-Entry Only System - General" has been obtained by the Department from sources that the Department believes to be reliable. The Department takes no responsibility for the accuracy or completeness thereof. The Department will have no responsibility or obligation 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 Department 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.

TERMINATION OF BOOK-ENTRY ONLY SYSTEM

In the event that the Book-Entry Only System is discontinued, the Certificates will be delivered by DTC to the Certificate Registrar and such Certificates will be exchanged for Certificates registered in the names of the DTC Participants or the Beneficial Owners identified to the Certificate Registrar. In such event, certain provisions of the Certificates pertaining to ownership of the Certificates will be applicable to the registered owners of the Certificates as described below.

Interest on the Certificates will be payable by check mailed by the Paying Agent and Certificate Registrar to the persons in whose names the Certificates are registered as of the close of business on the Regular Record Date (being the first day of the month in which the applicable interest payment is due) at the addresses shown on the registration books of the Department maintained by the Certificate Registrar; provided, however, that any such interest not punctually paid or duly provided for shall cease to be payable to the registered owner on such Regular Record Date, and may be paid to the persons in whose names such Certificates are registered as of the close of business on a

date to be fixed by the Paying Agent for the payment of such defaulted interest (the "Special Record Date"), notice of which will be given by letter mailed first class, postage prepaid, to such persons, not less than 30 days prior to such Special Record Date, at the addresses of such persons appearing on the registration books of the Department maintained by the Certificate Registrar, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Certificates may be listed and upon such notice as may be required by such exchange. The principal of and premium, if any, on the Certificates will be payable at the principal office of the Paying Agent.

The Certificates in fully certificated form will be fully registered Certificates without coupons in the denomination of \$5,000 each or any integral multiple thereof. Certificates will be transferable only upon the registration books kept at the principal office of the Certificate 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 Certificate Registrar, and duly executed by the registered owner or a duly authorized attorney. The Department may deem and treat the person in whose name a Certificate 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.

The Certificates may be transferred or exchanged at the principal office of the Certificate Registrar. Upon any such transfer or exchange, the Department shall execute and the Certificate Registrar shall authenticate and deliver a new registered Certificate or Certificates without coupons of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Certificate exchanged or transferred, and maturing on the same date and bearing interest at the same rate. In each case, the Certificate Registrar may require payment by any holder of Certificates requesting exchange or transfer of Certificate of any tax, fee, or other governmental charge, shipping charges, and insurance they may be required to be paid with respect to such exchange or transfer, but otherwise no charge shall be made to the holder of Certificates for such exchange or transfer. The Certificate Registrar shall not be required to transfer or exchange any certificate after the mailing of notice calling such Certificate or portion thereof for redemption as herein above described; provided, however, that the foregoing limitation shall not apply to that portion of a Certificate in excess of \$5,000 which is not being called for redemption.

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This **CONTINUING DISCLOSURE AGREEMENT** (this “Disclosure Agreement”) is executed and delivered by the Department of Transportation of Maryland (the “Department”) in connection with the issuance of its \$15,040,000 Maryland Department of Transportation of Maryland Certificates of Participation (Maryland Port Administration Facility Project) Refunding Series 2016 (the “Certificates”). The Certificates are being issued pursuant to a Certificate of Participation Trust Agreement dated as of June 15, 2006, supplemented and amended by the First Supplemental Certificate of Participation Trust Agreement dated as of December 1, 2016 (together, the “Trust Agreement”), by and between the State of Maryland for the use of the Department and The Bank of New York Mellon. The Department, 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 Department for the benefit of the owners and beneficial owners of the Certificates and in order to assist the Participating Underwriters (as defined herein) in complying with the Rule (as defined herein).

Section 2. Definitions.

In addition to the definitions set forth above, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

“**CONTINUING DISCLOSURE SERVICE**” shall mean the continuing disclosure service established by the MSRB known as the Electronic Municipal Market Access (“EMMA”) system or such other format as prescribed by the MSRB.

“**DISSEMINATION AGENT**” shall mean the Department, acting as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Department.

“**LISTED EVENT**” shall mean any of the events listed in Section 4 of this Disclosure Agreement.

“**MSRB**” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)1 of the Securities Exchange Act of 1934, as amended.

“**PARTICIPATING UNDERWRITER**” shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“**RULE**” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“**SEC**” shall mean the United States Securities and Exchange Commission.

Section 3. Provision of Annual Debt Service and Highway User Revenue Information.

(a) The Department, on behalf of the State of Maryland (the “State”) and itself, shall provide to the Continuing Disclosure Service in electronic format as prescribed by the MSRB, annual financial information 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 of the Department, commencing with the fiscal year ending June 30, 2017.

(b) The Department, on behalf of the State and itself, shall provide to the Continuing Disclosure Service annual audited financial statements for the State and the Department, such information to be made available within 275 days after the end of the fiscal year for the State and the Department, commencing with the fiscal year ending June 30, 2017, 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 fiscal year of the State and the Department, the Department will provide unaudited financial statements within said time period.

(c) Except as otherwise set forth in this paragraph (b), the presentation of the financial information referred to in paragraph (a) shall be made in accordance with the same format as utilized in connection with the presentation of applicable comparable financial information included in the Official Statement.

(i) The Department may 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 Department is unable to provide the annual financial information within the applicable time period specified in (a) above, the Department shall send in a timely manner a notice of such failure to the Continuing Disclosure Service.

Section 4. Reporting of Significant Events.

(a) Pursuant to provisions of this Section 4, the Department shall give or cause to be given notice of the occurrence of any of the following events with respect to the Certificates:

- (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, if any, reflecting financial difficulties,
- (v) substitution of credit or liquidity providers, if any, 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 Certificates,
- (vii) modifications to rights of Certificate Holders, if material,
- (viii) bond calls, if material, and tender offers,
- (ix) defeasances,
- (x) release, substitution or sale of property securing repayment of any of the Certificates, if material,
- (xi) rating changes,
- (xii) bankruptcy, insolvency, receivership or similar event of the Department,**
- (xiii) the consummation of a merger, consolidation or acquisition involving the Department or the sale of all or substantially all of the assets of the Department, 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

** For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Department in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Department, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Department.

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 Department agrees to provide, in a timely manner, not in excess of ten (10) business days after the occurrence of a Listed Event, notice of such occurrence with the Continuing Disclosure Service in electronic format as prescribed by the MSRB.

Section 5. Termination of Reporting Obligation.

The Department's obligations under this Disclosure Agreement shall terminate upon the payment in full of all of the Certificates either at their maturity or by early redemption. In addition, the Department may terminate its obligations under this Disclosure Agreement if and when it no longer remains an obligated person with respect to the Certificates within the meaning of the Rule.

Section 6. Amendment.

The Department may provide further or additional assurances that will become part of the Department's obligations under this Disclosure Agreement. In addition, this Disclosure Agreement may be amended by the Department 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 Department as the obligated person with respect to the Certificates, or in the type of business conducted; (ii) this Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the issuance of the Certificates, 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 Certificates, as determined by counsel selected by the Department that is expert in federal securities law matters. The reasons for the Department 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 additional or amended operating data or financial information.

Section 7. Additional Information.

Nothing in this Disclosure Agreement shall be deemed to prevent the Department 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 hereof or notice of occurrence of a Listed Event in addition to that which is required by this Disclosure Agreement. If the Department chooses to include any information in any disclosure made pursuant to Section 4 hereof or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Department shall have no obligation under this Disclosure Agreement to update such information or include it in any future disclosure made pursuant to Section 4 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 Department of its obligations hereunder, shall be governed by, be subject to and be construed according to the laws of the State of Maryland (without regard to provisions on conflicts of laws) or federal law.

Section 9. Limitation of Forum.

Any suit or other proceeding seeking redress with regard to any claimed failure by the Department to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Anne Arundel County, Maryland.

Section 10. Dissemination Agent.

The Department may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without

appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Department pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Department shall be the Dissemination Agent.

Section 11. Limitation On Remedies.

The Department shall be given written notice at the address set forth below of any claimed failure by the Department to perform its obligations under this Disclosure Agreement, and the Department 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 Department shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the Department shall be given to the Secretary of Transportation, 7201 Corporate Center Drive, Hanover, MD 21076, with a copy to the Chief Financial Officer, Office of Finance, Maryland Department of Transportation, 7201 Corporate Center Drive, Hanover, MD 21076, or at such alternate address as shall be specified by the Department with disclosures made pursuant to Section 3 hereof or a notice of occurrence of a Listed Event.

Section 12. Duty To Update EMMA/MSRB.

The Department agrees that it shall determine, in the manner it deems appropriate, whether there has occurred a change in the MSRB's e-mail address or filing procedures and requirements under EMMA each time it is required to file information with the MSRB.

Section 13. Recordkeeping.

The Department agrees that it shall maintain records of all disclosures of annual financial information pursuant to Section 3 above and disclosures of the occurrence of Listed Events pursuant to Section 4 above, including the content of such disclosures, the names of the entities with whom such disclosures were filed and the dates of filings such disclosures.

Section 14. Relationship to Certificates.

This Disclosure Agreement constitutes an undertaking by the Department that is independent of the Department's obligations with respect to the Certificates. Any breach or default by the Department under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Certificates.

Section 15. Beneficiaries.

This Disclosure Agreement shall inure solely to the benefit of the owners and beneficial owners from time to time of the Certificates, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF this Disclosure Agreement is being executed by the Secretary of Transportation on behalf of the Department as of this ___day of December, 2016.

**DEPARTMENT OF TRANSPORTATION
OF MARYLAND**

By: _____
Pete K. Rahn
Secretary of Transportation

**SCHEDULE A
STATE OF MARYLAND
FINANCIAL STATEMENTS:**

- (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, if any, based on the accountant's report contained in the Comprehensive Annual Financial Report

**MARYLAND DEPARTMENT OF TRANSPORTATION
FINANCIAL STATEMENTS**

- (1) Summary of General Governmental Revenues by Source
- (2) Expenditures by Function and Other Sources and Uses of Financial Resources
- (3) Changes in Fund Balances