NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: (See "RATINGS" herein)
Standard & Poor's: AAA
Moody's: Aa1
Fitch: AA+

In the opinion of Bond Counsel to the Department, (i) assuming compliance with certain covenants described herein, under existing statutes, regulations and decisions, interest on the Bonds will be excludable from gross income for federal income tax purposes; (ii) under the Act, the Bonds, their transfer, the interest payable on them, and any income derived from them, including any profit realized in their sale or exchange, shall be exempt at all times from every kind and nature of taxation by the State of Maryland or by the political subdivisions, municipal corporations, or public agencies of any kind of 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 Bonds, their transfer or the income therefrom. Interest on the Bonds is not included in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment; however, interest on the Bonds may be included in a corporation's "adjusted current earnings" in the calculation of a corporation's alternative minimum taxable income for federal income tax purposes and will be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States. See "TAX MATTERS."

Department of Transportation of Maryland
$115,000,000
Consolidated Transportation Bonds, Series 2012

Dated: Date of Delivery **Due:** As shown herein

Redemption	The $115,000,000 Consolidated Transportation Bonds, Series 2012 (the "Bonds") are subject to redemption prior to their stated maturities at the option of the Department of Transportation of Maryland (the "Department"), as described herein under "THE BONDS-Redemption".
Security	The Bonds are obligations of the Department only, payable as to both principal and interest solely from the proceeds of certain taxes and, to the extent needed, other revenues credited to the Department. See "SECURITY". **THE BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OF MARYLAND.**
Purpose	Proceeds from the Bonds will provide a portion of the capital funds needed for the Consolidated Transportation Program. Please see "PURPOSE OF THE BONDS".
Interest Payment Dates	December 1 and June 1, commencing December 1, 2012
Denomination	$5,000, or any integral multiple thereof
Closing/Settlement	On or about June 7, 2012
Bond Counsel	McKennon Shelton & Henn LLP
Financial Advisors	Public Financial Management, Inc. and Strategic Solutions Center, LLC
Paying Agent/Registrar	Department of Transportation of Maryland
Book-Entry Only Form	The Depository Trust Company, please see "THE BONDS — Book-Entry Only System"

FOR MATURITY SCHEDULES SEE INSIDE COVER

The Bonds are offered for delivery, when and if issued, subject to the unqualified approving opinion of McKennon Shelton & Henn LLP, Baltimore, Maryland, Bond Counsel. Certain legal matters will be passed upon for the Department by the Office of the Attorney General of the State. It is expected that the Bonds in definitive form will be available for delivery through the facilities of Depository Trust Company in New York, New York on or about June 7, 2012.

The date of this Official Statement is May 23, 2012

This cover page contains certain information for quick reference only. It is not a summary of the Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision.

$115,000,000 Consolidated Transportation Bonds, Series 2012

Maturities, Amounts, Interest Rates, Prices and CUSIP Numbers

Maturing June 1	Principal Amount	Interest Rate[1]	Price [1]	CUSIP [2]
2015	$ 7,190,000	4.000%	110.476	574204WR0
2016	7,405,000	5.000	117.465	574204WS8
2017	7,630,000	5.000	120.695	574204WT6
2018	7,860,000	5.000	122.979	574204WU3
2019	8,095,000	5.000	125.077	574204WV1
2020	8,335,000	5.000	126.240	574204WW9
2021	8,630,000	5.000	124.369*	574204WX7
2022	8,930,000	2.000	98.658	574204WY5
2023	9,290,000	2.125	98.500	574204WZ2
2024	9,660,000	5.000	121.212*	574204XA6
2025	10,145,000	5.000	120.235*	574204XB4
2026	10,650,000	3.000	99.433	574204XC2
2027	11,180,000	3.000	98.808	574204XD0

[1] The interest rates shown above are the interest rates payable by the Department resulting from the successful bid for the Bonds on May 23, 2012 by a group of banks and investment banking firms. The interest rates and prices shown above were furnished by the successful bidder. All the information concerning the terms of reoffering of the Bonds should be obtained from the successful bidder and not from the Department. See “SALE AT COMPETITIVE BIDDING”.

[2] CUSIP numbers on the inside cover page of this Official Statement are copyrighted by the American Bankers Association. CUSIP data herein is provided by Standard & Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. and the 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 the CUSIP Service.

* Priced to the June 1, 2020 optional redemption date at a redemption price of 100%.

STATE OF MARYLAND

Martin O'Malley, Governor

Department of Transportation of Maryland

Beverley K. Swaim-Staley, Secretary

Darrell B. Mobley, Deputy Secretary

Approving Legal Opinion

McKennon Shelton & Henn LLP
Baltimore, Maryland
Bond Counsel

Financial Advisors

Public Financial Management, Inc.
Orlando, Florida

Strategic Solutions Center, LLC
Landover, Maryland

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No dealer, broker, salesman or any other person has been authorized by 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 but makes no guarantee as to the accuracy or completeness. 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 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 and the purchasers or holders of any of the securities described herein. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The cover page hereof, list of officials, this page and the appendices attached hereto are part of this Official Statement.

NO REGISTRATION STATEMENT RELATING TO THE BONDS HAS BEEN FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR WITH ANY STATE SECURITY AGENCY. THE BONDS 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.

SUMMARY STATEMENT

(Subject in all respects to more complete information in this Official Statement to which the reader is specifically referred)

THE DEPARTMENT OF TRANSPORTATION OF MARYLAND — The Department has responsibility for most transportation facilities and programs owned by the State of Maryland (the "State"), exclusive of toll facilities. This responsibility includes the planning, financing, construction, operation and maintenance of various transportation facilities, including highway, transit, port, aviation and motor vehicle administration facilities.

CONSOLIDATED TRANSPORTATION PROGRAM — The Department maintains a Consolidated Transportation Program (the "CTP") to meet the transportation requirements of the State and continually reviews the CTP considering current and anticipated economic factors. The CTP is developed in accordance with the current projection of six-year financial resources and is within the framework of the Maryland Transportation Plan, the long-range State plan for transportation. The CTP is flexible and is adjusted to reflect revenue fluctuations so that available funds may be concentrated on the most important projects.

THE TRANSPORTATION TRUST FUND — The Transportation Trust Fund is credited with transportation-related receipts, including proceeds of motor vehicle titling and fuel taxes and a portion of the State's corporation income tax, a portion of sales and use tax, registration fees for motor vehicles, bus and rail fares, port fees and airport revenues, together with bond and note proceeds, federal grants, and other receipts. Capital expenditures are financed from net revenues of the Department, federal grants and the proceeds of sales of Consolidated Transportation Bonds, certificates of participation, and conduit financings.

PURPOSE OF THE BONDS — The Bonds are being issued for the purpose, after payment of issuance expenses, including underwriter's cost, of providing a portion of the capital funds for certain projects in the CTP including highway and certain other transportation activities of the Department.

SECURITY — Principal of and interest on the Bonds are payable from the proceeds of certain taxes levied by statute and applicable to the extent necessary for that exclusive purpose before being available for other uses by the Department. If the tax proceeds pledged to the payment of principal of and interest on the Bonds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose.

The Department, in its discretion, is allowed to issue bonds without a debt service reserve component and to deposit in the statutory sinking fund only the amount as may be required to pay the principal of and interest on bonds as and when due. Pursuant to that authority, the Department has determined to issue the Bonds without a debt service reserve component and to deposit in the statutory sinking fund for the Bonds only the amounts required from time to time to pay the principal of and interest on the Bonds as and when due.

The Bonds will be of equal priority with previously issued and outstanding Consolidated Transportation Bonds (the "Outstanding Bonds") with exception as described herein, and any additional Consolidated Transportation Bonds hereafter issued as discussed below (the "Additional Bonds"). The Bonds, the Outstanding Bonds and the Additional Bonds are collectively referred to as the "Department's Bonds."

ESTIMATED DEBT SERVICE COVERAGE — Maximum annual principal and interest requirements on the Bonds and Outstanding Bonds after issuance of the Bonds total $219,764,662 in the fiscal year ending June 30, 2017. Net receipts under the first test described herein under "ADDITIONAL BONDS" for the fiscal year ended June 30, 2011 would be 3.34 times maximum principal and interest requirements on such debt. Total proceeds from pledged taxes under the second test described herein under "ADDITIONAL BONDS" for the fiscal year ended June 30, 2011, would be 5.92 times maximum annual principal and interest requirements on such debt.

ADDITIONAL BONDS — In accordance with certain provisions of the Act (as defined in the "INTRODUCTION" on Page 1) the aggregate principal amount of Consolidated Transportation Bonds that may be outstanding is $2,600,000,000. In addition, provisions of the Act state that the General Assembly of Maryland shall establish in the budget for any fiscal year the maximum outstanding aggregate amount of these bonds as of June 30 of the respective fiscal year that does not exceed $2,600,000,000. As established in the budget for Fiscal Year 2012, the aggregate principal amount of Consolidated Transportation Bonds that may be outstanding as of June 30, 2012 is $1,888,995,000. Upon issuance of the Bonds, the principal amount of outstanding Consolidated Transportation Bonds will be $1,562,630,000. After payment of serial maturities on outstanding bonds during the remainder of fiscal year 2012, Consolidated Transportation Bonds outstanding as of June 30, 2012 will be $1,562,630,000, assuming no Additional Bonds (defined herein) are issued in Fiscal Year 2012. Under the terms of the resolution authorizing the issuance of the Bonds, Additional Bonds of equal priority with the Bonds and any other Outstanding Bonds, with exception as further described herein under "SECURITY", may be issued provided, among other conditions, that (i) total receipts (excluding federal grants for capital projects, bond and note proceeds, and other receipts not available for debt service) less administration, operation and maintenance expenses for the preceding fiscal year shall equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes for the preceding fiscal year shall equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

CONTINUING DISCLOSURE — The Department 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. Appropriate periodic credit information will be provided to the rating agencies maintaining ratings on the Bonds. See "FORM OF CONTINUING DISCLOSURE AGREEMENT" in Appendix D.

The Department believes that it has complied with its obligations under its existing Continuing Disclosure Agreements executed pursuant to Rule 15c2-12.

CONTINGENT SUBORDINATE INDEBTEDNESS — As discussed further herein, when the Department or the Maryland Transportation Authority (the "Authority") makes a pledge of or uses existing or anticipated federal funds for the payment of special transportation project revenue bonds or Authority bonds, respectively, and such future federal aid is insufficient to pay the principal of and interest on such bonds, the taxes levied under the Act and irrevocably pledged to the principal of and interest on the Bonds are irrevocably pledged to the payment of the principal of and interest on such special transportation project revenue bonds or such bonds of the Authority; provided, however, that the statutory lien and pledge created for the benefit of the special transportation project revenue bonds or such bonds of the Authority shall at all times be subordinate to the pledge and lien for the Bonds and for other Consolidated Transportation Bonds. The Authority has issued such subordinated bonds.

OFFICIAL STATEMENT
OF THE
DEPARTMENT OF TRANSPORTATION OF MARYLAND
RELATING TO
$115,000,000 CONSOLIDATED TRANSPORTATION BONDS, SERIES 2012

INTRODUCTION

This Official Statement, including the cover page and Appendices attached hereto, sets forth information concerning the State of Maryland (the "State"), the Department of Transportation of Maryland (the "Department"), Consolidated Transportation Bonds, and the Department's $115,000,000 Consolidated Transportation Bonds, Series 2012 (the "Bonds"). The Bonds are obligations of the Department authorized to be issued by Sections 3-101 to 3-216, inclusive, of the Transportation Article of the Annotated Code of Maryland (2008 Replacement Volume as amended and supplemented) (the "Act"), by resolutions of the Board of Public Works of Maryland (the "Board") adopted on March 21, 2012, and by a resolution of the Secretary of Transportation dated as of April 26, 2012 (the "Resolution").

The Department was created as a principal department of 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.

PURPOSE OF THE BONDS

The Department is issuing the Bonds for the purpose, after payment of issuance expenses, including underwriter's cost, of providing a portion of the capital funds needed for the Consolidated Transportation Program (the "CTP") developed by the Department to provide comprehensive planning and coordinated implementation for the highway, transit, port and aviation activities of the State. See "CONSOLIDATED TRANSPORTATION PROGRAM" and "TRANSPORTATION FACILITIES AND PROGRAMS".

THE BONDS

General

The Bonds, in the aggregate principal amount of $115,000,000, are dated as of the date of their delivery, and will mature on June 1 of the years and in the principal amounts shown on the inside cover of this Official Statement. The Bonds shall bear interest from their date until paid at the rate or rates set forth on the inside cover (computed on the basis of a 360-day year composed of twelve 30-day months) payable commencing on December 1, 2012 and semiannually thereafter on June 1 and December 1 of each year (the "Interest Payment Dates") until maturity unless redeemed prior to maturity as provided herein under "Redemption Provisions." If the Interest Payment Date is not a Business Day (herein defined), then the interest will be paid on the next succeeding Business Day. "Business Day" means a day other than a Saturday, Sunday or day on which banking institutions are closed.

The Bonds are issuable as fully registered bonds as to both principal and interest in the denomination of $5,000 each, or any integral multiple thereof. The Bonds will be maintained under a book-entry system. Individual purchasers ("Beneficial Owners") shall have no right to receive physical possession of the Bonds, and any payment of the principal or redemption price of, and interest on, the Bonds will be made as described under "Book-Entry Only System" below. The registration, exchange and transfer of the Bonds shall be made at the Department at its principal office in Anne Arundel County, Maryland or at the principal office of any other registrar/paying agent designated by the Secretary (the "Registrar/Paying Agent"). The Department is initially designated as the Registrar/Paying Agent.

So long as the Bonds are maintained in book-entry form, interest on the Bonds will be paid by electronic funds transfer to the registered owner thereof in whose name the Bonds are registered at the close of business on the 15th day of the month immediately preceding the Interest Payment Date. The principal of and any redemption premium of the Bonds will be payable upon presentation and surrender of the Bonds on or after the date of maturity or redemption at the principal office of the Department or at the principal office of any other Registrar/Paying Agent designated by the Secretary.

Book-Entry Only System

The Bonds will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Bonds will be made so long as Cede & Co. is the registered owner of the Bonds. Individual purchases of the Bonds will be made only in book-entry form. Individual purchasers of the Bonds will not receive physical delivery of bond certificates. See Appendix E – "BOOK-ENTRY ONLY SYSTEM" for a complete description of this process.

Redemption

The Bonds maturing on or after June 1, 2021 are subject to redemption on or after June 1, 2020 as a whole or in part at the option of the Secretary, on behalf of the Department, on at least 30 days prior notice and, if in part, in any order of maturity at the option of the Secretary, at the redemption price of par (100%), plus accrued interest thereon, if any, to the date fixed for redemption.

RATINGS

Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., Moody's Investors Service, Inc., and Fitch Ratings have given the Bonds ratings of AAA, Aa1 and AA+ respectively. An explanation of the significance of each rating may be obtained from the rating agency furnishing it. The Department furnished to such rating agencies certain materials and information about the Bonds 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 the 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 prices for the Bonds.

SALE AT COMPETITIVE BIDDING

The Bonds were sold by the Department at competitive bidding on May 23, 2012 in accordance with the official Notice of Sale. The interest rates shown on the inside cover page of this Official Statement are the interest rates resulting from the award of the Bonds at the competitive bidding.

The award of the Bonds was made to the bidder offering the lowest true interest cost to the Department. The lowest true interest cost was determined in accordance with the true interest cost ("TIC") method, by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the date of the Bonds and to the amount bid, not including interest accrued to the date of delivery.

The prices shown on the inside cover page of this Official Statement were furnished by the successful bidder for the Bonds. Other information concerning the terms of reoffering of the Bonds, including yields or prices, should be obtained from the successful bidder and not from the Department.

SECURITY

The principal of and interest on the Bonds are payable from the proceeds of certain taxes that are levied by statute and irrevocably pledged to that exclusive purpose before being available for other uses. As provided in legislation enacted by the General Assembly at its 2011 session (Chapter 397, Laws of Maryland, 2011 ("Chapter 397")) the taxes so pledged in Fiscal Year 2012, beginning July 1, 2011, are: (i) 24% of the revenues from the collection of the corporation income tax, after required distributions to the State's General Fund (the "General Fund"), less 20.2% which is distributable to the General Fund and the political subdivisions of the State and, for fiscal year 2012 only, less $40,000,000 which is to be transferred to the Revenue Stabilization Account; (ii) the motor fuel tax, as described under the heading "THE TRANSPORTATION TRUST FUND," less 2.3% which is distributable to the Chesapeake Bay 2010 Trust Fund, and less 20.2% of the remainder which is distributable to the General Fund and the political subdivisions of the State; (iii) the excise tax on the fair market value of motor vehicles, excluding trade in allowance, for which title certificates are issued, less 20.2% of 2/3 of the tax which is distributable to the General Fund and the political subdivisions of the State (100% of 1/3 of the excise tax is pledged to Consolidated Transportation Bonds); and (iv) 45% of the revenues from the collection of the Sales and Use Tax on short-term vehicle rentals, less 20.2% of 4/5 of the tax which is distributable to the General Fund and the political subdivisions of the State (100% of 1/5 of the 45% of these Sales and Use Tax revenues is pledged to Consolidated Transportation Bonds).[1]

In addition, other receipts of the Department (excluding federal grants for capital projects, bond and note proceeds, or other receipts not available for debt service) are available to meet debt service if the pledged tax proceeds should become insufficient. See “THE TRANSPORTATION TRUST FUND — Taxes and Fees.”

Chapter 397 provided for future revisions to the percentage of the State’s corporation income tax pledged to the payment of debt service on Consolidated Transportation Bonds. In Fiscal Year 2013, beginning July 1, 2012, the percentage of such tax that is pledged will be 9.5%, less the distribution to the political subdivisions of the State. For Fiscal Years 2014 through 2016 (i.e. from July 1, 2013 through June 30, 2016) the percentage of the corporation income tax that is pledged will be 19.5%, less the distribution to the political subdivisions of the State. For Fiscal Years 2017 and beyond, beginning July 1, 2016, the percentage of corporation income tax that is pledged will be 17.2%, less the distribution to the political subdivisions of the State.

In addition, the percentage of the four tax revenues set forth above which are distributable to the General Fund and political subdivisions of the State will be revised in future Fiscal Years. The future distributions will only be to the political subdivisions of the State. In Fiscal Year 2013, beginning July 1, 2012, the percentage of pledged revenues distributed to the political subdivisions will be 10%. In Fiscal Year 2014, beginning July 1, 2013, and in future Fiscal Years, the percentage distributed will be 9.6%.

Chapter 397 also provides that, beginning July 1, 2012, except for distributions to the political subdivisions, funds may not be transferred from the Transportation Trust Fund to the General Fund unless legislation provides for the repayment of the funds within five years of the transfer.

The tax proceeds and other revenues credited to the Transportation Trust Fund (except for passenger facility charge revenues, certain Maryland Aviation Administration parking garage revenues and certain rental car customer facility charge revenues) that are pledged to or otherwise available for debt service on Consolidated Transportation Bonds are further described under the heading “THE TRANSPORTATION TRUST FUND.”

By the terms of the Act, the taxes pledged to the payment of debt service on the Bonds may not be repealed, diminished or applied to any other purpose until the Bonds and the interest on them have been fully paid or adequate and complete provision for such payment has been made, but there is no obligation or undertaking required to increase the rate of the pledged taxes, or other receipts of the Department available for the payment of debt service, should the proceeds become insufficient for that purpose in the future. The Department or the Maryland Transportation Authority (the “Authority”) may pledge or use existing and anticipated federal funds for the payment of special transportation project revenue bonds or Authority bonds, respectively. If future federal aid is insufficient to pay the principal of and interest on such special transportation project revenue bonds or such Authority bonds, the taxes levied under the Act will be irrevocably pledged to the payment of the principal and interest on debt secured by federal aid as it becomes due and payable, provided that the statutory lien and pledge created for the benefit of such special transportation project revenue bonds or such Authority bonds shall at all times be subordinate to the pledge and lien for the Bonds and for other Consolidated Transportation Bonds. The Authority has issued such bonds. See “THE TRANSPORTATION TRUST FUND — Maryland Transportation Authority Debt Secured by Federal Aid.”

The Bonds are obligations of the Department only and, according to the provisions of the Act, are not and shall not be deemed to constitute a debt or pledge of the faith and credit of the State of Maryland. In *Secretary v. Mancuso* 278 Md. 81, 359 A.2d 79 (1976), the Court of Appeals of Maryland held that Consolidated Transportation Bonds are subject to the following limitations of Section 34 of Article III of the Maryland Constitution:

> “No debt shall be hereafter contracted by the General Assembly unless such debt shall be authorized by a law providing for the collection of an annual tax or taxes sufficient to pay the interest on such debt as it falls due, and also to discharge the principal thereof within fifteen years from the time of contracting the same; and the taxes laid for this purpose shall not be repealed or applied to any other object until the said debt and interest thereon shall be fully discharged.”

1.Under previous law, effective July 1, 2008 through June 30, 2013, 5.3% of Sales and Use Tax revenues after certain required distributions and the distribution of 100% of the Sales and Use Tax revenues on short-term vehicle rentals was pledged to the payment of debt service on Consolidated Transportation Bonds (the distribution to the Department was to be increased to 6.5% effective July 1, 2013). However, pursuant to Chapter 397, these revenues are not pledged to the payment of debt service on the Bonds or Consolidated Transportation Bonds issued after July 1, 2011, but remain pledged to the payment of debt service on Consolidated Transportation Bonds issued prior to July 1, 2011.

The Bonds will be of equal priority with previously issued and outstanding Consolidated Transportation Bonds (the "Outstanding Bonds") and any additional Consolidated Transportation Bonds issued (the "Additional Bonds"), with the exception as described above in footnote 1 under "SECURITY" and below in "ADDITIONAL BONDS", as to the pledge of tax proceeds and other revenues of the Department for payment of debt service.

In accordance with the Act, the Department has determined to issue the Bonds without a debt service reserve component and to deposit in the statutory sinking fund for the Bonds only the amounts required to pay the principal of and interest on the Bonds as and when due.

ADDITIONAL BONDS

In the Resolution, the Department has provided that Additional Bonds may be issued from time to time at the direction of the Secretary. Such Additional Bonds shall be equally and ratably secured by the revenues pledged to the payment of Consolidated Transportation Bonds then outstanding, including these Bonds except that certain series of Consolidated Transportation Bonds issued prior to July 1, 2011 shall be equally and ratably secured by additional revenues pledged to their repayment which are not pledged to the Bonds and other series of bonds issued after July 1, 2011 , and provided further that Additional Bonds, may be issued only if (1) the total receipts of the Department (excluding federal grants for capital projects, bond and note proceeds, and other receipts not available for debt service), adjusted to reflect the pro forma effect of any tax changes, less administration, operation and maintenance expenses for the past fiscal year, are equal to at least two times maximum future debt service for the current or any future fiscal year on all Consolidated Transportation Bonds outstanding and to be issued, and (2) total proceeds from taxes pledged to debt service, adjusted to reflect the pro forma effect of any tax changes, for the past fiscal year are equal to at least two times such maximum debt service. See "THE TRANSPORTATION TRUST FUND — Consolidated Transportation Bonds."

THE DEPARTMENT

The Department has the responsibility for most State-owned transportation facilities and programs, exclusive of toll facilities. 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 Maryland Aviation Administration (the "MAA"), the Maryland Port Administration (the "MPA"), the Maryland Transit Administration (the "MTA"), the Motor Vehicle Administration (the "MVA"), and the State Highway Administration (the "SHA" and together with the MAA, the MPA, the MTA and the MVA, the "Administrations").

The Secretary is empowered, on behalf of the Department, to exercise or perform any power or duty that any of the Administrations may exercise or perform. These powers and duties involve, among others, the operation of the Baltimore/Washington International Thurgood Marshall Airport ("BWI Marshall Airport"), including the power to set landing fees and to rent space to airlines and concessionaires; the operation 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 construction and maintenance of the State Highway System; the operation of all mass transit facilities in the Baltimore Metropolitan Transit District, including the operation of the bus and rail systems in this District, and the power to fix and collect the fares for these systems; the operation of the MARC commuter rail system by contract with Amtrak and CSX railroad companies, including the power to fix and collect the fares for this system; the licensing and registration of all motor vehicles and motor vehicle operations 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 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 "THE TRANSPORTATION TRUST FUND - Transfers from the Maryland Transportation Authority"). 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, the Potomac River Bridge, the Susquehanna River Bridge and the Intercounty Connector. The Authority also developed an intermodal container transfer rail yard which is managed by the MPA. See "TRANSPORTATION FACILITIES AND PROGRAMS." The Authority consists of eight members, who are appointed by the Governor, and the Secretary, who is the *ex officio* Chairman of the Authority.

Officials of the Department

The following are brief resumes of key Department officials:

Beverley K. Swaim-Staley, *Secretary of Transportation*: In September 2009, Governor Martin O'Malley appointed Ms. Swaim-Staley as Secretary of the Maryland Department of Transportation. (She is the first woman to serve as Maryland Transportation Secretary.) On April 30, 2012, Ms. Swaim-Staley announced her decision to step down as Secretary. Ms. Swaim-Staley agreed to stay on through the end of Fiscal Year 2012 to allow for an orderly transition. As Secretary, Ms. Swaim-Staley oversees the Administrations. Secretary Swaim-Staley also serves as Chairman of the Authority, which is responsible for the State's toll facilities, Chairman of the Maryland Port Commission and Chairman of the Maryland Aviation Commission. Prior to assuming the position of Secretary, Ms. Swaim-Staley served as Deputy Secretary of the Department. She was appointed to the position of Deputy Secretary by Governor O'Malley in January 2007 returning to the position that she held from 1999 through 2003. During Ms. Swaim-Staley's first tour as Deputy Secretary to the Department, she also served as Acting Executive Director of the BWI Marshall Airport from July 2001 to April 2002 and served as interim Administrator of the MTA in 2002. From 1993 to 1998, Ms. Swaim-Staley served as the Director of the Office of Finance, serving as the Department's chief financial officer. Ms. Swaim-Staley began her career in public service as a financial analyst for the General Assembly, serving as the senior policy analyst on transportation issues from 1983 to 1993. Ms. Swaim-Staley is a graduate of Hood College with a Bachelor of Arts Degree in Political Science and a Master of Arts Degree in Contemporary Government.

Darrell B. Mobley, Deputy Secretary of Transportation: Mr. Mobley was appointed Deputy Secretary of the Maryland Department of Transportation in January 2011. In addition, he served as acting State Highway Administrator from July 2011 through December 2011. As Deputy Secretary, he oversees a $3.6 billion annual budget as the Chief Operating Officer for the 9,000-employee department comprising the Baltimore/Washington International Thurgood Marshall Airport, the Port of Baltimore, the Maryland Motor Vehicle Administration, and an extensive mass transit and highway network. Prior to his appointment, Mr. Mobley was the State Highway Administration's District Engineer for Prince George's and Montgomery Counties where he oversaw an estimated annual capital expenditures budget of $250 million and provided leadership and direction to a workforce of approximately 500 State and contractual employees. Mr. Mobley holds Associate of Arts degrees in Land Surveying Technology and Construction Management Technology from Catonsville Community College and a Bachelor of Science Degree in Civil Engineering from the University of Delaware.

Melinda Peters, State Highway Administrator: Ms. Peters was appointed State Highway Administration Administrator in November 2011. As Administrator, Ms. Peters oversees a $1.1 billion annual budget and over 3,500 employees. Prior to her appointment, Ms. Peters was the Director for the largest transportation project in the State of Maryland, the Intercounty Connector. With a budget of $2.5 billion and a 5 year schedule to complete construction of 18 miles of new tolled highway, Ms. Peters managed a staff of over 500 employees. Previous positions included the design liaison for the Intercounty Connector project, team leader and project manager for the State Highway Administration for the Office of Highway Development managing and designing many projects throughout the State. Ms. Peters holds a bachelors degree in Civil Engineering from Virginia Polytechnic and State University as well as a Masters in Business Administration from Mount Saint Mary's College. She is also a registered professional engineer in the State of Maryland.

John T. Kuo, Motor Vehicle Administrator: Mr. Kuo was appointed Motor Vehicle Administrator in May 2006. Prior to his appointment, Mr. Kuo served in various executive management capacities within the MVA during the past 15 years. Previous positions include Associate Administrator of Administrative Services and Associate Administrator of Operations before being promoted to the position of Chief Deputy Administrator & Chief Operating Officer in October 2003. Prior to joining the MVA, Mr. Kuo served in a number of senior management capacities at the Port of Baltimore/MPA including Director of Procurement and Chief of Contract Administration in the MPA's Engineering Division. Mr. Kuo has been with the Department since 1988 and is a 29-year career veteran of the State of Maryland beginning his State service in 1982 at the Maryland Department of Health & Mental Hygiene in the Purchasing Division. Mr. Kuo is an active member with the American Association of Motor Vehicle Administrators ("AAMVA") having served as President and is currently serving as a Board Director on the AAMVA Region I Board. He holds a Bachelor of Arts Degree in Business Management and Administration from the National-Louis University in McLean, Virginia.

James J. White, Executive Director, Maryland Port Administration: Mr. White was appointed Executive Director in August 2007. Mr. White returns to the position that he held from 1999 through 2005. Most recently, Mr. White served as the Senior Vice President and Chief Operating Officer of New Jersey-based Ceres Terminals Inc., a stevedoring and terminal operations company with major port operations in North America and Europe. Previously he served as Deputy Executive Director/Director of Operations for the MPA and served in the capacity of the President of Maryland International Terminals, Inc. Prior to joining the Department, Mr. White served approximately 20 years in the maritime industry, most notably as the General Manager for the North American division of PRMMI. Mr. White is a past President of the North Atlantic Ports Association. He is a graduate of Wagner College in Staten Island, New York, where he earned a Bachelor of Science Degree in Business Administration and Economics.

Paul J. Wiedefeld, Executive Director, Maryland Aviation Administration: Mr. Wiedefeld was appointed Executive Director of the MAA in December 2010. With this appointment, Mr. Wiedefeld returned to the post he held from 2002 to 2005. As Executive Director, he oversees the management of BWI Airport and Martin State Airport ("Martin Airport") while administering technical and financial assistance to public-use general aviation airports across the State. Prior to his appointment, Mr. Wiedefeld served as Administrator of the MTA from 2007 to 2009. Prior to 2007, Mr. Wiedefeld served as Senior Vice President with the international transportation planning and engineering firm Parsons Brinckerhoff ("PB") where he was responsible for all business management activities in the Mid-Atlantic Region. From 2002 until his return to PB in 2006, he held the position of Executive Director of the MAA where he managed the operations of BWI Airport through the largest expansion in airport history. From 1991 to 1994, Mr. Wiedefeld was Director of the Department's Office of Systems Planning and Evaluation. Mr. Wiedefeld began his transportation career in 1981 holding various positions in local and regional government before beginning his tenure with the Department. Mr. Wiedefeld received a Bachelor of Science Degree in Political Science from Towson University and a Master's Degree in City and Regional Planning from Rutgers University.

Ralign T. Wells, Administrator, Maryland Transit Administration: Mr. Wells was appointed Administrator of the MTA in December 2009. As Administrator, he oversees the daily operation of MTA's bus, light rail, Metro subway and MARC commuter rail systems throughout the Baltimore-Washington areas. Prior to his appointment, Mr. Wells served as Deputy Administrator for Transit Operations in the MTA. Mr. Wells oversaw a budget of $500 million and was responsible for all of the operating modes of MTA inclusive of Bus, Metro, Light Rail, Commuter Rail, Commuter Bus, and Para-Transit, as well as the MTA Police Department. Mr. Wells led over 2,200 unionized and management employees to provide a network of industry leading transit services. From 2005 to 2007, Mr. Wells was Director of Metro Operations in the MTA responsible for the leadership of the MTA's Metro System with an operating budget of nearly $50 million. From 2004 to 2005, Mr. Wells was Deputy Director, Bus Operations, MTA. Mr. Wells began his career in the MTA in 1989 holding various positions. Mr. Wells holds a Bachelor of Science Degree in Business from the University of Baltimore and an Associate of Arts Degree in Business from Catonsville Community College.

Denise R. Ferguson, Assistant Attorney General and Principal Counsel to the Department of Transportation: Ms. Ferguson was appointed Principal Counsel in December 2002. Prior to her appointment, Ms. Ferguson served as Assistant Secretary to the Maryland Department of the Environment from 2001 to 2002. Ms. Ferguson held the position of Director of the Division of Air and Waste Management with the Delaware Department of Natural Resources & Environmental Control from 1999 to 2001. Ms. Ferguson also served as Deputy Counsel and Counsel to the Maryland Department of the Environment from 1989 to 1992 and 1993 to 1999, respectively. She has worked in the federal government as a Branch Chief and Assistant Enforcement Counsel in the Superfund Division of the Office of Enforcement for the U.S. Environmental Protection Agency from 1992 to 1993. Ms. Ferguson also was a Trial Attorney with the U.S. Department of Justice Lands and Natural Resources Division from 1987 to 1989 and an Assistant United States Attorney in the U.S. Attorney's Office for the Southern District of Texas from 1983 to 1987. Ms. Ferguson was an Associate with the New York law firm of Davis Polk and Wardwell from 1980 to 1983. Ms. Ferguson is a graduate of Wellesley College and Harvard Law School.

David L. Fleming, Chief Financial Officer: Mr. Fleming was appointed Director of Finance and Chief Financial Officer in May 2005. He oversees the State's Transportation Trust Fund that supports all capital and operating programs for the Department, the $3.6 billion annual budget, and the development of the Transportation Six-Year Financial Plan. He began his career in transportation in 1987 in the Department's Secretary's Office in the Office of Finance. He has served as a Senior Financial Analyst, Manager of Financial Planning and Analysis, and Deputy Director of the Office of Finance before being appointed Chief Financial Officer for the Department. Prior to joining the Department, Mr. Fleming worked in private industry for eight years in various accounting positions. He holds a Bachelor's Degree in Accounting and Finance from Towson University in Maryland and a Master's Degree in Business Administration from Loyola College.

CONSOLIDATED TRANSPORTATION PROGRAM

The Department annually prepares a State Report on Transportation, consisting of the Maryland Transportation Plan (the "MTP") and the Consolidated Transportation Program ("CTP"). The MTP identifies the objectives of the Department and its modal Administrations, discusses accomplishments, current activities and future plans, and highlights issues that require attention. The CTP is developed within the framework of and is consistent with the MTP. As revenue estimates are revised during the year, the Department adjusts the capital program as necessary.

The CTP is updated annually by the Department and is submitted to the General Assembly on the third Wednesday of January of each year. The CTP contains estimates of expenditures for operating, constructing and improving transportation facilities during the current year, budget request year and the succeeding four-year period. Each year the CTP is developed in accordance with the current projection of six-year financial resources. Appropriations for the first fiscal year of each CTP are made by the General Assembly at its immediately preceding regular session as part of its review and approval of the State Budget. See "STATE GOVERNMENT – Budget" for a discussion of the State's and the Department's budgetary practices.

Financial forecasts used in the CTP are based on currently available estimates of the Department's revenues; administrative, operating and maintenance expenditures, capital expenditures by the Department and its major grant recipients, and receipts of related federal funding. Twelve-month forecasts of all cash receipts and expenditures of the Department are updated quarterly, while six-year forecasts are updated semiannually.

TRANSPORTATION FACILITIES AND PROGRAMS

A summary of the fiscal years 2012-2017 CTP is presented below (in millions):

Expenditures	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
State Highway Administration	$ 837.6	$ 863.4	$ 778.9	$ 734.0	$ 706.0	$ 713.4	$ 4,633.4
Maryland Transit Administration	426.9	458.8	585.1	164.2	178.6	180.0	1,993.7
Washington Metro Area Transit	237.8	233.9	255.7	239.7	241.0	259.5	1,467.6
Maryland Port Administration	71.7	100.6	144.9	150.8	127.0	144.9	740.0
Maryland Aviation Administration	121.4	215.7	132.5	137.1	69.3	38.4	714.4
Motor Vehicle Administration	17.3	24.2	22.6	18.9	13.8	11.7	108.6
The Secretary's Office	74.2	68.8	46.7	19.1	12.1	11.7	232.6
Total	$ 1,787.0	$ 1,965.5	$ 1,966.6	$ 1,463.9	$ 1,347.7	$ 1,359.6	$9,890.2
Sources							
Special Funds	$ 588.8	$ 618.6	$ 689.8	$ 679.6	$ 656.2	$ 585.3	$3,818.2
Federal Funds	736.6	787.2	748.3	392.2	327.4	353.2	3,344.9
Bonds	260.0	315.0	360.0	215.0	240.0	320.0	1,710.0
Other/BWI	93.7	156.8	78.3	83.7	27.7	.9	441.2
WMATA Federal	107.9	88.0	90.2	93.3	96.4	100.2	575.9
Total	$ 1,787.0	$ 1,965.5	$ 1,966.6	$ 1,463.9	$ 1,347.7	$ 1,359.6	$9,890.2

Note: Totals may not add due to rounding

State Highway Administration

The State Highway System, totaling more than 5,145 miles or 14,730 lane miles of roadway and more than 2,576 bridges, consists of the Interstate, Primary and Secondary Highway systems excluding Authority and locally owned facilities. The Interstate and Primary Highway systems serve the major interstate and intrastate travel flows. The Secondary Highway system provides a network of routes for local travel.

The SHA is responsible for project development, construction and maintenance of the State Highway System. The State is divided into seven engineering districts, with each district responsible for its own routine physical maintenance, traffic services and construction supervision. Specialized activities are assigned to statewide operating divisions and sections.

The majority of federal funding for highway construction is apportioned to the states based upon formulas in federal law. Within the limits of those apportionments, projects are generally eligible for 80% federal participation, except for interstate maintenance, which is eligible for 90% federal participation.

The allocation of funds to the SHA's highway capital program (excluding highway maintenance costs, which are accounted for as operating expenditures) is $4,633,500,000 for the CTP period. The CTP anticipates that $2,108,800,000 would be provided by federal grants, and that $2,524,700,000 would be provided from other resources of the Department.

Maryland Transit Administration

The mission of the MTA is to provide a Statewide system of safe, efficient, and appealing transportation services that responds to the needs of residents, visitors, employees, and transit partners in an environment that promotes innovation, accountability, accessibility, and respect. To achieve this, the MTA operates Local and Commuter Buses, Light Rail, Metro Subway, Maryland Area Regional Commuter (MARC) Train Service, a comprehensive Paratransit (Mobility) system, and manages the Taxi Access system. The combined ridership for these services in fiscal year 2011 exceeded 109.7 million. Additionally, MTA directs funding and statewide assistance to Locally Operated Transit Systems (LOTS) in each of Maryland's 23 counties, Baltimore City, Annapolis and Ocean City.

Capital allocations for the MTA in the CTP total $1,993,672,000, of which $1,093,250,000 would be provided by federal grants, $850,341,000 from other resources of the Department and $50,081,000 from non-federal, non-Departmental sources.

Public Bus and Rail Transit Service in the Baltimore and Washington Areas

Bus Service - At present, MTA provides these services with 706 MTA-owned fixed route buses for service in the Baltimore region. Through the Commuter Bus Program, MTA contracts with private operators to provide service from Anne Arundel, Calvert, Charles, Howard, Queen Anne's and St. Mary's Counties to Washington, DC and from Frederick and Washington Counties to Montgomery County. Additional contract service is provided from Baltimore, Harford, and Howard Counties to Baltimore City. The MTA also contracts service on the Inter-County Connector (ICC) corridor, serving Frederick, Montgomery, Prince George's and Anne Arundel Counties. These services collectively comprise the "Commuter Bus Program." The Commuter Bus Program is run with 68 MTA-owned and approximately 172 contractor-provided over-the-road style coaches. The combined ridership for the Baltimore region and Commuter Bus services in fiscal year 2011 exceeded 76.6 million. The CTP provides for core bus system improvements in the Baltimore area totaling $251,469,000 including the annual purchase of replacement buses, information technology upgrades, communication equipment and other bus-related improvements and equipment. The federal government would contribute $188,177,000 and the Department would provide the remaining $63,292,000 for these improvements.

Student Service - Baltimore City Public School students also use MTA's services. MTA is reimbursed through an agreement with the Baltimore City Public School System.

Baltimore Central Light Rail Line - The MTA operates a 29.5-mile light rail line which provides transit service from Hunt Valley north of Baltimore City, through the City to Cromwell Station south of the City, with spurs to Penn Station in Baltimore and BWI Airport. Fifty-three light rail cars currently operate on the entire system. The fiscal year 2011 light rail ridership was approximately 8.7 million. The CTP includes $191,286,000 for rolling stock rehabilitation as well as track and other improvements including electrical systems, stations, parking, maintenance facilities, and preservation and enhancement studies. The federal government would contribute $130,784,000 and the remaining $60,502,000 would be provided from other resources of the Department.

Baltimore Metro Subway - The MTA operates the Baltimore Metro rapid transit system with 100 rapid rail cars on 15.4 miles of track in Baltimore City and Baltimore County. The fiscal year 2011 Baltimore Metro ridership was approximately 14.6 million. The CTP includes $112,215,000 for rolling stock rehabilitation as well as rail system construction and preservation of which the federal government would contribute $61,538,000. The Department would provide the remaining $50,677,000.

Mobility/Paratransit Service - The Mobility/Paratransit service is for citizens who are unable to use Local Bus, Metro/Subway or Light Rail service. This service is provided by the MTA via contracts with Veolia Transportation and MV Transportation. The CTP includes $19,694,000, primarily for vehicle procurement and rehabilitation. The federal government would contribute $12,326,000 and the remaining $7,368,000 would be provided from other resources of the Department.

New Starts - The MTA has begun preliminary engineering for new light rail lines in the Baltimore and Washington areas, including the Red Line in Baltimore and the Purple Line in Prince George's and Montgomery Counties. Also, an alternatives analysis is currently underway for the Corridor Cities Transitway in Montgomery County. These projects are pursuing federal funding through the Federal Transit Administration (FTA) New Starts process. The new lines would link key employment, entertainment, commercial and residential areas. The CTP includes $393,943,000 for these projects. The federal government would contribute $147,000,000 and the remaining $246,943,000 would be provided from other resources of the Department.

Agency-wide - The CTP includes agency-wide preservation and enhancement projects across facilities, joint development projects and community enhancement projects. The CTP includes $334,437,000 for this work. The federal share for this amount is $110,791,000, $207,077,000 would be provided from other resources of the Department and $16,569,000 from non-federal, non-Departmental sources.

Information Technology - Finally, the MTA is working on many security and information technology initiatives, which total $29,661,000. The Department would fund the entire amount of $29,661,000.

Commuter Rail

The MTA operates the Maryland Area Regional Commuter (MARC) rail service through contracts with Amtrak and CSX. Amtrak operates commuter rail service from Perryville in Cecil County to Washington, DC. CSX Transportation operates commuter rail service from Baltimore City, Frederick, Maryland, and Martinsburg, West Virginia to Washington, DC. MARC ridership exceeded 8.2 million in fiscal year 2011.

Passenger rail capital allocations for the CTP period are $488,805,000, of which $303,855,000 would be provided by federal grants, $159,376,000 would be provided from other resources of the Department and $25,574,000 from non-federal, non-Departmental sources.

Freight

The Department supports the operations of certain rail freight lines through direct subsidies to short line rail operations and rehabilitation of components of these lines.

Allocations for the rail freight capital program for the CTP period are $14,963,000, of which $975,000 would be provided by federal grants, $13,563,000 would be provided by the Department and $425,000 from non-federal, non-Departmental sources.

Statewide Grants

Department aid is available to qualifying local public and non-profit agencies for the planning, capital and operating costs of public transportation projects. Where federal grants are available for planning and capital costs, the Department will provide up to 80% of the non-federal share of approved costs.

Allocations for statewide public transit grants for the CTP period total $157,199,000, of which $137,804 would be provided by federal grants, that $11,882,000 would be provided by the Department and $7,513,000 from non-federal, non-Departmental sources.

Washington Metropolitan Area Transit Grants

Washington Suburban Transit District

The Department provides financial aid for the construction and operation of the regional rail and bus system of WMATA serving Montgomery and Prince George's Counties in Maryland, the District of Columbia, and the local jurisdictions in Virginia, which participate in the Northern Virginia Transportation Commission. Prince George's and Montgomery Counties in Maryland comprise the Washington Suburban Transit District ("WSTD"). The Washington Suburban Transit Commission ("WSTC"), created by State law to manage and control the functions and affairs of the WSTD, is empowered to provide funds to meet the WMATA obligations allocated to WSTD. The Department provides funds for the WMATA system through grants-in-aid to the WSTC.

The Department provides (1) grants to meet the WSTD's share of the capital costs of the adopted regional rail system, (2) grants to the WSTD in an amount equal to 100% of the WSTD's share of the operating deficits of the regional transit system (operating deficits are defined as operating costs less (a) the greater of operating revenues or 50% of operating costs, and (b) all federal operating assistance), and (3) grants equal to 100% of the WSTD's portion of the net debt service on bonds issued by WMATA and to be paid through the year 2014.

WMATA Capital Improvement Program - The Capital Improvement Program now includes both the former Infrastructure Renewal Program ("IRP") and the System Access Plan ("SAP"). The new capital agreement was executed in June 2010 and will fund the IRP and SAP on an ongoing basis. Projects include all system infrastructure, rolling stock, vehicles, and equipment. The FY 12-17 CTP provides for an estimated expenditure of $1,467,600,000 including $575,900,000 in federal funds received by WMATA directly.

Operating Deficit Assistance – The Department estimates that its share of the WSTD's portion of the transit operating deficits for fiscal years 2012-2017 will be $1,755,000,000 of which $256,741,778 was required for fiscal year 2012. The amount estimated for fiscal year 2013 is $263,000,000.

Debt Service Assistance – The Department, through a grant agreement with the WSTD for fiscal year 2012, will have contributed $9,741,000 for the Department's share of the WSTD's portion of the net debt service on revenue bonds issued by WMATA as described above.

Maryland Port Administration

The Port of Baltimore is served by highway and major railroad systems and offers two distinct water approach routes to or from the Atlantic Ocean: from the south through the Virginia Capes and from the north through the Chesapeake and Delaware Canal.

The MPA has constructed and currently operates marine terminals in the Port of Baltimore. The CTP includes major projects for the improvement and expansion of some of these terminals at a six year cost of $42,576,000. The cost of these capital improvements to port facilities is funded with resources of the Department. Projects related to dredging, including dredged material containment site-work, are also included in the CTP at a total estimated cost of $430,399,000. Minor projects (i.e. rehabilitation and system preservation) at the Department's various marine terminals (Dundalk, Clinton Street, Locust Point, etc.) are also included in the CTP at a cost of $235,037,000. The total six-year program for the Maryland Port Administration is $740,022,000.

The Authority constructed a three-berth container facility at Seagirt Marine Terminal and an intermodal container transfer yard. Although this project was not funded by the Department's Transportation Trust Fund, it is nevertheless a significant port development. Until January 2010, the MPA served as the agent for the Authority and oversaw the operation of Seagirt Marine Terminal. In December 2009, the MPA signed a long-term lease with Ports America valued at $1.3 billion. The lease allows Ports America to operate Seagirt Marine Terminal for the next 50 years. Ports America's subsidiary Ports America Chesapeake will build a 50-foot deep berth at the Seagirt Marine Terminal that will allow larger ships to sail into the port. Construction of the 50-foot deep berth will accommodate larger ships from Asia that are expected to call on East Coast ports when an expansion of the Panama Canal is completed in 2014. Ports America will add four cranes to the new berth capable of handling container stacks which are higher and wider than those now calling at the Port of Baltimore. As part of the agreement, Ports America will invest more than $600 million in port-related infrastructure improvements over the 50-year life. The lease required Ports America to make an upfront payment of $140 million to fund other Authority projects which allowed MPA to take ownership of Seagirt Marine Terminal.

In April 1998, the Authority financed a $20,000,000 Masonville Automobile Handling Facility for the MPA. The agreement between the Authority and the MPA provides for annual payments, including interest, over a 20-year period, maturing May 2020, by the MPA to the Authority to amortize its investment in this facility.

In June 2006, the Department entered into a $26,530,000 conditional purchase agreement to construct a 215,000 square foot warehouse facility at the MPA South Locust Point Terminal. The project included demolition, land preparation, constructing a Roll-on/Roll-off ramp at the dock, and extending railroad tracks to the warehouse. The warehouse accommodates and stores imported forest products, especially paper, and provides adequate capacity to store paper previously housed at the North Locust Terminal. The facility is currently unoccupied; however, in accordance with provisions of the conditional purchase agreement, other forest product revenue at the South and North Locust Point Terminals cover the debt service payments until the facility is leased.

Maryland Aviation Administration

Baltimore/Washington International Thurgood Marshall Airport

BWI Marshall Airport, operated by the MAA, is located on a 3,200-acre site in Anne Arundel County, 10 miles south of Baltimore and 30 miles north of Washington, DC. Nearly 30 scheduled airlines, including commuter and cargo air carriers, serve BWI Marshall Airport and currently provide nearly 700 domestic and international flights daily. During fiscal year 2011, 22.5 million passengers used BWI Marshall Airport.

The CTP includes major improvements at BWI Marshall Airport consisting of $501,953,000 covering noise mitigation, plus airfield runway safety area, standards and pavement improvements; life-safety and security systems; and terminal improvements to widen Concourse C, relocate the passenger security screening checkpoint and add a secure-side connector utilizing Passenger Facility Charge ("PFC") revenues in combination with federal grants. Bonds issued by the Authority and the Maryland Economic Development Corporation ("MEDCO") were used to complete the Concourses A and B expansion, the daily garage, and the terminal and access roadwork. Additional PFC Bonds were issued by the Authority in April 2012 to finance the construction of a passenger connector hallway between the secured side of Concourses B and C, the expansion and improvement of Concourse C, and expansion and relocation of passenger screening lanes. See "LEASE AND CONDITIONAL PURCHASE FINANCINGS" and "OTHER LONG-TERM LIABILITIES" for summaries of these bond financings.

The Aviation Safety and Capacity Expansion Act of 1990 (the "1990 Safety Act"), enacted by the United States Congress ("Congress"), allows a public agency to impose an airport PFC for enplaned passengers. The proceeds of such PFCs are to be used to finance eligible airport-related construction projects. The MAA received Federal Aviation Administration (the "FAA") approval in July 1992 to collect PFCs for four projects. The MAA amended its PFC program in April 1994 to increase the total to six projects. In 1994, the Authority issued special obligation revenue bonds secured by PFCs to construct the International Terminal at BWI Marshall Airport and provide for other landside and airside facilities. These bonds were defeased during fiscal year 2003.

The Aviation Investment and Reform Act for the 21st Century, enacted by Congress in April of 2000, together with the 1990 Safety Act, increased the maximum per passenger PFC allowed to be charged by qualifying airports from $3.00 to $4.50. In March 2002, the MAA received FAA approval to increase its collection level to $4.50 to support PFC approved projects in MAA's capital program. The FAA further allows the MAA to impose and use PFCs for the payment of debt service for bonds used to fund PFC approved projects. In December 2003, the Authority issued special obligation revenue bonds to finance PFC approved projects. In April 2012 the Authority issued a new series of special obligation revenue bonds to fund additional PFC approved projects. PFC collections not needed for debt service are used for PFC approved paygo projects. The FAA approved additional applications for PFC eligible projects in June 2006, July 2007, February 2008, September 2010, and March 2012. See "OTHER LONG-TERM LIABILITIES" for a summary of the PFC financing.

The CTP also anticipates expenditures of $193,845,000 for airport planning and preservation of both BWI Marshall Airport and Martin State Airport of which $706,000 would be provided by federal grants, $19,903,000 from non-Department revenue sources and $173,236,000 from other resources of the Department.

Other Aviation Facilities and Programs

Martin State Airport is located northeast of Baltimore in Baltimore County, and provides facilities for general aviation and the Maryland Air National Guard. Improvements amounting to an estimated $3,498,000 are allocated during the CTP period to Martin State Airport. It is estimated that $1,340,000 would be provided by federal grants and $2,158,000 from other resources of the Department.

A grant program to aid general aviation and commercial airports throughout the State, in keeping with the Maryland Aviation Systems Plan, is expected to require an estimated $15,100,000 during the CTP period.

Motor Vehicle Administration

The MVA is responsible for supplying motor vehicle services to the citizens of the State. These services include licensing all passenger and commercial drivers, registering and titling vehicles, issuing tags and permits for persons with a disability, issuing photo identification cards for non-driver residents, regulating motor vehicle dealerships and salespersons, administering the compulsory insurance compliance program, managing the Vehicle Emissions Inspections Program, and conducting driver safety programs. The MVA serves its customers through a network of 25 customer service offices (18 full service, 4 express, 2 satellite, and a mobile office), electronic services (kiosks, internet, telephone), a telephone customer service center, and 18 Vehicle Emissions Inspection Program stations.

The 2012-2017 CTP has $108,554,000 programmed for MVA capital projects, of which $58,819,000 is allocated to preserve and develop the MVA's information technology infrastructure, and the remaining $49,735,000 will allow for the preservation and improvement of customer service offices. While IT infrastructure is critical to how a growing number of customer transactions are completed at the MVA, customer service facilities continue to be an important part of service distribution. In addition to preserving and improving existing IT systems such as the

Driver Licensing System, there are two major information technology projects planned— Enterprise Management System, or Project Core, and Document Information and Workflow System (DIWS) Upgrade. These IT projects resolve to modernize, standardize and integrate an aging MVA IT infrastructure. MVA facilities require ongoing investment to keep them safe, secure and publicly compliant. Some customer service offices and many VEIP stations have reached an age whereby investments need to be made in the building structure, site, and mechanical and electrical systems.

The Secretary's Office

Capital Projects funded in the Secretary's Office largely consist of Department wide projects to improve air quality, promote bicycling as a mode of transportation and facilitate transit oriented development.

The Secretary's Office includes multi-modal planning efforts and grants either given from the Secretary or received by the Department for key projects around the state including High Speed/Intercity Rail grants for two North East Corridor rail improvements.

On June 27, 2002, MEDCO issued lease revenue bonds on behalf of the Department in the amount of $36,000,000 (the "2002 Lease Revenue Bonds") for the acquisition, construction and equipping of a new Department headquarters building. The Bonds are secured by the Department's semiannual lease payments to MEDCO. On May 25, 2010, MEDCO partially refunded the 2002 Lease Revenue Bonds.

THE 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.

To implement the Governor's budget for fiscal year 2004, the General Assembly in its 2003 Session enacted a bill (Chapter 203 of the Laws of Maryland of 2003) which provided that in fiscal year 2003 and 2004, $160,000,000 and $154,913,000, respectively, of motor vehicle registration fees and other user fees from the MVA be deposited in the General Fund rather than in the Transportation Trust Fund. The bill also required the Governor, on or before December 1, 2003, to submit a plan for replacement of funds transferred under this act. The Governor submitted a plan to replenish the Transportation Trust Fund through General Fund budget appropriations beginning in fiscal year 2006. During the 2004 Session of the General Assembly, legislation was enacted requiring the Governor to include in the fiscal year 2006 budget bill an appropriation to the Transportation Trust Fund in an amount equal to the lesser of $50,000,000 or the excess General Fund surplus over $10,000,000, with the cumulative amount appropriated to the Transportation Trust Fund being capped at $314,913,000. A $50,000,000 appropriation to the Transportation Trust Fund was included in the Fiscal Year 2006 State budget. At the 2005 Session of the General Assembly, however, this legislation was repealed and the balance of the original capped appropriation of $314,913,000, net of the $50,000,000 transferred to the Transportation Trust Fund in Fiscal Year 2006 (or $264,913,000), was directed to be transferred to the Authority for purposes of the ICC (defined below).

The General Assembly authorized certain sources of revenues to finance the construction of an Intercounty Connector (the "ICC"). The ICC is defined in Chapters 471 and 472, Acts of 2005 as the east-west multimodal highway in Montgomery and Prince George's counties between Interstate 270 and Interstate 95/U.S. Route 1. In order to finance the ICC, the General Assembly provided that the Governor shall transfer funds to the Authority from the Transportation Trust Fund in the amount of $22,000,000 in Fiscal Year 2005 and $38,000,000 in Fiscal Year 2006, and that the Governor shall also transfer to the Authority from the Transportation Trust Fund at least $30,000,000 each year for Fiscal Years 2007 through 2010. Transfers in these amounts for Fiscal Years 2005 through 2010 have been made.

During the 2007 Special Session of the General Assembly, legislation was enacted to overhaul the State's tax structure and increase funding to the Transportation Trust Fund, the General Fund, and other State programs by providing additional revenue sources. These revenue sources include sales and use tax revenues, vehicle excise tax, corporation income tax, uninsured motorist penalty fees, security interest filing fees, certain (vanity) registration plate fees and other titling fees. The legislation also provided a requirement that the Department provide certain information on proposed projects in its 2010-2015 CTP. In addition, the General Assembly adopted legislation to increase the maximum allowable aggregate principal amount of outstanding consolidated transportation bonds from $2,000,000,000 to $2,600,000,000 effective January 1, 2008.

During the 2011 Session of the General Assembly, legislation was enacted to end future Highway User Revenue transfers to the General Fund and to distribute a portion of the corporation income and general sales tax revenues previously credited to the Transportation Trust Fund to the General Fund. (See "SECURITY" and "Taxes and Fees")

Under existing law, as amended in the 2007 Special Session of the General Assembly and further amended in the 2008 and 2011 Sessions, the following sources of funds are available to the Transportation Trust Fund.

Taxes and Fees

Highway User Revenues – Highway User Revenues include the following taxes and fees after the deduction of certain programmatic expenses provided by law and required distributions to the General Fund and/or political subdivisions of the State:

1. Motor Vehicle Fuel Tax and Fees — these taxes and fees 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 and a 2.3% distribution to the Chesapeake Bay 2010 Trust Fund and/or the General 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 — As of July 1, 2008, 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. Sales and Use Tax — 80% of 45% of the revenues from the collection of the Sales and Use Tax on short-term vehicle rentals.

4. Motor Vehicle Registration Fees — a registration fee on all motor vehicles that ranges from $2.50 to $1,800.00 per vehicle.

5. Corporation Income Tax — 24% of the revenues derived from the State's 8.25% corporation income tax after certain General Fund reductions. In Fiscal Year 2013, beginning July 1, 2012, the percentage distribution will be 9.5%. For Fiscal Years 2014 through 2016, the percentage distribution will be 19.5%. For Fiscal Year 2017 and future Fiscal Years, the percentage distribution will be 17.2%.

Allocation of Highway User Revenues – Pursuant to legislation enacted by the General Assembly at its 2011 Session (Chapter 397), which became effective on July 1, 2011, the total Highway User Revenues will be allocated as follows:

Fiscal Year 2012: 79.8% to the Department (less a one-time $40,000,000 distribution to the Revenue Stabilization Account), 11.3% to the General Fund, and the balance to pay allocations to the counties, municipalities and Baltimore City.

Fiscal Year 2013: 90% to the Department and the balance to pay allocations to the counties, municipalities and Baltimore City.

Fiscal year 2014 and Fiscal Years thereafter: 90.4% to the Department and the balance to pay allocations to the counties, municipalities and Baltimore City.

Motor Vehicle Titling Tax — The net receipts of the 6% tax that are not Highway User Revenues are credited to a separate account in the Transportation Trust Fund.

Sales and Use Tax Revenues — Effective July 1, 1999, the Department receives 20% of 45% of the Sales and Use Tax revenues on short-term vehicle rentals.

Operating Revenues – Revenues of the Transportation Trust Fund are produced by operations of the Maryland Port, the MTA and the MAA. Aviation revenues include landing fees, rents and user fees, PFCs, rental car customer facility charges, public parking and passenger-oriented concessions. 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 2011, estimated, the bus, light rail and subway systems combined achieved a 31% fare box recovery. The MARC fare box recovery for Fiscal Year 2010, estimated, is 46.6%.

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.

See "Taxes Pledged to Bonds and Net Revenues as Defined for Purposes of the Bond Coverage Tests" in Appendix A.

Federal Aid

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU") authorized federal funding levels for transit and highways for federal fiscal years 2005 through 2009. The 2012-2017 CTP is based on the spending levels and contract authority under SAFETEA-LU, which has been extended through June 30, 2012. In Fiscal Year 2011, the Department received 92% of the federal Obligation Authority ("OA") and a similar level is expected for the remainder of Fiscal year 2012. For planning purposes, the Department has assumed an OA level of 92% through June 2012 and 85% through September 2012. The 2012-2017 CTP assumes an OA of 80% from October 1, 2012 through the end of the planning period, June 30, 2017.

Under SAFETEA-LU, the Department receives federal aid for the highway program, primarily for interstate, primary, secondary and urban systems, bridge replacement, highway safety, and congestion mitigation/air quality improvement. All available federal aid is utilized and no federal aid will be lost for lack of State match.

The Federal Transit Administration provides transit operating and capital assistance for bus, metro, light rail and rail commuter. Federal grants are also provided for rural areas as well as elderly and handicapped persons.

Federal entitlement and discretionary funding for airport projects are provided by the FAA through the Airport Improvement Program.

The major federal fund receipts for the capital program in Fiscal Year 2011 were $614,437,179. Projected receipts for Fiscal Year 2012 are $736,610,000.

In addition, the State is utilizing $638 million of formula funds under the American Recovery and Reinvestment Act of 2009 ("ARRA") for various transportation projects. Of this total, $414 million is being utilized for highway projects and $152 million for transit projects. The remaining $72 million is being utilized by WMATA for additional transit work in the State. On the highway side, the State is utilizing $317 million for State highway projects and the remaining $97 million was made available to counties and Baltimore City for local highway projects. On the transit side, the State will utilize $108.5 million for State transit projects and $43.5 million was made available to local transit operators for local transit projects.

In addition to the formula distribution, Maryland has gained additional funding from discretionary grants made pursuant to ARRA. The MAA has received a grant for $15 million for Pier C/D apron rehabilitation at BWI Marshall Airport. The MPA has received $1.3 million in a Port Security Grant. The MTA has received $0.5 million in a Transit Investment in Greenhouse Gas and Energy Reduction grant for a fire suppression system upgrade and two High-Speed Intercity Passenger Rail grants for a total of $69.4 million in design funds to examine the replacement of the Baltimore & Potomac rail tunnel, upgrading the BWI Marshall Airport MARC/Amtrak station and adding an additional track in the area. Lastly, in cooperation with the Metropolitan Washington Council of Governments, the SHA and the MTA received $14.8 million to construct the Takoma/Langley Park Transit Center and make bus priority improvements on various roadways in metropolitan Washington.

Consolidated Transportation Bonds

In accordance with certain provisions of the Act, the aggregate principal amount of Consolidated Transportation Bonds that may be outstanding is $2,600,000,000. In addition, provisions of the Act 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 $2,600,000,000. For Fiscal Year 2012, the aggregate amount of Consolidated Transportation Bonds that may be outstanding as of June 30, 2012 is $1,888,995,000. Upon issuance of the Bonds, the principal amount of all outstanding Consolidated Transportation Bonds will be $1,562,630,000. After payment of serial maturities on Outstanding Bonds during the remainder of Fiscal Year 2012, the aggregate amount of Consolidated Transportation Bonds outstanding at June 30, 2012 will be $1,562,630,000, assuming no Additional Bonds are issued in Fiscal year 2012.

Special Revenue Bonds

The General Assembly enacted legislation in 2002, which was amended in 2004 and 2005, to give the Department authority to issue special transportation project revenue bonds. The Department may pledge or use existing and anticipated federal funds for the payment of special transportation project revenue bonds, provided that the Department complies with the limitations set forth in Title 3, Subtitle 6 of the Transportation Article which states that (1) the aggregate principal amount of debt secured by a pledge of future federal aid may not exceed $750 million; and (2) the date of maturity may not be later than 12 years after the date of issue.

If future federal aid is insufficient to pay the principal of and interest on the special transportation project revenue bonds, the taxes levied under the Act and irrevocably pledged to the payment of the principal of and interest on the Consolidated Transportation Bonds but not needed for such payment are pledged and will be available to pay the special transportation project revenue bonds. The statutory lien and pledge created for the benefit of the special transportation project revenue bonds is at all times subordinate to the pledge and lien for the payment of the principal of and interest on the Bonds and other Consolidated Transportation Bonds.

The Department has no plans to issue special transportation project revenue bonds in Fiscal Year 2012.

Maryland Transportation Authority Debt Secured by Federal Aid

The State substantially completed construction of the ICC through the combined efforts of the SHA and the Authority. The SHA managed the design and construction of the ICC, and, as federal grant recipient for the project, was responsible for federal aid management. The Authority provided financing for the project, including bond financing, and owns and operates the ICC. In June 2007, the Authority issued $325,000,000 Maryland Transportation Authority Grant and Revenue Anticipation Bonds, Series 2007 (“2007 GARVEE Bonds”), which provided financing for a portion of the construction and equipping of the ICC project. In December 2008, the Authority issued its second and final series of GARVEE Bonds, Series 2008 (together with the 2007 GARVEE Bonds, the “GARVEE Bonds”) in the amount of $425,000,000 in accordance with the ICC financing plan.

The GARVEE Bonds are primarily secured by a portion of Maryland’s future federal highway aid. Section 4-320 of the Transportation Article establishes priorities in the event of a shortfall in federal aid to pay debt service requirements on the GARVEE Bonds in Fiscal Years 2009 through 2020. If the Authority pledges any future federal aid from any source to support repayment of debt secured by federal aid and if such federal aid is insufficient to pay the principal of and interest on such debt, the taxes levied pursuant to Section 3-215 of the Act are irrevocably pledged to the payment of the principal of and interest on the debt secured by federal aid and will be available to pay such debt as it becomes due and payable. However, pursuant to Section 3-215(d) of the Act, the statutory lien and pledge created for the benefit of the Authority’s debt secured by federal aid is at all times subordinate to the pledge and lien of taxes for the payment of principal of and interest on the Bonds, Outstanding Bonds and Additional Bonds.

Transfers from the Maryland Transportation Authority

The tolls and other revenues received from the transportation facilities projects owned and operated by the Authority are pledged as security for revenue bonds of the Authority issued under and secured by a Second Amended and Restated Trust Agreement dated as of September 1, 2007, as further supplemented and/or amended from time to time (the “Trust Agreement”).

None of these tolls and other revenues are initially credited to the Transportation Trust Fund. However, under the terms of the Trust Agreement and in accordance with legislation enacted by the General Assembly in 1978, moneys not needed for obligations of the Authority may be subsequently transferred to the Transportation Trust Fund to be used as appropriated by the General Assembly for any lawful purpose unless prohibited by any applicable resolution or trust agreement of the Authority. Such a transfer may be made only upon the recommendation of the Secretary and after the approval of the Board of Public Works.

PLEDGED TAXES AND NET REVENUES

As described above under "SECURITY", portions of the corporation income tax, motor fuel tax, motor vehicle titling tax, a portion of the Sales and Use Tax on short-term rental vehicles, and from July 1, 2008 through June 30, 2011, a portion of the Sales and Use Tax, are irrevocably pledged to payment of debt service on the Department's bonds. See "THE TRANSPORTATION TRUST FUND" for a discussion of changes to Transportation Trust Fund revenues enacted by the General Assembly in the 2011 Session. The following table lists the total amount of such taxes credited to the Transportation Trust Fund for the past five fiscal years and the Department's unaudited numbers for Fiscal Year 2011 and estimates for Fiscal Year 2012 (in thousands). These taxes would be the amounts upon which the additional bonds test relating to total proceeds from pledged taxes would be based. (See "FINANCIAL AND ACCOUNTING SYSTEM" for a general description of the budgetary basis.)

Taxes Pledged to Bonds	2006	2007	2008	2009	2010	2011	2012 [1]
Corporation Income Tax	$ 141,929	$ 129,890	$ 116,971	$ 105,388	$ 107,293	$ 107,379	$ 122,265
Fuel Tax ………………..	513,033	510,735	510,630	500,114	489,004	500,801	576,023
Titling Tax ………………	546,597	534,899	493,739	411,324	434,729	470,001	549,487
Sales and Use Tax …….	20,161	21,044	17,981	217,924	213,254	221,842	20,904
	$1,221,720	$1,196,568	$1,139,321	$1,234,750	$1,244,280	$1,300,023	$1,268,679

[1] Estimated for Fiscal Year 2012

To the extent needed, other revenues credited to the Department are available for payment of debt service on the Department's bonds. These will be the amounts upon which the additional bonds test relating to net available revenues will be based. The following table lists the total of the two categories of revenues available for debt service on the Department's bonds, the Department's administration, operation and maintenance expenses paid from the Transportation Trust Fund and net revenues (in thousands), (See "THE TRANSPORTATION TRUST FUND" for a discussion of fee increases.)

	2007	2008	2009	2010	2011	2012 [1]
Total Taxes Pledged to Bonds	$1,196,568	$1,139,321	$1,234,750	$1,244,280	$1,300,023	$1,268,679
Fees:						
Motor Vehicle Registrations	244,472	231,379	231,773	227,954	229,748	265,075
Other ……................	166,142	172,703	186,961	187,455	209,909	259,226
Total Taxes and Fees...........	1,607,182	1,543,403	1,653,484	1,659,688	1,739,680	1,792,980
Operating Revenues:						
MPA	94,499	96,880	93,635	69,222	49,156	49,000
MTA	123,122	117,869	117,557	125,057	133,494	134,000
MAA	151,620	180,254	181,580	194,308	207,897	201,000
Total Operating Revenue......	369,241	395,003	392,772	388,587	390,547	384,000
Other Revenue........................	39,836	4	(3,666)	(3,600)	60,458	(51,000)
Investment Income..................	10,574	3,683	3,996	394	1,004	3,000
Total Revenues........................	2,026,833	1,942,093	2,046,586	2,045,069	2,191,689	2,128,980
Maintenance Expenditures	1,324,274	1,409,082	1,433,236	1,491,817	1,456,606	1,493,000
Net Revenues...........................	702,559	533,011	613,350	553,252	735,083	635,980

[1] Estimated for Fiscal Year 2012

Certain of the fluctuations in the above tables are caused by institution of new programs and responsibilities of the Department, changes in tax and fee structures (See "THE TRANSPORTATION TRUST FUND"), and the influence of economic trends.

The financial statements contained herein should be read to obtain further details. See “Taxes Pledged to Bonds and Net Revenues as Defined for Purposes of the Bond Coverage Tests,” in the Statistical Section of Appendix A for additional historical detail.

The nation’s recovery from the “Great Recession” has been sluggish, and Maryland’s experience has been no different. It is taking longer to reach pre-recession levels than it has in any other recent economic cycle. Maryland’s economy is recovering but growing at a slow rate. Steady employment growth of approximately 1% is forecasted for the next several years. With improved economic conditions, the Department’s revenues have stabilized and are starting to recover. One of the most significant downside risks for Maryland’s outlook is the potential for federal budget cutbacks.

OUTSTANDING INDEBTEDNESS

Consolidated Transportation Bonds in the principal amount of $1,562,630,000 will be outstanding upon issuance of the Bonds; after payment of serial maturities during the remainder of Fiscal Year 2012, Consolidated Transportation Bonds outstanding at June 30, 2012 will be $1,562,630,000, assuming no Additional Bonds are issued in Fiscal year 2012. See “THE TRANSPORTATION TRUST FUND - Consolidated Transportation Bonds” for a discussion of the limit on the maximum outstanding aggregate principal amount of Consolidated Transportation Bonds. The table below shows the amounts to be outstanding for the respective series of Consolidated Transportation Bonds upon issuance of the Bonds:

Series 2002	$ 81,000,000
Series 2003	93,000,000
Series 2003 (Second Issue)	120,900,000
Series 2004	51,200,000
Refunding Series 2004	26,140,000
Series 2006	84,000,000
Series 2007	90,000,000
Series 2008	217,755,000
Series 2008 (Second Issue)	274,400,000
Series 2009	107,800,000
Series 2010A	14,000,000
Series 2010B	126,000,000
Refunding Series 2011	161,435,000
Series 2012	115,000,000
Total	$ 1,562,630,000

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DEBT SERVICE REQUIREMENTS AND ESTIMATED COVERAGES

The following table presents debt service requirements and estimated coverage ratios for the Bonds and the Outstanding Bonds. Maximum annual debt service is $219,764,662 in fiscal year ending June 30, 2017.

Net revenues under the first test described above under "ADDITIONAL BONDS" for the fiscal year ending June 30, 2011 would be 3.34 times maximum annual principal and interest requirements on such debt. Pledged taxes under the second test described above under "ADDITIONAL BONDS" for the fiscal year ended June 30, 2011 would be 5.92 times maximum annual principal and interest requirements on such debt. See "PLEDGED TAXES AND NET REVENUES." These coverage ratios are calculated on the basis of no further issuance of Consolidated Transportation Bonds.

DEBT SERVICE REQUIREMENTS AND ESTIMATED COVERAGES
(in thousands)

	Debt Service Requirements – Consolidated Transportation Bonds			Debt Service Coverage Ratio Based Upon Fiscal Year 2011 Revenue	
Fiscal Year	Outstanding Bonds [1]	Series 2012	Total Debt Service Requirements	Pledged Tax Ratio [2]	Net Revenue Ratio [3]
2011	158,662	-	158,662	8.19	4.63
2012	174,215	-	174,215	7.46	4.22
2013	175,680	4,628	180,308	7.21	4.08
2014	191,532	4,707	196,239	6.62	3.75
2015	200,078	11,897	211,975	6.13	3.47
2016	199,659	11,824	211,483	6.15	3.48
2017	208,086	11,679	219,765	5.92	3.34
2018	191,942	11,527	203,469	6.39	3.61
2019	146,273	11,369	157,642	8.25	4.66
2020	108,255	11,204	119,459	10.88	6.15
2021	116,394	11,083	127,477	10.20	5.77
2022	108,958	10,951	119,909	10.84	6.13
2023	100,811	11,133	111,944	11.61	6.57
2024	70,593	11,305	81,898	15.87	8.98
2025	19,046	11,307	30,353	42.83	24.22
2026	-	11,305	11,305	115.00	65.02
2027	-	11,515	11,515	112.89	63.83
Total [4]	2,170,184	157,433	2,327,617		

(1) The general sales and use tax and corporation income tax affected by General Assembly changes in the 2011 Session are available to pay debt service on the Outstanding Bonds sold prior to July 1, 2011, if needed.
(2) Pledged taxes were $1,300,023,000 for Fiscal Year 2011.
(3) Net revenues were $735,083,000 for Fiscal Year 2011.
(4) Totals may not add due to rounding.

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:

Capital Leases	Projects	Issuance Amount	Bonds Outstanding as of May 1, 2012
Maryland Economic Development Corporation Lease Revenue Bonds Series 2002	Acquisition, construction and equipping of a new headquarters building for the Department	$ 36,000,000	$ 1,720,000
Maryland Economic Development Corporation Refunding Lease Revenue Bonds Series 2010	Advance refund certain maturities of the Maryland Economic Development Corporation Lease Revenue Bonds Series 2002	22,715,000	22,640,000
Maryland Economic Development Corporation Lease Revenue Bonds Series 2003	Expansion and renovation of Piers A and B and the Terminal Building at BWI Airport	223,660,000	194,770,000
Total			$ 219,130,000

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

Conditional Purchase Financings	Projects	Principal Amount Outstanding as of May 1, 2012
Project Certificates of Participation (MAA), Refunding Series 2010	BWI Airport Facilities	$ 16,905,000
Project Certificates of Participation (MTA), Refunding Series 2010	MTA Rail Station Parking Garage at BWI Airport	12,335,000
Project Certificates of Participation (MAA), Series 2004	BWI Airport Shuttle Bus Fleet Acquisition	6,400,000
Project Certificates of Participation (MPA), Series 2006	MPA South Locust Point Warehouse Construction	22,915,000
Total		$ 58,555,000

In addition to the conditional purchase financings, the Department has a capital lease in the amount of $10,601,445 by virtue of an agreement with the Authority for financing the MPA Masonville Automobile Handling Facility.

All of the lease payments under these arrangements 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.

OTHER LONG-TERM LIABILITIES

The Department has entered into several lease agreements, similar in nature to capital leases, as lessee for the financing of various transportation related projects. Financings of this type are as follows:

Type	Projects	Issuance Amount	Bonds Outstanding as of May 1, 2012	Estimated Liability as of May 1, 2012
Maryland Transportation Authority Airport Parking Revenue Bonds Refunding Series 2012	Refunded Series 2002, original issuance amount of $264,075,000 was used to construct a Parking Garage; make improvements to the Central Utility Plant; make improvements to public access; and widened approach roads	$ 190,560,000	$ 190,560,000	$ 190,560,000
Maryland Transportation Authority Taxable Consolidated Rental Car Facility, Series 2002	Acquisition, construction and equipping of a new consolidated rental car facility	117,345,000	101,440,000	95,742,390
Maryland Transportation Authority Variable Rate Passenger Facility Charge Revenue Bonds Series 2003	Construction, extension and improvement of the terminal access roadway, pedestrian skywalks, taxiway and common use terminal equipment	69,700,000	22,000,000	--
Maryland Transportation Authority Passenger Facility Charge revenue Bonds Series 2012A	Finance a portion of the costs of construction of a passenger connector hall between the secured Concourses of B and C; expansion and improvement of Concourse C; and expansion and relocation of passenger screening lanes.	50,905,000	50,905,000	50,905,000
Total			$ 364,905,000	$ 337,207,390

The estimated liability of $337,207,390 represents bonds outstanding less cash on hand in certain restricted accounts as of May 1, 2012. 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 three projects, respectively, and no other Transportation Trust Fund revenues are pledged as security for these bonds. With the exception of excess parking revenue, none of these revenues are available for debt service on the Bonds.

FINANCIAL AND ACCOUNTING SYSTEM

Accounting records for the Transportation Trust Fund are maintained by the Comptroller of the Treasury of the State of Maryland (the "Comptroller") and all cash and investments of the Transportation Trust Fund are held by the State Treasurer (the "Treasurer"), except for revolving cash accounts. Accounting records for the Transportation Trust Fund for operational and management purposes are maintained by the Department's Office of Finance. The Department's financial statements and notes thereto for the year ended June 30, 2011, the most recent fiscal year for which financial statements and notes are available, contained in Appendix A have been prepared in conformity with generally accepted accounting principles and have been audited by the firm of SB & Company, LLC, independent certified public accountants.

Although the accounts maintained by the Department on a budgetary basis generally conform to generally accepted accounting principles, there are certain departures from these principles which are dictated by statutory requirements and historical practices. The principal departures are the exclusion of non-budgeted activities and classification of fund-type. See Note 1 of "Notes to Financial Statements," for information concerning the significant accounting policies employed by the Department in preparing its financial statements in accordance with generally accepted accounting principles.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its comprehensive annual financial reports for fiscal years 2000 through 2011. In order to be awarded a Certificate of Achievement, a governmental unit must publish a comprehensive annual financial report. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

State law requires an audit of every unit of State government by the Legislative Auditor at least every three years as determined by the Legislative Auditor. These audits generally are of a compliance nature, do not cover an entire or a single fiscal year, and are not for purposes of reporting upon financial statements as a whole. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

LITIGATION

There is no litigation pending which in any manner will affect the validity of the Act or the Bonds.

The Department and its administrations, officials and employees are parties to various legal proceedings before the courts, many of which occur in the normal course of the Department's operations. In addition, the Department is also a party to a number of legal proceedings before the Maryland State Board of Contract Appeals, which hears and decides bid protests and contract disputes. These legal proceedings are not, in the opinion of the Office of the Attorney General of the State, likely to have a material adverse impact on the Department's financial position.

At present, there are a series of contract claims all relating to one contractor, docketed at the Board of Contract Appeals, which, taken together, are in excess of $1 million and one additional claim in that amount. Cases such as these generally involve disputes over alleged differing site conditions, changes, delays and disruptions. Funding for claims of this nature generally is provided to the grantee under terms of the grant contract with the federal government as part of the reserve for contingencies of the approved grant budget or is otherwise provided for by the Department. Due to the level of these present contingency balances, the Department believes that no additional expenditures will be incurred.

INSURANCE

The operations of the MAA, the MPA and the MTA are covered by liability insurance policies and many suits are handled by the Department's insurance carriers.

The MAA's two facilities, BWI Marshall Airport and Martin State Airport, are covered by liability insurance policies totaling $500 million. These policies cover liability for both bodily injury and property damage.

The MPA's liability insurance policies, including excess liability policies, provide insurance up to $150 million per occurrence for its port operations. These policies cover liability for both bodily injury and property damage.

The MTA's operations are covered by a $495 million excess liability insurance policy over and above the MTA's $5 million self-insured retention. CSX and Amtrak are hired contractors to provide MTA's commuter rail service. The MTA has insurance to cover its contractual obligations. The insurance provides coverage for excess liability claims of $5 million to $495 million; claims under $5 million are self-insured by the Department. The excess liability policies also extend punitive damages liability coverage to CSX and Amtrak arising from commuter rail operations for claims of $5 million to $495 million. The railroad commuter operations handle liability claims for their respective services. All claims exceeding $10,000 must have prior approval of the MTA. Claims by Amtrak employees are exempt from the MTA's coverage because they are the responsibility of Amtrak. Insurance for CSX employees is covered by the MTA.

The Department takes the position that the purchase of liability insurance does not act as a waiver of the tort immunity defense in all cases. Under the Maryland Tort Claims Act (the "Tort Claims Act"), the immunity of the State and its units is waived as to any tort action, in a court of the State, up to an amount not to exceed $200,000 per single claimant for injuries arising from a single incident or occurrence. Immunity is not waived under the Tort Claims Act for punitive damages, interest before judgment, claims related to the State militia, any tortious act or omission by State personnel that is not within the scope of their public duties or is made with malice or gross negligence, or claims otherwise prohibited by law. The waiver of tort immunity by the MTA is not governed by the Tort Claims Act, but by a separate statutory provision.

EMPLOYEE RELATIONS

As of July 1, 2011, the Department had 8,806 authorized employee positions.

Labor-Management Relations. States are exempt from the provisions of the National Labor Relations Act; thus, State employees may engage in collective bargaining only if specifically authorized. Since 1999, collective bargaining has been available to approximately 31,000 State employees. Eligible State employees are assigned to one of nine bargaining units. These bargaining units are represented by six certified exclusive bargaining representatives that are entitled to negotiate with the Governor or his designee(s) regarding wages, hours, and working conditions on behalf of bargaining unit employees. The negotiating parties execute a memorandum of understanding of not less than 1 year or more than 3 years duration that incorporates all matters of agreement reached. Matters of agreement that require legislative approval or the appropriation of funds are subject to the approval of the General Assembly. Additionally, State employees may join employee associations, and the State permits the deduction of dues from employees' salaries for these associations. Approximately 21,058 employees pay dues to 15 State employee associations, including the six certified exclusive bargaining representatives. The Department deducted dues from salaries of approximately 2,400 employees in Fiscal Year 2011.

As of June 30, 2011, of the 3,103.5 authorized employees of the MTA, 2,404 were represented by the three separate unions. At the option of either party, any labor dispute involving the MTA and its unionized employees may be submitted to binding arbitration.

The contract with the union (OPEIU Local 2) representing 85 office employees expired September 30, 2011. The contract with the union (AFSCME Local 1859) representing 132 security personnel expired December 31, 2011. Both unions, OPEIU Local 2 and AFSCME Local 1859, have agreed to work under their currently expired contracts pending the settlement of ATU Local 1300 contract. The contract with the union (ATU Local 1300) representing 2,187 operating and maintenance employees expires June 30, 2012.

Although the State permits non-management employees of the MTA to engage in collective bargaining, these employees are not authorized to engage in any type of strike, slow-down or work action.

Since the creation of the Department in 1971, there have been no work stoppages.

RETIREMENT PLANS

As of June 30, 2011, 7,395 employees of the Department were members of the Maryland State Retirement and Pension System (the "System"). See State Government: Maryland State Retirement and Pension System. An additional 2,860 active Department employees were members of the MTA pension plans, discussed herein.

The Department's contribution to the System for its employees is appropriated annually from the Transportation Trust Fund. The Department's contribution to the System is estimated to be $42.7 million in fiscal year 2012.

The MTA provides pension benefits to union employees, former union members promoted to management positions, and to management personnel who were originally employed by the Baltimore Transit Company, a predecessor to the MTA. This plan is non-contributory and was pay-as-you-go until January 1, 1990, when provisions for advance funding of the benefits began. The annual funding of the plan will be based upon a report of the consulting actuary. The Department's MTA budget for Fiscal Year 2012 provides $29.5 million for the plan. The most recent actuarial valuation by Milliman Inc., USA, for the plan year ended June 30, 2010, sets the past service liability of the plan at $254 million and places the present value of vested benefits under the plan at $384 million. Beginning July 1, 2005, MTA police officers were covered under the Maryland State Law Enforcement Officers' Pension System ("LEOPS"). The Department's budget for fiscal year 2012 provides $4.9 million for LEOPS.

In addition, some airport firefighters are members of Baltimore City's police and fireman's pension system. The Department's budget for Fiscal Year 2012 provides $845,000 for this plan.

STATE GOVERNMENT

Legislature

The State has a bicameral legislature, the General Assembly, composed of the Senate and the House of Delegates. Currently, the Senate consists of 47 members and the House of Delegates of 141 members. The General Assembly meets annually for a 90-day session beginning on the second Wednesday in January. This regular session may be extended by the General Assembly or the Governor, and the Governor may call special sessions; however, no extended or special session may last longer than 30 days, except for the purpose of enacting the budget.

Executive Branch

The Executive Branch includes four officials 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 by the Governor. 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, including the Transportation Trust Fund and the special accounts therein, to prescribe the form of completing and stating such accounts and to superintend and enforce the collection of all taxes and revenues. 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. The Treasurer is responsible for the custody of all deposits of State moneys, prepares all checks drawn for the disbursement of State funds, is in charge of the investment of surplus funds in the State Treasury, and administers and has custody of all securities. Among the State funds for which the Treasurer is responsible are the moneys in the Transportation Trust Fund.

Board of Public Works

The Governor, the Comptroller and the 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 (general obligation bond issues), and all funds appropriated for capital improvements other than roads, bridges and highways. The Board of Public Works must approve all contracts for such expenditures after review by the Department of Budget and Management or the Department of General Services.

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 to be devoted to debt service, and administers the Interagency Committee on School Construction, a State program for payments to the counties and Baltimore City for public school construction. The Board of Public Works must approve the issuance of all Consolidated Transportation Bonds and approved the issuance of the Bonds on March 21, 2012.

Budget

The Governor is required, by Section 52 of Article III of the Maryland Constitution, to submit annually to the General Assembly shortly after it convenes in January in regular session a balanced budget (the "Budget Bill") containing a complete plan of proposed expenditures and estimated revenues for the ensuing fiscal year, including a plan of proposed expenditures and estimated revenues for the Department. The Budget Bill must include funds necessary to pay debt service on the Bonds (but with respect to the Bonds, only from the proceeds of pledged taxes and other revenues available for debt service on the Bonds).

The General Assembly may not amend the Budget Bill to affect payment of State debt or otherwise to change its provisions, except to increase or decrease the appropriations relating to the General Assembly or the judiciary, or to strike out or reduce other appropriations submitted by the Governor. It must, however, enact a balanced budget. The General Assembly may authorize an appropriation apart from the Budget Bill, but it may only do so by a separate supplementary appropriation bill limited to a single object or purpose and providing for or levying a specific tax or taxes in that bill sufficient to fund the appropriation.

The Department's expenditures are made in accordance with appropriations provided for in the annual budget, except that the Department may submit to the Governor a budget amendment and, if the Governor approves the amendment, the Department may make disbursements in accordance with the budget amendment. By budget amendment, the Department may increase or decrease the amount of the appropriation for any project or transfer funds from one project or administration to another. A budget amendment may not, however, increase the salary or salaries of any office or position, except in certain acute emergencies, or change any language or substantive provision in the budget. All amendments approved by the Governor are required to be reported by him to the next session of the General Assembly. By means of a constitutional amendment in 1978, the General Assembly is permitted to enact bills that may require the Governor to provide specific program funding in the annual budget.

Special Session of the Legislature

The Governor called a Special Session of the General Assembly that commenced on May 14, 2012 and as expected it did not make any significant changes to the Transportation Trust Fund.

Maryland State Retirement and Pension System

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

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

The State is the guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits and expenses of the System.

The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool." The "State Pool" consists of the State agencies, boards of education, community colleges and libraries. The "Municipal Pool" consists of the participating governmental units that elect to join the System. Neither pool shares in the other's actuarial liabilities. Municipal Pool participants cost-share in the liabilities of only the Municipal Pool, which receives a separate annual actuarial valuation in order to determine the funding levels and actuarial liabilities of the Municipal Pool. The Municipal Pool covers employees of 151 political subdivisions and other entities within the State.

The State Pool comprises five distinct systems or plans: Teachers' Retirement and Pension System (the "Teachers' Pension System"), Employees' Retirement and Pension System (the "Employees' Pension System"), State Police Retirement System, Judges' Retirement System, and Law Enforcement Officers' Pension System. Together, the Teachers' and Employees' Pension Systems account for 98.1% of membership in the State Pool.

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

The 2011 Pension Reforms increased employee contributions from 5% to 7% of annual earnable compensation, decreased future annual cost of living adjustments from a 3% cap to a 2.5% cap and linked the cap to the System's achievement of annual return on investments. For employees hired after July 1, 2011, the reforms establish the pension benefit multiplier at 1.5% rather than 1.8%, calculate average final compensation based on five highest consecutive years of service rather than three years, allow vesting after ten years of eligible service rather than five years, and establish more stringent requirements for early and full service retirement.

Upon enactment of the 2011 Pension Reforms and the additional annual contributions, the System's actuary projects that the State Pool portion of the System will reach approximately 80.0% funding by Fiscal Year 2023, three years faster than pre-reform projections, and will reach full funding in Fiscal Year 2031. These projections were based on the System achieving its assumed investment return of 7.75%. As a result of the System achieving a one-year annualized return on investment of 20.38% as of June 30, 2011, the actuary's revised projection is that the System will exceed 80% funding by fiscal year 2020 and will achieve full funding by fiscal year 2030. Each year's investment returns will affect the actuary's projections of future funding status.

Assumptions. By law, employer contribution rates are established by annual actuarial valuations using the entry age normal cost method and other actuarial assumptions adopted by the Board of Trustees. The unfunded actuarial accrued liability ("UAAL") that existed as of the June 30, 2000 actuarial valuation is being amortized over the period ending on June 30, 2020. The UAAL for each fiscal year subsequent to the year ended June 30, 2000, represents a separate liability layer for actuarial funding purposes, and, accordingly, will be amortized over a 25-year period commencing July 1 of the following fiscal year.

Assets are valued for funding purposes by recognizing investment gains/ (losses) over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% or less than 80% of the market value of assets.

The plan assumes a 7.75% rate of return. The System's Board of Trustees recently reviewed and voted to retain an assumed rate of return of 7.75% based on an experience study performed by the System's Actuary. When the fund's recognized investment earnings are greater than/(less than) the assumed investment return, then an actuarial gain/ (loss) is recorded by the System's actuary, reducing/ (increasing) the fund's expected unfunded actuarial liability.

Other actuarial assumptions adopted by the System include price inflation of 3.0% and payroll growth of 3.5%.

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

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

The 2011 Pension Reforms also provides that the State's contributions to each system shall include an additional amount reflecting the difference between the State's required contribution under the corridor funding method for that fiscal year and the amount that would have been required had pension reforms not been enacted. For fiscal year 2013, State contributions to the System will be reduced by $120.0 million and the amount of savings reinvested in the System will be $190.8 million. Beginning in fiscal year 2014 and the fiscal years thereafter savings from the 2011 Pension Reforms in the fixed amount of $300.0 million, will be invested in the Teachers' and Employees' Pension Systems.

Other Post- Employment Benefits (OPEB)

State Employees' Health Insurance Program. Retired State employees and their eligible dependents meeting certain qualifications may participate, on a subsidized basis, in the State Employees' Health Insurance Program. See Notes 1E and 14 in the Department's financial statements, attached as Appendix A, for Fiscal Year 2011 expenditures by the Department for post- employment benefits. The Department's annual OPEB cost, related to the MTA health plan, is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities over a period not to exceed 30 years.

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

The General Fund has historically contributed approximately 60% of the annual pay-as-you-go costs of OPEB, with special and federal funds contributing the balance. Chapter 355 of the 2007 Laws of Maryland created the Postretirement Health Benefits Trust Fund (the "Health Benefits Trust Fund") as an irrevocable trust. Funds of the Health Benefits Trust Fund will be used to assist in financing the State's post-retirement health insurance subsidy. For Fiscal Years 2008 and 2009, State law provided that the subsidy received by the State as a result of the federal Medicare Prescription Drug Improvement and Modernization Act of 2003, or similar federal subsidies, should be deposited in the Health Benefits Trust Fund. During Fiscal Year 2010, $1.0 million of this subsidy was transferred to the Health Benefits Trust Fund and the remainder was deposited into the State Employees and Retirees Health and Welfare Benefits Fund pursuant to the Budget Reconciliation and Financing Act of 2009. The State also contributed $2.4 million in additional funding. Beginning in Fiscal Year 2011, subsidies are deposited into the General Fund. During fiscal year 2011, the State did not transfer any of the federal Medicare drug subsidy to the Health Benefits Trust Fund to prefund future OPEB costs or contribute additional funding to the Health Benefits Trust Fund. The net assets held in trust for post-retirement health benefits as of June 30, 2011 were $208.9 million. This balance also reflects the activity for investment earnings and administrative expenses during the year.

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

Blue Ribbon Commission. The 2006 General Assembly established a Blue Ribbon Commission (the "Blue Ribbon Commission") to review the assumptions and qualifications for assessing OPEB liability and study funding options. The Blue Ribbon Commission explored options for redesigning retiree health benefits and/or the way the State pays for them in order to develop recommendations for solutions that were both fiscally sound and fair to current and retired State employees.

The Blue Ribbon Commission was required to:

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

In an interim report released in December 2008, the Blue Ribbon Commission reported its view that Maryland could not sustain into the future the then-current level of retiree health benefits. The work of the Blue Ribbon Commission was effectively superseded by the establishment in 2010 of the Public Employees' and Retirees' Benefit Sustainability Commission. As a result, the Blue Ribbon Commission did not reconvene, and it will cease to exist after June 30, 2012.

Further information on the actuarial reports, the Postretirement Health Benefits Trust Fund, and the Blue Ribbon Commission can be found in the respective Official Statements of the State for its General Obligation Bonds.

Public Employees' and Retirees' Benefit Sustainability Commission

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

The Sustainability Commission issued a summary of its key interim recommendations on December 21, 2010, and issued an interim report of its findings and recommendations in January 2011, which were reported to the Governor and the legislative leadership for review and consideration. A number of the Sustainability Commission's recommendations were adopted in whole or in part and enacted by the General Assembly during its 2011 session. A final report of the Sustainability Commission was released on July 15, 2011 wherein the Sustainability Commission expressed its concern that additional actions may need to be taken. The Sustainability Commission's additional recommendations include: phasing in a requirement that local boards of education pay half of teacher retirement costs; development of a comprehensive transition strategy for retiree prescription plans to mirror the Medicare part D plan; continued study of adding a hybrid cash balance plan to the pension options for new employees; giving further consideration to changing pension cost-of-living adjustments; and, that as economic conditions improve and pension liabilities are reduced, developing an alternative to the corridor funding method that provides for both adequate funding and relatively stable contribution rates over the long term.

FINANCIAL ADVISORS

Public Financial Management, Inc., Orlando, Florida, has been retained as Financial Advisor to the Department in connection with the sale of the Bonds and other matters pertinent thereto. Public Financial Management, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiable instrument.

Strategic Solutions Center, LLC of Landover, Maryland is also serving as a financial advisor in connection with the sale and delivery of the Bonds.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The General Purpose Financial Statements of the Department for the year ended June 30, 2011, included in Appendix A of this Official Statement, have been audited by SB & Company, LLC, independent certified public accountants, whose report is included therein.

TAX MATTERS

Maryland Income Taxation

In the opinion of Bond Counsel, the Bonds, their transfer, the interest payable on them, and any income derived from them, including any profit realized in their sale and exchange, shall be exempt at all times from every kind and nature of taxation by the State of Maryland or by any of its political subdivisions, municipal corporations or public agencies of any kind of 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 Bonds, their transfer or the interest thereon.

Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Holders or prospective purchasers of the Bonds should consult their own tax advisors with respect to the taxable status of the Bonds in particular state or local jurisdictions other than the State of Maryland.

Federal Income Taxation

In the opinion of Bond Counsel, assuming compliance with certain covenants described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations, and decisions.

Under the provisions of the Code, there are certain restrictions that must be met subsequent to the delivery of the Bonds in order for interest on the Bonds to remain excludable from gross income for federal income tax purposes, including restrictions that must be complied with throughout the term of the Bonds. These include the following: (i) a requirement that certain earnings received from the investment of the proceeds of the Bonds 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 Bonds; and (iii) other requirements applicable to the use of the proceeds of the Bonds and the facilities financed and refinanced with proceeds of the Bonds. Failure to comply with one or more of these requirements could result in the inclusion of the interest payable on the Bonds 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 Bonds 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 Bonds will remain excludable from gross income for federal income tax purposes under the provisions of the Code.

Further, Bond Counsel is of the opinion that interest on the Bonds is not includable in the alternative minimum taxable income of individuals, corporations, or other taxpayers as an enumerated item of tax preference or other specific adjustment. However, for purposes of calculating the corporate alternative minimum tax, a corporation subject to such tax may be required to increase its alternative minimum taxable income by 75% of the amount by which its "adjusted current earnings" exceed its alternative minimum taxable income (computed without regard to this current earnings adjustment and the alternative tax net operating loss deduction). For such purposes, "adjusted current earnings" could include, among other items, interest income from the Bonds. In addition, interest income on the Bonds 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.

In rendering its opinion, Bond Counsel will rely without independent investigation on the representations of certain officials of the Department made on behalf of the Department in its Tax and Section 148 Certificate with respect to certain material facts within the knowledge of the Department relevant to the tax-exempt status of interest on the Bonds.

Tax Accounting Treatment of Bonds Constituting Discount Bonds

Certain maturities of the Bonds may be issued at an initial issue price which is less than the amount payable on such Bonds at maturity (the "Discount Bonds"). The difference between the initial issue price (including accrued interest) at which a substantial amount of the Discount Bonds of each maturity was first sold, and the principal amount of such Discount Bonds payable at maturity constitutes original issue discount. In the case of any holder of Discount Bonds, the amount of such original issue discount which is treated as having accrued with respect to such Discount Bonds 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 purchase or repayment at maturity). For federal income tax purposes (i) any holder of a Discount Bond will recognize gain or loss upon the disposition of such security (including sale, early redemption or purchase 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 Bond, and (2) the amount of original issue discount attributable to the period during which the holder held such Discount Bond, 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 Bonds will be attributed to permissible compounding periods during the life of any Discount Bonds in accordance with a constant rate of interest accrual method. The yield to maturity of the Discount Bonds 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 Bonds 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 which is treated as having accrued in respect of a Discount Bond for any particular compounding period is equal to the excess of (i) the product of (a) the yield for the Discount Bond (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 Bond 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 Bond during such period. For purposes of the preceding sentence, the tax basis of a Discount Bond, if held by an original purchaser, can be determined by adding to the initial issue price of such Discount Bond the original issue discount that is treated as having accrued during all prior compounding periods. If a Discount Bond 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 Bonds should note that, under the tax regulations, the yield and maturity of a Discount Bond are determined without regard to commercially reasonable sinking fund payments and any original issue discount remaining unaccrued at the time that a Discount Bond is redeemed or purchased in advance of stated maturity will be treated as taxable gain. Moreover, 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 yields (and related prices) provided by the successful bidder for the Bonds and shown on the inside cover of this Official Statement may not reflect the initial issue prices for 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 Bonds 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 Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on Discount Bonds. In addition, prospective corporate purchasers should consider possible federal tax consequences arising from original issue discount on such Discount Bonds under 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 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 Bonds should consult their tax advisors.

Purchase, Sale and Retirement of Bonds

Except as noted below in the case of market discount, the sale or other disposition of a Bond will normally result in capital gain or loss to its holder. A holder's initial tax basis in a Bond will be its cost.

Upon the sale or retirement of a Bond, for federal income tax purposes a holder will recognize capital gain or loss upon the disposition of such security (including sale, early redemption or purchase 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 Bond, determined by adding to the original cost basis in such Bond the amount of original issue discount that is treated as having accrued as described above under "Tax Accounting Treatment of Bonds Constituting Discount Bonds." Such gain or loss will be long-term capital gain or loss if at the time of the sale or retirement the Bond 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 non-corporate taxpayers, however, net capital gains will generally be taxed at a maximum rate of 15%, while short-term capital gains and other ordinary income will be taxed at a maximum rate of 35%. 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. Because of the limitation on itemized deductions and the deduction for personal exemptions applicable to higher income taxpayers, the effective rate of tax may be higher in certain circumstances. The operation of sunset, effective date and similar timing provisions in current law would result in a change in the tax rates in certain future time periods.

Market Discount

If a holder acquires a Bond after its original issuance at a discount from its principal amount (or in the case of a Bond issued at an original issue discount, at a price that produces a yield to maturity higher than the yield to maturity at which such Bond was first issued), the holder will be deemed to have acquired the Bond at "market discount," unless the amount of market discount is de minimis, as described in the following paragraph. If a holder that acquires a Bond with market discount subsequently realizes a gain upon the disposition of the Bond, such gain shall be treated as taxable ordinary interest income to the extent such gain does not exceed the accrued market discount attributable to the period during which the holder held such Bond, 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 Bond not issued at an original issue discount, market discount will be de minimis if the excess of such Bond's stated redemption or purchase price at maturity over the holder's cost of acquiring such Bond is less than 0.25% of the stated redemption or purchase price at maturity multiplied by the number of complete years between the date the holder acquires such Bond and its stated maturity date. In the case of a Bond issued with original issue discount, market discount will be de minimis if the excess of such Bond's revised issue price over the holder's cost of acquiring such Bond is less than 0.25% of the revised issue price multiplied by the number of complete years between the date the holder acquires such Bond and its stated maturity date. For this purpose, a Bond'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 such Bond during the period between its original issue date and the date of acquisition by the holder.

Amortizable Bond Premium

A Bond will be considered to have been issued at a premium if, and to the extent that, the holder's tax basis in such Bond exceeds the amount payable at maturity (or, in the case of a Bond callable prior to maturity, the amount payable on the earlier call date). Under tax regulations applicable to the Bond, the amount of the premium will 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 Bonds. The holder will be required to reduce such holder's tax basis in the Bond for purposes of determining gain or loss upon disposition of the Bond by the amount of amortizable bond premium that accrues (determined in the manner prescribed in the tax regulations) during the period of ownership for such holder. Generally, no deduction (or other tax benefit) is allowable in respect of any amount of amortizable bond premium on the Bonds.

Additional Federal Income Tax Considerations

There are other federal income tax consequences of ownership of obligations such as the Bonds 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 received or accrued and the deductible portion of dividends received by such companies; (iii) interest income which 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 taxation purposes; and (iv) for S corporations having Subchapter C earnings and profits, the receipt of certain levels of passive investment income, including interest on tax-exempt obligations such as the Bonds, can result in the imposition of tax on such passive investment income and, in some cases, loss of S corporation status.

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 Bonds 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.

Legislative Developments

Legislative proposals currently under consideration or proposed after issuance and delivery of the Bonds could adversely affect the market value of the Bonds. Further, if enacted into law, any such proposal could cause the interest on the Bonds 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 Bonds 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.

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

CONTINUING DISCLOSURE

In order to enable the successful bidder for the Bonds to comply with the requirements of paragraph (b) (5) of the United States Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the Department will execute and deliver, on or before the date of issuance and delivery of the Bonds, a Continuing Disclosure Agreement, the form of which is attached as Appendix D. Potential purchasers should note that certain of the 14 events listed in Section 4 of the Continuing Disclosure Agreement have been included for purposes of compliance with the Rule but are not relevant for the Bonds, specifically those events relating to debt service reserves, credit enhancements and liquidity providers, and property or other collateral.

The Department believes it has complied with its obligations under the Rule in connection with all prior debt issuances of the Department which are subject to the Rule.

LEGAL MATTERS

The validity of the issuance of the Bonds will be passed upon, and is subject to the unqualified approving opinion of McKennon Shelton & Henn LLP, Baltimore, Maryland, Bond Counsel. The text of the approving opinion in its proposed form is appended hereto as Appendix C. Certain legal matters will be passed upon for the Department by the Office of the Attorney General of the State.

DEPARTMENT OF TRANSPORTATION OF MARYLAND

by order of

Beverley K. Swaim-Staley
Secretary of Transportation

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APPENDIX A

AUDITED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Ms. Beverley K. Swaim-Staley, Secretary
Maryland Department of Transportation

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Maryland Department of Transportation (the Department) as of June 30, 2011, and for the year then ended, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Maryland Department of Transportation as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting standards generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and employer contributions of the Maryland Transit Administration Pension and Other Post-retirement Benefit Plans, and the special revenue fund's schedule of revenues, expenditures and changes in fund balance - budget and actual, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Department's basic financial statements. The statement of changes in assets and liabilities - agency funds, introductory section and statistical section are presented to provide supplementary information or for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The statement of changes in assets and liabilities - agency funds has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

SB & Company, LLC

Hunt Valley, Maryland
December 7, 2011

MARYLAND DEPARTMENT OF TRANSPORTATION
Management's Discussion and Analysis

As management of the Maryland Department of Transportation (Department), we offer the citizens of Maryland and others interested in the Department's financial statements this narrative overview and analysis of the financial activities of the Department **for the fiscal year ended June 30, 2011**. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on *pages 7 to 11* of this report.

Financial Highlights

- The ***assets*** of the Department exceeded its liabilities at the close of the most recent fiscal year by $12,862,675,000 **(*net assets*)**. Of this amount, $(205,960,000) **(*unrestricted assets*)** is reflected on the *Statement of Net Assets* as a negative amount due primarily to the reporting of pollution remediation costs.
- The Department's governmental funds reported a combined ending ***fund balance***, as of the close of the current fiscal year, of $331,648,000, a decrease of $5,200,000 in comparison with the prior fiscal year.
- The Department's Consolidated ***transportation bonds*** debt outstanding decreased by $83,170,000 (5.1%) during the current fiscal year. The key factor in this decrease was the Department did not issue any bonds during the current fiscal year and continued to make its regularly scheduled debt service payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: *(1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private-sector business. The *Statement of Net Assets* presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as one of several useful indicators of the Department's financial position. The *Statement of Activities* presents information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions. The governmental activities of the Department include the Secretary's Office, the State Highway Administration, the Maryland Port Administration, the Motor Vehicle

Administration, the Maryland Transit Administration, the Maryland Aviation Administration, Washington Metropolitan Area Transit Authority Grants, distributions to political subdivisions, distributions to other state agencies and debt service. The government-wide financial statements include only the Department (a special revenue fund of the State of Maryland), which has no component units and does not include the Maryland Transportation Authority, which is a separate enterprise fund of the State of Maryland. The government-wide financial statements can be found on *pages 29 and 30* of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements**.** All of the funds of the Department can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund *Balance Sheet* and the governmental fund *Statement of Revenues, Expenditures and Changes in Fund Balances* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department maintains two individual governmental funds. Information is presented separately in the governmental fund *Balance Sheet* and in the governmental fund *Statement of Revenues, Expenditures and Changes in Fund Balances* for the special revenue fund and the debt service fund. The special revenue fund is considered to be a major fund. The basic governmental fund financial statements can be found on *pages 31 and 32* of this report.

The Maryland General Assembly authorizes an annual appropriated budget for the Department’s special revenue fund. A budgetary comparison schedule has been provided for the special revenue fund to demonstrate compliance with this budget. The budgetary comparison schedule can be found on *page 64* of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department’s own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on *pages 34 and 35* of this report.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on *pages 36 to 59* of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Department's progress in funding its obligation to provide pension benefits to its employees at the Maryland Transit Administration, as well as the budget and actual comparison schedule. Required supplementary information can be found on *pages 60 to 64* of this report.

Government-wide Financial Analysis

As noted earlier, ***net assets*** may serve over time as a useful indicator of a government's financial position. For the Department, assets exceeded liabilities by $12,862,675,000 at the close of the most recent fiscal year. By far the largest portion of the Department's net assets reflects its investment in capital assets (e.g., land, buildings, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Department uses those capital assets to provide services to the citizens of Maryland; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule reflects the Department's Net Asset Summary.

Maryland Department of Transportation
Net Assets
(amounts expressed in thousands)

Governmental Activities	***2011***	***2010***
Current and other assets	$ 954,946	$ 881,634
Capital assets	15,353,459	15,532,649
Total assets	16,308,405	16,414,283
Long-term liabilities outstanding	2,803,288	2,816,504
Other liabilities	642,442	624,364
Total liabilities	3,445,730	3,440,868
Net assets:		
Capital assets, net of related debt	13,068,635	13,171,279
Committed assets	-	3,783
Unrestricted assets	(205,960)	(201,647)
Total net assets	$ 12,862,675	$12,973,415

The Department's net assets decreased by $110,740,000 during the current fiscal year of 2011, primarily due to our continued efforts to maintain, improve and expand our infrastructure network.

Governmental activities

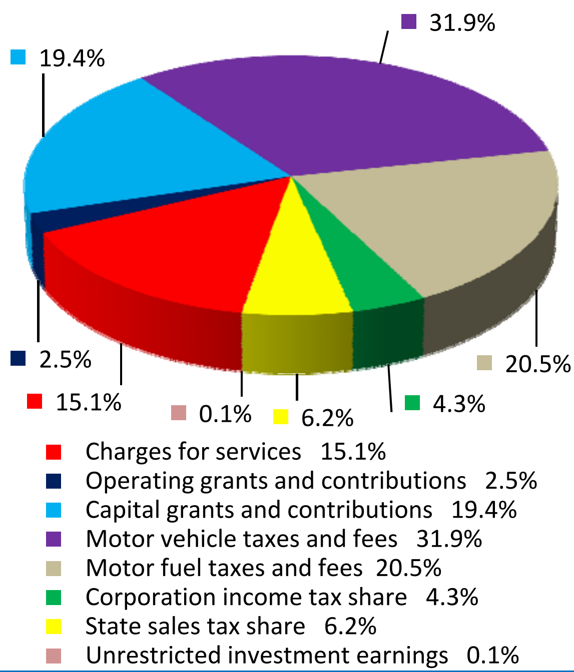
Governmental activities, which represent the Department's overall economic position, decreased the Department's net assets by $110,740,000. The key elements of the Department's governmental activities are as follows:

Maryland Department of Transportation
Changes in Net Assets
(amounts expressed in thousands)

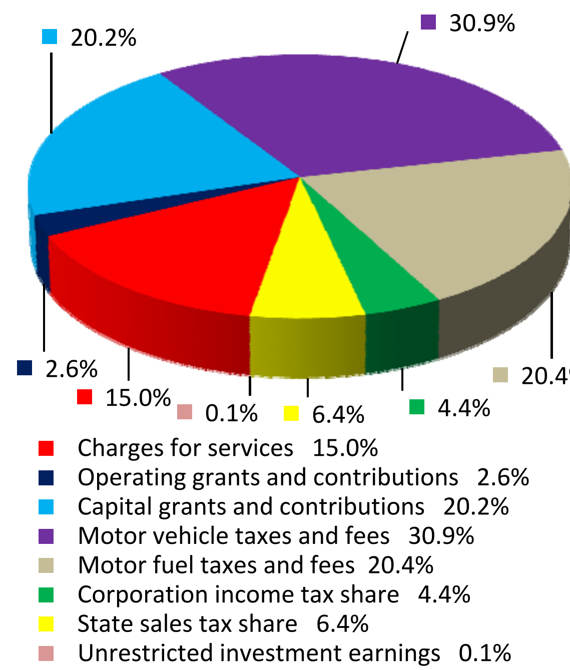
Governmental Activities	*2011*	*2010*
Revenues:		
Program revenues:		
Charges for services	$ 555,232	$ 527,330
Operating grants and contributions	90,732	90,762
Capital grants and contributions	709,029	714,144
General revenues:		
Motor vehicle taxes and fees	1,166,398	1,082,559
Motor fuel taxes and fees	747,171	714,210
Corporation income tax share	156,758	153,275
State sales tax share	227,981	223,582
Unrestricted investment earnings	1,006	404
Loss on disposal of assets	-	(413,770)
Total revenues	3,654,307	3,092,496
Expenses:		
Secretary's office	483,410	459,933
State highway administration	1,593,278	1,410,556
Port administration	107,521	186,516
Motor vehicle administration	178,529	165,933
Transit administration	1,056,590	818,465
Aviation administration	252,723	272,455
Interest on long-term debt	92,996	101,481
Total expenses	3,765,047	3,415,339
Decrease in net assets	(110,740)	(322,843)
Net assets – July 1	12,973,415	13,296,258
Net assets – June 30	$12,862,675	$12,973,415

Below are the Department's Revenues by Source and Expenses by Function for Fiscal Years 2011 & 2010

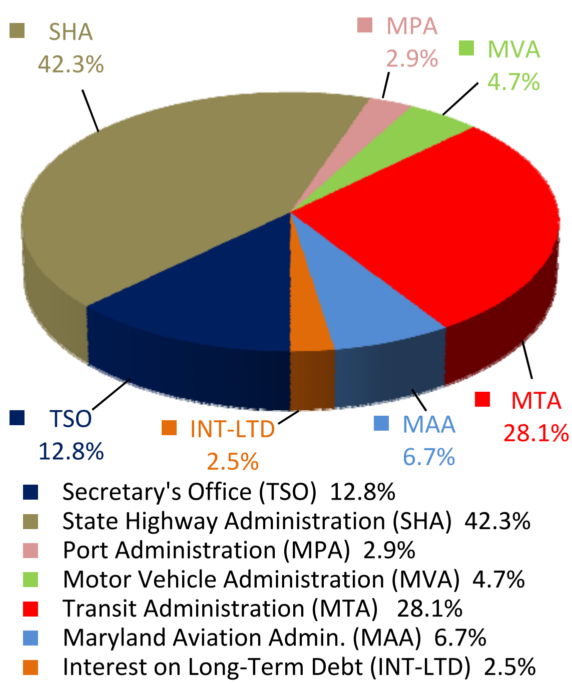
Revenue 2011



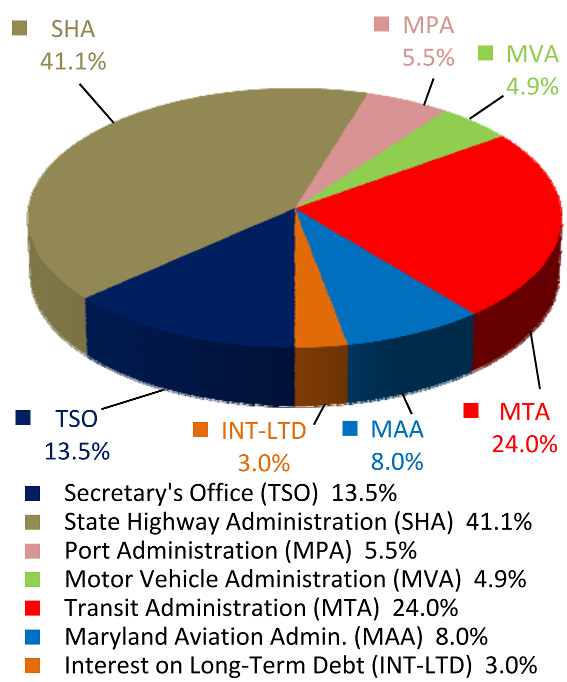
Revenue 2010



Expenses 2011



Expenses 2010



Financial Analysis of the Government's Funds

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Department's governmental funds is to provide information on near-term inflows, outflow and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Department's governmental funds reported combined ending fund balances of $331,648,000, a decrease of $5,200,000 in comparison with the prior fiscal year. The Department's governmental funds decrease is due primarily to the continued budget restraints caused by the stagnant growth in revenues. All of the special revenue fund balance is *committed, non-spendable and/or assigned* fund balance and indicates that it is not available for new spending because it has already been committed and/or assigned for the following purposes: (1) to maintain a separate *committed* account for encumbrances in the amount of $12,442,000; (2) to maintain a separate *nonspendable* account for inventory activity balances in the amount of $79,681,000; (3) to maintain a separate *nonspendable* account for prepaid expenses activity balances in the amount of $102,114,000; (4) to maintain a separate *nonspendable* account for notes receivables in the amount of $361,000; (5) to maintain a separate *assigned* account for specific agency activity balances in the amount of $458,000; and (6) to maintain a separate *assigned* account for transportation programs in the amount of $136,592,000.

The special revenue fund is the chief operating fund for the Department. As a measure of the special revenue fund's liquidity, it may be useful to compare the total fund balance of $331,648,000 to the total fund expenditures of $3,699,667,000. The total fund balance represents 9.0% of the total fund expenditures.

Capital Asset and Debt Administration

Capital assets

The Department's investments in capital assets for its governmental activities as of June 30, 2011, amounts to $15,353,459,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure and construction in progress. The Department's investment in capital assets decreased by $179,190,000 for the current fiscal year, primarily due to a large write-off of MTA equipment.

Some of the major capital asset events during the current fiscal year included the following:

- Construction continued on the expansion and upgrading of the airport facilities at Baltimore Washington International Thurgood Marshall Airport (BWI Marshall); construction in progress at BWI Marshall at the close of the current fiscal year decreased to $91,340,000 compared to $115,178,000 in the prior fiscal year, while MAA buildings increased $37,700,000 and infrastructure increased $29,270,000 in the current fiscal year.
- A variety of widening and/or expansion of existing and new highways and bridges were completed in fiscal year 2011; infrastructure assets for SHA at the close of the current fiscal year reached $15,876,460,000 compared to $15,272,030,000 in the prior fiscal year, a 4.0% increase.

- Various transit, port and motor vehicle administration construction projects were completed in fiscal year 2011; construction in progress for these administrations at the close of the current fiscal year was $1,011,242,000 compared to $1,202,302,000 in the prior fiscal year**.**

The following schedule reflects the Department's Capital Assets Summary.

Maryland Department of Transportation
Capital Assets
(net of depreciation)
(amounts expressed in thousands)

Governmental Activities	*June 30, 2011*	*June 30, 2010*
Land	$ 2,420,378	$ 2,315,476
Buildings and improvements	1,456,575	1,474,364
Machinery and equipment	673,634	653,232
Infrastructure	9,043,903	9,109,184
Construction in progress	1,758,969	1,980,393
Total	**$15,353,459**	**$ 15,532,649**

Additional information on the Department's capital assets can be found in *note 5 on page 43* of this report.

Long-term debt

At the end of the current fiscal year the Department had total bonded debt outstanding of $1,561,840,000, and represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The following schedule reflects the Department's Outstanding Debt Summary.

Maryland Department of Transportation
Outstanding Debt
(amounts expressed in thousands)

Governmental Activities	*June 30, 2011*	*June 30, 2010*
Consolidated transportation bonds	$1,561,840	$1,645,010
Total	**$1,561,840**	**$1,645,010**

The Department's consolidated transportation bonds outstanding debt decreased by $83,170,000 (5.1%) during the current fiscal year. The key factor in this change was no new bonds issued in the current fiscal year and the continued scheduled debt service principal payments made during the current fiscal year. The Department maintains an "**AAA"** rating with Standard & Poor's Corporation, an "**AA+**" rating with Fitch Ratings and an "**Aa1**" rating with Moody's Investors Services, Inc., for its consolidated transportation bonds. As provided by law, the maximum outstanding aggregate amount of Consolidated Transportation Bonds that may be outstanding is $2,600,000,000 through June 30, 2011 and thereafter. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2011 for the Department was $1,791,840,000, which is higher than the Department's outstanding transportation-related debt. Additional information on the Department's long-term debt can be found in *note 10* on *pages 46 to 48* of this report.

Capital leases. At the end of the current fiscal year the Department had capital leases outstanding of $604,662,000. The following schedule reflects the Department's Capital Leases Summary.

Maryland Department of Transportation
Capital Leases
(amounts expressed in thousands)

Governmental Activities	***June 30, 2011***	***June 30, 2010***
Capital leases	$ 604,662	$ 639,514
Total	**$ 604,662**	**$ 639,514**

The Department's capital lease obligations have decreased by $34,852,000 during the current fiscal year. This decrease is attributable to the continued scheduled capital lease payments for construction activity at the various Department's port facilities, transit facilities and aviation projects. The Department maintains an "**AA+**" rating with Standard & Poor's Corporation, an "**Aa2**" rating with Moody's Investors Services, Inc. and an "**AA**" with Fitch Ratings for Certificates of Participation which are included in capital lease obligations. Additional information on the Department's capital lease obligations can be found in *note 9 and 10 on pages 44 to 48* of this report.

Special Revenue Fund Budgetary Highlights

The Department's appropriations, between the original and final amended budget, increased by $70,187,000 for special funds and also increased $25,368,000 for Federal funds during the current fiscal year. The increase in special fund appropriations was due to a mid-year budget evaluation analysis throughout the Department. *The Schedule of Revenues*, *Expenditures and Changes in Fund Balances – Budget and Actual* can be found on *page 62* of this report.

Economic Factors and Next Year's Budgets and Rates

Maryland's economic indices showed a modest positive direction for the State this past fiscal year. The employment growth for the State of Maryland was 0.2% for the first three quarters of this year compared to (0.4)% growth in 2010. This rate was weaker than the national average rate of 1.0% for the first three quarters of 2011. The State's personal income is continuing to rise with growth of 5.1% through the second quarter of 2011. Nationally, personal income grew by 5.6% for the same period.

Maryland's economy began a return to positive economic growth in fiscal 2010, but the economy stalled, and the recovery has been in a holding pattern for most of the current fiscal year. The outlook, however, is again starting to show signs for improvement rather than a slide back into recession. Maryland's unemployment rate of 7.3% is well below the national average. Recent hiring has been encouraging and can be associated with the military base reorganization known as BRAC. These jobs are in professional and business services, and include federal contractor positions. However, these jobs also come with some exposure.

Reduced federal spending presents a major downside to Maryland's economy. There is a large federal presence in Maryland. Budget cuts or slower federal spending will have an impact on the State's economy. Until the degree of change becomes clear, the outlook will remain cautiously optimistic.

During the current fiscal year, assigned fund balance for transportation programs decreased to $136,592,000, primarily due to the reclassification of reserve for prepaid expenses in the amount of $102,114,000. The actual GAAP fund balance reported (before the reclassification) in the special revenue fund for fiscal year 2011 was $238,706,000.

Requests for Information

This Comprehensive Annual Financial Report is designed to provide a general overview of the Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: *Mr. David L. Fleming, Chief Financial Officer, Office of Finance, MDOT - Secretary's Office, 7201 Corporate Center Drive, Hanover, MD., 21076.*

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Maryland Department of Transportation

Comprehensive Annual Financial Report

BASIC FINANCIAL STATEMENTS

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Net Assets
June 30, 2011
(amounts expressed in thousands)

		Total Governmental Activities
ASSETS:		
Cash and cash equivalents	$	99,447
Cash and cash equivalents - restricted		23,447
Taxes receivable, net		88,056
Intergovernmental receivables		266,076
Other accounts receivable		44,943
Due from other state agencies		227,197
Loans receivable		361
Inventories		79,681
Prepaids		124,793
Deferred charges		945
Capital assets (net of accumulated depreciation):		
Land		2,420,378
Buildings and improvements		1,456,575
Machinery and equipment		673,634
Infrastructure		9,043,903
Construction in progress		1,758,969
Total assets		16,308,405
LIABILITIES:		
Salaries payable		25,551
Accounts payable and other current liabilities		414,684
Accounts payable to political subdivisions		23,478
Due to other state agencies		9,024
Unearned revenue		143,922
Accrued interest payable		25,783
Noncurrent liabilities:		
Due within one year		187,235
Due in more than one year		2,616,053
Total liabilities		3,445,730
NET ASSETS:		
Invested in capital assets, net of related debt		13,068,635
Unrestricted assets		(205,960
Total net assets	$	12,862,675

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

MARYLAND DEPARTMENT OF TRANSPORTATION

Statement of Activities

For the year ended June 30, 2011

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
Governmental activities:					
Secretary's Office	$ 483,410	$ 27,503	$ 8,027		$ (447,880)
State Highway Administration	1,593,278	44,071	17,175	$ 506,001	(1,026,031)
Port Administration	107,521	48,667			(58,854)
Motor Vehicle Administration	178,529		378	693	(177,458)
Transit Administration	1,056,590	143,456	64,496	190,389	(658,249)
Aviation Administration	252,723	291,535	656	11,946	51,414
Interest on long-term debt	92,996				(92,996)
Total governmental activities	$ 3,765,047	$ 555,232	$ 90,732	$ 709,029	(2,410,054)
General revenues:					
Motor vehicle taxes and fees					1,166,398
Motor fuel taxes and fees					747,171
Corporation income tax share					156,758
State sales tax share					227,981
Unrestricted investment earnings					1,006
Total general revenues					2,299,314
Change in net assets					(110,740)
Net assets, July 1, 2010					12,973,415
Net assets, June 30, 2011					$ 12,862,675

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Balance Sheet
Governmental Funds
June 30, 2011
(amounts expressed in thousands)

	Special Revenue	Other Governmental Fund Debt Service	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	$ 99,447		$ 99,447
Cash and cash equivalents - restricted	23,447		23,447
Taxes receivable, net	88,056		88,056
Intergovernmental receivable	266,076		266,076
Other accounts receivable	44,943		44,943
Due from other state agencies	211,908		211,908
Loans receivable	361		361
Inventories	79,681		79,681
Prepaids	102,114		102,114
Total assets	$ 916,033	-	$ 916,033
LIABILITIES & FUND BALANCES:			
Liabilities:			
Salaries payable	$ 25,551		$ 25,551
Warrants payable	55,017		55,017
Accounts payable	359,667		359,667
Accounts payable to political subdivisions	23,478		23,478
Due to other state agencies	9,024		9,024
Deferred revenue	111,648		111,648
Total liabilities	584,385	-	584,385
Fund balances:			
Committed fund balance	12,442		12,442
Nonspendable fund balance:			
Inventories	79,681		79,681
Prepaid items	102,114		102,114
Loans receivable	361		361
Assigned fund balance:			
Agency activities	458		458
Transportation programs	136,592		136,592
Total fund balances	331,648	-	331,648
Total liabilities and fund balances	$ 916,033	-	

Amounts reported for governmental activities in the statement of net assets are different because:	
* Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements.	15,353,459
* MTA pension prepaid expense	22,679
* Energy savings asset	15,289
* Deferred charges	945
* Accrued interest payable on bonds and capital leases	(25,783)
* Long-term liabilities not due and payable in the current period and, therefore, are not reported in the fund financial statements, includes the following:	
Unearned revenue	(32,274)
Bonds payable	(1,561,840)
Capital leases	(604,662)
Pollution liability	(155,826)
MTA OPEB liability	(132,177)
Net pension liability	(121,853)
Premium on bonds not liquidated with current financial resources	(70,609)
Workers' compensation costs	(60,573)
Energy savings program liability	(49,629)
Compensated absences	(48,035)
Deferred amount on refunding bonds	1,916
Net assets of governmental activities	$ 12,862,675

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011
(amounts expressed in thousands)

	Special Revenue	Other Governmental Fund: Debt Service	Total Governmental Funds
REVENUES:			
Taxes:			
Motor vehicle taxes and fees	$ 1,166,398		$ 1,166,398
Motor vehicle fuel taxes and fees	747,171		747,171
Revenue sharing of state corporation income tax	156,758		156,758
Revenue sharing of state sales tax	227,981		227,981
Federal reimbursements	799,761		799,761
Charges for services	431,261		431,261
Passenger facility charges	45,066		45,066
Special airport financing charges	48,970		48,970
Investment earnings	1,005	$ 1	1,006
Other	32,926	1,808	34,734
Total revenues	3,657,297	1,809	3,659,106
EXPENDITURES:			
Current:			
Department administration, operating, and maintenance expenditures:			
Secretary's Office	119,441		119,441
State Highway Administration	241,184		241,184
Port Administration	80,551		80,551
Motor Vehicle Administration	160,278		160,278
Transit Administration	510,949		510,949
Aviation Administration	127,197		127,197
Intergovernmental:			
Highway user revenue distributions and federal fund pass-thru to local subdivisions	297,145		297,145
Washington Metropolitan Area Transit Authority Grants	340,852		340,852
Distributions to other state agencies	481,244		481,244
Debt service:			
Principal repayment		83,170	83,170
Interest		75,492	75,492
Capital outlay	1,182,164		1,182,164
Total expenditures	3,541,005	158,662	3,699,667
Excess of revenues over (under) expenditures	116,292	(156,853)	(40,561)
OTHER FINANCING SOURCES (USES):			
Capital leases	33,701		33,701
Energy Savings Program	34,340		34,340
Refunding of capital leases	(32,680)		(32,680)
Debt service transfer	(155,727)	155,727	
Total other financing sources and uses	(120,366)	155,727	$ 35,361
Net change in fund balances	(4,074)	(1,126)	(5,200)
Fund balances, July 1, 2010	335,722	1,126	336,848
Fund balances, June 30, 2011	$ 331,648	$ -	$ 331,648

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2011

(amounts expressed in thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 32)		$ (5,200)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays	$ 1,182,164	
Depreciation expense	(975,895)	
		206,269
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Unearned revenue	(32,274)	
Capital lease additions	(33,701)	
Net MTA OPEB obligation	(34,577)	
State pension obligation	(24,834)	
Energy savings program obligation	(49,629)	
MTA pension prepaid expense	13,600	
Principal repayment of bonds	83,170	
Capital leases retired	68,553	
Amortized premium on bonds	8,728	
Amortized deferred amount on refunding bonds	(575)	(1,539)
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.		(310,270)
Change in net assets of governmental activities (page 30)		$ (110,740)

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

(amounts expressed in thousands)

	Maryland Transit Administration Pension Plan Trust Fund	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 980	$ 43,042
Investments, at fair value:		
Equity securities pool	79,516	-
Fixed income pool	34,996	-
Alternative investments pool	35,925	-
Real estate pool	1,960	-
Total investments	152,397	-
Contributions receivable	12,777	
Accounts receivable	2,317	5
Total assets	$ 168,471	$ 43,047
LIABILITIES:		
Accounts payable	$ 2,317	$ 43,047
NET ASSETS:		
Held in trust for pension benefits	$ 166,154	

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

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2011
(amounts expressed in thousands)

	Maryland Transit Administration Pension Plan Trust Fund
ADDITIONS:	
Contributions from employer	$ 47,528
Investment earnings:	
Interest income	15,682
Net increase in fair value of investments	4,328
Net investment earnings	20,010
Total additions	67,538
DEDUCTIONS:	
Benefits	29,966
Administrative expenses	862
Total deductions	30,828
Change in net assets	36,710
Net assets, July 1, 2010	129,444
Net assets, June 30, 2011	$ 166,154

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

1. Summary of Significant Accounting Policies:

***A. Reporting entity*:**

The Maryland Department of Transportation (Department), a department of the State of Maryland, was established by statute in 1971. The Department is responsible for carrying out the Governor's policies in the area of transportation under statutory mandates, guidelines and constraints established by the State's General Assembly. The Department has the responsibility for most state-owned transportation facilities and programs, including planning, financing, construction, operation and maintenance of various modes of transportation and carrying out related licensing and administrative functions. The statutorily created transportation agencies included in the Department are the Maryland Aviation Administration (MAA), Maryland Port Administration (MPA), Motor Vehicle Administration (MVA), Maryland Transit Administration (MTA), State Highway Administration (SHA) and the Secretary's Office (TSO).

The accompanying financial statements include the Department, which has no component units. The Maryland Transportation Authority (Authority) is a separate entity with separate fiscal operations and management, and accordingly, is excluded from the financial reporting entity of the Department, since it does not qualify for inclusion under Governmental Accounting Standards Board (GASB) Statement No. 14 because it is not financially accountable to the Department.

***B. Government-wide and fund financial statements*:**

The Department's government-wide financial statements (i.e., the *Statement of Net Assets* and the *Statement of Activities*) report information on all non-fiduciary activities of the government. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. The Department's governmental activities are supported primarily by taxes, intergovernmental revenues and charges for services. Fiduciary funds are excluded from the Department's government-wide and fund financial statements, as fiduciary assets are not available for the Department's use.

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

Separate financial statements are provided for the fiduciary fund (Maryland Transit Administration Pension Plan Trust Fund).

***C. Measurement focus, basis of accounting and financial statement presentation*:**

The government-wide financial statements and the fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized in the financial statements as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability or obligation is incurred as a result of goods or services rendered, as under accrual accounting. However, under the modified accrual basis, debt service expenditures are recorded only when payment is due. Compensated absences, retirement and workers' compensation costs and claims, judgments and other liabilities not expected to be paid with current available resources are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Motor vehicle taxes, motor vehicle fuel taxes, charges for services, Federal reimbursements and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Department.

The Department collects and receives various types of motor vehicle taxes and fees. These taxes and fees consist primarily of a portion of the motor vehicle fuel taxes, motor vehicle titling taxes and motor vehicle registration fees. The Department accrues the June motor vehicle fuel taxes and titling taxes that are unremitted as of year-end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the Department in July and thereafter by merchants who collect these taxes. Expenditure-driven Federal grants are recognized as revenue when the qualifying expenditures have been incurred, all other grant requirements have been met and the reimbursement funding is available from the Federal government.

The Department reports the following major governmental fund:

Special Revenue Fund:
Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Department, including construction and improvement of transportation facilities and mass transit operations. Fiscal resources dedicated to transportation operations include the excise taxes on motor vehicle fuel and motor vehicle titles, a portion of the State's corporation income tax and the State's sales tax, wharfage and landing fees, fare box revenues, bond proceeds, Federal grants for transportation purposes and other receipts of the Department's agencies. The Department's unexpended balances as of year-end do not revert to the State's general fund. In addition, the various categories of transportation bonds are serviced from the resources of the Department. The particular taxes and other designated revenues are dedicated to the payment of transportation bonds and constitute the sole sources to which holders of transportation bonds may legally look for repayment.

The Department reports the following non-major governmental fund:

Debt Service Fund:
Transactions related to the resources accumulated and payments made for principal and interest on long-term transportation debt of governmental funds are accounted for in the debt service fund.

Additionally, the Department reports the following fund types:

Pension Trust Fund:
The pension trust fund accounts for the activities of the Maryland Transit Administration Pension Plan, which accumulates resources for pension benefit payments to qualified Maryland Transit Administration

employees. The pension trust fund accounts for plan assets at their fair value. Additional information regarding the Maryland Transit Administration Pension Plan is included in Note 15. The accounts of the pension trust fund are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded in the fiduciary fund financial statements when earned, administrative expenses are recorded at the time the liabilities are incurred and pension benefits are recorded when paid.

Agency Fund:
The agency fund is custodial in nature and does not present the results of operations or have a measurement focus. The Department uses an agency fund to account for the receipt and disbursement of Federal grant proceeds collected by the Department for distribution to political subdivisions and the accumulation of and payment of funds for debt service issued under the alternative county transportation bond program. When both restricted and unrestricted resources are available for use, the Department's policy is to use unrestricted resources first and then restricted resources as they are needed.

D. Assets, liabilities and net assets or equity:

1. Deposits and investments:
The Department's cash on hand, demand deposits and short-term investments maturing within 90 days from the date purchased are considered as cash and cash equivalents. The Department's investments are recorded at fair value and changes in fair value are recognized as revenue. The cash and cash equivalents and investments of the Pension Trust Fund are maintained by the State Retirement and Pension System of Maryland (System) on a pooled basis. The System, in accordance with Article 73B, Section 160 of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the System. The law further provides that not more than 15% of the assets that are invested in common stocks may be invested in non-dividend paying common stock. The System's investments are commingled in three combined investment funds. Two investment funds consist principally of bonds and other fixed income investments, while the other investment fund consists principally of common stocks.

2. Receivables and payables:
Amounts due to the Department from various tax revenue sharing programs are recorded as taxes receivable, while amounts due to the Department from the Federal government are reported as intergovernmental receivables. Amounts representing balances due from the Maryland Transportation Authority and the State's General Fund are reported as due from other state agencies. Amounts representing balances due to the Maryland Transportation Authority and the State's General Fund are reported as due to other state agencies. Amounts representing balances due to political subdivisions are reported as accounts payable to political subdivisions.

3. Inventories and prepaid items:
All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets:
Capital assets, which include land, buildings and improvements, machinery and equipment, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of more than $50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Cost on constructed assets includes materials, labor, design and any other costs directly related to putting the asset in use. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or

materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are depreciated using the straight line method over the following estimated useful lives:

Capital Assets	Years
Buildings and improvements	5-50
Transit vehicles and equipment	10-25
Other vehicles	3-10
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

5. Compensated absences:

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the State. All vacation pay is accrued when earned in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee resignations and/or retirements. Principally all full-time State employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 75 days as of the end of each calendar year. Accumulated earned, but unused annual leave for the Department's employees is accounted for in the government-wide financial statements.

6. Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as debt issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period the debt is issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as operating expenditures.

7. Fund equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

***E. New pronouncements*:**

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" which establishes new categories for reporting fund balance and revises the definitions for governmental fund types. The requirements of this statement are effective for fiscal periods beginning after June 15, 2010 and have been implemented by the Department in the FY2011 CAFR.

The GASB has issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" effective for financial statements for periods beginning after June 15, 2011. The Department will implement this statement in the next fiscal year reported.

The GASB has issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements" effective for fiscal periods beginning after December 15, 2011.

The Department will implement this statement in fiscal year 2013.

The GASB has issued Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment to GASB Statement No. 14 and No. 34, effective for fiscal periods beginning after June 15, 2012 and will be implemented by the Department in fiscal year 2013.

The GASB has issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for financial statements for periods beginning after December 15, 2011 and will be implemented by the Department in the next fiscal year reported.

The GASB has issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, effective for fiscal periods beginning after December 15, 2011, and will be implemented by the Department in fiscal year 2013.

The GASB has issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Transactions Termination Provisions- an amendment to GASB Statement No. 53, effective for periods beginning after June 15, 2011, and will be implemented by the Department in the next fiscal year.

While the Department is still in the process of determining the effects of implementing these new GASB Statements, they are not expected to have a material effect on the financial position of the Department.

2. <u>Reconciliation of Government-wide and Fund Financial Statements</u>:

The governmental fund *Balance Sheet* includes reconciliation between fund balance – total governmental funds and total net assets – total governmental activities as reported in the government-wide *Statement of Net Assets*. The governmental fund *Statement of Revenues, Expenditures and Changes in Fund Balances* includes reconciliation between the net change in fund balance – total governmental funds and the change in net assets of governmental activities as reported in the government-wide *Statement of Activities*.

3. <u>Deposits and Investments</u>:

As of June 30, 2011, the Department had the following investments:

(amounts expressed in thousands)

Investment Type	Fair Value
Money Markets - Agency Funds	$ 43,042
Pooled investments - Pension Trust Fund	152,397
State Treasurer's pooled – Special Fund	99,447
Restricted investments – Special Fund	23,447
Total investments at fair value	$318,333

Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Maryland State Treasurer policy on all of the Department's investments. The Maryland State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Maryland State Treasurer will not directly invest in securities maturing more than five years from the date of purchase. The Department followed this policy for all of its investments.

Credit risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department's policy for reducing its exposure to credit risk is to comply with the Maryland State Treasurer policy, which requires that the Treasurer's investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. agency obligations. These agency obligations are rated Aaa by Moody's and AAA by Standard and Poor's. State law also requires that money market mutual funds contain only U.S. Treasuries or repurchase agreements secured by U.S. Treasuries or agencies. The money market mutual funds are rated Aaa/AAA.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Department's policy for reducing this risk of loss is to comply with the Maryland

State Treasurer policy, which states the investment policy limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Other than that, there is no limit on the amount that may be invested in any one issuer.

Custodial credit risk - deposits and investments:
Custodial credit risk is the risk that, in the event of a bank failure, the Department's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Department's name. The Department does not have a formal deposit policy for custodial credit risk, but follows the Maryland State Treasurer's policy that states the Treasurer may deposit in a financial institution in the State any unexpended or surplus money in which the Treasurer has custody. As of June 30, 2011, none of the Department's bank balance of $99,447,000 was uninsured or uncollateralized; none was uninsured or collateralized with securities held by the pledging financial institution; and none were uninsured or collateralized with securities held by the pledging financial institution's trust department or fiscal agent, but not in the Department's name. The Maryland State Treasurer (i.e., law, regulation or formal policy) defines the types of securities authorized as appropriate investments for the Department and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. As of June 30, 2011 the Department reported a total of $23,447,000 in *Cash and cash equivalents – restricted* on the Department's balance sheet. This amount consists of $23,447,000 restricted cash primarily for the construction retainages related to the SHA road projects in FY2011.

The Maryland State Treasurer authorizes the Department to invest in obligations of the U.S. Treasury including bills, notes, and bonds; obligations of U.S. agencies and instrumentalities; repurchase agreements secured by an U.S. Treasury agency; instrumentality obligations or banker's acceptances guaranteed by a financial institution with the highest short-term debt rating by at least one nationally recognized statistical rating organization (NRSRO); commercial paper with the highest rating by at least one NRSRO; shares or certificates in a money market mutual fund as defined by the Maryland State Treasurer; and Maryland local government pooled with short-term investments.

4. Receivables and Deferred Revenue:
The Department's receivables as of June 30, 2011 for the individual funds are as follows:

(amounts expressed in thousands)

Receivables:	**Special Revenue**	**Trust & Agency**	**Total**
Taxes receivable	$ 88,056		$ 88,056
Intergovernmental receivable	266,076		266,076
Other accounts receivable	44,943	$1,871	46,814
Due from other state agencies	211,908		211,908
Loans receivable	361		361
Net total receivables	$611,344	$1,871	$613,215

The Department's *Taxes receivable* consist of receivables recorded at year-end for the Motor Vehicle Fuel Tax Division in the amount of $63,296,000 and the Motor Vehicle Administration's titling tax in the amount of $24,760,000. The Department's *Intergovernmental receivables* consist of receivables from the Federal government in the amount of $259,876,000 and from the local subdivisions in the amount of $6,200,000. The Department's *Other accounts receivable*, of $44,943,000, consist of miscellaneous receivables recorded at fiscal year-end across the Department.

A balance of $73,328,000 is reported as *Due from other state agencies* in the Special Revenue Fund for the amount due from the State Comptroller's Revenue Administration Division for cash transfers not transferred to the Department as of June 30, 2011. Also included in *Due from other state agencies* is the amount $76,815,000, for the amount due from the Maryland Transportation Authority for Passenger Facility Charge (PFC) and parking/rental car revenue collections; $46,265,000 is reported as *Due from other state agencies* in the Special Revenue Fund for the amount due from the Maryland Transportation Authority for the ICC project; $15,500,000, is reported as *Due from other state agencies*, which is due from the Maryland Department of Budget and Management for the health benefits refund. Also included in *Due from other state agencies* on the *Statement of Net Assets* is the amount for the Department's Energy Savings Program (ESP) as of June 30, 2011, in the amount of $15,289,000.

As of June 30, 2011, a balance of $361,000 is reported as *Loans receivable* in the Special Revenue Fund on the accompanying *Balance Sheet* for a loan agreement with Prince George's County for the county constructed offsite infrastructure related to FedEx Field, formerly known as Jack Kent Cooke Stadium.

The Department's governmental funds reported on the accompanying Balance Sheet is *Deferred revenue* in connection with resources that have been received, but not yet earned was $111,648,000 as of June 30, 2011. As of June 30, 2011, the Department reported *Deferred revenue* in the governmental funds for customer prepayments of future airport services to be provided by the Maryland Aviation Administration in the amount of $6,132,000, for prepayments to the Maryland Transit Administration for ICC transit service in the amount of $9,960,000, and the amount of $18,741,000 for revenues collected by the State Highway Administration for advanced contract payments made by third-party vendors. As of June 30, 2011, the Department also reported *Deferred revenue* in the governmental funds in the amount of $76,815,000 for the balance in the MAA PFC's and Customer Facility Charge (CFC) Improvement Funds.

5. Capital Assets:

Depreciation expense on capital assets charged to the Department's modal administration/functions in the Statement of Activities as of June 30, 2011 is as follows:

(*amounts expressed in thousands*)

Depreciation Expense - Governmental Activities:	
Secretary's Office	$ 4,181
State Highway Administration	662,761
Port Administration	29,046
Motor Vehicle Administration	11,181
Transit Administration	190,758
Aviation Administration	77,968
Total depreciation expense - governmental activities	$ 975,895

The Department's *Capital assets* activity by asset classification, including accumulated depreciation, for the year ended June 30, 2011, was as follows:

(amounts expressed in thousands)

Capital Assets - Governmental activities	**Balance July 1, 2010**	**Increases**	***Decreases***	Transfers In (Out)	Balance June 30, 2011
Capital assets not depreciated:					
Land	$ 2,315,476	$40,664	$ (39)	$ 64,277	$ 2,420,378
Construction in progress	1,980,393	585,573	(376,665)	(430,332)	1,724,629
Total capital assets not depreciated	4,295,869	626,237	(376,704)	(366,055)	4,179,347
Capital assets depreciated:					
Building & improvements	2,395,053	62,199	(1,905)	7,431	2,462,778
Machinery & equipment	1,872,940	65,848	(178,590)	134,350	1,894,548
Infrastructure	18,181,528	427,880		224,274	18,883,682
Total capital assets depreciated	22,449,521	555,927	(180,495)	366,055	23,191,008
Accumulated depreciation for:					
Building & improvements	(920,689)	(86,629)	1,115	-	(1,006,203)
Machinery & equipment	(1,219,708)	(171,814)	170,608	-	(1,220,914)
Infrastructure	(9,072,344)	(717,452)	17	-	(9,789,779)
Total accumulated depreciation	(11,212,741)	(975,895)	171,740	-	(12,016,896)
Net capital assets after depreciation	11,236,780	(367,175)	(8,755)	366,055	11,174,112
Net total capital assets – governmental activities	$15,532,649	$206,269	$(385,459)	$ 0	$ 15,353,459

6. <u>Construction Commitments</u>:

The Department has active construction commitments outstanding as of June 30, 2011 of approximately $3,229,988,000, principally for construction of highway, aviation and transit projects. Approximately 50.0% of future expenditures, related to these commitments of the Department, are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining balance will be funded by other financial resources of the Department, including the issuance of long-term debt. As of June 30, 2011, the Department's commitments with contractors are as follows

(*amounts expressed in thousands*)

Construction projects	**Spent-to-date**	**Remaining commitment**
Highway construction	$2,949,388	$1,873,724
Port construction	423,538	191,513
Motor vehicle construction	94,214	86,725
Transit construction	903,944	732,253
Aviation construction	372,449	345,773
Total projects	$4,743,533	$3,229,988

7. Interfund Transfers:

The interfund transfers for the Department for the year ended June 30, 2011, is as follows:

(*amounts expressed in thousands*)

Transfers In	Transfers Out	Amount
Debt service fund	Special revenue fund	$155,727

The purpose of this interfund transfer is to record the amount of revenue transferred from the special revenue fund to the debt service fund for debt service principal and interest payments. This transfer is reported on the *Statement of Revenues, Expenditures and Changes in Fund Balances* for the year ended June 30, 2011 as a *Debt service transfer* under Other Financing Sources (Uses).

8. Due from/Due to Other State Agencies:

The amount reported of $211,908,000 on the Department's *Balance Sheet* as *Due from other state agencies* is comprised of $73,328,000 due from the State's Corporation and Sales Tax Division for cash transfers that were transferred to the Department after June 30, 2011; $53,556,000 (PFC's) and $23,259,000 (CFC's), both that were due from the Maryland Transportation Authority for PFC revenues and rental car revenues collected, respectively, on its behalf, as of June 30, 2011; the amount of $46,265,000 which represents the Department's receivable from the Maryland Transportation Authority as of June 30, 2011, for various projects related to the Inter-County Connector; and the amount of $15,500,000, which is due from the Maryland Department of Budget and Management for the health benefits refund. Also included in *Due from other state agencies* on the *Statement of Net Assets* is the amount for the Department's Energy Savings Program (ESP) as of June 30, 2011, in the amount of $15,289,000.

The amount reported as *Due to other state agencies* within the Special Revenue Fund in the accompanying balance sheet includes $9,024,000 which represents the amount due to the State's General Fund for motor vehicle fuel tax that was not transferred as of June 30, 2011.

9. Operating and Capital Leases:

Operating Leases:

The Department leases office space under various agreements that are accounted for as operating leases. Rent expense under these agreements was $3,287,000 for the year ended June 30, 2011.

The future minimum operating lease payments under these agreements as of June 30, 2011, are as follows:

(amounts expressed in thousands)

Years Ending June 30,	Operating Leases Future Minimum Payments
2012	$ 3,235
2013	2,889
2014	2,631
2015	2,498
2016	1,674
2017 – 2021	6,446
Total operating leases	$19,373

***Capital Leases*:**
The Department has entered into several lease agreements for the financing of various transportation related projects. The Department has also entered into agreements with the Maryland Transportation Authority for the financing of various aviation projects. The Department has reported obligations under capital leases of $604,662,000 as of June 30, 2011. The Department's activity related to capital leases is included in the table in note 10 (see section titled Changes in long-term liabilities).

The Department's capital lease obligations as of June 30, 2011 are as follows:

- $18,230,000 in obligations related to Project Certificates of Participation for the Maryland Aviation Administration Facilities, Series 2010 (refunding), issued on December 1, 2010, at annual interest rates ranging from 3.00-5.00%;

- $13,070,000 in obligations related to Project Certificates of Participation for the Maryland Transit Administration Project, Series 2010 (refunding), issued on December 1, 2010, at annual interest rates ranging from 3.00-5.00%;

- $7,700,000 in obligations related to Certificates of Participation for the BWI Marshall Airport Shuttle Bus Fleet Acquisition, Series 2004, issued on October 7, 2004, at annual interest rates ranging from 2.75-3.60%;

- $22,915,000 in obligations related to Certificates of Participation for the Maryland Port Administration Facility Project, Series 2006, issued on June 14, 2006, at annual interest rates ranging from 4.25-5.25%;

- $11,635,000 for the Maryland Transportation Authority's financing of the Port Administration's Masonville Automobile terminal at an annual interest rate of 5.5%;

- $194,770,000 (minimum lease payments until bond proceeds are expended) for the Maryland Economic Development Corporation bond issuance for the Maryland Aviation Facilities, issued on April 3, 2003, at annual interest rates ranging from 4.5-5.5%;

- $24,360,000 for the Maryland Economic Development Corporation bond issuances for the financing of the Department's headquarters building, original bonds issued on June 27, 2002, refunding bonds issued May 25, 2010 at annual interest rates ranging from 3.0-4.5%;

- $199,191,000 minimum payments, on long-term obligations related to the financing of BWI Marshall Airport parking and roadway projects. Bonds associated with this agreement were issued by the Maryland Transportation Authority in the amount of $264,075,000 on March 5, 2002 at annual interest rates ranging from 4.0-5.5%;

- $98,833,000 minimum payments related to the financing of BWI Marshall Airport Consolidated Rental Car Facility. Bonds associated with this agreement were issued by the Maryland Transportation Authority in the amount of $117,345,000 on June 18, 2002 at annual interest rates ranging from 2.74-6.65%;

- $13,958,000 minimum payments, on long-term obligations related to the financing of BWI Marshall Airport's various airport improvement projects. Variable rate demand bonds were issued by the Maryland Transportation Authority in the amount of $69,700,000 on December 16, 2003 at a variable interest rate. As of June 30, 2011, the interest rate was 0.23% per annum.

As bond proceeds are spent for construction, the Department's liability (or minimum payments) and related capital assets will increase, accordingly. Once construction is completed, the Construction in Progress asset will become a Building or Infrastructure asset.

The future minimum capital lease obligations and the net present value of these minimum lease payments as of June 30, 2011, are as follows: (*amounts expressed in thousands*)

Years Ending June 30,	**Amount**
2012	$ 68,473
2013	68,802
2014	68,760
2015	57,531
2016	57,563
2017 – 2021	272,273
2022 – 2026	238,224
2027 – 2031	125,226
2032 – 2036	17,594
Total minimum lease payments	974,446
Less: amount representing interest	(334,546)
Less: funds held by bond trustee	(35,238) (a)
Present value of minimum lease payments	$ 604,662

(a) The reduction shown in the amount of $35,238,000 are monies held by the bond trustee on behalf of the Maryland Transportation Authority to be used primarily for construction expenditures.

The capital assets acquired through capital leases as of June 30, 2011 are as follows:
(*amounts expressed in thousands*)

Capital Asset	**Amount**
Construction in progress	$ 74,008
Land and improvements	16,266
Buildings and improvements	772,992
Machinery and equipment	58,922
Infrastructure	285,077
Total acquired capital assets	1,207,265
Less: accumulated depreciation	(302,639)
Total capital assets – net	$ 904,626

10. Long-term Liabilities:

Transportation bonds:

The Department issues Consolidated Transportation Bonds to provide funds for the acquisition and construction of major capital facilities. Consolidated Transportation Bonds are limited obligations issued by the Department for highway, port, airport, rail or mass transit facilities or any combination of such facilities. The principal must be paid within 15 years from the date of issue. As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed $2,600,000,000 through June 30, 2011 and thereafter. The aggregate principal amount of those bonds that were allowed to be outstanding as of June 30, 2011 was $1,791,840,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2011 was $1,561,840,000. Consolidated Transportation Bonds are paid from the Debt Service Fund.

The Department's Transportation Bonds outstanding as of June 30, 2011, were as follows:

(*amounts expressed in thousands*)

	Interest Rates	Amount
Consolidated Transportation Bonds - due serially through 2025 – for state transportation activity	3.0-5.5%	$ 1,522,355
Consolidated Transportation Bonds, refunding – due serially through 2014 – for state transportation activity	5.0%	39,485
Total consolidated transportation bonds		$ 1,561,840

Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute, a portion of the corporate income tax and a portion of the State sales tax credited to the Department. These amounts are applicable to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment. Under the terms of authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued provided, among other conditions, that (i) total receipts (excluding Federal funds for capital projects, bond and note proceeds and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and (ii) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued. The Department did not issue any new or refunding bonds in the fiscal year ended June 30, 2011. Annual debt service requirements to maturity for transportation bonds in future years are as follows:

(*amounts expressed in thousands*)

Year Ending June 30,	**Consolidated Transportation Bonds – Principal**	**Consolidated Transportation Bonds – Interest**	**Total Transportation Bonds Debt Service Requirements**
2012	$ 102,845	$ 71,672	$ 174,517
2013	109,340	66,908	176,248
2014	130,620	61,480	192,100
2015	147,280	55,421	202,701
2016	153,750	48,534	202,284
2017-2021	642,200	136,627	778,827
2022-2025	275,805	23,603	299,408
Total	$1,561,840	$464,245	$2,026,085

Changes in long-term liabilities:

The Department's long-term liability activity for the year ended June 30, 2011, is as follows:

(*amounts expressed in thousands*)

Governmental activities:	**Beginning Balance July 1, 2010**	**Additions**	**Reductions**	**Ending Balance June 30, 2011**	**Due Within One Year**
Transportation bonds *	$1,645,010		$(83,170)	$1,561,840	$102,845
Capital leases *	639,514	$33,701**	(68,553)	604,662	36,484
Pollution obligations	155,826	-	-	155,826	-
MTA OPEB obligations	97,600	36,324	(1,747)	132,177	-
State Pension obligations	97,019	24,834	-	121,853	-
Premium on bonds *	79,337	32	(8,760)	70,609	8,760
Worker's compensation costs	58,620	15,940	(13,987)	60,573	9,389
ESP obligations *	-	49,629	-	49,629	-
Compensated absences	46,069	30,773	(28,807)	48,035	29,182
Less: Deferred amount on refunding bonds *	(2,491)	-	575	(1,916)	575
Total long-term liabilities – governmental activities	$2,816,504	$191,233	$(204,449)	$2,803,288	$187,235

Note: * These items are combined for the net related debt calculation on the *Statement of Net Assets* section entitled Net Assets - *Invested in capital assets, net of related debt*.

Note: ** These additions for capital leases were not related to any new debt issued, but for the refunding of two older obligations. The interest savings for the Department on these transactions were $3,212,000.

The Department's long-term liabilities, other than transportation bonds, are generally liquidated through the special revenue fund. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2011.

11. Risk Management and Insurance:

Workers' Compensation:

The Department is self-insured for workers' compensation liabilities. The Department's workers' compensation self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determined payments over a long period of time are reported at their present value using a 4% discount rate. The workers' compensation costs are based upon separately determined actuarial valuations for the fiscal year ended June 30, 2011.

The Department's workers' compensation self-insurance program is administered by the Injured Worker's

Insurance Fund under a contract which requires that the Department pay premiums based upon loss experience plus a proportionate share of administrative costs. In the event of termination of the contract, the Department is obligated for any premium deficiency at the time of termination. The Department's accrued workers' compensation costs, as of June 30, 2011, were $60,573,000.

The activity related to accrued workers' compensation costs is included in the table in not 10 (section titled Changes in long-term liabilities). Changes in the balances for the Department's workers' compensation liability during the past two fiscal years are as follows:

(*amounts expressed in thousands*)

	Fiscal Year Ending June 30, 2011	**Fiscal Year Ending June 30, 2010**
Unpaid claims, beginning of fiscal year	$58,620	$57,649
Incurred claims and changes in estimates	15,940	14,191
Claim payments	(13,987)	(13,220)
Total unpaid claims, end of fiscal year	$60,573	$58,620

***<u>Insurance</u>*:**

The operations of the Department's Maryland Aviation, Maryland Port and Maryland Transit Administrations are covered by commercial liability insurance policies and many claims are handled by the Department's insurance carriers. The Maryland Aviation Administration's two facilities, Baltimore Washington International Thurgood Marshall Airport and Martin State Airport, are covered by an airport owners and operators general liability insurance policy providing coverage per occurrence up to $500,000,000 for bodily injury and property damage. This policy also contains a control tower liability endorsement that provides coverage for an occurrence arising out of the direct operation of the control tower at Martin State Airport. This policy no longer contains the war, hi-jacking and other perils endorsement due to the events of September 11, 2001. This endorsement is available for buy back for an additional premium.

The Maryland Port Administration's liability insurance policies, including excess liability policies, provide insurance up to $150,000,000 per occurrence for its port operations. These policies cover liability for both injury and property damage.

The Maryland Transit Administration's (MTA) operations are covered by $495,000,000 in excess liability insurance over and above the MTA's $5,000,000 self-insurance retention. For CSX and Amtrak commuter service, the MTA has purchased insurance to cover its contractual obligations. The insurance provides coverage for excess liability claims of $5,000,000 to $495,000,000; claims under $5,000,000 are self-insured by the Department. However, to comply with the provisions of the operating agreement with CSX, the MTA has entered into a $5,000,000 standby letter of credit against which CSX may draw in the event claims exceed, in the aggregate for an occurrence, the amount of $250,000. No claims were made against the letter of credit during the current fiscal year. In addition, the excess liability policies provide punitive damages liability coverage and Federal Employee Liability Act coverage to CSX arising from commuter rail operations for claims ranging from $5,000,000 to $495,000,000.

The amount of any settlements, within the Department, did not exceed the insurance coverage in each of the past three fiscal years. For those areas not covered by purchased insurance, the State Treasurer has a program of self-insurance for tort claims. By statute, bodily injury, personal injury or property damages are limited to claims of $200,000 per claimant under the established self-insurance program.

12. <u>Related Party Transactions</u>:
Various State of Maryland agencies provide services for the Department for which they are reimbursed from the Department. During fiscal year 2011, such reimbursements are reflected as *Distributions to other state agencies* in the Special Revenue Fund.

13. <u>Contingent Liabilities</u>:
The Department is involved in numerous lawsuits arising in the normal course of its operations, including actions commenced and claims asserted against the Department for alleged property damage, personal injury, breaches of contract or other alleged violations of law. Additionally, the Department is currently involved in certain legal proceedings relative to a case concerning unreasonable discrimination and mass transit accident cases concerning train passenger injuries or death. In the opinion of Department officials, based on the advice of the Attorney General, such matters are covered by insurance or otherwise would not have a materially adverse effect on the Department's financial position as of June 30, 2011. Also, the Department believes no material exposure from unasserted claims exists as of June 30, 2011.

14. <u>Other Postemployment Benefits (OPEB)</u>:
***<u>State Employee and Retiree Health and Welfare Benefits Program of Maryland</u>*:**
Plan Description:
The members of the Maryland State Retirement, Pension and Law Enforcement Officers' Systems and their dependents are provided postemployment health care benefits through the State Employee and Retiree Health and Welfare Benefits Program (OPEB Plan). The OPEB Plan is a single-employer defined benefit health care plan established by the State Personnel and Pensions Article, Section 2-501 through 2-516 of the Annotated Code of Maryland. The OPEB Plan is self-insured to provide medical, hospitalization, prescription drugs and dental insurance benefits to eligible State employees, retirees and their dependents. State law grants authority to establish and amend benefit provisions to the Secretary of the Department of Budget and Management (DBM). In addition, the Secretary of DBM shall specify by regulation the types or categories of State employees who are eligible to enroll, with or without State subsidies, or who are not eligible to enroll.

Effective June 1, 2004, the State of Maryland established the Postretirement Health Benefits Trust Fund (OPEB Trust) as a separate entity to receive appropriated funds and contributions which will be used to assist the OPEB Plan in financing the State's postretirement health insurance subsidy. The OPEB Trust is established in accordance with the State Personnel and Pensions Article, Section 34-101, of the Annotated Code of Maryland and is administered by the Board of Trustees for the State Retirement and Pension System. Financial statements of the OPEB Trust may be obtained from the *Office of the Maryland Comptroller, Treasury Building, Annapolis, MD 21401*. A separate valuation is not performed by the Department. The Department's only obligation to the OPEB Plan is its required annual contribution.

Funding Policy:
The contribution requirements of the OPEB Plan members and the State are established by the DBM Secretary. Each year the DBM Secretary recommends to the Maryland Governor the State's share of the costs of the OPEB Plan. Beginning in fiscal year 2008, Maryland State law requires DBM to transfer any subsidy received as a result of the Federal Medicare Prescription Drug Improvement Act of 2003 or a similar subsidy to the OPEB Trust to prefund the costs of retirees' health benefits. Also, funds may be separately appropriated in the State's budget to transfer to the OPEB Trust.

Generally, a retiree may enroll and participate in the health benefit options if the retiree retired directly from State service with a least five years of creditable service, ended State service with a least 10 years of creditable service and within five years before the age at which a vested retirement allowance normally would begin or ended State service with a least 16 years of creditable service. Based on current practice, the State subsidizes approximately 50 to 85% of retiree premiums to cover medical, dental, prescription and hospitalization costs, depending on the type of insurance plan. The OPEB Plan assesses a charge to retirees for post-employment health care benefits, which is based on health care insurance charges for current employees. The Department's share of these retirees health insurance costs were $17,670,000 for the year ending June 30, 2011 and was included in the health care costs allocated to all participating employers. The cost of these benefits is expensed when paid.

***Maryland Transit Administration Pension Plan - OPEB*:**

Plan Description:

The members of the Maryland Transit Administration Pension Plan are provided postemployment health care benefits through the State Employee and Retiree Health Plan or the MTA Health Plan. The MTA currently funds retirees' health care cost on a pay-as-you-go basis. As retirees incur expenses, the MTA pays out funds based on the appropriate benefit structure. The MTA does not currently have a separate fund set aside to pay health care costs. The MTA provides health care coverage for over 1,400 retirees. Retirees make the same contributions as active employees; however, Medicare contributions are handled separately.

Funding Policy:

The Department is required by law to provide funding each year to the OPEB Plan for the Department's share of the pay-as-you-go amount necessary to provide current benefits to retired employees and their dependents. The MTA healthcare benefits including Medical (PPO or HMO), prescription drug, dental and vision plans are provided to retirees meeting the following eligible criteria:

1. Age 65 with 5 years of service
2. Age 52 with 30 years of service
3. Age 55 with a least 30 years of service, including military and other qualifying service credits
4. Disabled with 5 years of service
5. Surviving spouse subsidized benefit for 3 years

Annual OPEB Costs and Net OPEB Obligation:

The Department's annual OPEB cost, related to the MTA Pension Plan, is calculated based on the annual pension cost (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities over a period not to exceed 30 years. The annual OPEB cost and net OPEB obligation for the Maryland Transit Administration Pension Plan as of June 30, 2011 was:

(*amounts expressed in thousands*)

Annual pension cost	$51,268
Interest on OPEB obligations	4,314
Adjustment to the OPEB cost	(6,775)
Net OPEB costs	48,807
Contributions made in current fiscal year	(14,230)
Increase in OPEB obligation	34,577
Net OPEB obligation beginning of year	97,600
Net OPEB obligation end of fiscal year	$132,177

The Schedule of Employer Contributions for the OPEB of the Maryland Transit Administration Pension Plan asof June 30, 2011 was:

(*amounts expressed in thousands*)

Fiscal Year Ended June 30,	Annual Pension Cost	Annual Contribution	Net OPEB Obligation	Percentage Contributed
2009	$43,100	$10,100	$64,500	23.4%
2010	44,200	10,900	97,600	24.7
2011	48,807	14,230	132,177	28.2

Funded Status and Funding Progress:
The funded status of the OPEB Plan for the Maryland Transit Administration Pension Plan as of June 30, 2011 was:

(*amounts expressed in thousands*)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial *Accrued* Liability (UAAL)	Funded Ratio	Covered Payroll	Percentage of UAAL over Covered Payroll
7/1/2007	$ -	$411,400	$411,400	0.0%	$144,775	284.2%
6/30/2009	-	431,500	431,500	0.0	151,560	284.7
6/30/2011	-	527,679	527,679	0.0	147,474	357.8

Actuarial Methods and Assumptions:
Actuarial valuations of an ongoing plan involves estimates of the value of reported amounts and assumptions
about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future.

A projection of benefits for financial reporting purposes are based on the substantive plan and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial method and significant assumptions listed below were used in the actuarial valuation of the OPEB Plan for the Maryland Transit Administration Pension Plan as of June 30, 2011, is as follows:

Actuarial Cost Method:	Entry Age Normal, Level Dollar
Asset Valuation Method:	N/A
Amortization Method:	Level dollar
Remaining Amortization Period:	23 years as of June 30, 2011
Rate of Return on Investments:	4.50%
Projected Inflation Rate:	3.50%
Projected Post-retirement Cost Rate:	Medical/Prescriptions: 6.40% in FY2011, 6.40% in FY2012 and increasing to 8.00% in FY2013 Dental/Vision: 5.00% for all future years

15. <u>Retirement Systems and Pension Plans</u>:

***<u>State Retirement and Pension System of Maryland</u>*:**

The Department contributes to the State Retirement and Pension System of Maryland (System), established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of various participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. While the System is an agent multiple-employer public employee retirement system, the Department accounts for the plan as a cost sharing multiple-employer public employee retirement system as a separate valuation is not performed for the Department and the Department's only obligation to the plan is its required annual contributions. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No.25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans." The System is considered part of the State's financial reporting entity, and is not considered part of the Department's reporting entity. The System prepares separate audited Financial Statements, which can be obtained from the *State Retirement and Pension System of Maryland, 120 East Baltimore Street, Suite 1600, Baltimore, MD 21202.*

Plan description:
The System is administered in accordance with State Personnel and Pensions Article of the Annotated Code of Maryland and consists of several plans which are managed by the Board of Trustees for the System. All State employees, with the exception of employees covered by the Maryland Transit Administration Pension Plan, and employees of the participating entities are covered by the plans.

"Retirement System" – retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" – retirement programs for employees and teachers hired after January 1, 1980, and prior employees who have elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completing 5 years of service. A member terminating employment before attaining retirement age but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State Police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60 or completing 30 years of service credit, regardless of age. Members of the Pension System may retire with full benefits after attaining age 62 or after completing 30 years of service credit, regardless of age. State police members may retire with full benefits after attaining age 50 or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50 or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System members is equal to 1/55 (1.8%) of a member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. Legislation enacted during the 1998 legislative session changed certain provisions of the Pension System and provided for a Contributory Pension System and a Non-Contributory Pension System. A member of the Contributory Pension System will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive-year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.4% of the highest three-consecutive-year average salary multiplied by the number of years of service credit after July 1, 1998. The annual benefit for the Non-Contributory Pension System member is equal to 0.8% of the member's highest three-consecutive-year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member of either Pension System may retire with reduced benefits after attaining age 55 and 15 years of credited service.

On April 25, 2006, new legislation was enacted with an effective date of July 1, 2006, that enhanced the pension benefits for active members, as of June 30, 2006, of the Pension System. According to the State Employees and Teacher's Pension Enhancement Benefit Act of 2006, the annual service retirement allowance remains equal to 1.2% of average final compensation times service credit to June 30, 1998 and increases to 1.8% of average final compensation times service credit from July 1, 1998 forward.

Funding policy:
The Department's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The aggregate entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages (7.0% or 5.0% depending on the retirement plan selected). Members of the Contributory Pension System are required to contribute

to the System 5.0% of their regular salaries and wages. Members of the Non-Contributory Pension System are required to contribute to the System 5.0% of their regular salaries and wages that exceeds the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 4.0% of their earnable compensation to the System. All contributions are deducted from each member's salary, and the resulting payments are remitted to the System on a regular and periodic basis.

The contribution requirements of the System members and the Department are established and may be amended by the Board of Trustees for the System. The Department made its contribution during the fiscal years ended June 30, 2011, 2010 and 2009 of $37,687,000, $32,987,000 and $28,448,000, respectively, which represented 60.3%, 65.5% and 64.2%, respectively, of the required contributions for the Department. As of June 30, 2011, since the Department did not make the total contribution required by the State, cumulative the Department has an obligation of $121,853,000, which includes the interest accrual on the unpaid contribution amount. The Department has reported this obligation for required contributions related to employee services that have not been made to the cost-sharing plan. The three-year trend of the annual required contributions from MDOT to the State Retirement and Pension System of Maryland is as follows:

(*amounts expressed in thousands*)

Fiscal Year Ended June 30,	Annual Required Contribution	Annual Contribution Paid	Net Pension Obligation	Percentage of Required Contributions
2009	$44,319	$28,448	$ 79,638	64.2%
2010	50,368	32,987	97,019	65.5
2011	62,521	37,687	121,853	60.3

Maryland Transit Administration Pension Plan:

Plan description:

The Maryland Transit Administration Pension Plan (Plan) is a single employer noncontributory plan that covers all Maryland Transit Administration (MTA) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. The Plan is part of the Department's financial reporting entity and is included in the Department’s financial statements as a Pension Trust Fund. The Plan prepares separate audited Financial Statements, which can be obtained from the *Maryland Transit Administration Pension Plan, William Donald Schaefer Tower, 8 Saint Paul Street, Baltimore, Maryland 21202*. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the Plan.

The Plan provides retirement (normal and early), death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.4-1.6% (1.3% prior to September 8, 2002) of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service. Benefit provisions are established and may be amended through the collective bargaining agreement.

As of June 30, 2011, membership total (4,765) in the Plan includes 1,514 retirees and beneficiaries currently receiving benefits, 445 terminated members entitled to but not yet receiving benefits and 2,806 current active members. There were no investments in, loans to, or leases with parties related to the Plan. There were no Plan investments representing 5% or more of total Plan assets. For the year ended June 30, 2011, the Administration's covered and total payroll was $147,474,000.

Summary of significant accounting policies – basis of accounting and valuation of investments :
As a part of the Pension Trust Fund, the accounts and financial statements of the Plan, including benefits paid, contributions and refunds, are maintained and prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The Department's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All Plan investments are reported at fair value, which is determined by the State Retirement and Pension System of Maryland based on securities data. Investment expenses are not readily separable from the investment income or the general administrative expenses of the Plan.

Funding policy:
The MTA's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan. Employer contributions to the Plan totaling $47,528,000 (32.2% of covered payroll) for fiscal year 2011 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2010. This amount consisted of $5,722,000 normal cost and $41,806,000 amortization of the actuarial accrued liability (3.9% and 28.3%, respectively, of covered payroll). The collective bargaining agreement is the authority under which the obligation of the employer to contribute to the Plan is established or amended. The liquidation period for the unfunded actuarial accrued liabilities (as provided by law) is 8 years from June 30, 2011. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the net pension obligation. The computation of the annual required contribution requirements for fiscal year 2011 was based on the same actuarial assumptions, benefit provisions, actuarial funding method, and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Costs and Net Pension Obligation:
The MTA's annual required contribution for the fiscal year ended June 30, 2011 was $33,928,000. The Administration contributed 140% of the annual pension cost for the fiscal year ended June 30, 2011 for the Plan. The Department's fiscal year 2011 required contribution was determined as a part of an actuarial valuation as of June 30, 2010 using the entry age normal actuarial cost method. The annual pension cost and net pension obligation for the Maryland Transit Administration Pension Plan as of June 30, 2011 was:

(*amounts expressed in thousands*)

Annual pension cost	$33,287
Interest on net pension obligation (NPO)	641
Net annual pension cost	33,928
Contributions made in current fiscal year	47,528
Decrease in NPO	(13,600)
Net pension obligation/(asset) July 1, 2010	(9,079)
Net pension obligation/(asset) June 30, 2011	$(22,679)

The Schedule of Employer Contributions for the Maryland Transit Administration Pension Plan was:

(*amounts expressed in thousands*)

Fiscal Year Ended June 30	**Annual Pension Cost**	**Annual Contribution Paid**	**Net Pension Obligation/(Asset)**	**Percentage Contributed**
2009	$24,782	$27,254	$ 2,531	110.0%
2010	26,151	37,761	(9,079)	144.4
2011	33,928	47,528	(22,679)	140.1

Funded Status and Funding Progress:
The funded status for the Maryland Transit Administration Pension Plan as of June 30, 2011, was:

(*amounts expressed in thousands*)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial *Accrued* Liability (UAAL)	Funded Ratio	Covered Payroll	Percentage of UAAL over Covered Payroll
6/30/2009	$143,320	$337,668	$194,348	42.4%	$151,560	128.2%
6/30/2010	162,756	426,041	263,285	38.2	145,029	181.5
6/30/2011	187,918	433,637	245,719	43.3	147,474	166.6

The complete *Schedule of Funding Progress* for the Plan, reported in the RSI section of this report, presents multiyear trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. There were no changes in actuarial assumptions or benefit provisions during fiscal year 2011. The significant actuarial assumptions listed below were used for the Plan.

Actuarial Cost Method:	Entry Age Normal, Level Dollar
Asset Valuation Method:	Five Year Open Period Smoothing (Market Value vs. Expected Actuarial Value)
Amortization Method:	Level Dollar (years depends on type of base)
Rate of Return on Investments:	7.75%
Projected Rate of Salary Increase:	3.50% - 9.50%
Projected Inflation Rate:	3.50%
Remaining Amortization Period:	13.6 years weighted average
Status of Period (Open or Closed):	Closed

16. Federal Revenue:

Federal revenue consists principally of grants from the Federal Transit Administration for rail and bus projects for the Baltimore region and from the Federal Highway Administration in connection with highway construction projects. In addition, the Department receives Federal grants to aid in planning, design and construction of transportation facilities and to support the mass transit operations. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the Department. As of June 30, 2011, the Department estimates that no material liabilities will result from such audits.

17. Passenger Facility Charges:

In July 1992, the Federal Aviation Administration (FAA) approved an application of the Maryland Aviation Administration (MAA) to impose a $3.00 passenger facility charge (PFC) at BWI Marshall Airport (Airport). The MAA and the Maryland Transportation Authority (Authority) entered into an Agreement on Financing Airport Facilities Projects at BWI Marshall Airport, dated as of October 1, 1994, (the Airport Agreement), whereby the Authority, subject to certain conditions, has agreed to finance the airport facilities projects and has designated the MAA as its agent for development, design, operation, insurance, security and maintenance of the airport facilities projects. The Authority recovered the costs of financing these projects through the assignment of PFC receipts.

On June 10, 2003, the remaining outstanding bonds to finance these projects were defeased and then retired on July 1, 2004. An additional $1.50 PFC was approved by the FAA and was imposed on June 1, 2002. The combined total of $4.50 PFC was applied to the costs of financing these projects and additional aviation projects approved by the FAA on September 17, 2002. During December 2003, the MAA and the Authority entered into an agreement whereby the Authority has agreed to finance the additional PFC approved-airport facility projects (see note 9 Operating and Capital Leases). These agreements with the Authority are treated like capital leases and are reported on the Department's *Balance Sheet* as *Due from other agencies*.

18. Rent Revenue:

The Department leases terminal space at various marine terminals (including the Seagirt Marine Terminal), airport facilities and office space in the World Trade Center building, Baltimore, Maryland, pursuant to various operating leases. The Department's total minimum future rental revenues totaled $968,883,000 as of June 30, 2011 and do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenues collected included in operations were approximately $161,118,000 for the year ended June 30, 2011. Assets of the Department under lessor operating lease agreements, totaling $855,170,000 are included in the *Capital assets*, net of accumulated depreciation in the amount of $662,334,000, on the *Statement of Net Assets*. Minimum future rental revenues for the Department as of June 30, 2011, are as follows:

(*amounts expressed in thousands*)

Year Ending June 30,	**Operating Leases Minimum Future Rental Revenues**
2012	$ 111,577
2013	110,300
2014	111,467
2015	105,717
2016	99,860
2017-2021	297,235
2022-2026	23,927
2027-2061	108,800
Total	$ 968,883

19. Fund Balances:

For the fiscal year ended June 30, 2011, GASB Statement 54 was implemented by the Department and is so reflected in the current fiscal year's financial statements. This GASB Statement has reclassified the various fund balance categories on the Department's Balance Sheet from reservation of fund balance to the following categories: (1). *Nonspendable fund balance* (which includes inventory of supplies and prepaid items), (2). *Restricted fund balance* (like for debt service items), (3). *Committed fund balance* (like for encumbrances), and (4). *Assigned fund balance* (like for loans receivable, agency activities and other function related activities) for Special Revenue funds within the Department. The Department reported the following fund balances on the Department's *Balance Sheet* on page 31 as follows:

Nonspendable fund balance is reported for a portion of the Special Revenue Fund balance in the amount of $79,681,000 that is *for inventories of supplies,* while the amount of $102,114,000 is recorded for *prepaid items* as of June 30, 2011. Other *Nonspendable fund balance* was reported by the Department in the amount of $361,000 which represents the balance of the Department's *loans receivable* with another government entity.

Committed fund balance is reported for the Department's encumbrance balance in the amount of $12,442,000, as of June 30, 2011. *Assigned fund balance* was reported by the Department in the amount of $458,000 as of June 30, 2011, represents non-budgeted *agency activities* and the amount of $136,592,000 as of June 30, 2011, represents the balance in the Department's Transportation Trust Fund to be used for future transportation programs.

20. Pollution Remediation Obligations:

The Department has recognized a pollution remediation obligation on the *Statement of Net Assets* for governmental activities. A pollution remediation obligation is an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, government oversight and enforcement, and post remediation monitoring. Obligating events that initiate the recognition of a pollution remediation liability include any of the following: (a) There is an imminent and substantial endangerment to the public; (b) The Department is in violation of a pollution prevention related permit or license; (c) The Department is identified as a responsible party or potentially responsible party by an environmental regulator; (d) The Department is named or has evidence that it will be named in a lawsuit to participate in pollution remediation; or (e) The Department voluntarily commences, or legally obligates itself to commence, cleanup activities, monitoring operations and maintenance of pollution remediation efforts.

The pollution remediation obligation is an estimate and subject to change resulting from price increases or reductions, technology advances or from changes in applicable laws or regulations. The liability is recognized as it becomes estimable. In some cases, this may be at inception. In other cases, components of a liability are recognized as they become reasonably estimable. At a minimum, the liability is reviewed for sufficiency when various benchmarks occur and as remediation is implemented and monitored. The measurement of the liability is based on the current value of outlays to be incurred using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible potential outcomes – the estimated mean or average.

The Department's pollution remediation liability for the fiscal year ended June 30, 2011, is estimated to be $667,106,000 for cleanup projects at the Maryland Port, Maryland Transit and State Highway Administrations with approximately $511,280,000 of expected recoveries from third parties to reduce the liability. Included in this liability are cost estimates for site monitoring and repair, excavation of road and infrastructure, and replacement of buildings as a result of contaminations by hazardous materials under Federal and State law. In these cases, either the Department has been named in a lawsuit by a State Regulator or the Department has legally obligated itself under the Environmental Article, Section 7-201, of the Annotated Code of Maryland. These cost estimates for the Department's pollution remediation, due to site contamination from hazardous materials, are based on engineering design estimates. The estimated long-term costs that the Department may be responsible for over the next 15 years include: various cleanup projects related to an SHA Maintenance Facility and former SHA Laboratory, various cleanup projects related to several MTA construction sites and projects related to cleanup of underground hazardous substances at one of the MPA's marine terminals. The MPA is responsible for 23% of the total remediation costs. The Department did not incur any significant costs to reduce the liability or identify any new technology that would change the liability during the current fiscal year ended June 30, 2011.

21. Energy savings program (ESP):

The Department, along with the State of Maryland Treasurers Office, established an Energy Savings Program (ESP) plan to convert the State's energy usage to more energy efficient products that will save the State and the Department energy usage funds, over time. This plan was implemented by the Maryland Aviation, Maryland Transit and State Highway Administrations in FY2011. The activities of this ESP, for the fiscal year ended June 30, 2011, are reflected on the Department's *Statement of Net Assets* as *Due from other state agencies* in the amount of $15,289,000 and *Construction in progress* for $34,340,000 for the amount of the total expenditures for the fiscal year ended June 30, 2011. The total amount of $49,629,000 was recorded as a long-term liability to the State of Maryland.

22. Subsequent events:

On October 20, 2011, the Department issued refunding transportation bonds in the amount of $161,435,000, for the Maryland Department of Transportation, Consolidated Transportation Bonds, Refunding Series 2011, to advance refund certain maturities of the Consolidated Transportation Bonds, Series 2004. The annual interest rate on these refunding bonds is 5.00% and the final maturity date is May 1, 2019. The Department realized a $14,563,000 interest cost savings as a result of this sale.

Maryland Department of Transportation

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REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Funding Progress
Maryland Transit Administration OPEB Plan
(amounts expressed in thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability - Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as Percentage of Covered Payroll
2008	$ 0	$411,400	$411,400	0.0%	144,775	284.2%
2009	0	431,500	431,500	0.0	151,560	284.7
2011	0	527,679	527,679	0.0	147,474	357.8

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Employer Contributions
Maryland Transit Administration OPEB Plan
(amounts expressed in thousands)

Year Ended June 30,	Annual Required Contribution	Annual Contribution Paid	Percentage of Required Contributions
2008	$41,200	$9,700	23.5%
2009	43,100	10,100	23.4
2010	44,200	10,900	24.7
2011	48,807	14,230	28.2

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Funding Progress
Maryland Transit Administration Pension Plan
(amounts expressed in thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability - Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as Percentage of Covered Payroll
2002	$81,557	$224,411	$142,855	36.3%	$122,977	116.2%
2003	86,642	234,460	147,818	37.0	128,393	115.1
2004	95,219	260,422	165,203	36.6	126,169	130.9
2005	101,810	261,536	159,726	38.9	121,415	131.6
2006	112,230	300,869	188,639	37.3	128,806	146.5
2007	124,496	322,597	198,101	38.6	135,098	146.6
2008	136,294	326,988	190,694	41.7	144,775	131.7
2009	143,320	337,668	194,348	42.4	151,560	128.2
2010	162,756	426,041	263,285	38.2	145,029	181.5
2011	187,918	433,637	245,719	43.3	147,474	166.6

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Employer Contributions
Maryland Transit Administration Pension Plan
(amounts expressed in thousands)

Year Ended June 30,	Annual Required Contribution	Annual Contribution Paid	Percentage of Required Contributions
2002	$15,200	$15,200	100.0%
2003	17,515	16,545	94.5
2004	18,442	19,187	104.0
2005	20,614	19,695	95.5
2006	20,435	20,435	100.0
2007	24,245	20,872	86.1
2008	24,732	24,245	98.0
2009	24,782	27,254	110.0
2010	26,151	37,761	144.4
2011	33,928	47,528	140.1

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2011
(amounts expressed in thousands)

	Special Fund				Federal Fund			
	Budgeted Amounts			Variance with Final Budget - Positive	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	Actual Amounts	(Negative)	Original	Final	Actual Amounts	(Negative)
REVENUES:								
Taxes:								
Motor vehicle taxes and fees	$ 1,192,366	$ 1,128,777	$ 1,166,398	$37,621				
Motor vehicle fuel taxes and fees	751,400	751,400	747,171	(4,229)				
Revenue sharing of state corporate income tax	141,942	153,638	156,758	3,120				
Revenue sharing of state sales tax	227,941	227,941	227,981	40				
Federal reimbursements					$916,229	$941,597	$799,761	$(141,836)
Charges for services	414,125	391,156	431,261	40,105				
Investment earnings	80	80	1,006	926				
Other	25,000	25,000	25,606	606				
Total revenues	2,752,854	2,677,992	2,756,181	78,189	916,229	941,597	799,761	(141,836)
EXPENDITURES and ENCUMBRANCES:								
Current:								
General government:								
The Secretary's Office	417,972	466,154	440,057	26,097	8,591	8,591	8,027	564
State Highway Administration	616,421	634,896	612,870	22,026	550,203	615,075	523,176	91,899
Maryland Port Administration	131,846	121,664	101,272	20,392	5,101	5,146		5,146
Motor Vehicle Administration	182,954	181,008	173,200	7,808	499	1,328	1,071	257
Maryland Transit Administration	701,349	701,722	691,803	9,919	345,512	296,295	254,885	41,410
Maryland Aviation Administration	192,094	207,379	202,645	4,734	6,323	15,162	12,602	2,560
Total general government	2,242,636	2,312,823	2,221,847	90,976	916,229	941,597	799,761	141,836
Debt service:								
Principal	75,000	75,000	83,170	(8,170)				
Interest	88,985	88,985	72,557	16,428				
Total debt service	163,985	163,985	155,727	8,258				
Total expenditures and encumbrances	2,406,621	2,476,808	2,377,574	99,234	916,229	941,597	799,761	141,836
Excess of revenues over expenditures	346,233	201,184	378,607	177,423				
OTHER FINANCIAL SOURCES (USES):								
Transfers out	(350,307)	(239,655)	(399,561)	(159,906)				
Total other financing sources and uses	(350,307)	(239,655)	(399,561)	(159,906)				
Net change in fund balances	(4,074)	(38,471)	(20,954)	17,517				
Fund balances, July 1, 2010	254,816	254,816	254,816					
Fund balances, June 30, 2011	$250,742	$216,345	$233,862	$17,517	$ --	$ --	$ --	$ --

MARYLAND DEPARTMENT OF TRANSPORTATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

1. Stewardship, Compliance and Accountability:

***Budgeting and budgetary control*:**
The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the Special Revenue Fund, which includes the transportation activities of the Department, shared taxes and payments of debt service on transportation bonds. The budgetary Federal fund revenue and expenditures are included in the GAAP Special Revenue Fund as federal revenues and expenditures by function. An annual budget is also prepared for the Federal funds, which accounts for all Departmental grants from the Federal government.

Each year the Department prepares its annual budget and submits it to the Governor. The Governor then presents the State's annual budget (including the Department's) to the General Assembly in accordance with Constitutional requirements. The General Assembly is required to then enact a balanced budget for the next fiscal year.

The GAAP Special Revenue Fund includes both budgetary special and federal funds.

Special fund:
The Special fund includes all transportation activities of the Department and shared taxes with the political subdivisions.

Federal fund:
The Federal fund accounts for substantially all grants from the Federal government.

Budgetary fund equities and other accounts:
The Department's legal level of budgetary control is exercised at the agency appropriation (program) and fund level (legislative spending authority level). Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between or within departments and any supplemental appropriations require both executive and legislative branch approvals. Unencumbered and unexpended appropriations lapse at fiscal year-end and become available for appropriation in the subsequent year. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

All Departmental budgetary expenditures for special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time. The Department may, with the Governor's approval, amend the appropriations by modal administration within the budgetary special and federal funds. Additionally, appropriations for programs funded in whole or in part from special or federal funds may permit expenditures in excess of the original special or federal fund appropriation to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from special and federal funds may be carried over to the following year to the extent of (a) available resources and (b) encumbrances which are approved by the Department of Budget and Management. The Department did not receive any general fund appropriations in fiscal year 2011.

The Department's original and amended budget adopted by the General Assembly for special and federal funds is presented in the *Required Supplementary Information - Special Revenue Funds - Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual -- For the Year Ended June 30, 2011* on page 62 of this report. The Department's budgetary fund structure and basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles (GAAP). The budgetary system's principal departures from the modified accrual basis are the classification of the Department's budgetary funds and the timing of recognition of certain revenues and expenditures. The GAAP special revenue fund is an aggregate of the special and federal budgetary funds.

A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2011, is provided in the *Reconciliation of the Budgetary Special Fund, Fund Balance to the GAAP Special Revenue Fund, Fund Balance* in the Notes to the Required Supplementary Information section (see below).

MARYLAND DEPARTMENT OF TRANSPORTATION
Reconciliation of the Budgetary Special Fund, Fund Balance
to the GAAP Special Revenue Fund, Fund Balance
June 30, 2011
(amounts expressed in thousands)

Classification of budgetary fund equities and other accounts into governmental funds' fund structure:	**Special Revenue Fund**
Special fund-fund balance (page 62)	$233,862
Non-budgeted funds-fund balance	458
Total budgetary fund balance reclassified to GAAP fund structure	234,320
Accounting principle and timing differences:	
Assets recognized in governmental funds financial statements not recognized for budgetary purposes:	
Taxes receivable	1,803
Due from other state agencies	15,500
Inventories	79,681
Liabilities recognized in governmental funds financial statements not recognized for budgetary purposes:	
Salaries payable	10,304
Deferred revenue	(9,960)
Financial statement governmental funds' fund balance, June 30, 2011	**$331,648**

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Maryland Department of Transportation

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SUPPLEMENTARY INFORMATION

MARYLAND DEPARTMENT OF TRANSPORTATION

Statement of Changes in Assets and Liabilities

Agency Funds

For the year ended June 30, 2011

(amounts expressed in thousands)

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
ASSETS:				
Cash and cash equivalents	$ 54,918	$ 9,321	$ 21,197	$ 43,042
Accounts receivable		5		5
Total assets	$ 54,918	$ 9,326	$ 21,197	$ 43,047
LIABILITIES:				
Accounts payable and accrued liabilities	$ 54,918		$ 11,871	$ 43,047
Total liabilities	$ 54,918	$ -	$ 11,871	$ 43,047

Maryland Department of Transportation

Comprehensive Annual Financial Report

STATISTICAL SECTION

MARYLAND DEPARTMENT OF TRANSPORTATION
STATISTICAL SECTION

JUNE 30, 2011

This part of the Maryland Department of Transportation's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the Department's overall financial health.

Table of Contents

Pages

Financial Trends **71-75**
These schedules contain trend information to help the reader understand how the Department's financial performance and well-being have changed over time.

Revenue Capacity **76-77**
These schedules contain information to help the reader assess the Department's two most significant revenue sources, the motor vehicle tax and the motor vehicle fuel tax.

Debt Capacity **78-80**
These schedules present information to help the reader assess the affordability of the Department's current levels of outstanding debt and the Department's ability to issue additional debt in the future.

Miscellaneous Statistics **81**

MARYLAND DEPARTMENT OF TRANSPORTATION
Transportation Trust Fund
Taxes Pledged to Bonds and Net Revenues
as Defined for Purposes of the Bond Coverage Test
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

	Fiscal Year Ended June 30,									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Revenues:										
Taxes pledged to bonds:										
Corporation income tax (GMVRA)	$ 59,828	$ 63,724	$ 75,178	$ 146,343	$ 141,929	$ 129,890	$ 116,971	$ 105,388	$ 107,293	$ 107,379
Fuel tax	476,200	484,483	505,173	510,572	513,033	510,735	510,630	500,114	489,004	500,801
Titling tax (4)	494,159	508,632	547,015	545,451	546,597	534,899	493,739	411,324	434,729	470,001
Sales and use tax (4) (5)	16,528	17,114	17,682	18,485	20,161	21,044	17,981	217,924	213,254	221,842
Total taxes pledged to bonds	1,046,715	1,073,953	1,145,048	1,220,851	1,221,720	1,196,568	1,139,321	1,234,750	1,244,280	1,300,023
Fees:										
Motor vehicle licenses and registrations (2)	114,760	117,021	124,519	230,756	236,661	244,472	231,379	231,773	227,954	229,748
Other	123,543	131,812	142,699	150,760	154,957	166,142	172,703	186,961	187,455	209,909
General fund share of fees (1)		(160,000)	(154,913)							
Total taxes and fees	1,285,018	1,162,786	1,257,353	1,602,367	1,613,338	1,607,182	1,543,403	1,653,484	1,659,689	1,739,680
Operating revenues:										
Maryland Port Administration	77,067	91,901	90,600	94,697	91,027	94,499	96,880	93,635	69,222	49,156
Maryland Transit Administration	96,632	98,237	108,577	106,941	110,136	123,122	117,869	117,557	125,057	133,494
Maryland Aviation Administration	123,790	109,706	140,458	126,635	139,579	151,620	180,254	181,580	194,308	207,897
Total operating revenues	297,489	299,844	339,635	328,273	340,742	369,241	395,003	392,772	388,587	390,547
Other (3)	25,950	79,023	90,943	75,902	87,640	39,836	4	(3,666)	(3,600)	60,458
Investment income	3,724	2,960	3,374	4,928	8,211	10,574	3,683	3,996	394	1,004
Total revenues	1,612,181	1,544,613	1,691,305	2,011,470	2,049,931	2,026,833	1,942,093	2,046,586	2,045,070	2,191,689
Expenditures:										
Administration, operation and maintenance expenditures:										
The Secretary's Office	59,850	63,508	64,984	67,904	64,528	66,439	69,693	67,649	71,811	70,650
Washington Metro Transit Grants-in-Aid	123,701	129,030	145,027	153,250	167,041	170,961	193,026	210,394	215,736	228,594
State Highway Administration	187,761	234,191	222,158	219,703	204,764	236,245	240,192	240,742	296,445	253,615
Motor Vehicle Administration	122,186	121,328	124,111	125,699	133,666	140,436	145,838	148,106	146,316	157,344
Maryland Port Administration	86,803	93,430	97,230	99,092	95,423	98,718	104,887	97,901	68,237	44,454
Maryland Transit Administration	365,721	404,894	408,377	446,351	470,453	505,916	556,602	591,720	610,284	621,917
Maryland Aviation Administration	98,886	112,795	116,002	125,447	166,707	178,157	178,072	170,453	173,749	170,765
Total admin., operation and maintenance expend.	1,044,908	1,159,176	1,177,889	1,237,446	1,302,582	1,396,872	1,488,310	1,526,965	1,582,578	1,547,339
Less Federal funds:										
The Secretary's Office	(5,629)	(7,036)	(7,721)	(7,147)	(5,103)	(6,004)	(7,901)	(7,271)	(9,001)	(8,027)
State Highway Administration -- Highway Safety	(11,870)	(16,567)	(16,467)	(20,251)	(14,908)	(14,077)	(15,928)	(19,595)	(16,925)	(17,175)
Md. Transit -- Planning and program development	(30,114)	(51,910)	(51,957)	(51,923)	(50,376)	(52,077)	(54,392)	(65,894)	(63,775)	(64,496)
Motor Vehicle Administration	(850)	(151)	(78)	(240)	(161)	(90)	(351)	(313)	(404)	(379)
Maryland Aviation Administration	(1,933)	(1,177)	(280)	(331)	(280)	(350)	(656)	(656)	(656)	(656)
Total Federal funds	(50,396)	(76,841)	(76,503)	(79,892)	(70,828)	(72,598)	(79,228)	(93,729)	(90,761)	(90,733)
Total expenditures	994,512	1,082,335	1,101,386	1,157,554	1,231,754	1,324,274	1,409,082	1,433,236	1,491,817	1,456,606
Net revenues	$ 617,669	$ 462,278	$ 589,919	$ 853,916	$ 818,177	$ 702,559	$ 533,011	$ 613,350	$ 553,253	$ 735,083
Maximum annual principal and interest	$ 138,183	$ 153,965	$ 169,655	$ 141,172	$ 121,412	$ 129,550	$ 153,661	$ 197,281	$ 210,714	$ 210,714
Ratio of taxes pledged to principal and interest	7.57	6.98	6.75	8.65	10.06	9.24	7.41	6.26	5.91	6.17
Ratio of net revenues to principal and interest	4.47	3.00	3.48	6.05	6.74	5.42	3.47	3.11	2.63	3.49

Source: Maryland Department of Transportation, The Secretary's Office, Office of Finance.

(1) The 2003 Session of the Maryland General Assembly approved legislation (HB 935) requiring the deposit of $160M in FY2003 and $154.9M in FY2004 in the State's General Fund.

(2) The 2004 Session of the Maryland General Assembly approved legislation (HB 1467) increasing Motor Vehicle Registration Fees.

(3) Fiscal year 2007 was the last year for the transfer of $43M from Maryland Transportation Authority to the Transportation Trust Fund.

(4) The 2007 special Session of the Maryland General assembly approved legislation to increase the State's Sales Tax and the Vehicle Excise Tax (Titling) from 5% to 6%, effective Jan. 1, 2008. In addition, effective July 1, 2008, the percentage of Titling Tax retained by the Department was increased from 76% to 86.7%.

(5) In addition, effective July1, 2008, the Department now receives 5.3% of the net State's Sales Tax (after distribution of State's sales tax on short-term rental vehicles).

MARYLAND DEPARTMENT OF TRANSPORTATION

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
Governmental activities:	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Expenses:										
Secretary's office	$ 386,254	$ 367,263	$ 743,780	$ 498,866	$ 347,219	$ 376,217	$ 406,315	$ 419,588	$ 459,933	$ 483,410
State highway administration	1,077,544	1,156,819	1,121,163	1,268,539	1,334,407	1,399,649	1,422,063	1,437,996	1,410,556	1,593,278
Port administration	116,808	111,367	170,011	142,502	159,358	187,187	152,107	189,603	186,516	107,521
Motor vehicle administration	124,153	129,686	123,488	129,129	143,531	155,700	161,796	176,300	165,933	178,529
Transit administration	500,382	516,679	566,078	576,835	528,918	617,442	683,821	782,548	818,465	1,056,590
Aviation administration	142,025	170,222	199,264	200,521	239,601	287,604	284,488	274,906	272,455	252,723
Interest on long-term debt	36,465	63,448	63,210	79,409	68,998	72,137	74,441	97,683	101,481	92,996
Total governmental activities expenses	$ 2,383,631	$ 2,515,484	$ 2,986,994	$ 2,895,801	$ 2,822,032	$ 3,095,936	$ 3,185,031	$ 3,378,624	$ 3,415,339	$ 3,765,047
Program Revenues:										
Charges for services:										
Secretary's office	$ 84,608	$ 55,585	$ 159,836	$ 45,596	$ 7,496	$ 23,467	$ (27,914)	$ 2,291	$ 9,447	$ 27,503
State highway administration	45,826	49,024	71,854	69,663	28,927	35,035	48,491	51,983	40,399	44,071
Port administration	86,883	90,291	97,100	96,631	91,836	94,544	96,981	93,618	69,781	48,667
Motor vehicle administration	37,963	834	1,575	371	(917)	(133)	(236)	-	-	-
Transit administration	96,441	98,115	108,454	106,789	110,136	122,913	117,869	117,556	125,057	143,456
Aviation administration	111,455	138,303	183,445	185,335	215,091	236,401	244,579	241,083	282,646	291,535
Operating grants and contributions	50,394	76,839	76,499	79,892	70,827	72,597	79,228	93,729	90,762	90,732
Capital grants and contributions	697,213	634,155	626,950	743,294	789,619	710,163	667,219	668,442	714,144	709,029
Total governmental activities program revenues	$ 1,210,783	$ 1,143,146	$ 1,325,713	$ 1,327,571	$ 1,313,015	$ 1,294,987	$ 1,226,217	$ 1,268,702	$ 1,332,236	$ 1,354,993
Net (expense) revenue governmental activities	$ (1,172,848)	$ (1,372,338)	$ (1,661,281)	$ (1,568,230)	$ (1,509,017)	$ (1,800,949)	$ (1,958,814)	$ (2,109,922)	$ (2,083,103)	$ (2,410,054)
General Revenues and Other Changes in Net Assets:										
Taxes:										
Motor vehicle taxes	$ 970,683	$ 989,571	$ 1,110,799	$ 1,279,052	$ 1,237,199	$ 1,241,538	$ 1,178,609	$ 1,058,759	$ 1,082,559	$ 1,166,398
Motor fuel taxes	690,311	704,165	746,044	752,810	746,240	740,791	741,851	728,385	714,210	747,171
Corporation income tax share	85,468	91,034	107,397	209,458	202,755	185,557	167,102	150,554	153,275	156,758
State sales tax share	35,447	23,102	23,266	24,323	26,527	27,689	23,659	223,084	223,582	227,981
Unrestricted investment earnings	7,217	2,985	3,405	5,181	8,487	10,553	3,758	4,029	404	1,006
Loss on disposal of capital assets	(3,422)	(18,156)							(413,770)	-
Transfers out		(160,000)								
Total governmental activities general revenues:	$ 1,785,704	$ 1,632,701	$ 1,990,911	$ 2,270,824	$ 2,221,208	$ 2,206,128	$ 2,114,979	$ 2,164,811	$ 1,760,260	$ 2,299,314
Change in Net Assets:										
Governmental activities	612,856	260,363	329,630	702,594	712,191	405,179	156,165	54,889	(322,843)	(110,740)
Total primary government	$ 612,856	$ 260,363	$ 329,630	$ 702,594	$ 712,191	$ 405,179	$ 156,165	$ 54,889	$ (322,843)	$ (110,740)

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.

MARYLAND DEPARTMENT OF TRANSPORTATION
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Motor Vehicle Tax	Motor Fuel Tax	Corporation Income Tax	State Sales Tax (1)	Total
2002	$970,683	$690,311	$85,468	$35,447	$1,781,909
2003	989,571	704,165	91,034	23,102	1,807,872
2004	1,110,799	746,044	107,397	23,266	1,987,506
2005	1,279,052	752,810	209,458	24,323	2,265,643
2006	1,237,199	746,240	202,755	26,527	2,212,721
2007	1,241,538	740'791	185,557	27,689	2,195,575
2008	1,178,609	741,851	167,102	23,659	2,111,221
2009	1,058,759	728,385	150,554	223,084	2,160,782
2010	1,082,559	714,210	153,275	223,582	2,173,626
2011	1,166,398	747,171	156,758	227,981	2,298,308

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.
(1) Effective July 1, 2008 the Department received additional Sales Tax Revenue due to the increase of 1 percent on the State Sales Tax.

MARYLAND DEPARTMENT OF TRANSPORTATION
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Special revenue fund										
Reserved/Restricted	$ 127,948	$ 100,470	$ 156,310	$ 170,492	$ 166,632	$ 167,639	$ 179,583	$ 164,251	$ 174,163	$ 195,056
Unreserved/Assigned	123,401	135,710	199,289	173,094	216,555	159,398	(29,332)	164,567	161,559	136,592
Total special revenue fund	$ 251,349	$ 236,180	$ 355,599	$ 343,586	$ 383,187	$ 327,037	$ 150,251	$ 328,818	$ 335,722	$ 331,648
All other governmental funds										
Reserved/Assigned	$ 4,515	$ 2,769	$ 18,150	$ 1,756	$ 4,696	$ 2,381	$ -	$ 7,033	$ 1,126	$ -
Total all other governmental funds	$ 4,515	$ 2,769	$ 18,150	$ 1,756	$ 4,696	$ 2,381	$ -	$ 7,033	$ 1,126	$ -

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.

MARYLAND DEPARTMENT OF TRANSPORTATION
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Revenues:										
Motor vehicle taxes and fees	$ 1,660,994	$ 1,693,736	$ 1,856,843	$ 2,031,862	$ 1,983,439	$ 1,982,329	$ 1,920,460	1,787,144	1,796,769	1,913,569
Revenue sharing of state taxes	120,915	114,136	130,663	233,781	229,282	213,246	190,761	373,638	376,857	384,739
Federal reimbursements	747,607	710,994	703,449	823,186	860,446	782,760	746,447	762,171	804,906	799,761
Charges for services	394,234	331,982	545,299	416,878	372,626	407,386	376,563	399,271	419,691	431,261
Passenger facility charges and interest	31,394	44,636	41,045	41,770	37,017	42,171	45,609	40,824	44,054	45,066
Special airport financing charges	13,094	24,472	11,210	29,105	33,576	28,392	31,932	23,176	45,467	49,991
Investment earnings	3,890	2,985	3,405	5,181	8,487	10,553	3,758	4,029	404	1,006
Other	23,384	59,264	24,710	16,632	9,354	34,278	25,666	13,260	18,118	15,975
Reimbursements from other state agencies	4,397	1,675					-			
Total revenues	2,999,909	2,983,880	3,316,624	3,598,395	3,534,227	3,501,115	3,341,196	3,403,513	3,506,266	3,641,368
Expenditures:										
Department administration, operating and maintenance expenditures	1,027,001	1,123,911	1,143,707	1,218,027	1,175,711	1,254,313	1,305,618	1,358,247	1,447,811	1,220,841
Highway user revenues and federal funds	466,634	467,889	426,950	514,175	583,090	615,458	582,335	515,722	255,164	297,145
WMATA Grants	212,093	289,822	303,393	210,392	237,948	236,158	273,001	285,309	296,522	340,852
Distributions to other state agencies (1)	117,892	43,809	384,386	232,980	78,554	75,607	87,100	59,980	401,930	481,244
Debt service principal retirement and interest	114,468	129,579	136,021	170,546	142,060	119,316	121,390	142,359	150,954	158,662
Capital outlays	1,300,616	1,335,320	1,354,365	1,409,119	1,432,833	1,369,805	1,400,238	1,261,036	1,232,890	1,147,824
Total expenditures	3,238,704	3,390,330	3,748,822	3,755,239	3,650,196	3,670,657	3,769,682	3,622,653	3,785,271	3,646,568
Excess (deficiency) of revenues over expenditures	(238,795)	(406,450)	(432,198)	(156,844)	(115,969)	(169,542)	(428,486)	(219,140)	(279,005)	(5,200)
Other financing sources (uses):										
Capital leases		48,476	78,726	116,116	49,399	6,285	-	2,098		-
Other long-term liability	119,460	157,769	142,015	12,321	5,320	2,411	102			-
Other capital financing sources		13,470								-
Proceeds from bonds	164,050	381,318	346,257		103,814	102,381	249,217	402,642	140,002	-
Sale of future revenue rights									140,000	-
Transfers to the General Fund (1)		(211,498)			(23)					
Net other sources (uses) of financial resources	283,510	389,535	566,998	128,437	158,510	111,077	249,319	404,740	280,002	-
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources	44,715	(16,915)	134,800	(28,407)	42,541	(58,465)	(179,167)	185,600	997	(5,200)
Fund balance, July 1 (3)	211,149	255,864	238,949	373,749	345,342	387,883	329,418	150,251	335,851	336,848
Fund balance, June 30	$ 255,864	$ 238,949	$ 373,749	$ 345,342	$ 387,883	$ 329,418	$ 150,251	$ 335,851	$ 336,848	$ 331,648

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.

(1) Transfers to the general fund and Maryland Transportation Authority have been reclassified to expenditures in fiscal years 2002, 2004 and 2005.

(2) Fiscal year 2002 beginning balance has been restated to include inventory balance.

MARYLAND DEPARTMENT OF TRANSPORTATION
General Government Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Motor Vehicle Tax	Motor Fuel Tax	Corporation Income Tax	State Sales Tax (1)	Total
2002	$970,683	$690,311	$85,468	$35,447	$1,781,909
2003	989,571	704,165	91,034	23,102	1,807,872
2004	1,110,799	746,044	107,397	23,266	1,987,506
2005	1,279,052	752,810	209,458	24,323	2,265,643
2006	1,237,199	746,240	202,755	26,527	2,212,721
2007	1,241,538	740,791	185,557	27,689	2,195,575
2008	1,178,609	741,851	167,102	23,659	2,111,221
2009	1,058,759	728,385	150,554	223,084	2,160,782
2010	1,082,559	714,210	153,275	223,582	2,173,626
2011	1,166,398	747,171	156,758	227,981	2,298,308

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.
(1) Effective July 1, 2008 the Department received additional Sales Tax Revenue due to the increase of 1 percent on the State Sales Tax.

MARYLAND DEPARTMENT OF TRANSPORTATION
Marylands's Ten Largest Employers
Calendar Years

Ranking	2011	2010
1	Johns Hopkins University	Johns Hopkins University
2	Johns Hopkins Health System	MedStar Health
3	University of Maryland Medical System	Johns Hopkins Health System
4	MedStar Health	University of Maryland Medical System
5	Northrup Gruman Electronic Systems	Northrup Gruman Electronic Systems
6	Wal-Mart Stores, Inc.	Wal-Mart Stores, Inc.
7	LifeBridge Health	Verizon Maryland, Inc.
8	Constellation Energy Group Inc.	LifeBridge Health
9	Giant Food LLC	Giant Food LLC
10	Abacus	Constellation Energy Group Inc.

Source: Baltimore Business Journal - Book of Lists 2011

Transportation Trust Fund
Gasoline and Motor Vehicle Revenue Account
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

	Fiscal Year Ended June 30,									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Revenues:										
Motor vehicle fuel tax and fees	$ 703,534	$ 716,085	$ 746,155	$ 752,882	$ 757,959	$ 755,733	$ 755,176	$ 736,105	$ 721,295	$ 752,319
Motor vehicle titling tax (4) (5)	650,210	669,253	719,757	717,699	719,207	703,815	649,657	514,155	543,411	594,938
Licensing and registration (3)	185,049	188,024	198,787	351,333	360,981	372,498	354,967	354,982	350,098	360,514
Corporation income tax	85,468	91,034	107,397	209,061	202,755	185,557	167,102	151,304	154,025	157,993
Sales and use tax on rental vehicles	35,222	22,518	23,265	24,323	26,527	27,689	23,659	21,498	22,201	24,362
Total revenues	1,659,483	1,686,914	1,795,361	2,055,298	2,067,429	2,045,292	1,950,561	1,778,044	1,791,030	1,890,126
Deductions:										
1% portion -- Motor vehicle titling tax (1)	(130,042)	(133,851)	(143,951)	(143,540)	(143,841)	(140,763)	(129,931)	(171,385)	(181,137)	(198,313)
Other to the Trust Fund	(19,909)	(6,536)	(6,939)	(6,554)	(7,348)	(8,214)	(7,526)	(6,178)	(6,615)	(6,859)
Other	(42,268)	(42,785)	(43,097)	(43,487)	(45,907)	(46,688)	(47,337)	(44,407)	(45,744)	(45,585)
Total deductions	(192,219)	(183,172)	(193,987)	(193,581)	(197,096)	(195,665)	(184,794)	(221,970)	(233,496)	(250,757)
Net Highway User Revenue	$ 1,467,264	$ 1,503,742	$ 1,601,374	$ 1,861,717	$ 1,870,333	$ 1,849,627	$ 1,765,767	$ 1,556,074	$ 1,557,534	$ 1,639,369
Allocations (Highway User Revenue):										
Share to the Department	$ 1,027,085	$ 935,598	$ 996,444	$ 1,303,202	$ 1,309,233	$ 1,294,739	$ 1,236,037	$ 1,089,252	$ 1,090,274	$ 1,122,968
Share to the General Fund (1)		117,021	124,518					-	-	-
Share to counties and municipalities	264,691	261,357	207,972	255,932	293,184	328,309	313,564	279,232	29,593	9,836
Share to Baltimore City	175,488	171,817	170,000	200,143	219,416	226,579	216,166	187,590	133,948	129,510
Local Share to the General Fund (1) (2) (4)		17,949	102,440	102,440	48,500				303,719	377,055
Total allocations	$ 1,467,264	$ 1,503,742	$ 1,601,374	$ 1,861,717	$ 1,870,333	$ 1,849,627	$ 1,765,767	$ 1,556,074	$ 1,557,534	$ 1,639,369

Source: Maryland Department of Transportation, The Secretary's Office, Office of Finance.

(1) The 2003 Session of the Maryland General Assembly approved legislation (HB 935) requiring the deposit of $160,000,000 and $154,913,000 in FY2003 and FY2004, respectively, of motor vehicle registration fees and other user fees from the Motor Vehicle Administration in the State General Fund rather than the Transportation Trust Fund. Therefore, 70% of motor vehicle registration fees $117,021,000 and $124,518.000 were deposited in the State General Fund. An additional $42,979,000 and $30,395,000 of other user fees were also deposited in the State General Fund. The legislation further provided for transfers of $17,949,407 and $102,440,128 from the Local Governmental's share of Highway User Revenues to the State General Fund.

(2) The 2004 Session of the Maryland General Assembly approved legislation (SB 508) providing for the transfer of $102,440,128 from the Local Government's share of Highway User Revenues to the State General Fund.

(3) The 2004 Session of the Maryland general Assembly approved legislation (HB 1467) increasing Vehicle Registration Fees.

(4) The 2005 Session of the Maryland General Assembly approved legislation (HB 147) providing for the transfer of $48,500,000 from the Local Government's share of Highway User Revenues to the State General Fund.

(5) The 2007 Special Session of the Maryland General Assembly approved legislation to increase the State's Sales Tax and the Vehicle Excise Tax (Titling) from 5% to 6%, effective Jan. 1, 2008. In addition, the percentage of Titling Tax to GMVRA was changed from 80% to 66 and 2/3%, effective July1, 2008.

MARYLAND DEPARTMENT OF TRANSPORTATION
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Debt limit	$ 799,000	$ 1,075,000	$ 1,253,000	$ 1,472,000	$ 1,333,475	$ 1,248,750	$ 1,497,060	$ 1,620,850	$ 1,830,010	$ 1,791,840
Net debt applicable to limit	714,150	961,245	1,185,650	1,069,945	1,078,475	1,108,692	1,266,434	1,574,902	1,643,884	1,561,840
Total legal debt margin	$ 84,850	$ 113,755	$ 67,350	$ 402,055	$ 255,000	$ 140,058	$ 230,626	$ 45,948	$ 186,126	$ 230,000
Net debt applicable to the limit as a percentage of debt limit	89.38%	89.42%	94.62%	72.69%	80.88%	88.78%	84.59%	97.17%	89.83%	87.16%

Legal Debt Margin Calculation for Fiscal Year 2011

Debt limit (1)	1,791,840
Debt applicable to limit:	
Special revenue bonds	1,561,840
Total net debt applicable to limit	1,561,840
Legal debt margin	230,000

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.
(1) The Maryland Department of Transportation's legal debt limit is established by the Maryland General Assembly on a annual basis.

MARYLAND DEPARTMENT OF TRANSPORTATION
Ratio of Annual Debt Service Expenditures
For Consolidated Transportation Bonded Debt
To Total General Governmental Expenditures
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service	Total Noncapital Governmental Expenditures	Ratio of Debt Service to Noncapital Expenditures
2002	84,530	29,938	114,468	1,938,088	5.91%
2003	95,165	34,414	129,579	2,055,010	6.31
2004	94,710	41,311	136,021	2,394,457	5.68
2005	116,470	54,076	170,546	2,346,120	7.27
2006	92,280	49,780	142,060	2,217,363	6.41
2007	68,290	51,026	119,316	2,300,852	5.19
2008	68,990	52,400	121,390	2,369,444	5.12
2009	71,325	71,031	142,356	2,361,617	6.03
2010	77,595	73,359	150,954	2,522,380	5.98
2011	83,170	75,492	158,662	2,524,623	6.28

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.

MARYLAND DEPARTMENT OF TRANSPORTATION
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

Fiscal Year Ended June 30,	Governmental Activities			Total Governmental Activities Debt	Total Personal Income (1)	Percentage of Personal Income
	Special Revenue Bonds	Capital Leases	Other Long-term Liability (2)			
2002	717,980	105,756	$119,460	943,196	201,793,000	0.47%
2003	964,400	126,908	264,099	1,355,407	209,701,000	0.65
2004	1,188,090	199,895	400,813	1,788,798	224,646,000	0.80
2005	1,071,620	309,496	409,585	1,790,701	237,146,000	0.76
2006	1,079,340	348,470	404,318	1,832,128	252,431,000	0.73
2007	1,111,050	343,379	391,029	1,845,458	264,375,000	0.70
2008	1,268,815	331,703	373,319	1,973,837	273,934,000	0.72
2009	1,582,605	673,836	-	2,256,441	275,143,000	0.82
2010	1,645,010	641,252	-	2,286,262	282,092,000	0.81
2011	1,561,840	604,662	-	2,166,502	297,021,000	0.73

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2002-2011.
(1) Source: U.S. Department of Commerce, Bureau of Economic Analysis (amounts are on a calendar year basis).
(2) Other long-term liability items were reclassified as capital leases in fiscal year 2009.

MARYLAND DEPARTMENT OF TRANSPORTATION
Transportation Trust Fund
Taxes Pledged to Bonds and Net Revenues
as Defined for Purposes of the Bond Coverage Test
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

	Fiscal Year Ended June 30,									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Revenues:										
Taxes pledged to bonds:										
Corporation income tax (GMVRA)	$ 59,828	$ 63,724	$ 75,178	$ 146,343	$ 141,929	$ 129,890	$ 116,971	$ 105,388	$ 107,293	$ 107,379
Fuel tax	476,200	484,483	505,173	510,572	513,033	510,735	510,630	500,114	489,004	500,801
Titling tax (4)	494,159	508,632	547,015	545,451	546,597	534,899	493,739	411,324	434,729	470,001
Sales and use tax (4) (5)	16,528	17,114	17,682	18,485	20,161	21,044	17,981	217,924	213,254	221,842
Total taxes pledged to bonds	1,046,715	1,073,953	1,145,048	1,220,851	1,221,720	1,196,568	1,139,321	1,234,750	1,244,280	1,300,023
Fees:										
Motor vehicle licenses and registrations (2)	114,760	117,021	124,519	230,756	236,661	244,472	231,379	231,773	227,954	229,748
Other	123,543	131,812	142,699	150,760	154,957	166,142	172,703	186,961	187,455	209,909
General fund share of fees (1)		(160,000)	(154,913)							
Total taxes and fees	1,285,018	1,162,786	1,257,353	1,602,367	1,613,338	1,607,182	1,543,403	1,653,484	1,659,689	1,739,680
Operating revenues:										
Maryland Port Administration	77,067	91,901	90,600	94,697	91,027	94,499	96,880	93,635	69,222	49,156
Maryland Transit Administration	96,632	98,237	108,577	106,941	110,136	123,122	117,869	117,557	125,057	133,494
Maryland Aviation Administration	123,790	109,706	140,458	126,635	139,579	151,620	180,254	181,580	194,308	207,897
Total operating revenues	297,489	299,844	339,635	328,273	340,742	369,241	395,003	392,772	388,587	390,547
Other (3)	25,950	79,023	90,943	75,902	87,640	39,836	4	(3,666)	(3,600)	60,458
Investment income	3,724	2,960	3,374	4,928	8,211	10,574	3,683	3,996	394	1,004
Total revenues	1,612,181	1,544,613	1,691,305	2,011,470	2,049,931	2,026,833	1,942,093	2,046,586	2,045,070	2,191,689
Expenditures:										
Administration, operation and maintenance expenditures:										
The Secretary's Office	59,850	63,508	64,984	67,904	64,528	66,439	69,693	67,649	71,811	70,650
Washington Metro Transit Grants-in-Aid	123,701	129,030	145,027	153,250	167,041	170,961	193,026	210,394	215,736	228,594
State Highway Administration	187,761	234,191	222,158	219,703	204,764	236,245	240,192	240,742	296,445	253,615
Motor Vehicle Administration	122,186	121,328	124,111	125,699	133,666	140,436	145,838	148,106	146,316	157,344
Maryland Port Administration	86,803	93,430	97,230	99,092	95,423	98,718	104,887	97,901	68,237	44,454
Maryland Transit Administration	365,721	404,894	408,377	446,351	470,453	505,916	556,602	591,720	610,284	621,917
Maryland Aviation Administration	98,886	112,795	116,002	125,447	166,707	178,157	178,072	170,453	173,749	170,765
Total admin., operation and maintenance expend.	1,044,908	1,159,176	1,177,889	1,237,446	1,302,582	1,396,872	1,488,310	1,526,965	1,582,578	1,547,339
Less Federal funds:										
The Secretary's Office	(5,629)	(7,036)	(7,721)	(7,147)	(5,103)	(6,004)	(7,901)	(7,271)	(9,001)	(8,027)
State Highway Administration -- Highway Safety	(11,870)	(16,567)	(16,467)	(20,251)	(14,908)	(14,077)	(15,928)	(19,595)	(16,925)	(17,175)
Md. Transit -- Planning and program development	(30,114)	(51,910)	(51,957)	(51,923)	(50,376)	(52,077)	(54,392)	(65,894)	(63,775)	(64,496)
Motor Vehicle Administration	(850)	(151)	(78)	(240)	(161)	(90)	(351)	(313)	(404)	(379)
Maryland Aviation Administration	(1,933)	(1,177)	(280)	(331)	(280)	(350)	(656)	(656)	(656)	(656)
Total Federal funds	(50,396)	(76,841)	(76,503)	(79,892)	(70,828)	(72,598)	(79,228)	(93,729)	(90,761)	(90,733)
Total expenditures	994,512	1,082,335	1,101,386	1,157,554	1,231,754	1,324,274	1,409,082	1,433,236	1,491,817	1,456,606
Net revenues	$ 617,669	$ 462,278	$ 589,919	$ 853,916	$ 818,177	$ 702,559	$ 533,011	$ 613,350	$ 553,253	$ 735,083
Maximum annual principal and interest	$ 138,183	$ 153,965	$ 169,655	$ 141,172	$ 121,412	$ 129,550	$ 153,661	$ 197,281	$ 210,714	$ 210,714
Ratio of taxes pledged to principal and interest	7.57	6.98	6.75	8.65	10.06	9.24	7.41	6.26	5.91	6.17
Ratio of net revenues to principal and interest	4.47	3.00	3.48	6.05	6.74	5.42	3.47	3.11	2.63	3.49

Source: Maryland Department of Transportation, The Secretary's Office, Office of Finance.

(1) The 2003 Session of the Maryland General Assembly approved legislation (HB 935) requiring the deposit of $160M in FY2003 and $154.9M in FY2004 in the State's General Fund.

(2) The 2004 Session of the Maryland General Assembly approved legislation (HB 1467) increasing Motor Vehicle Registration Fees.

(3) Fiscal year 2007 was the last year for the transfer of $43M from Maryland Transportation Authority to the Transportation Trust Fund.

(4) The 2007 special Session of the Maryland General assembly approved legislation to increase the State's Sales Tax and the Vehicle Excise Tax (Titling) from 5% to 6%, effective Jan. 1, 2008. In addition, effective July 1, 2008, the percentage of Titling Tax retained by the Department was increased from 76% to 86.7%.

(5) In addition, effective July1, 2008, the Department now receives 5.3% of the net State's Sales Tax (after distribution of State's sales tax on short-term rental vehicles).

MARYLAND DEPARTMENT OF TRANSPORTATION
Schedule of Miscellaneous Statistics
Last Ten Fiscal Years
(unaudited)

	Fiscal Year Ended June 30,									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
State Highway Administration:										
Miles of State Highway (1)	5,131	5,131	5,133	5,133	5,134	5,140	5,140	5,138	5,143	5,145
Motor Vehicle Administration:										
Motor Vehicle Titles Issued	1,150,710	1,161,980	1,227,528	1,205,886	1,202,561	1,166,195	1,096,692	930,858	939,209	994,235
Motor Vehicle Registration Transactions	3,281,391	3,394,364	3,519,824	3,476,509	3,600,359	3,580,933	3,378,435	3,345,546	3,336,752	4,100,604
Motor Vehicle Fuel - Gallons Sold	3,005,867,173	2,996,988,023	3,154,305,826	3,196,587,508	3,197,252,545	3,238,848,801	3,223,523,234	3,139,151,697	2,862,255,721	3,178,835,403
Maryland Port Administration:										
Port of Baltimore (2):										
Export Commerce (2,000 lbs.)	5,766,263	4,937,263	6,882,129	7,420,411	8,365,476	11,291,633	15,052,545	10,216,952	17,596,350	N/A
Import Commerce (2,000 lbs.)	17,928,583	19,801,838	24,878,081	25,005,278	22,254,906	19,490,995	17,965,267	12,145,939	15,243,578	N/A
Total Foreign Commerce (2,000 lbs.)	23,694,946	24,739,101	31,760,210	32,425,743	30,620,470	30,782,628	33,017,812	22,362,891	32,839,928	N/A
General Cargo (2,000 lbs.) (included above)	6,781,700	7,124,818	8,160,376	8,694,474	9,239,964	8,893,780	8,905,872	7,155,595	8,373,255	N/A
Maryland Aviation Administration:										
Passenger Traffic	19,264,924	18,920,924	20,742,032	19,571,154	20,360,376	20,643,685	21,321,252	20,103,443	21,313,033	22,488,838
Commercial Air Carrier Operations	280,221	258,690	263,062	273,098	266,928	267,517	260,970	243,453	247,391	258,639
Total Aircraft Operations	312,804	295,757	306,293	311,806	304,648	303,721	290,945	266,273	272,997	277,435
Maryland Transit Administration (Baltimore Area) (3):										
Buses (4)	1,010	874	913	843	840	840	895	895	869	828
Route Miles	2,693	3,116	3,125	3,126	2,657	1,809	2,146	2,111	2,088	2,364
Vehicle Miles (7)	23,023,397	23,454,697	23,672,892	23,492,593	23,877,900	23,448,056	23,873,643	24,703,842	24,248,825	23,016,156
Trips	77,613,413	74,394,672	71,386,149	71,062,892	71,624,670	72,611,252	75,575,573	79,239,334	78,188,577	72,520,531
Subway Cars	100	100	100	100	100	100	100	100	100	100
Route Miles	15	15	15	15	15	15	15	15	15	15
Car Miles	4,779,657	4,738,166	4,743,157	4,715,695	4,681,521	4,735,303	5,193,972	5,285,406	4,480,709	4,706,797
Trips	14,239,947	13,196,410	12,425,656	12,863,412	12,918,530	13,225,843	13,955,325	13,566,823	1,363,903	14,002,609
Light Rail Cars (Baltimore Area) (5)	53	53	53	53	53	53	53	53	53	53
Route Miles	29	29	29	29	29	29	29	29	29	29
Car Miles	2,663,248	2,811,658	2,083,464	1,494,164	2,053,813	2,797,732	2,789,820	2,780,098	3,179,325	3,169,421
Trips	8,794,627	7,238,036	6,067,069	4,875,005	5,401,327	7,121,516	7,962,979	8,712,179	8,076,249	8,752,463
MARC Commuter Rail Cars	140	146	153	165	165	157	153	157	157	177
Number of Trains Daily	86	86	84	84	85	85	89	83	87	110
Number of Stations Served (6)	42	42	42	42	42	42	42	42	42	42
Car Miles (7)	4,582,677	4,796,550	4,854,629	5,030,652	4,997,902	5,030,652	5,124,244	5,706,147	5,651,786	5,270,162
Trips	5,955,071	6,334,820	6,699,250	6,884,083	7,274,737	7,505,226	7,897,602	8,081,155	8,095,577	8,232,729
Number of MDOT State Employees	N/A	N/A	6,799	6,599	6,523	6,518	6,572	6,638	6,463	6,007

Source: Maryland Department of Transportation modal administrations.
(1) As of January 1.
(2) Calendar year basis.
(3) Data is estimated for FY 2006 and may have also been restated in prior fiscal years.
(4) Bus service statistics have been restated to include transportation provided by contractual bus companies.
(5) Service initiated in May, 1992; service extended to Hunt Valley in September, 1997, and to BWI Airport in December, 1997.
(6) Service initiated to Frederick and Monocacy on December 17, 2001.
(7) Vehicle and car miles have been restated to accurately reflect the revenue service miles.

MARYLAND DEPARTMENT OF TRANSPORTATION
THE OFFICE OF THE SECRETARY
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Darrell B. Mobley, Deputy Secretary

Frank J. Principe, Jr.,Chief of Staff
Leif A. Dormsjo, Senior Advisor to the Secretary
Adrea M. Turner, Special Assistant to the Secretary
Karen W. Gooden, Assistant Secretary
Caitlin H. Rayman, Assistant Secretary
Denise Ferguson, Principal Counsel
Harold G. Frank, Director, Homeland Security, Emergency Management and Rail Safety
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Brandie Karfonta, Manager of Accounting
Jodie M. Misiak, Manager of Innovative Financing
Gary B. Smith, Manager CTIP

APPENDIX B

STATE DEMOGRAPHIC AND ECONOMIC DATA

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STATE DEMOGRAPHIC AND ECONOMIC DATA

Introduction

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

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

Population

According to 2010 Census reports, Maryland's population on April 1 of that year was 5,773,552, an increase of 9.0% from the 2000 Census. Maryland's population is concentrated in urban areas. In 2010 the eleven counties and Baltimore City located in the Baltimore-Washington region contained 50.1% of the State's land area and 86.9% of its population. The 2010 population for the Baltimore PMSA was estimated at 2,729,110 and for the Maryland portion of the Washington PMSA, 2,336,158. Overall, Maryland's population per square mile was 592 in 2011. The following table presents estimated population of Maryland and the United States from 2002 - 2011.

Population

	Maryland		United States	
Year	Population	Change	Population	Change
2002	5,440,389	1.2%	287,625,193	0.9%
2003	5,496,269	1.0	290,107,933	0.9
2004	5,546,935	0.9	292,805,298	0.9
2005	5,592,379	0.8	295,516,599	0.9
2006	5,627,367	0.6	298,379,912	1.0
2007	5,653,408	0.5	301,231,207	1.0
2008	5,684,965	0.6	304,093,966	1.0
2009	5,730,388	0.8	306,771,529	0.9
2010	5,785,681	1.0	309,330,219	0.8
2011	5,828,289	0.7	311,591,917	0.7

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

Personal Income

Maryland residents received approximately $297.5 billion in personal income in 2011. Maryland's total personal income increased at a rate of 4.9%, slightly slower than the national increase of 5.1%. Additionally, per capita income remained significantly above the national average in 2011, $51,038 in Maryland compared with the national average of $41,663. In 2011, Maryland's per capita personal income ranked fourth highest in the nation. Per capita income varies across the State, with the highest incomes in the Washington and Baltimore regions. The following table shows trends in per capita personal income in Maryland and the United States.

Per Capita Personal Income Trends

Year	Maryland	Change	US	Change	Maryland Ranking
2002	37,092	2.5%	31,481	1.0%	4
2003	38,153	2.9	32,295	2.6	4
2004	40,499	6.1	33,909	5.0	4
2005	42,405	4.7	35,452	4.6	4
2006	44,858	5.8	37,725	6.4	4
2007	46,839	4.4	39,506	4.7	5
2008	48,864	4.3	40,947	3.6	6
2009	47,611	-2.6	38,846	-5.1	4
2010	49,023	3.0	39,937	2.8	4
2011	51,038	4.1	41,663	4.3	4

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

Maryland is more reliant on the service and government sectors than the nation as a whole, while the manufacturing sector is much less significant than it is nationwide. As one of the wealthier states, a greater share of personal income is derived from dividends, interest and rent, and a lesser share comes from transfer payments. In 2011, the sources of personal income in the State and the comparable sources of personal income for the nation were as follows:

2011 Sources of Personal Income
($ in millions)

		Percentage of Personal Income Before Residence Adjustment	
	Maryland	Maryland	United States
Mining, forestry, fishing	$ 273	0.1%	1.0%
Construction	13,411	5.0	3.7
Manufacturing	10,371	3.9	7.2
Trade, transportation & utilities	25,262	9.4	11.1
Information services	5,208	1.9	2.4
Finance, insurance & real estate	14,854	5.5	6.5
Professional & business services	38,649	14.4	12.0
Educational & health services	26,491	9.8	9.2
Leisure & hospitality services	7,426	2.8	3.1
Other services	7,421	2.8	2.6
Government			
Federal, civilian	23,607	8.8	2.5
Military	4,641	1.7	1.4
State & local	22,949	8.5	8.8
Farm income	193	0.1	0.7
Earnings by place of work	200,755	74.7%	72.2%
Less:			
Personal contributions for social insurance	(20,756)	(7.7)	(7.1)
Plus:			
Dividends, Interest and Rent	49,089	18.2	16.9
Transfer Payments	39,961	14.9	18.0
Personal income before residence adjustment	269,048	100.0%*	100.0%*
Residence adjustment	28,416		
Total Personal Income	$297,465*		

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.

Between 2006 and 2011, total personal income in Maryland has grown 3.3% annually, compared to a national growth rate of 2.9%. Wage and salary income, roughly half of total personal income, has grown at a higher rate in Maryland than it has nationally, as have supplements to wages and salaries – essentially nonwage benefits. Proprietor's income and investment income – income derived from dividends, interest, and rent – have also outpaced the nation as a whole. Growth in the residence adjustment -- income earned by residents who work outside of Maryland or the nation -- is more meaningful for Maryland than it is for the nation, as it comprises roughly 10% of Maryland personal income but only half a basis point of national personal income.

Average Annual Growth of Personal Income Components
(2006 through 2011)

	Maryland	**United States**
Wages and Salaries	2.4%	2.0%
Supplements to Wages and Salaries	3.6	2.7
Proprietors' Income	1.4	-0.6
Contributions for Social Insurance	1.2	0.1
Residence Adjustment	2.8	2.6
Dividends, Interest, and Rent	2.6	2.1
Transfer Payments	8.2	7.8

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

Employment

Maryland's labor force totaled just under 3.1 million individuals in 2011, including agricultural and nonagricultural employment, the unemployed, the self-employed and residents who commute to jobs in other states. The government, retail trade, and services sectors (notably professional and business, and educational and health) are the leading areas of employment in the State. In contrast to the nation as a whole, considerably more people in Maryland are employed in the federal government and service sectors and fewer in manufacturing, as shown in the following table:

Distribution of Employment
2011

	Maryland	**United States**
Construction & mining	5.7%	4.8%
Manufacturing	4.4	8.9
Trade, transportation & utilities	17.4	19.1
Information services	1.7	2.0
Financial activities	5.6	5.8
Professional & business services	15.5	13.2
Educational & health services	16.1	15.1
Leisure & hospitality services	9.1	10.1
Other services	4.5	4.1
Government		
Federal	5.7	2.2
State & local	14.2	14.7
Total	100.0%*	100.0%*

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

Following the collapse of the housing market beginning in 2008, the construction and finance industries realized significant job losses, and as the broader recession took hold, several other Maryland industries were severely impacted. As is often the case, government employment in Maryland has acted as a stabilizing influence. From peak to trough, Maryland lost 5.5% of its jobs during and after the recession while the nation lost 6.4%, with both reaching the trough in February 2010. Subsequently, employment growth has been uncharacteristically slow for an economic recovery; though through December 2011, Maryland and the nation have gained back 80.0% and 41.3% of those lost jobs, respectively.

Average Annual Employment Growth
(2006 through 2011)

	Maryland	United States
Construction & mining	-5.2%	-5.6%
Manufacturing	-3.5	-3.7
Trade, transportation & utilities	-1.4	-1.0
Information services	-3.5	-2.6
Financial activities	-2.2	-1.6
Professional & business services	0.0	-0.3
Educational & health services	2.4	2.2
Leisure & hospitality services	0.2	0.3
Other services	-0.2	-0.4
Government		
Federal	3.0	0.9
State & local	0.9	0.0
Total Non-agricultural Employment	-0.3%	-0.7%

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

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

Employment Trends

Year	Unemployment Rate in Maryland	Unemployment Rate in the United States	Growth in Maryland Labor Force	Growth in United States Labor Force
2002	4.5%	5.8%	1.3%	0.8%
2003	4.5	6.0	0.5	1.1
2004	4.3	5.5	0.4	0.6
2005	4.1	5.1	1.8	1.3
2006	3.8	4.6	2.0	1.4
2007	3.4	4.6	-0.6	1.1
2008	4.3	5.8	1.2	0.8
2009	7.4	9.3	0.2	-0.1
2010	7.8	9.6	0.9	-0.2
2011	7.1	9.0	0.5	-0.2

Source: Maryland Department of Labor, Licensing and Regulation.
Note: In December 2011 the unemployment rate was 6.7% in Maryland and 8.5% in the United States.

Educational Levels

Maryland's workforce is more highly educated than that of the rest of the country. The percentage of the population (25 years and over) with a bachelor's degree or higher is 36.1% as compared to 28.2% for the rest of the country. Maryland ranks third in the nation in the percentage of its population over 25 with a graduate or professional degree. The percentage of the population with a high school diploma or better is 88.1% in Maryland compared to 85.6% 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 2010

	Maryland	United States
Less than High School	11.9%	14.4%
High School Diploma	25.9	28.5
Some College	19.7	21.3
Associate's Degree	6.3	7.6
Bachelor's Degree	19.7	17.7
Graduate or Professional Degree	16.4	10.4

Source: American Community Survey.
*Totals may not add due to rounding.

Assessed Value of Property

Maryland levies a State tax on real property, revenues from which are credited to the Annuity Bond Fund to pay debt service. 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 2012, the tax rate is 11.2 cents per $100 of assessment (28 cents on utility operating property).

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

Assessed Values of Real Estate
($ in thousands)

Fiscal Year	Real Property	Utility Operating Real Property	Total	Change in Assessed Values
2005	$397,093,127	$1,323,073	$398,416,200	10.1%
2006	451,090,503	1,392,322	452,482,825	13.6
2007	525,706,233	1,476,219	527,182,452	16.5
2008	616,526,923	1,105,319	617,632,242	17.2
2009	706,403,763	1,086,209	707,489,972	14.5
2010	750,498,802	1,069,237	751,568,039	6.2
2011	733,884,066	708,090	734,592,156	-2.2
2012	682,575,741	792,883	683,368,624	-7.0
2013	652,315,946	788,920	653,104,866	-4.4

Source: State Department of Assessments and Taxation, November, 2011.
Note: See also, "STATE FINANCES – State Revenues, Property Taxes and State Property Tax Revenue Estimates."

Residential Construction

The value of all residential unit permits issued in 2010 declined by 6.6% as a result of a weak housing market; however, the total number of residential building permits increased by 7.3%. Home sales declined in 2006, 2007 and 2008, while home prices, which showed double-digit growth in the five years prior, stagnated in 2006 and 2007 before turning downwards in 2008. The rate of price decline in 2010 moderated from 2009 levels, though the rate of growth in volume also moderated.

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

Year	Value of Construction in Current Dollars ($ in millions)	Change	Number of Permits Issued	Change
2001	$3,228.0	-0.1%	29,059	-4.3%
2002	3,517.9	9.0	29,293	0.8
2003	3,723.6	5.8	29,914	2.1
2004	3,822.7	2.7	27,382	-8.5
2005	4,687.6	22.6	30,180	10.2
2006	3,889.9	-17.0	23,262	-22.9
2007	3,768.8	-3.1	18,582	-20.1
2008	2,229.7	-40.8	13,018	-29.9
2009	2,089.0	-6.3	11,123	-14.6
2010	1,951.9	-6.6	11,931	7.3

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

Home Sales and Median Home Price

Year	Unit Home Sales	Growth	Median Home Price	Growth
2001	80,169	29.6%	$152,748	15.9%
2002	84,870	5.9	173,484	13.6
2003	89,371	5.3	200,334	15.5
2004	98,056	9.7	241,454	20.5
2005	98,858	0.8	292,214	21.0
2006	82,787	-16.3	307,910	5.4
2007	63,585	-23.2	307,744	-0.1
2008	46,834	-26.3	285,082	-7.4
2009	52,591	12.3	256,217	-10.1
2010	54,609	3.8	245,726	-4.1
2011	53,971	-1.2	228,679	-7.0

Source: Maryland Association of Realtors.

Taxable Retail Sales

The 2001 recession caused a steep slowdown in taxable retail sales in fiscal years 2002 and 2003, while a relatively strong economy, low interest rates and high levels of mortgage refinancing resulted in robust growth in fiscal year 2004 through 2006. As the economy slowed in fiscal year 2007, and the boost from mortgage refinancing and other housing-related issues faded, growth slowed precipitously. The onset of the most recent recession coupled with high gas prices resulted in declining taxable retail sales for fiscal year 2008. Fiscal year 2009 saw continued reductions in retail sales as declining wealth, increased unemployment, and a lack of credit weighed heavily across all categories of the base. Though taxable sales continued to fall in fiscal year 2010, Maryland experienced four consecutive months of positive growth in the final months of the year 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 as a result of improved equity markets, a relatively stable job market, and pent-up demand. The following table illustrates the changes in taxable sales for fiscal years 2002 through 2011.

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

Fiscal Year	Taxable Retail Sales	Change
2002	$66,562,680	2.1%
2003	67,788,320	1.8
2004	73,296,320	8.1
2005	77,427,480	5.6
2006	81,933,900	5.8
2007	82,568,490	0.8
2008	80,120,978	-3.0
2009	72,413,624	-9.6
2010	71,521,298	-1.2
2011	74,479,247	4.1

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

Other Economic Factors

The Maryland Economy. Maryland's economy is growing, but at a very slow rate. Employment growth of roughly 1% is forecast for the next several years, with wage growth of approximately 3.5% annually. Significant uncertainties abound, particularly with regard to potential federal budget cutbacks. Reductions in federal employment in Maryland appear to be likely in one form or another over the next several years. In light of the uncertainties, the State's general fund revenue forecast accounts for a loss of nearly 5,000 jobs in fiscal year 2013, 12,000 in fiscal year 2014, and 12,700 in fiscal year 2015—roughly half of a percentage point of the State's employment in the latter years. Ultimately, the impact on the State of federal budget cuts could be greater or less than projected at this time.

Real Estate. Home sales in Maryland started to slow in 2005; prices began to decline precipitously in 2008. More recently, the Maryland Realtors Association reports that the median price for a home sold in 2011 declined 7.0% from the median price in 2010, a reversal of the improving performance in 2010. The construction industry has contracted as new home construction slowed significantly and commercial construction was unable to compensate. In addition, retail sales of items such as appliances and furniture, typically associated with a strong housing market remain depressed compared to pre-recession levels.

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 biotech companies that have located or started up here.

Base Realignment and Closure. The State received more federal jobs than any other state in the country as a result of the 2005 Base Realignment and Closure ("BRAC") process. As part of BRAC, the commands of the Army Team C4ISR, Defense Information Systems Agency, Defense Media Activity, Army Research, Development, and Engineering, and Walter Reed hospital have been moved to Maryland. It was estimated that 45,232 jobs with an average wage of $70,388 would be created in or moved to Maryland as part of the process—of that, more than 15,000 would be direct, more than 22,000 would be would be indirect, and more than 7,000 would be induced. Presumably many of these jobs are currently in place; because the direct federal job realignment had a statutory end date of September 15, 2011, and many of the related indirect jobs are also in place. Although much of the activity has taken place, a substantial amount of economic upside remains—a portion of the positions may be telecommuting at this time and will likely either move to Maryland at a later date or be filled with Maryland residents as employees turn over. Also, separately but related, the U.S. Cyber Command, established 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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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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Form of Opinion of Bond Counsel

Maryland Department of Transportation
Hanover, Maryland 21076

Dear Madam Secretary:

In connection with the issuance of $115,000,000 Consolidated Transportation Bonds, Series 2012 (the "Bonds"), by the Maryland Department of Transportation (the "Department"), we have examined:

(i) Title 3 of the Transportation Article of the Annotated Code of Maryland (2008 Replacement Volume and 2011 Supplement) (the "Act");

(ii) a Resolution of the Secretary of Transportation dated as of April 26, 2012 (the "Resolution");

(iii) the form of Bond;

(iv) relevant provisions of the Constitution and laws of the State of Maryland (the "State");

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

(vi) other proofs submitted to us relative to the issuance and sale of the Bonds.

The terms of the Bonds are contained in the Resolution and the Bonds. The Bonds are subject to redemption in the manner and upon the terms and conditions set forth in the Resolution and the Bond.

We have made no investigation of, and are rendering no opinion regarding, the title to real or personal property.

In rendering this opinion, we have relied without independent investigation on the representations of certain officials of the Department made on behalf of the Department in its Tax Certificate with respect to certain material facts within the knowledge of the Department relevant to the tax-exempt status of interest on the Bonds.

Based upon the foregoing, we are of the opinion that:

(a) The Act is a valid enactment and the Department is a validly created and existing agency of the State of Maryland possessing authority under the Act to issue the Bonds;

(b) The Bonds have been duly authorized and validly issued for a valid public purpose in accordance with the Constitution and laws of the State of Maryland, the Act and the Resolution;

(c) The Bonds are valid and legally binding obligations of the Department only, payable as to both principal and interest solely from the tax proceeds and other available revenues of the Department specified in the Act; the Bonds are not general obligations of the State of Maryland and the faith and credit of the State of Maryland is not pledged to the principal of or interest on the Bonds;

(d) Under the Act, the Bonds, their transfer, the interest payable on them, and any income derived from them, including any profit realized in their sale or exchange, shall be exempt at all times from every kind and nature of taxation by the State or by the political subdivisions, municipal corporations, or public agencies of any kind of the State. No opinion is expressed as to estate or inheritance taxes or other taxes not levied or assessed directly on the Bonds or the interest thereon.

(e) Assuming compliance with the covenants referred to herein, interest on the issue of bonds of which the Bonds are a part will be excludable from gross income for federal income tax purposes under existing statutes, regulations and decisions. It is noted that under the provisions of the Code, there are certain restrictions that must be met subsequent to the delivery of the Bonds, including restrictions that must be complied with throughout the term of the Bonds, in order that the interest thereon be excludable from gross income. These include the following: (i) a requirement that certain investment earnings received from the investment of the proceeds of the Bonds be rebated (or that certain payments in lieu of rebate be made) to the United States of America under certain circumstances; (ii) other requirements applicable to the investment of such proceeds and (iii) other requirements applicable to the use of the proceeds of the Bonds and the facilities financed and 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 Bonds in gross income for federal income tax purposes, effective from the date of their issuance. The Department has covenanted to regulate the investment of the proceeds of the Bonds, and to take such other actions as may be required to maintain the excludability from gross income for federal income tax purposes of interest on the Bonds. It is our opinion that, assuming compliance with such covenants, the interest on the Bonds will remain excludable from gross income for federal income tax purposes under the provisions of the Code.

(f) Interest on the Bonds is not includable in the alternative minimum taxable income of individuals, corporations or other taxpayers as an enumerated item of tax preference or other specific adjustment. However, for purposes of calculating the corporate alternative minimum tax, a corporation subject to such tax may be required to increase its alternative minimum taxable income by 75% of the amount by which its “adjusted current earnings” exceed its alternative minimum taxable income (computed without regard to this current earnings adjustment and the alternative tax net operating loss deduction). For such purposes, “adjusted current earnings” could include, among other items, interest income from the Bonds. In addition, interest income on the Bonds 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.

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 above are limited to the matters set forth above, and no other opinions should be inferred beyond the matters expressly stated.

Very truly yours,

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

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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 $115,000,000 Department of Transportation Consolidated Transportation Bonds, Series 2012 (the "Bonds"). The Bonds are being issued pursuant to resolutions issued by the Board of Public Works of Maryland (the "Board") on March 21, 2012 and a resolution of the Secretary of Transportation dated as of April 26, 2012. 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 Bonds and in order to assist the Participating Underwriters in complying with the Rule. The Department's obligations hereunder shall be limited to those required by written undertaking pursuant to the Rule.

Section 2. Definitions.

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

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

"**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 Bonds required to comply with the Rule in connection with offering of the Bonds.

"**RULE**" shall mean Rule 15c2-12(b)5 adopted by the 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 Financial Information, Operating Data and Audited Information.

(a) The Department shall provide to the Continuing Disclosure Service annual financial information and operating data as set forth in Schedule A to this Disclosure Agreement, such information and data to be updated as of the end of the preceding fiscal year and made available within 275 days after the end of the fiscal year of the Department, commencing with the fiscal year ending June 30, 2012.

(b) The Department shall provide to the Continuing Disclosure Service annual audited financial statements (Appendix A to the Official Statement dated ____, (the "Official Statement")) for the Department, such information to be made available within 275 days after the end of the fiscal year for the Department, commencing with the fiscal year ending June 30, 2012, 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 Department (commencing with the fiscal year ending June 30, 2012), the Department will provide unaudited financial statements within said time period.

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

(i) The Department may make changes to the presentation of the financial information required in paragraph (a) and paragraph (b) necessitated by changes in Generally Accepted Accounting Principles;

(ii) The Department may otherwise modify the presentation of the financial information required herein, provided that this Disclosure Agreement is amended in accordance with Section 6 hereof.

(d) If the Department is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) 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 Bonds:

(i) principal and interest payment delinquencies,

(ii) non-payment related defaults, if material,

(iii) unscheduled draws on debt service reserves reflecting financial difficulties,

(iv) unscheduled draws on credit enhancements, 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 Bonds,

(vii) modifications to rights of Bond Holders, if material,

(viii) bond calls, if material, and tenders offers,

(ix) defeasances,

(x) release, substitution or sale of property securing repayment of any of the Bonds, 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 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 (l0) business days after the occurrence of a Listed Event, notice of such occurrence with the Continuing Disclosure Service.

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 Bonds 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 Bonds within the meaning of the Rule.

[**] 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.

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 Bonds, or in the type of business conducted; (ii) the Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iii) the amendment does not materially impair the interests of holders of the Bonds, as determined by counsel selected by the 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 the 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. 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 solely 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 Director, Office of Finance, Maryland Department of Transportation, 7201 Corporate Center Drive, Hanover, MD 21076, or at such alternate address as may be specified by the Department with disclosures made pursuant to Section 4 hereof or a notice of occurrence of a Listed Event.

Section 11. 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 12. Recordkeeping.

The Department agrees that it shall maintain records of all disclosures of annual financial information and operating data and disclosures of material events listed in 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 13. Past Compliance.

The Department represents that it has complied with the requirements of each continuing disclosure undertaking entered into by it pursuant to the Rule in connection with previous financings to which the Rule was applicable.

Section 14. Relationship to Bonds.

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

Section 15. Beneficiaries.

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

IN WITNESS WHEREOF this Disclosure Agreement is being executed by the Secretary of Transportation on behalf of the Department as of this ___ day of June, 2012.

DEPARTMENT OF TRANSPORTATION OF MARYLAND

By: ____
Secretary of Transportation

SCHEDULE A

(1) Schedule of General Governmental Revenues by Source, Expenditures by Function and Other Sources (Uses) of Financial Resources and Changes in Fund Balances.

(2) Taxes Pledged to Bonds and Net Revenues as Defined for Purposes of the Bond Coverage Test.

(3) Gasoline and Motor Vehicle Revenue Account.

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APPENDIX E

BOOK ENTRY ONLY SYSTEM

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BOOK-ENTRY ONLY SYSTEM - GENERAL

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds (as hereinafter defined). The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate of the $115,000,000 Department of Transportation Consolidated Transportation Bonds, Series 2012 (the "Bonds"), will be issued for each maturity of the Bonds, 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 of 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 of rating: 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 and www.dtcc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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. will consent or vote with respect to the Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds 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 the 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. 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 Bonds at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor securities depository is not obtained, Bond 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, Bond 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 DTC. 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 Bonds will be delivered by DTC to the Registrar and such Bonds will be exchanged for Bonds registered in the names of the DTC Participants or the Beneficial Owners identified to the Registrar. In such event, certain provisions of the Bonds pertaining to ownership of the Bonds will be applicable to the registered owners of the Bonds as described below.

Interest on the Bonds will be payable by check mailed by the Paying Agent and Registrar to the persons in whose names the Bonds are registered as of the close of business on the Regular Record Date (being the fifteenth day of the month immediately preceding each interest payment date) at the addresses shown on the registration books of the Department maintained by the 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 Bonds 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 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 Bonds may be listed and upon such notice as may be required by such exchange. The principal of and premium, if any, on the Bonds will be payable at the principal office of the Paying Agent.

The Bonds in fully certificated form will be fully registered Bonds without coupons in the denomination of $5,000 each or any integral multiple thereof. Bonds will be transferable only upon the registration books kept at the principal office of the 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 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 Bond is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal or redemption price thereof and interest due thereon and for all other purposes.

The Bonds may be transferred or exchanged at the principal office of the Registrar. Upon any such transfer or exchange, the Department shall execute and the Registrar shall authenticate and deliver a new registered Bond or Bonds without coupons of any of the authorized denominations in an aggregate principal amount equal to the principal amount of the Bond exchanged or transferred, and maturing on the same date and bearing interest at the same rate. In each case, the Registrar may require payment by any holder of Bonds requesting exchange or transfer of Bond 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 Bonds for such exchange or transfer. The Registrar shall not be required to transfer or exchange any certificate after the mailing of notice calling such Bond or portion thereof for redemption as herein above described; provided, however, that the foregoing limitation shall not apply to that portion of a Bond in excess of $5,000 which is not being called for redemption.

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