# University System of Maryland

## Auxilliary Facility and Tuition Revenue Bonds

2010 Series A (Tax-Exempt Bonds)
2010 Series B (Taxable, Build America Bonds)

## Summary of Transaction

**Pricing Date:** Wednesday, March 24, 2010 (2010 Series Bonds)

**Closing Date:** Thursday, April 8, 2010 (2010 Series Bonds)

**Presented by**

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**Auxiliary Facility and Tuition Revenue Bonds Overview**

On Wednesday, March 24, 2010, the University System of Maryland (the "System") competitively sold $120,000,000 University System of Maryland Auxilliary Facility and Tuition Revenue Bonds comprised of two distinct series. The 2010 Series A (Tax-Exempt Bonds) and the 2010 Series B (Taxable Build America Bonds) were issued to fund new money projects, (together, the "Bonds"). Abramoff, Neuberger and Linder, LLP served as bond counsel on the transaction and Public Financial Management, Inc. served as Financial Advisor.

The 2010 Series A & B bonds were structured as fixed rate bonds with an optional par call on April 1, 2020. Due to the combined level debt service structure, the 2010 Series A bonds are noncallable (final maturity of 4/1/2018). The 2010 Series A bonds were traditional, tax-exempt bonds, while the 2010 Series B bonds were Taxable Build America Bonds. All of the 2010 Series Bonds were rated Aa2, AA+, and AA from Moody's Investors Service, Standard & Poor's, and Fitch Ratings respectively; all three rating agencies maintained the previous ratings. The Bonds mature between 2011 and 2030 amortizing to create a combined level debt service structure for the 2010 Series A & B bonds.

| | 2010 Series A | 2010 Series B | 2010 Series B* | Combined* |
|---|---|---|---|---|
| **Bond Proceeds** | **41,821,770** | **81,031,885** | **81,031,885** | **122,853,655** |
| Par Amount | 38,655,000 | 81,345,000 | 81,345,000 | 120,000,000 |
| Net Premium/OID | 3,166,770 | (313,115) | (313,115) | 2,853,655 |
| **Uses** | **41,821,770** | **81,031,885** | **81,031,885** | **122,853,655** |
| Project Fund | 41,544,743 | 80,444,740 | 80,444,740 | 121,989,482 |
| Cost of Issuance | 64,425 | 135,575 | 135,575 | 200,000 |
| Underwriter's Discount | 212,603 | 451,571 | 451,571 | 664,173 |
| Final Maturity | 4/1/2018 | 4/1/2030 | 4/1/2030 | 4/1/2030 |
| True Interest Cost | 2.057% | 5.096% | 3.338% | 3.157% |
| Total Debt Service | 45,541,281 | 142,010,097 | 120,777,313 | 187,551,378 |
| Average Annual Debt Service | 5,706,530 | 7,107,415 | 8,131,510 | 9,386,695 |
| Maximum Annual Debt Service | 5,708,925 | 9,731,483 | 8,326,554 | 9,735,408 |

*Net of 35% subsidy

**Build America Bond Benefit**

In order to minimize the interest cost incurred by the System, PFM recommended a hybrid structure on the new money bonds, combining traditional, tax-exempt fixed rate bonds and taxable Build America Bonds, similar to the structure utilized in 2009. The traditional, tax-exempt bonds would be utilized in the early maturities (2010 to 2018) to take advantage of the steep slope of the tax-exempt yield curve, while the taxable Build America Bonds would be utilized on the longer-dated maturities (2019-2030), where the tax-exempt yield curve was comparatively higher. The tax-exempt equivalent rate on the taxable Build America Bonds was determined by netting out the 35% interest subsidy on the bonds.

The tax-exempt equivalent yields on the taxable Build America Bonds ranged from 2.8275% to 3.5425% in the 2019 to 2030 maturities, while traditional, tax-exempt yields in maturities 2011 to 2018 ranged from 0.400% to 2.670%. As a result of the combined structure, the System was able to realize savings of approximately 20 basis points ($187,500 in average annual debt service) over a 100% traditional, tax-exempt structure.

**Market Conditions and Competitive Sale Results**

The 2010 Series bonds were sold on March 24, 2010, via a competitive bidding process. The day before the sale, the municipal bond market declined (yields increased) by 1-3 basis points in the first 16 years of maturities (2011 – 2027). However, low supply in the State of Maryland leading up to the sale as well as the quality of the System's credit led to a positive response to the sale. The day before the sale, the yield on the 10-year municipal bond was 2.88%, 135 basis points below the historical average of 4.23%; similarly, the yield on the 30 year Treasury bond was 4.60%, 97 basis points below the historical average of 5.57%.

| Long-term Rates | Date of Sale[1] | Prior Month[2] | Spread to Prior Month | Historical Average[3] | Spread to Historical Average |
|---|---|---|---|---|---|
| **Long-Term Tax-Exempt Rates** | | | | | |
| 2 Year AAA Municipal Bond | 0.61% | 0.59% | 2.0 bps | 3.07% | (245.5) bps |
| 10 Year AAA Municipal Bond | 2.88% | 2.87% | 1.0 bps | 4.23% | (134.5) bps |
| 20 Year AAA Municipal Bond | 3.78% | 3.82% | (4.0) bps | 4.93% | (115.5) bps |
| 30 Year AAA Municipal Bond | 4.15% | 4.18% | (3.0) bps | 5.08% | (92.7) bps |
| **Long-Term Taxable Rates** | | | | | |
| 3 Month Treasury | 0.14% | 0.12% | 2.2 bps | 3.51% | (337.4) bps |
| 6 Month Treasury | 0.23% | 0.18% | 5.2 bps | 3.68% | (344.6) bps |
| 10 Year Treasury Bond | 3.75% | 3.69% | 5.2 bps | 5.13% | (138.7) bps |
| 30 Year Treasury Bond | 4.67% | 4.64% | 2.9 bps | 5.57% | (90.0) bps |
| **Short-term Rates** | | | | | |
| SIFMA (tax-exempt, formerly BMA) | 0.24% | 0.20% | 4.0 bps | 2.64% | (239.8) bps |
| 1-Month LIBOR (taxable) | 0.25% | 0.23% | 1.7 bps | 3.89% | (364.7) bps |

(1) Rates as of 3/24/2010
(2) Rates as of 2/24/2010
(3) Historical average since 1993
(4) No ancillary fees. Dealer profit assumed 10 bps above mid-market

Ten banks offered bids for the 2010 Series A bonds, with Citigroup Global Markets Inc. providing the low bid at 2.056572% and Barclays Capital, Inc. providing a cover bid of less than 2 basis points higher at 2.073948%. Ten banks offered bids for the 2010 Series B bonds, with Wells Fargo Bank, N.A. providing the low bid at 5.096194% (3.338441% on a tax-exempt basis). J.P. Morgan Securities Inc. provided a cover bid approximately 6 basis points higher, at 5.153419 (3.362656% on a tax-exempt basis). The table on the following page illustrates the full spectrum of bids received for each series.

| | 2010 Series A | 2010 Series B | 2010 Series B* |
|---|---|---|---|
| Banc of America Merrill Lynch | 2.209141% | 5.205798% | 3.399316% |
| Barclays Capital, Inc. | 2.073948% | 5.303532% | 3.466454% |
| BMO Capital Markets | No Bid | 5.241550% | 3.429081% |
| Citigroup Global Markets Inc. | 2.056572% | 5.267490% | 3.407326% |
| Davenport & Company LLC | 2.143680% | No Bid | No Bid |
| Hutchinson, Shockey, Erley & Co. | 2.531716% | No Bid | No Bid |
| Janney Montgomery Scott, Inc. | 2.174516% | No Bid | No Bid |
| J.P. Morgan Securities Inc. | 2.190980% | 5.153419% | 3.362656% |
| Morgan Stanley & Co. Inc. | 2.148267% | 5.405765% | 3.529249% |
| Piper Jaffray | 2.114681% | 5.432069% | 3.542647% |
| Ramirez & Co. | No Bid | 5.514107% | 3.613853% |
| Robert W. Baird & Co., Inc. | No Bid | 5.238259% | 3.421450% |
| Wells Fargo Bank, N.A. | 2.256747% | 5.096194% | 3.338441% |

Winning Bid

Cover Bid

*Net of 35% subsidy

A summary of comparable pricing results for the 2010 Series Bonds is provided in the appendix to this document, along with a maturity-by-maturity comparison of the pricing for the 2010 Series transactions to the appropriate index (AAA MMD for tax-exempt bonds and the 20 and 30 year Treasury Bond for taxable bonds).

All of the 2010 Series Bonds priced favorably as compared to other, similarly rated and structured bonds for peer institutions. The System's tax-exempt bonds priced from comparably to the University of Michigan and the University of Texas, both "AAA" rated issuers, recent transactions. The System's taxable Build America bonds priced approximately 80 - 130 basis points better than the most recent "AA" comparable Build America Bond transaction. For detailed information regarding pricing, see the Appendix pages of this memo.

## Tax-Exempt Bonds

| | University System of Maryland - 2010 Series A | | | Purdue University | | | University of Iowa | | | University of Michigan | | | California State University | | | University of Texas | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sale Date | 3/24/2010 | | | 2/10/2010 | | | 2/4/2010 | | | 2/9/2010 | | | 3/17/2010 | | | 3/3/2010 | | |
| Call Date | Non-Callable | | | 7/1/2020 | | | Non-Callable | | | 4/1/2020 | | | 5/1/2020 | | | 2/15/2020 | | |
| Rating | Aa2/AA+/AA | | | Aa1/AA/- | | | Aa2/A+/- | | | Aaa/AAA/- | | | Aa3/A+/- | | | Aaa/AAA/AAA | | |
| Maturity Year | Yield | AAA MMD | Spread to MMD | Yield | AAA MMD | Spread to MMD | Yield | AAA MMD | Spread to MMD | Yield | AAA MMD | Spread to MMD | Yield | AAA MMD | Spread to MMD | Yield | AAA MMD | Spread to MMD |
| 2010 | - | - | - | 0.20% | 0.26% | -0.06% | | | | | | 0.00% | 0.33% | 0.25% | 0.08% | - | - | - |
| 2011 | 0.40% | 0.27% | 0.13% | 0.44% | 0.26% | 0.18% | 0.60% | 0.26% | 0.34% | 0.26% | 0.26% | 0.00% | 0.60% | 0.25% | 0.35% | - | - | - |
| 2012 | 0.82% | 0.63% | 0.19% | 0.77% | 0.60% | 0.17% | 0.90% | 0.61% | 0.29% | 0.65% | 0.61% | 0.04% | 1.00% | 0.57% | 0.43% | 0.66% | 0.55% | 0.11% |
| 2013 | 0.95% | 0.92% | 0.03% | 1.05% | 0.84% | 0.21% | 1.15% | 0.85% | 0.30% | 0.90% | 0.85% | 0.05% | 1.29% | 0.81% | 0.48% | 0.91% | 0.79% | 0.12% |
| 2014 | 1.25% | 1.25% | 0.00% | 1.39% | 1.13% | 0.26% | 1.50% | 1.16% | 0.34% | 1.25% | 1.15% | 0.10% | 1.62% | 1.09% | 0.53% | 1.21% | 1.08% | 0.13% |
| 2015 | 1.66% | 1.58% | 0.08% | 1.80% | 1.52% | 0.28% | 1.88% | 1.55% | 0.33% | 1.64% | 1.54% | 0.10% | 2.00% | 1.44% | 0.56% | 1.63% | 1.46% | 0.17% |
| 2016 | 2.05% | 2.02% | 0.03% | 2.22% | 1.94% | 0.28% | 2.30% | 1.98% | 0.32% | 2.05% | 1.95% | 0.10% | 2.47% | 1.87% | 0.60% | 2.07% | 1.90% | 0.17% |
| 2017 | 2.39% | 2.32% | 0.07% | 2.53% | 2.25% | 0.28% | 2.60% | 2.29% | 0.31% | 2.36% | 2.26% | 0.10% | 2.84% | 2.19% | 0.65% | 2.40% | 2.22% | 0.18% |
| 2018 | 2.67% | 2.59% | 0.08% | 2.81% | 2.52% | 0.29% | 2.90% | 2.55% | 0.35% | 2.62% | 2.53% | 0.09% | 3.17% | 2.47% | 0.70% | 2.67% | 2.48% | 0.19% |
| 2019 | - | - | - | 2.98% | 2.72% | 0.26% | 3.08% | 2.75% | 0.33% | 2.82% | 2.73% | 0.09% | 3.37% | 2.67% | 0.70% | 2.85% | 2.67% | 0.18% |
| 2020 | - | - | - | 3.11% | 2.87% | 0.24% | 3.18% | 2.89% | 0.29% | 3.01% | 2.87% | 0.14% | 3.52% | 2.83% | 0.69% | 2.99% | 2.83% | 0.16% |
| 2021 | - | - | - | 3.23% | 2.98% | 0.25% | 3.28% | 2.99% | 0.29% | 3.11% | 2.98% | 0.13% | 3.65% | 2.96% | 0.69% | 3.22% | 2.93% | 0.29% |
| 2022 | - | - | - | 3.37% | 3.07% | 0.30% | - | - | - | - | - | - | 3.78% | 3.05% | 0.73% | 3.32% | 3.04% | 0.28% |
| 2023 | - | - | - | 3.52% | 3.16% | 0.36% | - | - | - | - | - | - | 3.90% | 3.14% | 0.76% | 3.50% | 3.14% | 0.36% |
| 2024 | - | - | - | 3.60% | 3.25% | 0.35% | - | - | - | - | - | - | 4.00% | 3.24% | 0.76% | - | - | - |
| 2025 | - | - | - | 3.69% | 3.34% | 0.35% | - | - | - | - | - | - | 4.08% | 3.34% | 0.74% | - | - | - |
| 2026 | - | - | - | 3.78% | 3.43% | 0.35% | - | - | - | - | - | - | 4.22% | 3.43% | 0.79% | - | - | - |
| 2027 | - | - | - | 4.10% | 3.52% | 0.58% | - | - | - | - | - | - | 4.32% | 3.52% | 0.80% | - | - | - |
| 2028 | - | - | - | - | - | - | - | - | - | - | - | - | 4.41% | 3.61% | 0.80% | - | - | - |
| 2029 | - | - | - | - | - | - | - | - | - | - | - | - | 4.50% | 3.70% | 0.80% | - | - | - |
| 2030 | - | - | - | - | - | - | - | - | - | - | - | - | 4.58% | 3.78% | 0.80% | - | - | - |
| 2031 | - | - | - | - | - | - | - | - | - | - | - | - | 4.70% | 3.86% | 0.84% | - | - | - |

## Build America Bonds

| | University System of Maryland - 2010 Series B | | | University of Central Florida | | | Florida Atlantic University | | | California State University | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sale Date** | 3/24/2010 | | | 2/3/2010 | | | 2/24/2010 | | | 3/17/2010 | | |
| **Call Date** | 4/1/2020 | | | 7/1/2019 | | | 7/1/2020 | | | 5/1/2020 | | |
| **Rating** | Aa2/AA+/AA | | | A2/-/- | | | A2/A/- | | | Aa3/A+/- | | |
| **Maturity Year** | **Yield** | **Treasury** | **Spread to Treasury** | **Yield** | **Treasury** | **Spread to Treasury** | **Yield** | **Treasury** | **Spread to Treasury** | **Yield** | **Treasury** | **Spread to Treasury** |
| 2010 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2011 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2012 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2013 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2014 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2015 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2016 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2017 | - | - | - | 4.50% | 3.70% | 0.80% | 5.48% | 3.69% | 1.79% | - | - | - |
| 2018 | - | - | - | 4.75% | 3.70% | 1.05% | 5.90% | 3.69% | 2.21% | - | - | - |
| 2019 | 4.35% | 3.84% | 0.510% | 4.90% | 3.70% | 1.20% | 6.05% | 3.69% | 2.36% | - | - | - |
| 2020 | 4.50% | 3.84% | 0.660% | 5.05% | 3.70% | 1.35% | 6.25% | 3.69% | 2.56% | - | - | - |
| 2021 | 4.60% | 3.84% | 0.760% | 5.20% | 3.70% | 1.50% | 6.45% | 3.69% | 2.76% | - | - | - |
| 2022 | 4.81% | 3.84% | 0.970% | 5.35% | 3.70% | 1.65% | - | - | - | 5.449% | 3.640% | 1.809% |
| 2023 | 4.89% | 3.84% | 1.050% | 5.45% | 3.70% | 1.75% | - | - | - | 5.549% | 3.640% | 1.909% |
| 2024 | 4.97% | 3.84% | 1.130% | 5.55% | 3.70% | 1.85% | - | - | - | 5.649% | 3.640% | 2.009% |
| 2025 | 5.05% | 3.84% | 1.210% | 5.65% | 3.70% | 1.95% | 7.10% | 3.69% | 3.41% | 5.699% | 3.640% | 2.059% |
| 2026 | 5.05% | 4.51% | 0.540% | 5.85% | 4.63% | 1.22% | - | - | - | 6.434% | 4.570% | 1.864% |
| 2027 | 5.15% | 4.51% | 0.640% | 6.00% | 4.63% | 1.37% | - | - | - | 6.484% | 4.570% | 1.914% |
| 2028 | 5.25% | 4.51% | 0.740% | 6.10% | 4.63% | 1.47% | - | - | - | - | - | - |
| 2029 | 5.35% | 4.51% | 0.840% | 6.20% | 4.63% | 1.57% | - | - | - | - | - | - |
| 2030 | 5.45% | 4.51% | 0.940% | - | - | - | 7.44% | 4.63% | 2.81% | - | - | - |
| 2031 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2032 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2033 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2034 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2035 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2036 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2037 | - | - | - | - | - | - | 7.59% | 4.63% | 2.96% | - | - | - |
| 2038 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2039 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2040 | - | - | - | - | - | - | 7.64% | 4.63% | 3.01% | - | - | - |

Moody's Investors Service

## New Issue: MOODY'S ASSIGNS Aa2 RATING TO UNIVERSITY SYSTEM OF MARYLAND'S $120 MILLION OF 2010 SERIES A AND B BONDS; OUTLOOK IS STABLE

Global Credit Research - 17 Mar 2010

**SYSTEM WILL HAVE $1 BILLION OF RATED DEBT OUTSTANDING INCLUDING THE CURRENT OFFERING**

Higher Education
MD

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| 2010 Series A (Tax Exempt) | | Aa2 |
| **Sale Amount** | $39,085,000 | |
| **Expected Sale Date** | 03/25/10 | |
| **Rating Description** | Public University Revenue Bonds | |
| 2010 Series B (Taxable Build America Bonds) | | Aa2 |
| **Sale Amount** | $80,915,000 | |
| **Expected Sale Date** | 03/25/10 | |
| **Rating Description** | Public University Revenue Bonds | |

**Moody's Outlook** Stable

**Opinion**

NEW YORK, Mar 17, 2010 -- Moody's Investors Service has assigned a Aa2 rating to the University System of Maryland's 2010 Series A and B Auxiliary Facility and Tuition Revenue Bonds. The Series B bonds will be issued as taxable Build America Bonds. Moody's has also affirmed the Aa2 and Aa2/VMIG1 ratings on the System's outstanding rated debt (described below in Rated Debt section). The System will have $1 billion of rated debt outstanding including the current offering. The System's outlook is stable.

LEGAL SECURITY: The System's Auxiliary Facility and Tuition Revenue Bonds are payable from a broad pledge of tuition revenues and auxiliary facility fees, with total pledged revenues equating to nearly $1.26 billion in FY 2009. The Series 2003 Revolving Loan Program Bonds are unlimited obligations of the System payable from any legally available sources.

USE OF PROCEEDS: Various capital projects, including construction of two student housing facilities located at Towson and Salisbury Universities

DEBT STRUCTURE AND DERIVATIVES: The 2003 Series A bonds are currently issued in a multi-annual mode as described below in the Short-Term Rating Rationale section of the report. All of the System's other rated bonds (excluding the 2003 Series A bonds) were issued in a fixed rate mode. The System also has $7.9 million of certificates of participation currently outstanding which are supported by a Bank of America Letter of Credit. The System has a modest amount of variable-rate outstanding (less than 6%) and has not engaged in the use of interest rate swaps as part of its debt program.

STRENGTHS

*Large multi-campus public university system operating 11 degree granting institutions located throughout the State of Maryland, as well as a large base of on-line enrollment. In fall 2009, the System enrolled 111,079 full-time equivalent students, representing 14% increase over fall 2005 enrollment. Freshmen selectivity has been relatively stable over the past five years (53% in fall 2009), although freshmen matriculation of 33% in fall 2009 reflects a highly competitive student market.

*Positive operating margins and well diversified revenue base. During FY 2007-2009, the System generated a 2.8% three-year average operating margin by Moody's calculation with annual debt service coverage averaging 2.7 times during this timeframe. In addition to student charges which represent approximately 37% of operating revenue, the System also relies heavily on state appropriations 27% (State has Aaa G.O. rating) and grants and contracts (26%). Management continues to focus on areas of efficiency and expense containment in order to maintain healthy operating performance, in light of pressure on State funding for operations.

*Large research enterprise, with nearly $870 million of research expenditures in FY 2009. The System's grants and contract revenue is well diversified, with approximately 66% coming from federal sources (27% of total funding from Department of Health and Human Services), 16% state, and 18% private. The System is in the process of reorganizing one of its two research centers, University of Maryland Biotechnology Institute.

*The System has a relatively small proportion of its debt issued in a variable-rate mode (less than 6%) and does not have any interest rate swap agreements. Moody's anticipates that future borrowing plans will be manageable with approximately $115 million of new debt anticipated annually, offset by the relatively rapid amortization of the System's outstanding debt. The System typically issues 20-year bonds with level debt service and pays down approximately $70 million of principal annually.

CHALLENGES

*Although state funding to the System has been healthy in recent years, the State faces continuing budget pressures with an uncertain impact on operating and capital support for the System. The System received a 2.6% increase in state operating appropriations in FY 2009 (including a nearly $30 million transfer of fund balance back to the State). However, during FY 2010, the System has experienced further cuts in General Fund Appropriations and HEIF Funding from the State (Higher Education Investment Fund) and has also transferred an additional $65 million of fund balance back to the State. We expect that actual levels of State funding in FY 2010 will be approximately 6% below FY 2009, net of transfers back to the State.

*Moderate pressure on financial resource growth as a result of planned cash funding of certain capital projects with accumulated reserves (up to $200 million likely during FY 2010 and FY 2011) and investment losses sustained by the Foundation. Expendable financial resources of the System and its foundations totaled nearly $1.4 billion in FY 2009 and would cover $1.05 billion of pro-forma debt 1.3 times and would cover the System's large $3.7 billion expense base 0.4 times. During FY 2009, the Foundation sustained a 24.6% investment loss (estimated to be up 9% during the first six months of FY 2010), and in Moody's opinion, a relatively high proportion of the System's endowment (including Foundation assets) is invested in alternative asset classes, which tend to be less liquid.

*In order to absorb future enrollment growth projections and in order to adequately tackle ongoing repair and renovation of existing facilities, the System has a significant capital needs. Potential pressure on state capital support would be a credit concern.

MARKET POSITION/COMPETITIVE STRATEGY: LARGE MULTI-CAMPUS PUBLIC UNIVERSITY SYSTEM SERVING Aaa-RATED STATE; SIGNIFICANT AMOUNT OF RESEARCH ACTIVITY

Moody's expects that the System will continue to demonstrate enrollment growth, with certain campuses designated as growth institutions and management projecting student headcount growing as high as 176,000 by 2019 (over 148,000 headcount enrolled in fall 2009). The System includes 11 degree-granting higher education institutions (of the 13 public institutions in Maryland) and currently two major research components. In fall 2009, the System enrolled a consolidated 111,079 full-time equivalent (FTE) students. The System operates one of the largest on-line and distance learning higher education programs, with a significant number of locations overseas and over 12,000 (headcount) students enrolled overseas. The System also continues to focus on opening regional centers in high traffic areas within Maryland offering degree programs.

Student demand remains healthy, with strong application volume. In fall 2009, 53% of freshmen applicants were accepted. However, the matriculation ratio of accepted students has declined, with 33% of accepted freshmen enrolling in fall 2009 (compared to 45% in fall 2003) reflecting a highly competitive market. The System draws a relatively large share of its students from outside of Maryland (24.6% of the entering freshmen class in fall 2009). The System is focused on increased higher education participation rates within the state and has a goal of growing the volume of transfer students from community colleges to the System, with articulation agreements with all Maryland community colleges in place.

The System is also a major research enterprise, with research activities conducted by various campuses as well as at two research component institutions, University of Maryland Center for Environmental Science and University of Maryland Biotechnology Institute (UMBI). The System is in the midst of reorganizing UMBI. The System has also been a partner in establishing four affiliated research parks. In FY 2009, research expenses were nearly $870 million. Moody's believes that the System's grants and contract revenue is well diversified, with approximately 66% coming from federal sources (27% of total funding from Department of Health and Human Services), 16% state, and 18% private. Management reports that the System has benefited from receipt of ARRA research dollars (American Recovery and Reinvestment Act), with over $150 million awarded in federal funding.

The System has not directly owned or operated health care enterprises since 1984, when the System's major health care delivery systems were spun off into a separate corporation, the University of Maryland Medical System (UMMS). Moody's rates the debt of UMMS A2, with a stable outlook. (For additional information on UMMS, please see Moody's report dated December 9, 2009 in which Moody's upgraded UMMS' rating to A2 from A3). There are significant financial exchanges between the System and UMMS, per an annually renewable contract between the two entities, although most capital planning and construction is done independently.

OPERATING PERFORMANCE: HEALTHY OPERATING PERFORMANCE AND DIVERSIFIED REVENUE BASE; PRESSURE ON STATE FUNDING REQUIRES CONTINUED FOCUS ON COST CONTAINMENT

Moody's expects that the System will maintain its track record of positive operating performance, with the System generating a 2.8% average surplus during the past three years and maintaining a continued focus on cost-containment measures. The System's operating base is large, with close to $3.8 billion of operating revenue in FY 2009 on a Moody's-adjusted basis. Revenues are well diversified among student charges (37%), state appropriations (27%), and grants and contracts (26%, excluding Pell grants). In light of pressure on State funding as described below, management is increasingly focused on expense containment and operating efficiency. FY 2011 will represent the third year that the System has mandated staff furloughs (10 days) as a means of cost containment.

The System implemented fairly large tuition increases in the earlier part of this decade to offset declines in state funding, but froze tuition during the past four years in exchange for replacement dollars from the State. Net tuition per student is healthy at $8,966 in FY 2009, and overall net tuition revenue has grown nicely during this timeframe as a result of enrollment growth. The System expects to implement a 3% tuition increase in fall 2010.

Moody's maintains a Aaa General Obligation rating with a stable outlook on the State of Maryland reflecting the State's strong economy and high personal income levels, offset by significant upcoming budget pressure and above average debt burden. For more information on the State's credit profile, please read our report published on February 19, 2010.

Although state funding to the System has been healthy in recent years, the State faces continuing budget pressures with an uncertain impact on operating and capital support for the System. The System received a 2.6% increase in state operating appropriations in FY 2009 (including a nearly $30 million transfer of fund balance back to the State). However, during FY 2010, the System has experienced further cuts in General Fund Appropriations and HEIF Funding from the State (Higher Education Investment Fund) and has also transferred an additional $65 million of fund balance back to the State. We expect that actual levels of State funding in FY 2010 will be approximately 6% below FY 2009, net of transfers back to the State.

BALANCE SHEET POSITION: PRESSURE ON FINANCIAL RESOURCE BASE AS A RESULT OF PAST INVESTMENT LOSSES AND EXPECTED CAPITAL SPENDING

The System's total financial resource has experienced healthy growth as a result of positive operating performance, capital campaign fundraising, and past positive investment performance. The System (including the foundations) had $1.9 billion of total financial resources, up 28% over FY 2005 resources. In particular, the System's unrestricted financial resources have experienced healthy growth with $899 million of unrestricted resources in FY 2009. Expendable financial resources would cover $1.05 billion of pro-forma debt 1.3 times and operations 0.4 times. We anticipate that the System's unrestricted financial resource levels will decline moderately as a result of planned spending of accumulated reserves on capital projects and purchases (approximately $200 million approved cash funding of capital expenditures during FY 2010 and 2011).

The System's endowment and Foundation investments experienced a 24.6% investment loss during FY 2009. Management reports a 9% positive return during the first six months of FY 2010 (with private investments marked as of 9/30/09). In Moody's opinion, a relatively high proportion of the System's endowment (including the foundations' assets) is invested in alternative asset classes, which tend to be less liquid. The investment portfolio managed by the foundations includes an asset allocation of approximately: 23% public equities (including hedge funds that both long and short public equities), 13% private equity, 28% other hedge funds, 7% marketable real estate, 12% energy and natural resources, 8% real estate, and 10% fixed income and cash. Moody's concerns about the liquidity of the endowment and Foundation assets are mitigated by the System's maintenance of typically over $1 billion of cash balances (outside of the endowment) invested in funds held by and managed by the State Treasurer. As of June 30, 2009, the System (excluding the Foundations) had $1.17 billion of unrestricted cash and investments with monthly liquidity. This monthly liquidity would cover 121 days of cash expenses.

The System is in the midst of a $1.8 billion comprehensive fundraising campaign with a goal of completing the campaign by end of 2011. The System raised $1.35 billion, of which $815 million has been received in cash.

The System's pro-forma direct debt is nearing $1.05 billion, close to its legislated debt cap of $1.05 billion, a figure which can be modified by the General Assembly. The System has submitted legislation to increase the debt cap to $1.2 billion. Management believes that the Series 2010 bonds will cover borrowing needs through spring 2011 and anticipates approximately $115 million of gross debt issuance annually in the near term. Moody's believes that the System's debt structure is conservative, with largely fixed rate debt, no interest rate swap agreements, and the majority of rated debt issued with a 20 year maturity (during FY 2006-2008, the System paid an average of $70 million of principal down annually).

In addition to its direct debt liabilities, the System has over $420 million of privatized student housing at multiple campuses and privatized utility improvements at College Park. The holders of the privatized housing and utility system bonds do not have legal recourse to the assets and revenues of the System, but Moody's continues to monitor the performance of these projects and the System's level of involvement and support. Several of the privatized projects have generated below forecasted cash flows and debt service coverage and have been downgraded to below investment grade as a result. To date, the System has not provided notable direct or indirect financial support to the projects.

The actuarial accrued liability related to the System's other post-retirement benefits (OPEB) will be recognized at the State-level, and the System is obligated to pay annual premiums as a percentage of active employees' salaries to the State of Maryland to fund current costs as well pay a defined amount to fund future costs.

SHORT-TERM RATING RATIONALE: ADEQUATE LIQUIDITY PROVIDED BY FUNDS HELD BY STATE TREASURER TO SUPPORT ANNUAL PUT FEATURE

Moody's maintains an Aa2/VMIG1 rating on the System's $50 million of 2003 Series A bonds. The short-term rating only applies while the bonds are in the multi-annual mode. The 2003 Series A bonds will be subject to mandatory tender on each interest reset date, with the tender feature of these bonds supported by the System's own liquidity (with no external bank liquidity facility at this time). A mandatory tender is scheduled for June 1, 2010. In the case of a failed remarketing, the System expects to draw on operating funds held by and managed by the State Treasurer. As of December 31, 2009, the System had nearly $1.07 billion invested in this State Treasurer managed fund (compared to $50 million of Revolving Loan Program Bonds).

Per a supplemental indenture, the System must convey funds to the Trustee five days before the tender date in amount equal to the $50 million less remarketed bonds (as of 12:00pm on that date) and less bonds for which the System has received an irrevocable non-tender notice from bondholders. We believe the System has appropriate liquidation procedures at the time of a mandatory tender that enable it to meet the timing needs for payment of any tenders.

**Outlook**

The stable outlook reflects Moody's expectations of ongoing enrollment growth, positive operations and ability to absorb potential future cuts in state funding, and manageable plans for future borrowing and planned spend down of reserves.

What could change the rating--UP

Continued growth in reserve levels coupled with strengthened student demand and operating performance

What could change the rating--DOWN

Large increase in projected borrowing above that outlined by management; sustained cuts in state funding pressuring the System's operating performance

KEY INDICATORS (FY 2009 financial data and fall 2009 enrollment data)

Total Full Time Equivalent Enrollment: 111,079

Total Financial Resources: $1.9 billion

Total Operating Revenues: $3.8 billion (Moody's adjusted)

Pro-Forma Direct Debt: $1.05 billion

Expendable Financial Resources to Pro-Forma Direct Debt: 1.3 times

Expendable Financial Resources to Operations: 0.4 times

Three-Year Average Operating Margin: 2.8%

Reliance on Student Charges: 37%

Reliance on Grants and Contracts (excluding Pell Grants): 26%

Reliance on the State: 27%

State of Maryland General Obligation Rating: Aaa

RATED DEBT

Series 1997, 1998, 1999 A&B, 2000, 2001 A&B, 2002, 2003A, 2006, 2007, 2008A, 2008B, 2009A, 2009B (Build America Bonds), 2009C, 2009D Bonds, 2010A and 2010B (Build America Bonds): Aa2 rating

Series 2003B: Aa2 rating, insured by Assured Guaranty (Assured Guaranty's current financial strength rating is Aa3 on watchlist for possible downgrade), 2004-2010 maturities are insured

Series 2004A&B: Aa2 rating, certain maturities insured by National Public Finance Guarantee Corp. (formerly MBIA), which has a financial strength rating of Baa1 with a developing outlook

Series 2005A: Aa2 rating, certain maturities insured by National Public Finance Guarantee Corp. (formerly MBIA), which has a financial strength rating of Baa1 with a developing outlook

Revolving Loan Program Bonds (2003A): Aa2/VMIG1 (self liquidity)

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The rating assigned to University System of Maryland was issued on Moody's municipal rating scale. Moody's has announced its plans to recalibrate all U.S. municipal ratings to its global scale and therefore, upon implementation of the methodology published in conjunction with this initiative, the rating will be recalibrated to a global scale rating comparable to other credits with a similar risk profile. Market participants should not view the recalibration of municipal ratings as rating upgrades, but rather as a recalibration of the ratings to a different rating scale. This recalibration does not reflect an improvement in credit quality or a change in our credit opinion for rated municipal debt issuers. For further details regarding the recalibration please visit www.moodys.com/gsr.

The principal methodology used in rating University System of Maryland was Moody's Rating Methodology for Public Colleges and Universities published in November 2006 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the University System of Maryland was on September 17, 2009 when the System's Aa2 and Aa2/VMIG1 ratings and stable outlook were affirmed.

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STANDARD & POOR'S

# PUBLIC FINANCE

## University System of Maryland

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***RatingsDirect***
***Publication Date***
March 19, 2010

| ***Credit Profile*** | | |
|---|---|---|
| ***US$84.86 million auxiliary facilities & tuition revenue bonds (Taxable Build America Bonds) series 2010B due 04/01/2030*** | | |
| Long Term Rating | AA+/Stable | New |
| ***US$35.14 million auxiliary facilities & tuition revenue bonds series 2010A due 04/01/2017*** | | |
| Long Term Rating | AA+/Stable | New |
| series 1999A, 2000A, 2001A&B, 2002A, 2003A, 2006A, 2007A, 2008A&B, 2009A-D | | |
| Long Term Rating | AA+/Stable | Affirmed |

***Ratings Detail***

### *Rationale*

Standard & Poor's Rating Services assigned its 'AA+' long-term rating to University System of Maryland's (USM) $120 million series 2010A tax-exempt bonds and 2010B taxable Build America Bonds. In addition, we affirmed the 'AA+' long-term and underlying rating (SPUR) and 'A-1+' rating on USM's previously issued debt. The rating outlook is stable.

The 'AA+' rating reflects our assessment of USM's:

- Leading position as the main provider of public higher education in Maryland with 11 degree-granting institutions and two research centers located throughout the state;
- Historically strong support from Maryland (AAA/Stable), with consistent operating and capital appropriations although operating appropriations have been pressured in the current economic environment;

- Good financial performance on a full accrual basis, with the system producing operating surpluses and implementation of strong financial controls and budgeting practices;
- Solid enrollment and demand, with total systemwide enrollment of 148,676 in fall 2009, which was up 3.6% from the previous academic year;
- Good revenue diversity with 35% of total revenue from tuition and auxiliary fees, 27% from state appropriations, 21% in grants and contracts, and 17% in other revenue;
- Manageable debt burden with debt service comprising 3.2% of total expenses; and
- Successful fundraising efforts, given good progress on the current capital campaign raising $1.35 billion through December 2009 of its $1.7 billion goal.

Partially offsetting factors include what we consider low financial resources for the rating, with 2009 adjusted unrestricted net assets of $959 million comprising 25% of operating expenses and 61% of total pro forma debt (when including $421 million of off-balance-sheet debt) and challenges of managing fluctuations in state funding. In addition, we believe that USM has increasing additional debt pressure especially for student housing projects.

The 'A-1+' short-term rating reflects USM's overwhelming level of available funds to fund any unremarketed tenders of its $50 million series 2003A bonds. As of Dec. 31, 2009, USM had more than $1 billion of cash and cash equivalents. USM's cash is held by the state treasurer and management indicated that there are no issues with accessing the funds.

The total debt outstanding as of June 30, 2009, which includes revenue bonds, revolving loan program, and certificates of participation was $1.024 billion. The series 2010A and 2010B bonds are expected to be fixed rate and will fund capital projects at USM's various campuses. The series 2010A and 2010B bonds include $80 million for student housing projects that would have previously been financed by alternative financing options. Given the economic environment, USM has had additional pressure to fund these projects. In the past, the system entered into public-private partnerships for similar housing facilities and energy infrastructure projects. To date, the debt associated with these projects totals approximately $421 million. Total pro forma debt (including the $421 million of off balance sheet debt) is $1.57 billion. Tuition revenues and auxiliary facility fees secure all of USM's outstanding revenue bonds. In our opinion, USM has a conservative debt profile with only 6% variable-rate debt and no outstanding swaps.

## *Outlook*

The stable outlook reflects Standard & Poor's expectation that operating performance will continue to be positive, state support will remain consistent, and unrestricted resources or revenue will keep pace with future debt issuance.

## *The University System Of Maryland*

Founded in 1988, USM consists of 11 degree-granting institutions and two research centers. Collectively, these 11 degree-granting schools account for more than 85% of the public higher education institutions in the state. Full-time equivalent (FTE) enrollment for fall 2009 was 111,078 a 3.1% increase from the previous year. Total enrollment was 148,676 for fall 2009 and management expects enrollment growth to continue with a projected headcount of 176,482 in 2019. However, growth plans will vary by campus as some campuses are limiting growth in the near term due to state budgetary pressures and also to focus on improving academic quality. Demand has continued to be strong with the number of freshman applicants increasing 29% over the past four years to 78,619 for fall 2009 from 60,789 for fall 2005. Because of the growing number of applicants, the system has become more selective, accepting 53% of applicants, a 5% improvement from fall 2005. Matriculation rates are in line with other state universities at 33% for fall 2009.

## *Good Financial Performance*

USM's revenue sources are diverse, with tuition and auxiliary fees contributing 35% of fiscal 2009 revenues, state operating appropriations contributing 27%, and grants and contracts contributing 21%. State operating appropriations have historically been solid but have flattened in fiscal 2010 and estimated fiscal 2011. The state appropriation was $$1.0555 billion for fiscal 2010, a 0.4% decline from fiscal 2009, but a 30% increase from fiscal 2006. The fiscals 2009 and 2010 appropriation was cut several times midyear and in addition, USM had to transfer $65 million back to the state in fiscal 2010 and $29.6 million in fiscal 2009. The estimated fiscal 2011 state operating appropriation is $1.0564 billion.

The historical increases in state appropriations have allowed USM to freeze tuition rates for four straight years. Given the current state funding environment, USM will increase tuition for an in-state undergraduate by 3% for fiscal 2011. An in-state resident tuition ranges from $5,276-$8,872 for fiscal 2010, depending on the institution. The state also provides a significant amount of capital support. Management expects state funding for capital projects to be more than $1.0 billion in fiscals 2010-2014 for academic facilities.

Operating performance, excluding capital appropriations and contributions, has consistently produced good operating surpluses, however, there was a decline in fiscal 2009. For fiscal 2009, the change in net income before capital was negative $433,000 (total revenue of $2.7 billion) compared with $150 million in fiscal 2008. This was mainly due to flat revenue growth of 1.5% and lower investment income. Without investment income, change in net income before capital was $14.6 million in fiscal 2009 compared with $89 million the previous year. There was growth in unrestricted net assets despite a $29 million fund balance transfer to the state and $45 million of capital spending on cash-funded projects. Unrestricted net assets increased 4.1% to $899 million. Management expects to meet its fiscal 2010 budget, however, projects a decline in unrestricted net assets of $103 million in the current fiscal year due to a $65 million fund balance transfer to the state and $80 million of capital spending on cash funded projects. USM's other postemployment benefit liabilities are booked at the state.

## *Low Financial Resources Although Growing*

Total adjusted unrestricted net assets, including the foundation, have increased significantly to $959 million in fiscal 2009 from $527 million in fiscal 2004. Management instituted a policy five years ago that required each institution to build a 1% reserve of unrestricted net assets annually. The financial resource ratios are still low for the rating in our view with adjusted unrestricted net assets covering 25% of operating expenses and 84% of pro forma debt. If the off-balance-sheet debt projects are included in the financial resources ratios, adjusted unrestricted net assets equal a more modest 61% of pro forma debt.

## *Successful Fundraising*

The system is in the middle of a $1.7 billion capital campaign, and it had raised $1.35 billion through December 2009 with $815 million already received in cash. Gift giving in fiscal 2010 is up 7% over the same period last year with $113 million raised through Dec. 31, 2009. The capital campaign is expected to end in 2011 and the uses of the campaign include student aid, endowment, and building academic quality.

Total endowment levels, including foundation endowments from each of the universities, equaled an estimated $679 million as of Dec. 31, 2009. The current asset allocation is 23.4% equity, 26.2% real assets, 27.7% multistrategy and opportunistic, 10.2% fixed income, and 12.5% private capital. The endowment had a 13.2% return for the calendar year ended Dec. 31, 2009. Management believes there is sufficient liquidity within the endowment to fund its outstanding commitments, which total $143 million. Management classifies approximately 37% of the endowment as illiquid investments.

## *Manageable Debt Burden With Continued Capital Needs*

The current debt burden is manageable with pro forma aggregate maximum annual debt service equal to $123 million, or 3.2% of operating expenses. The series 2010A and 2010B bonds will fund various academic facility and auxiliary projects at the various institutions. The aggregate debt service is front loaded as USM generally amortizes its debt issues over 20 years. Additional revenue debt of approximately $115 million a year is expected over the next five years. In addition, USM also has about $200 million of cash funded projects that will be expended over the next three to five years. Given the increasing pressure on additional debt issuance especially for projects that were previously funded through other financing options (public-private partnerships) — management has stated that they will continually reassess the capital needs with the available resource levels.

## *Government Related Entity*

In accordance with our criteria for government-related entities (GREs), we based our view of a "moderate" likelihood of extraordinary government support on our assessment of USM's "limited" link with the state of Maryland ('AAA'), given the lack of a mechanism for timely extraordinary support if USM was in financial distress. However, the state has provided regular, ongoing operating support and consistent capital support for academic facilities. In addition, our assessment is based on USM's "important" role in the state's economy given its position as the largest provider of public higher education in the state with 11 degree-granting institutions, its research base, provision of a broad range of professional, graduate, and undergraduate programs, and its role as a general contributor to economic development in the state.

## Related Criteria And Research

- USPF Criteria: Higher Education, June 19, 2007
- General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

| Ratings Detail (As Of 18-Mar-2010) | | |
|---|---|---|
| series 2003B (AGM insured) | | |
| Unenhanced Rating | AA+(SPUR)/Stable | Affirmed |
| series 2004A, 2004B, 2005A (MBIA insured) | | |
| Unenhanced Rating | AA+(SPUR)/Stable | Affirmed |
| University System of Maryland revolving loan program ser 2003A (self liquidity) | | |
| Short Term Rating | A-1+ | Affirmed |

Many issues are enhanced by bond insurance.

# FITCH RATES UNIVERSITY SYSTEM OF MARYLAND'S SERIES 2010 A&B REV BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-17 March 2010: Fitch Ratings assigns an 'AA' rating to the following University System of Maryland (USM) auxiliary facility and tuition revenue bonds:

--$35.1 million 2010 series A (tax exempt);
--$84.9 million 2010 series B (taxable Build America Bonds).

The bonds are expected to sell competitively on or about March 24. Bond proceeds will be used to finance construction of two residence halls, finance the acquisition, renovation, and equipping of other academic and/or auxiliary facilities, and to pay costs of issuance.

In addition, Fitch affirms the 'AA' rating on USM's approximately $829.9 million of outstanding auxiliary facility and tuition revenue bonds.

The Rating Outlook is Stable.

RATING RATIONALE:

--USM enjoys a prominent position as the sole public university system in the state of Maryland (general obligation bonds rated 'AAA' by Fitch.)

--A diverse revenue base and consistently high level of state support, despite recent budget cuts, shelter USM from deterioration in any one revenue stream.

--While ongoing capital needs result in the periodic issuance of debt, growing balance sheet resources and a constitutionally capped debt limit enable USM maintain a low debt burden.

KEY RATING DRIVERS:

--Maintenance of stable student demand trends.
--Maintenance of balance sheet liquidity and operating performance at or near current levels.
--Prudent management of capital spending and associated debt issuance plans to accommodate projected system-wide enrollment growth.

SECURITY:

Auxiliary facility and tuition revenue bonds are a limited obligation of USM payable from tuition revenues and net auxiliary facility fees. USM has elected to designate the 2010 series B bonds as Build America Bonds, for which the direct pay subsidy received from the federal government, equal to 35% of interest payable, will also be pledged to repayment of those bonds.

CREDIT SUMMARY:

USM's sound financial profile underpins the 'AA' rating. USM has generated a positive operating margin for the past several years; 1.7% in fiscal 2009 based on operating revenues of $3.9 billion. However, while still positive, the operating margin declined from 3.8% in fiscal 2008 due mainly to state funding reductions and lower investment earnings. USM continues to benefit from a diverse revenue base. Student-generated revenues represent the largest funding source, driven by steady system-wide enrollment growth. Grant and contract revenues and state appropriations represent second and third largest funding sources, respectively.

Due to the ongoing economic downturn, state funding to USM was reduced slightly in fiscal years 2009 and 2010. For fiscal 2009, USM received $1.03 billion in state appropriations, up 2.6% from fiscal 2008, although down from an originally approved appropriation of $1.06 billion. For fiscal 2010, the state appropriated $1.06 billion for USM, net of a mid-year $30 million transfer back to the state in response to the state's budget shortfall. USM forecasts state appropriations to remain flat for fiscal 2011 at $1.06 billion. USM also benefits from significant state support for capital projects, which have enabled it to maintain manageable debt levels and accumulate financial resources for capital needs. While not immune to the impacts of the national recession, Maryland's ability to maintain a stable level of annual funding to USM is reflective of its fiscal strength relative to other states and its strong commitment to funding public higher education.

USM's balance sheet resources have grown over the past several years. Available funds, defined by Fitch as unrestricted and temporarily restricted cash and investments, were $1.25 billion in fiscal 2009, up from $704.3 million in fiscal 2005. Available funds consist mainly of cash and short-term investments on deposit with the state Treasurer's office. USM's ability to build available funds reflects management's conservative budgeting practices, consistently generating operating surpluses, and disciplined capital planning.

After issuance of the series 2010 bonds, USM's direct debt outstanding will total approximately $1.054 billion and maximum annual debt service of approximately $121.7 million would consume a low 3.2% of fiscal 2009 operating revenues. USM's current five-year capital plan calls for approximately $115 million of new debt issuance per year to fund both academic and auxiliary facilities. Concerns regarding USM's capital plans are mitigated by its conservative fixed-rate structure and 20-year principal amortization for revenue bonds, coupled with a manageable pro forma debt burden and a state mandated cap on outstanding indebtedness.

Founded in 1988, USM consists of 11 universities and one research institute. Fall 2009 headcount enrollment was 148,676 (excluding overseas programs), with 111,078 full-time equivalents (FTE). Headcount and FTE's were both up over 3% from fall 2008. Based on the state's favorable demographic trends and the system's initiatives to improve tuition affordability, USM projects enrollment to grow about 19% over the next decade.

Applicable criteria available on Fitch's website at 'www.fitchratings.com' include:

--'College and University Rating Criteria' (Dec. 29, 2009);
--'Revenue-Supported Rating Criteria' (Dec. 29, 2009).

*Considerations for Taxable/Build America Bonds Investors

The following sector credit profile is provided as background for investors new to the municipal market.

Higher Education Bonds:

A general obligation pledge or equivalent pledge of all unencumbered available resources, represent the broadest security a private or public college or university can provide. It is therefore the best indicator of such an institution's overall credit quality. The average long-term credit rating of the sector is 'A', with approximately 42% rated 'AA-' or higher and 23% rated 'BBB+' or below. Inherent strengths of the sector include a healthy demand for undergraduate, graduate, and post-doctorate education; strong financial and investment management practices which yield break-even to positive operating margins over time; and significant fundraising capabilities. Higher education institutions with below average credit ratings generally have a weak market and competitive position; more concentrated revenue streams; inconsistent operating margins; and adequate, though increasingly pressured liquidity.

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Additional information is available at 'www.fitchratings.com'.