State of Maine

Moral Obligation Study

July 27, 2009

Public Financial Management, Inc.
99 Summer Street, Suite 1020
Boston, MA 02110-1240
617 330-6914
617 951-2361 fax
www.pfm.com

PFM
The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

Table of contents

Executive Summary

The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

Executive Summary

- Moral obligation debt obligations have increased moderately since June 30, 2001 ($514 million, or 15%)
- The existing levels of mandated reserves and additional reserves provide protection to the State's credit
  - Significant draws on the reserve cushion could raise rating agency concerns
- In the absence of low-cost municipal bond insurance, the moral obligation pledge provides the most effective and low-cost form of credit enhancement in the marketplace
- The State has taken steps to mitigate most risks associated with this structure
  - Conservative reserve structure
  - Diversity in financial partners
- Moral obligation continues to be an effective tool for the State that is well managed

Approach to the Study

PFM
The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

Approach to the Study

- The purpose of the study is to assess levels and components of outstanding State of Maine moral obligation debt
  - Quantify the amount of moral obligation debt in aggregate and by issuing authority
  - Assess the amount of risk that the moral obligation pledge poses to the State's credit rating
  - Identify any steps the State should take to mitigate risk
  - Identify effective capital structure (mix of fixed rate, variable rate, and synthetic fixed rate debt)
  - Quantify the State's exposure to financial institutions (letter of credit providers, liquidity facility providers, swap counterparties, and remarketing agents)
- Examine reserve coverage
  - Identify reserve levels and reserve coverage of debt service obligations to determine effectiveness for risk mitigation
- Present rating agency views/considerations
  - Review general rating agency views on the use of moral obligations to determine effectiveness as risk mitigation
  - Review rating agency views specific to the State's moral obligation for associated agencies/authorities

Summary of Debt Profile

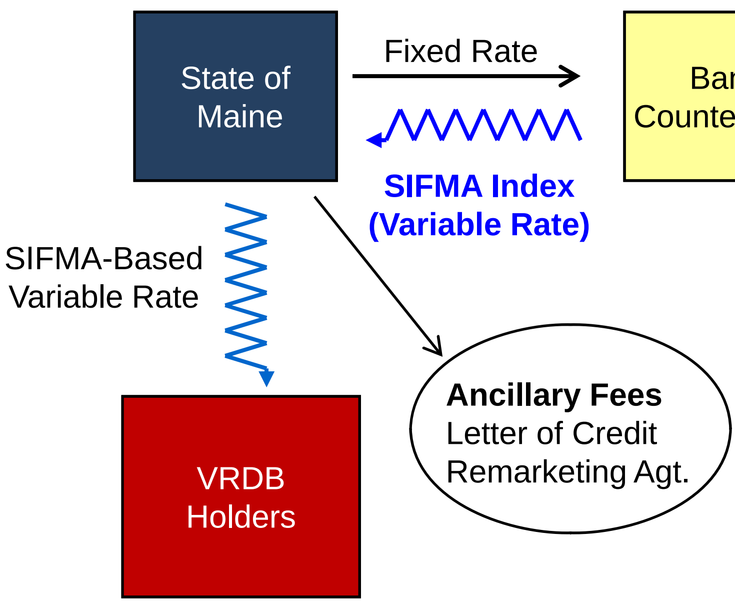
The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

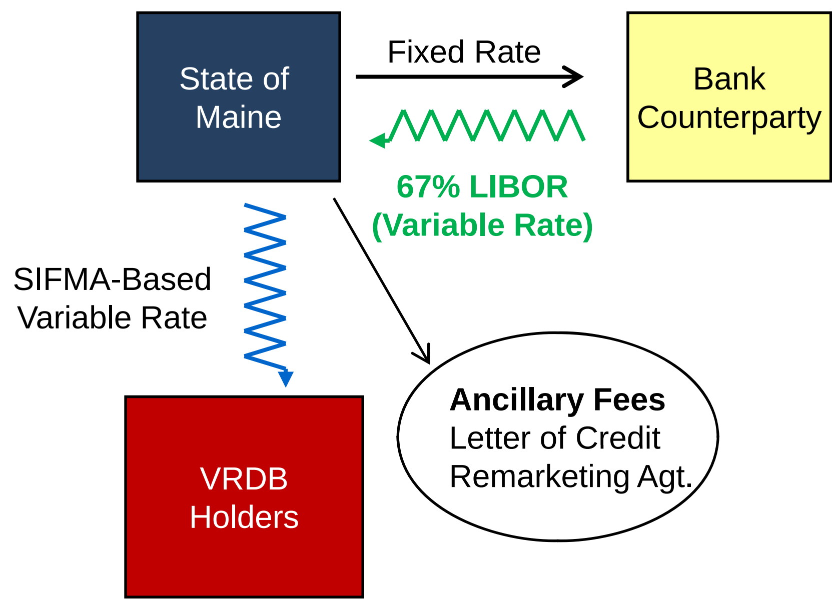
Key Terms

- Tax-Exempt Fixed Rate Bonds ("**Fixed Rate Bonds**") are the most traditional and conservative structure available
  - Interest rates are set at the time the bonds are sold, and rates are locked in for the life of the bonds
    - Debt service requirements (principal and interest) are fixed for the life of the bonds
  - Costs of issuing the bonds are paid upfront, and may be financed with bond proceeds
- Variable Rate Demand Bonds ("**VRDBs**") involve more risks than fixed rate bonds but offer a historically lower rate of interest
  - The underwriter serves as remarketing agent to place the bonds on an ongoing basis
  - Bonds are supported by a Direct Pay Letter of Credit ("LOC") that bears the credit of a highly rated commercial bank
  - Interest rates are set on a daily, weekly or monthly basis at a low short-term rate
  - Investors have the option to "put" the bonds back to the issuer with the same frequency

Key Terms - Continued

- Synthetically Fixed VRDBs are VRDBs hedged with an interest rate swap that entails trading cash flows to achieve a fixed rate
  - Under certain market conditions, this structure can result in a lower overall rate versus traditional fixed rate bonds





  - The Effective Capital Structure incorporates synthetic derivative products, such as fixed-payor or fixed-receiver interest rate swaps

Key Terms - Continued

Interest Rate Risk

- The risk that interest rates will increase after the issuance of the bonds.

Remarketing / Put Risk

- Risk that the Remarketing Agent will be unable to find investors for the bonds, resulting in the bonds being “put” (aka tendered) back to the letter of credit bank. Variable Rate Demand Bonds (VRDBs) require a remarketing agent to place/sell the bonds to investors at predetermined intervals (usually weekly). If the bonds cannot be placed, the letter of credit bank steps in to buy the bonds from the remarketing agent. In this case, two things happen:
  - The rate on the bonds jumps to a predetermined taxable bank rate, usually Prime or LIBOR plus a spread;
  - Should the remarketing agent be unable to place/sell the bonds held by the letter of credit bank to new investors for a period of up to 90 days (usually, but can be longer or shorter), the bonds convert to a “term loan” whereby the balance of the loan amortizes over a set period

Key Terms - Continued

LOC Renewal Risk

- A letter of credit bank is required for a VRDB structure as it provides the credit enhancement and liquidity required by investors (usually money market funds). The term of the LOC contract is between 1-5 years (usually), depending on market conditions. At the end of the term, the LOC bank has the right to terminate the contract, forcing the borrow to find another LOC bank or refinance with another loan product. Additionally, at the time of renewal the LOC bank has the option of renegotiating the terms of the contract, including pricing and covenants.

Bank Risk

- The risk that the credit of the Bank may deteriorate, exposing the outstanding debt to the underlying credit of the borrower.

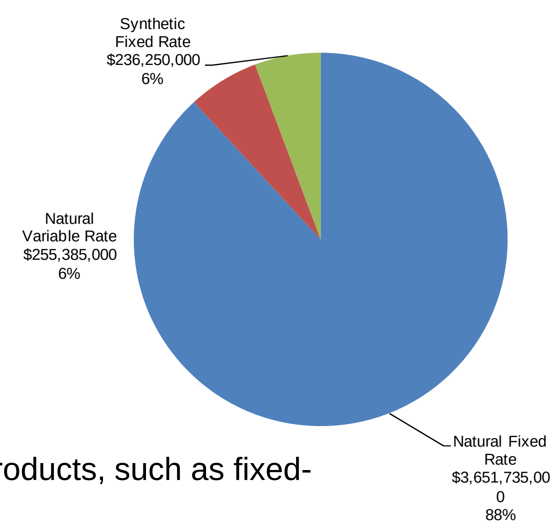
Debt Profile: Maine Moral Obligations

- The State's total amount of moral obligation debt is $4.14 billion, an increase of approximately $514 million (15%) since June 30, 2001
- The State's total outstanding moral obligation debt is effectively 94% fixed rate
  - Limits the State's exposure to interest rate risk

Mode	Outstanding Par[1]	Interest Rate Swap	Interest Rate Risk	Basis Risk	Tax Risk	Put/ Renewal Risk
Fixed Rate[2]	$3,651,735,000	No				
Variable Rate[2]	255,385,000	No	✓		✓	✓
Synthetic Fixed[2]	236,250,000	Yes		✓	✓	✓
	$4,143,370,000					

1. As of 3/31/09

Effective Capital Structure[3]



(1) Does not reflect outstanding FAME insured loans
(2) See key terms on pages 8-11 for definitions
(3) The effective Capital Structure incorporates synthetic derivative products, such as fixed-payor or fixed-receiver interest rate swaps

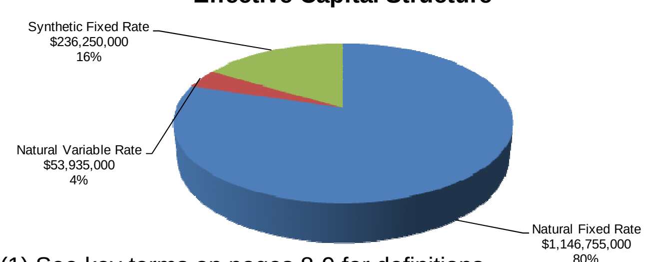
Debt Profile: Maine State Housing Authority

- MSHA is a user of synthetic fixed rate debt[1], although 80% of its debt is natural fixed rate. MSHA is exposed to Bank Risk[1] from Dexia, KBC, and State Street, and additionally exposed to Remarketing Risk[1] from Jeffries and JPMorgan.
  - Healthy reserves serve as a mitigate to variable rate debt

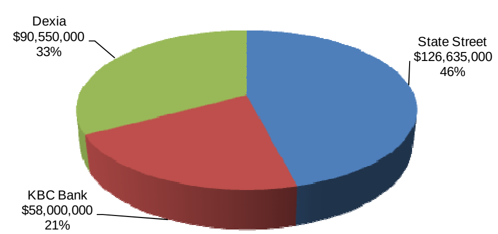
Series	Interest Mode[6]	Outstanding Par[1]	Remarketing	Enhancement / Liquidity	Rating[2]	Facility Expiration	Counter-party	Interest Rate Risk	Basis Risk	Tax Risk	Put/ Renewal Risk
Mortgage Purchase Program	Fixed	$1,128,920,000	N/A	N/A	Aa1/AA+	N/A	N/A				
Housing Finance Resolution	Fixed	17,835,000	N/A	N/A	A+	N/A	N/A				
2004B-3	Synthetic Fixed (63% 1-mo. LIBOR +20 bps)[3]	25,000,000	JPMorgan	State Street	Aa2/AA-/AA-	8/24/2010	JPM	✓	✓	✓	✓
2004C-3	Synthetic Fixed (63% 1-mo. LIBOR +20 bps)	15,000,000	Jeffries/DEPFA 1st Albany	State Street	Aa2/AA-/AA-	8/24/2010	UBS		✓	✓	✓
2004D-3	Synthetic Fixed (65% 1-mo. LIBOR +20 bps)	15,000,000	JPMorgan	State Street	Aa2/AA-/AA-	8/24/2010	JPM		✓	✓	✓
2005B (taxable)[4]	Synthetic Fixed (3-mo. LIBOR)	15,000,000	None	FSA Insurance	Aa3/AAA/AA+	N/A	UBS				✓
2005C	Synthetic Fixed (65% 3-mo. LIBOR +10 bps)	11,125,000	Jeffries/DEPFA 1st Albany	State Street	Aa2/AA-/AA-	8/23/2010	UBS		✓	✓	✓
2005D-3	Synthetic Fixed (63% 1-mo. LIBOR +20 bps)	20,000,000	JPMorgan	State Street	Aa2/AA-/AA-	8/23/2010	JPM		✓	✓	✓
2005G	Synthetic Fixed (63% 1-mo. LIBOR +20 bps)	22,125,000	JPMorgan	State Street	Aa2/AA-/AA-	8/23/2010	JPM		✓	✓	✓
2006B	Synthetic Fixed (63% 1-mo. LIBOR +20 bps)	5,000,000	Jeffries/DEPFA 1st Albany	State Street	Aa2/AA-/AA-	8/23/2010	UBS		✓	✓	✓
2006D-3	Synthetic Fixed (63% 1-mo. LIBOR +20 bps)	5,000,000	JPMorgan	State Street	Aa2/AA-/AA-	8/23/2010	JPM		✓	✓	✓
2006I-3	Variable	385,000	Jeffries/DEPFA 1st Albany	State Street	Aa2/AA-/AA-	8/23/2010	N/A	✓		✓	✓
2007E-2	Synthetic Fixed (63% 1-mo. LIBOR +20 bps)	8,000,000	Jeffries/DEPFA 1st Albany	State Street	Aa2/AA-/AA-	8/23/2010	UBS		✓	✓	✓
2008B	Synthetic Fixed (SIFMA + 6 bps)	15,000,000	JPMorgan	KBC Bank	Aa3/A/A	1/28/2013	JPM				✓
2008D	Synthetic Fixed (70% 3-mo. LIBOR +20 bps)	20,000,000	Jeffries/DEPFA 1st Albany	KBC Bank	Aa3/A/A	4/8/2012	UBS		✓	✓	✓
2008E-1	Synthetic Fixed (67% 1-mo. LIBOR)	39,585,000	Jeffries/DEPFA 1st Albany	Dexia	A1/A/A+	4/22/2013	UBS/JPM		✓	✓	✓
2008E-2	Synthetic Fixed (67% 1-mo. LIBOR)[5]	50,965,000	Jeffries/DEPFA 1st Albany	Dexia	A1/A/A+	4/22/2013	UBS/JPM	✓	✓	✓	✓
2008H	Variable	23,000,000	JPMorgan	KBC Bank	Aa3/A/A	11/3/2011	N/A	✓			✓
Total		**$1,436,940,000**									

1. As of 3/31/09
2. Ratings of indenture or ratings of credit enhancement
3. $20,000,000 swapped to fixed
4. Floating interest rate of 3-month LIBOR +18 bps; no remarketing agent
5. $25,415,000 swapped to fixed
5. Variable rate debt is structured as letter-of-credit backed variable rate demand bonds, resetting either weekly or daily

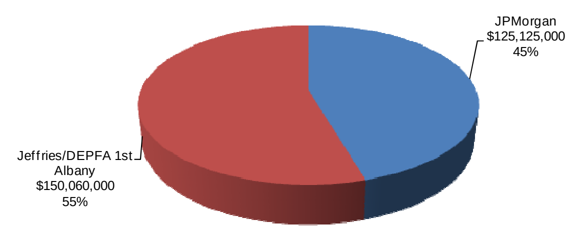
Effective Capital Structure



Liquidity Facility Exposure



Remarketing Agent Exposure



(1) See key terms on pages 8-9 for definitions

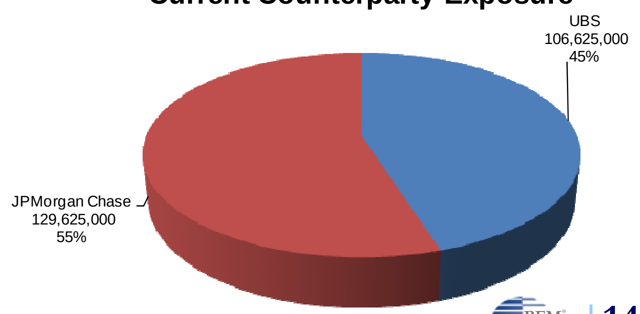
Swap Profile: Maine State Housing Authority

- MSHA has concentrated counterparty risk[1]
- Should consider more diversity in the swap portfolio as a means of mitigating counterparty risk*

Series	Current Notional	Counterparty	Expiration	FXP/FXR	Coupon	Floating Leg
2004B-3	$ 20,000,000	JPMorgan Chase	11/15/2023	FXP	3.756%	63% of 1-month LIBOR plus .20%
2004C-3	15,000,000	UBS	11/15/2021[1]	FXP	3.439%	63% of 1-month LIBOR plus .20%
2004D-3	15,000,000	JPMorgan Chase	11/15/2021[1]	FXP	3.587%	65% of 1-month LIBOR plus .20%
2005B	15,000,000	UBS	11/15/2015	FXP	4.852%	3-month LIBOR (Quarterly Rate Changes)
2005C	11,125,000	UBS	11/15/2032[2]	FXP	3.832%	65% of 3-month LIBOR plus .10% (Monthly Rate Chg)
2005D-3	20,000,000	JPMorgan Chase	11/15/2036[3]	FXP	3.630%	65% of 1-month LIBOR plus .20%
2005G	22,125,000	JPMorgan Chase	11/15/2037	FXP	3.591%	65% of 1-month LIBOR plus .20%
2006B	5,000,000	UBS	11/15/2019	FXP	3.670%	65% of 3-month LIBOR plus .20% (Monthly Rate Chg)
2006D-3	5,000,000	JPMorgan Chase	11/15/2016	FXP	3.922%	65% of 3-month LIBOR plus .20%
2007E-2	8,000,000	UBS	11/15/2027[4]	FXP	4.049%	65% of 3-month LIBOR plus .20% (Monthly Rate Chg)
2008B	15,000,000	JPMorgan Chase	5/15/2023	FXP	3.710%	Weekly SIFMA plus .06%
2008D	20,000,000	UBS	11/15/2022	FXP	3.397%	70% of 3-month LIBOR plus .20% (Monthly Rate Chg)
2008E-1	15,000,000	UBS	11/15/2032[5]	FXP	3.831%	67% of 1-month LIBOR
2008E-1	15,000,000	JPMorgan Chase	11/15/2032[5]	FXP	3.831%	67% of 1-month LIBOR
2008E-1 and E-2	17,500,000	UBS	11/15/2018	FXP	3.246%	67% of 1-month LIBOR
2008E-1 and E-2	17,500,000	JPMorgan Chase	11/15/2018	FXP	3.246%	67% of 1-month LIBOR
Total	**$ 236,250,000**					

1. The Authority has the option of termination, with no Termination Payment on November 15, 2014 and on each May 15 and Nov.15 thereafter.
2. The Authority has the option of termination, with no Termination Payment on May 15, 2015 and on each May 15 and Nov.15 thereafter.
3. The Authority has the option of termination, with no Termination Payment on November 15, 2015 and on each May 15 and Nov.15 thereafter.
4. The Authority has the option of termination, with no Termination Payment on May 15, 2017 and on each May 15 and Nov.15 thereafter.
5. The Authority has the option of termination, with no Termination Payment on November 15, 2013 and on each May 15 and Nov.15 thereafter.

Current Counterparty Exposure



**Risk that JPMorgan or UBS, as swap counterparties, will not perform pursuant to the swap contract's terms. If the counterparty defaults, the State would be exposed to un-hedged variable rate bonds. Maine Housing Authority plans to use new counterparties for future swaps to mitigate concentrated counterparty risk.*

(1) See key terms on pages 8-9 for definitions

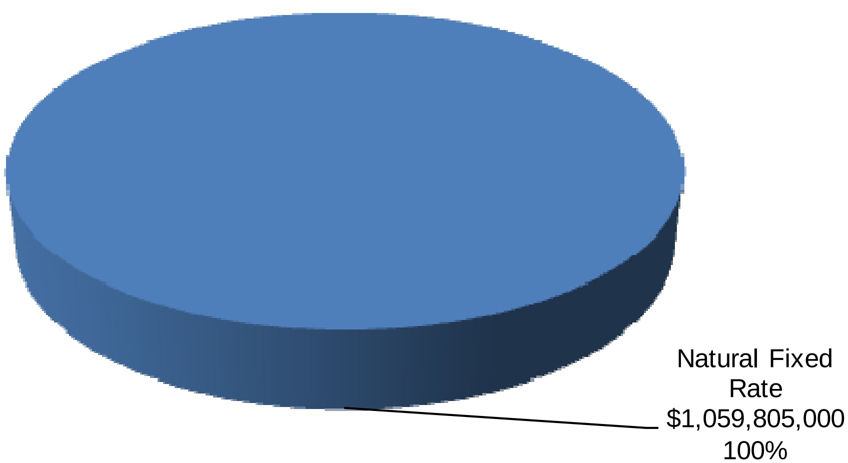
Debt Profile: Maine Municipal Bond Bank

- Maine Municipal Bond Bank's debt profile is 100% fixed rate, with all risk passed to bondholders

Series	Mode	Outstanding Par[1]	Enhancement / Liquidity	Rating
General Resolution	Fixed Rate	$ 999,915,000	N/A	Aa1/AAA/AAA
Taxable	Fixed Rate	185,000	N/A	Aa1/AAA/AAA
Drinking Water SRF	Fixed Rate	5,910,000	N/A	Aaa/AAA
Clean Water SRF	Fixed Rate	53,795,000	N/A	Aaa/AAA
	Total	**$ 1,059,805,000**		

1. As of 3/31/09

Effective Capital Structure



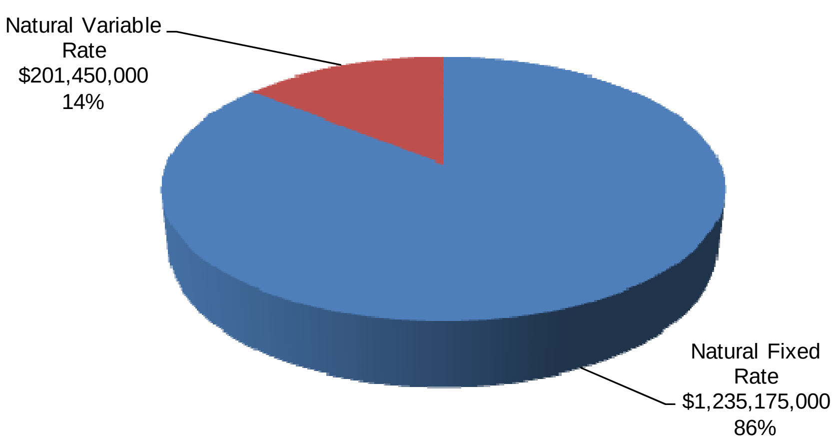
Debt Profile: Maine Health and Higher Educational Facilities Authority

- MHHEFA's has approximately $1.436 billion in outstanding fixed rate debt
  - 86% of the debt is fixed, and 14% is synthetically fixed

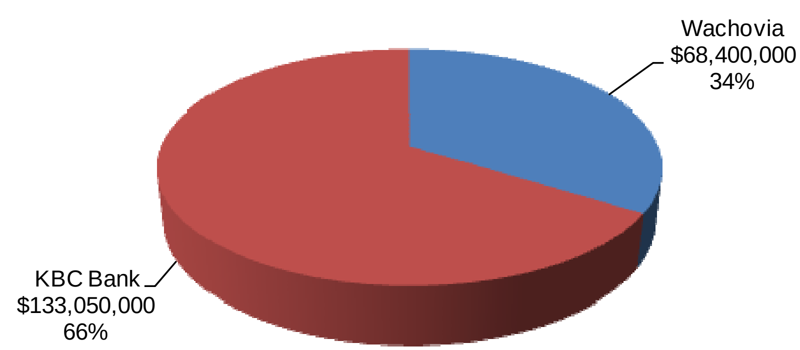
Series	Mode	Outstanding Par[1]	Remarketing	Enhancement / Liquidity	Rating[2]	Facility Expiration	Interest Rate Risk	Tax Risk	Put/ Renewal Risk
Fixed Rate Debt	Fixed Rate	$ 1,235,175,000	N/A	N/A	Aa3/AA	N/A			
2006H	Variable (Weekly VRDB)	68,400,000	Wachovia	Wachovia[3] / FSA	Aa2/AA/AA+ (Wachovia) Aa3/AAA/AA+ (FSA)	7/9/2011	✓	✓	✓
2008A	Variable (Weekly VRDB)	107,075,000	Barclay's	KBC Bank[4]	Aa3/A/A	5/21/2010	✓	✓	✓
2008B	Variable (Weekly VRDB)	25,975,000	Barclay's	KBC Bank[4]	Aa3/A/A	5/21/2010	✓	✓	✓
	Total	$ 1,436,625,000							

1. As of 3/31/09
2. Ratings of indenture or ratings of credit enhancement
3. Liquidity Facility
4. Letter of Credit

Effective Capital Structure



Credit Enhancement Bank Exposure (1)



(1) Credit enhancement exposure risk is the risk that the Credit provider could be downgraded in the future, which would effectively increase payments on long-term debt

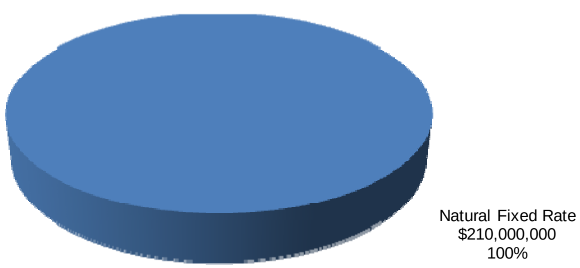
Debt Profile: Maine Educational Loan Authority

- Maine Educational Loan Authority's debt profile is 100% fixed rate, with all risk passed to bondholders
- The Authority recently refinanced its outstanding auction rate debt
  - MELA had $32 million in outstanding auction rates which, at the time, constituted the Authority's entire moral obligation
  - The auction rate debt was refinanced, as was the rest of the Authority's outstanding debt portfolio; the entire newly refinanced issue carries a State moral obligation and increases the former moral obligation by $178 million

Series	Mode	Outstanding Par[1]	Enhancement / Liquidity	Enhanced Rating	Underlying Rating
2009A-1	Fixed Rate	$ 56,500,000	Assured Guaranty	Aa2/AAA	A3/A
2009A-2	Fixed Rate	73,500,000	Assured Guaranty	Aa2/AAA	A3/A
2009A-3	Fixed Rate	80,000,000	Assured Guaranty	Aa2/AAA	A3/A
	Total	**$ 210,000,000**			

1. As of 5/26/09

Effective Capital Structure



Debt Profile: Finance Authority of Maine

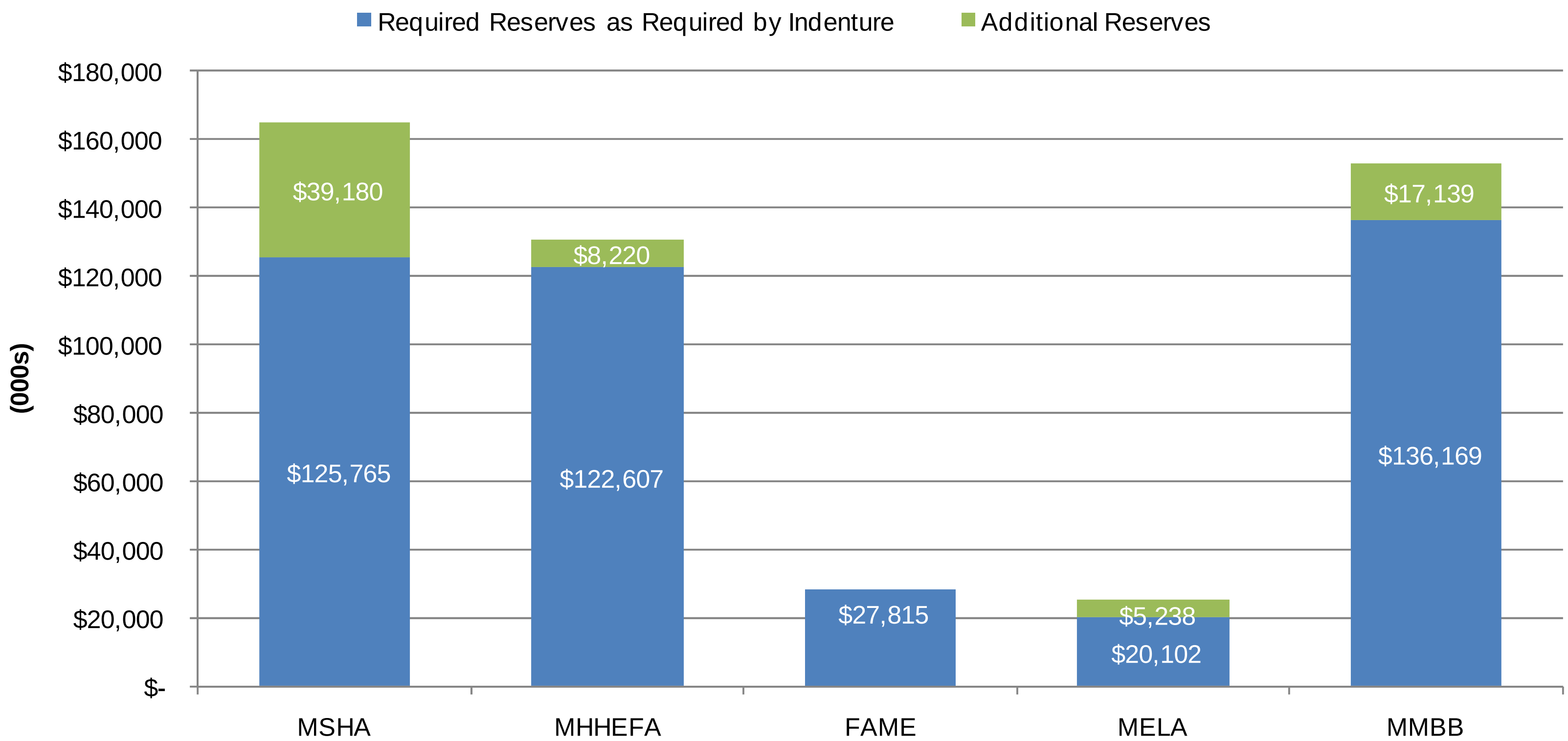
- As of 3/31/09, FAME had $37.1 million in outstanding moral obligation pledge of the State
- In addition to outstanding electric rate stabilization bonds, the moral obligation backs bank loans and lines of credit; the underlying debt is secured by commercial loans
- FAME has its own fund ($27.8 million) to guarantee these loans as well as loans backed by the State's faith and credit
  - This reserve guarantee stands between bondholders and a call on the moral obligation debt service pledge

Reserve Coverage

PFM
The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

Reserve Coverage

- The graph below details reserve levels for the various State agencies that have a moral obligation pledge from the State
- Reserves provide the minimum required coverage to insulate the State's pledge from being called upon



Note: Additional reserve levels reflect the difference between the reserve requirement and the actual market value of reserve funds. All reserves consist of debt service reserve funds except FAME (capital reserve for moral obligation and faith and credit, of which the total debt at 3/31/2009 was $76,345,686) and MELA (capital reserve, guaranty fund, and surety bond). Reserves as of 3/31/09 for all issuers except MELA; MELA reserves as of 6/3/09

Reserve Coverage: State of Maine Moral Obligations

- Total reserve levels as of 3/31/09 cover Maximum Annual Debt Service (“MADS”) by 118%
  - Assuming all at risk principal accelerates and is paid at 7% interest, reserves cover MADS by 104%, which is more than adequate coverage.

Year	TOTAL	Reserves 3/31/09	Reserve Coverage	Reserves less DS	Year	Accelerated TOTAL	Reserves 3/31/09	Reserve Coverage	Reserves less DS
2009	$262,921,167	$ 474,419,199	180.44%	$ 211,498,032	2009	$ 276,229,012	$ 474,419,199	171.75%	$ 198,190,187
2010	$401,919,685	$ 474,419,199	118.04%	$ 72,499,514	2010	$ 454,960,769	$ 474,419,199	104.28%	$ 19,458,430
2011	$398,268,513	$ 474,419,199	119.12%	$ 76,150,686	2011	$ 447,542,215	$ 474,419,199	106.01%	$ 26,876,983
2012	$393,056,343	$ 474,419,199	120.70%	$ 81,362,856	2012	$ 437,122,253	$ 474,419,199	108.53%	$ 37,296,946
2013	$380,092,315	$ 474,419,199	124.82%	$ 94,326,884	2013	$ 420,375,946	$ 474,419,199	112.86%	$ 54,043,253
2014	$369,035,556	$ 474,419,199	128.56%	$ 105,383,643	2014	$ 385,445,770	$ 474,419,199	123.08%	$ 88,973,429
2015	$355,668,968	$ 474,419,199	133.39%	$ 118,750,231	2015	$ 355,208,415	$ 474,419,199	133.56%	$ 119,210,784
2016	$342,819,184	$ 474,419,199	138.39%	$ 131,600,015	2016	$ 334,986,390	$ 474,419,199	141.62%	$ 139,432,809
2017	$327,018,202	$ 474,419,199	145.07%	$ 147,400,997	2017	$ 312,470,124	$ 474,419,199	151.83%	$ 161,949,075
2018	$322,107,963	$ 474,419,199	147.29%	$ 152,311,236	2018	$ 307,550,217	$ 474,419,199	154.26%	$ 166,868,982
2019	$312,507,242	$ 474,419,199	151.81%	$ 161,911,956	2019	$ 297,912,727	$ 474,419,199	159.25%	$ 176,506,472
2020	$294,358,801	$ 474,419,199	161.17%	$ 180,060,398	2020	$ 279,736,935	$ 474,419,199	169.59%	$ 194,682,264
2021	$286,006,014	$ 474,419,199	165.88%	$ 188,413,184	2021	$ 271,361,159	$ 474,419,199	174.83%	$ 203,058,040
2022	$276,989,456	$ 474,419,199	171.28%	$ 197,429,743	2022	$ 262,326,194	$ 474,419,199	180.85%	$ 212,093,005
2023	$255,757,620	$ 474,419,199	185.50%	$ 218,661,579	2023	$ 241,050,700	$ 474,419,199	196.81%	$ 233,368,499
2024	$229,538,912	$ 474,419,199	206.68%	$ 244,880,287	2024	$ 209,389,485	$ 474,419,199	226.57%	$ 265,029,714
2025	$221,780,853	$ 474,419,199	213.91%	$ 252,638,345	2025	$ 201,836,459	$ 474,419,199	235.05%	$ 272,582,740
2026	$205,223,926	$ 474,419,199	231.17%	$ 269,195,273	2026	$ 181,445,135	$ 474,419,199	261.47%	$ 292,974,064
2027	$191,516,855	$ 474,419,199	247.72%	$ 282,902,344	2027	$ 169,586,503	$ 474,419,199	279.75%	$ 304,832,696
2028	$189,506,530	$ 474,419,199	250.34%	$ 284,912,669	2028	$ 167,924,048	$ 474,419,199	282.52%	$ 306,495,150
2029	$177,106,092	$ 474,419,199	267.87%	$ 297,313,107	2029	$ 155,867,021	$ 474,419,199	304.37%	$ 318,552,178
2030	$157,867,332	$ 474,419,199	300.52%	$ 316,551,867	2030	$ 139,778,214	$ 474,419,199	339.41%	$ 334,640,984
2031	$147,537,719	$ 474,419,199	321.56%	$ 326,881,479	2031	$ 131,268,263	$ 474,419,199	361.41%	$ 343,150,936
2032	$131,064,238	$ 474,419,199	361.97%	$ 343,354,961	2032	$ 114,959,577	$ 474,419,199	412.68%	$ 359,459,622
2033	$107,948,459	$ 474,419,199	439.49%	$ 366,470,740	2033	$ 92,038,448	$ 474,419,199	515.46%	$ 382,380,751
2034	$106,210,164	$ 474,419,199	446.68%	$ 368,209,035	2034	$ 89,453,399	$ 474,419,199	530.35%	$ 384,965,800
2035	$ 97,619,350	$ 474,419,199	485.99%	$ 376,799,849	2035	$ 81,086,855	$ 474,419,199	585.08%	$ 393,332,344
2036	$ 91,197,971	$ 474,419,199	520.21%	$ 383,221,228	2036	$ 74,459,965	$ 474,419,199	637.15%	$ 399,959,234
2037	$ 54,641,073	$ 474,419,199	868.25%	$ 419,778,126	2037	$ 52,420,673	$ 474,419,199	905.02%	$ 421,998,526
2038	$ 38,084,413	$ 474,419,199	1245.70%	$ 436,334,786	2038	$ 38,084,413	$ 474,419,199	1245.70%	$ 436,334,786
2039	$ 22,875,000	$ 474,419,199	2073.96%	$ 451,544,199	2039	$ 22,875,000	$ 474,419,199	2073.96%	$ 451,544,199
2040	$ 15,338,042	$ 474,419,199	3093.09%	$ 459,081,156	2040	$ 15,338,042	$ 474,419,199	3093.09%	$ 459,081,156
2041	$ 4,136,004	$ 474,419,199	11470.47%	$ 470,283,195	2041	$ 4,136,004	$ 474,419,199	11470.47%	$ 470,283,195
2042	$ 1,181,600	$ 474,419,199	40150.58%	$ 473,237,599	2042	$ 1,181,600	$ 474,419,199	40150.58%	$ 473,237,599

Reserve Coverage: Maine State Housing Authority

- MSHA's reserve levels as of 3/31/09 cover MADS by 131%
  - If principal for Series 2008 E-1 and E-2 is accelerated (over a 7-year period) per the SBPA with Dexia and interest is paid at 7%, reserve coverage of MADS drops to 117%

Calendar Year

Year	MSHA Total	Reserves 3/31/09	Reserve Coverage	Reserves less DS
2009	$122,663,410	$ 164,945,024	134.47%	$ 42,281,614
2010	$125,525,473	$ 164,945,024	131.40%	$ 39,419,551
2011	$124,127,484	$ 164,945,024	132.88%	$ 40,817,540
2012	$124,987,007	$ 164,945,024	131.97%	$ 39,958,017
2013	$122,769,607	$ 164,945,024	134.35%	$ 42,175,417
2014	$123,465,034	$ 164,945,024	133.60%	$ 41,479,990
2015	$124,421,333	$ 164,945,024	132.57%	$ 40,523,691
2016	$125,615,513	$ 164,945,024	131.31%	$ 39,329,511
2017	$115,967,706	$ 164,945,024	142.23%	$ 48,977,318
2018	$119,595,851	$ 164,945,024	137.92%	$ 45,349,173
2019	$119,675,144	$ 164,945,024	137.83%	$ 45,269,880
2020	$121,102,179	$ 164,945,024	136.20%	$ 43,842,845
2021	$116,400,145	$ 164,945,024	141.71%	$ 48,544,879
2022	$119,572,465	$ 164,945,024	137.95%	$ 45,372,559
2023	$115,977,010	$ 164,945,024	142.22%	$ 48,968,014
2024	$105,657,028	$ 164,945,024	156.11%	$ 59,287,996
2025	$100,491,611	$ 164,945,024	164.14%	$ 64,453,413
2026	$101,694,933	$ 164,945,024	162.20%	$ 63,250,091
2027	$100,082,386	$ 164,945,024	164.81%	$ 64,862,638
2028	$100,233,542	$ 164,945,024	164.56%	$ 64,711,482
2029	$100,345,662	$ 164,945,024	164.38%	$ 64,599,362
2030	$ 96,862,403	$ 164,945,024	170.29%	$ 68,082,621
2031	$ 87,966,508	$ 164,945,024	187.51%	$ 76,978,516
2032	$ 77,298,951	$ 164,945,024	213.39%	$ 87,646,073
2033	$ 62,413,041	$ 164,945,024	264.28%	$ 102,531,983
2034	$ 62,731,595	$ 164,945,024	262.94%	$ 102,213,429
2035	$ 55,908,100	$ 164,945,024	295.03%	$ 109,036,924
2036	$ 54,489,010	$ 164,945,024	302.71%	$ 110,456,014
2037	$ 36,406,964	$ 164,945,024	453.06%	$ 128,538,060
2038	$ 24,226,000	$ 164,945,024	680.86%	$ 140,719,024
2039	$ 14,036,800	$ 164,945,024	1175.09%	$ 150,908,224
2040	$ 7,103,042	$ 164,945,024	2322.17%	$ 157,841,982
2041	$ 4,136,004	$ 164,945,024	3988.03%	$ 160,809,020
2042	$ 1,181,600	$ 164,945,024	13959.46%	$ 163,763,424

Calendar Year

Year	MSHA Accelerated Total	Reserves 3/31/09	Reserve Coverage	Reserves less DS
2009	$ 128,714,953	$ 164,945,024	128.15%	$ 36,230,071
2010	$ 140,465,489	$ 164,945,024	117.43%	$ 24,479,535
2011	$ 138,161,651	$ 164,945,024	119.39%	$ 26,783,373
2012	$ 138,115,324	$ 164,945,024	119.43%	$ 26,829,700
2013	$ 134,992,074	$ 164,945,024	122.19%	$ 29,952,950
2014	$ 134,781,651	$ 164,945,024	122.38%	$ 30,163,373
2015	$ 134,832,099	$ 164,945,024	122.33%	$ 30,112,925
2016	$ 128,670,203	$ 164,945,024	128.19%	$ 36,274,821
2017	$ 112,345,706	$ 164,945,024	146.82%	$ 52,599,318
2018	$ 115,973,851	$ 164,945,024	142.23%	$ 48,971,173
2019	$ 116,053,144	$ 164,945,024	142.13%	$ 48,891,880
2020	$ 117,480,179	$ 164,945,024	140.40%	$ 47,464,845
2021	$ 112,778,145	$ 164,945,024	146.26%	$ 52,166,879
2022	$ 115,950,465	$ 164,945,024	142.25%	$ 48,994,559
2023	$ 112,355,010	$ 164,945,024	146.81%	$ 52,590,014
2024	$ 96,635,028	$ 164,945,024	170.69%	$ 68,309,996
2025	$ 91,685,611	$ 164,945,024	179.90%	$ 73,259,413
2026	$ 89,104,933	$ 164,945,024	185.11%	$ 75,840,091
2027	$ 87,868,386	$ 164,945,024	187.72%	$ 77,076,638
2028	$ 88,395,542	$ 164,945,024	186.60%	$ 76,549,482
2029	$ 88,883,662	$ 164,945,024	185.57%	$ 76,061,362
2030	$ 88,576,403	$ 164,945,024	186.22%	$ 76,368,621
2031	$ 81,544,508	$ 164,945,024	202.28%	$ 83,400,516
2032	$ 71,076,951	$ 164,945,024	232.07%	$ 93,868,073
2033	$ 56,391,041	$ 164,945,024	292.50%	$ 108,553,983
2034	$ 55,909,595	$ 164,945,024	295.02%	$ 109,035,429
2035	$ 49,326,100	$ 164,945,024	334.40%	$ 115,618,924
2036	$ 47,732,010	$ 164,945,024	345.56%	$ 117,213,014
2037	$ 34,186,564	$ 164,945,024	482.48%	$ 130,758,460
2038	$ 24,226,000	$ 164,945,024	680.86%	$ 140,719,024
2039	$ 14,036,800	$ 164,945,024	1175.09%	$ 150,908,224
2040	$ 7,103,042	$ 164,945,024	2322.17%	$ 157,841,982
2041	$ 4,136,004	$ 164,945,024	3988.03%	$ 160,809,020
2042	$ 1,181,600	$ 164,945,024	13959.46%	$ 163,763,424

Reserve Coverage: Maine Municipal Bond Bank

- MMBB's reserve levels as of 3/31/09 cover MADS by 104%
  - This provides more than adequate coverage since there is no principal acceleration risk in MMBB's portfolio

6/30 Fiscal Year	MMBB Total	Reserves 3/31/09	Reserve Coverage	Reserves less DS
2009	$ 24,084,163	$ 153,307,650	636.55%	$ 129,223,487
2010	$ 147,744,242	$ 153,307,650	103.77%	$ 5,563,408
2011	$ 140,696,302	$ 153,307,650	108.96%	$ 12,611,348
2012	$ 127,651,992	$ 153,307,650	120.10%	$ 25,655,658
2013	$ 118,092,748	$ 153,307,650	129.82%	$ 35,214,902
2014	$ 107,596,310	$ 153,307,650	142.48%	$ 45,711,340
2015	$ 100,477,572	$ 153,307,650	152.58%	$ 52,830,078
2016	$ 88,000,571	$ 153,307,650	174.21%	$ 65,307,079
2017	$ 84,863,603	$ 153,307,650	180.65%	$ 68,444,047
2018	$ 77,945,743	$ 153,307,650	196.69%	$ 75,361,906
2019	$ 74,008,578	$ 153,307,650	207.15%	$ 79,299,072
2020	$ 59,826,284	$ 153,307,650	256.25%	$ 93,481,366
2021	$ 57,700,251	$ 153,307,650	265.70%	$ 95,607,398
2022	$ 50,908,987	$ 153,307,650	301.14%	$ 102,398,663
2023	$ 38,974,585	$ 153,307,650	393.35%	$ 114,333,065
2024	$ 30,865,108	$ 153,307,650	496.70%	$ 122,442,541
2025	$ 32,607,506	$ 153,307,650	470.16%	$ 120,700,144
2026	$ 21,663,255	$ 153,307,650	707.69%	$ 131,644,395
2027	$ 15,941,519	$ 153,307,650	961.69%	$ 137,366,131
2028	$ 17,522,498	$ 153,307,650	874.92%	$ 135,785,152
2029	$ 11,151,533	$ 153,307,650	1374.77%	$ 142,156,117
2030	$ 2,175,781	$ 153,307,650	7046.10%	$ 151,131,869
2031	$ 1,404,684	$ 153,307,650	10914.03%	$ 151,902,965
2032	$ 2,052,449	$ 153,307,650	7469.50%	$ 151,255,200
2033	$ 693,694	$ 153,307,650	22100.19%	$ 152,613,956
2034	$ 1,583,731	$ 153,307,650	9680.16%	$ 151,723,919
2035	$ 598,931	$ 153,307,650	25596.87%	$ 152,708,719
2036	$ 132,778	$ 153,307,650	115461.51%	$ 153,174,872
2037	$ 161,753	$ 153,307,650	94778.78%	$ 153,145,897
2038	$ 154,863	$ 153,307,650	98995.98%	$ 153,152,787
2039	$ 133,200	$ 153,307,650	115095.83%	$ 153,174,450
2040				
2041				
2042				

Reserve Coverage: Maine Health and Higher Educational Facilities Authority

- MHHEFA's reserve levels as of 3/31/09 cover MADS by 107%
  - If principal for Series 2006H, 2008A and 2008B were to be accelerated to an (assumed) 5-year amortization and interest paid at 7%, reserve coverage of MADS could drop to 84% but additional operating reserves plus intercept provisions would protect the State

6/30 fiscal				
Year	MHHEFA Total	Reserves 3/31/09	Reserve Coverage	Reserves less DS
2009	$ 116,173,594	$ 130,826,559	112.61%	$ 14,652,964.76
2010	$ 117,546,883	$ 130,826,559	111.30%	$ 13,279,675.59
2011	$ 120,588,977	$ 130,826,559	108.49%	$ 10,237,582.10
2012	$ 122,601,318	$ 130,826,559	106.71%	$ 8,225,240.58
2013	$ 119,297,109	$ 130,826,559	109.66%	$ 11,529,450.12
2014	$ 118,297,575	$ 130,826,559	110.59%	$ 12,528,984.49
2015	$ 111,779,563	$ 130,826,559	117.04%	$ 19,046,995.64
2016	$ 110,132,387	$ 130,826,559	118.79%	$ 20,694,171.67
2017	$ 107,666,268	$ 130,826,559	121.51%	$ 23,160,290.90
2018	$ 106,314,494	$ 130,826,559	123.06%	$ 24,512,065.09
2019	$ 101,837,895	$ 130,826,559	128.47%	$ 28,988,663.57
2020	$ 97,097,713	$ 130,826,559	134.74%	$ 33,728,845.88
2021	$ 96,146,993	$ 130,826,559	136.07%	$ 34,679,566.38
2022	$ 91,050,129	$ 130,826,559	143.69%	$ 39,776,430.08
2023	$ 87,213,088	$ 130,826,559	150.01%	$ 43,613,471.38
2024	$ 81,304,276	$ 130,826,559	160.91%	$ 49,522,283.48
2025	$ 78,278,612	$ 130,826,559	167.13%	$ 52,547,947.44
2026	$ 72,424,176	$ 130,826,559	180.64%	$ 58,402,382.96
2027	$ 66,584,825	$ 130,826,559	196.48%	$ 64,241,734.02
2028	$ 65,302,678	$ 130,826,559	200.34%	$ 65,523,881.44
2029	$ 60,908,897	$ 130,826,559	214.79%	$ 69,917,661.52
2030	$ 54,129,149	$ 130,826,559	241.69%	$ 76,697,410.21
2031	$ 45,701,528	$ 130,826,559	286.26%	$ 85,125,031.46
2032	$ 39,717,838	$ 130,826,559	329.39%	$ 91,108,721.48
2033	$ 33,316,724	$ 130,826,559	392.68%	$ 97,509,835.26
2034	$ 30,839,838	$ 130,826,559	424.21%	$ 99,986,721.04
2035	$ 30,527,319	$ 130,826,559	428.56%	$ 100,299,239.99
2036	$ 26,461,183	$ 130,826,559	494.41%	$ 104,365,376.02
2037	$ 8,427,356	$ 130,826,559	1552.40%	$ 122,399,202.74
2038	$ 4,528,550	$ 130,826,559	2888.93%	$ 126,298,009.00
2039				
2040				
2041				
2042				

6/30 fiscal				
Year	MHHEFA Accelerated Total	Reserves 3/31/09	Reserve Coverage	Reserves less DS
2009	$ 123,429,896	$ 130,826,559	105.99%	$ 7,396,663.18
2010	$ 155,647,950	$ 130,826,559	84.05%	$ (24,821,391.49)
2011	$ 155,828,513	$ 130,826,559	83.96%	$ (25,001,953.98)
2012	$ 153,538,912	$ 130,826,559	85.21%	$ (22,712,352.50)
2013	$ 147,358,273	$ 130,826,559	88.78%	$ (16,531,714.46)
2014	$ 123,391,172	$ 130,826,559	106.03%	$ 7,435,386.91
2015	$ 100,908,243	$ 130,826,559	129.65%	$ 29,918,315.56
2016	$ 99,244,903	$ 130,826,559	131.82%	$ 31,581,655.91
2017	$ 96,740,191	$ 130,826,559	135.23%	$ 34,086,368.36
2018	$ 95,378,748	$ 130,826,559	137.17%	$ 35,447,811.25
2019	$ 90,865,380	$ 130,826,559	143.98%	$ 39,961,178.77
2020	$ 86,097,847	$ 130,826,559	151.95%	$ 44,728,711.80
2021	$ 85,124,137	$ 130,826,559	153.69%	$ 45,702,422.06
2022	$ 80,008,867	$ 130,826,559	163.52%	$ 50,817,692.32
2023	$ 76,128,167	$ 130,826,559	171.85%	$ 54,698,391.86
2024	$ 70,176,849	$ 130,826,559	186.42%	$ 60,649,709.94
2025	$ 67,140,217	$ 130,826,559	194.86%	$ 63,686,341.70
2026	$ 61,235,385	$ 130,826,559	213.65%	$ 69,591,174.22
2027	$ 56,868,473	$ 130,826,559	230.05%	$ 73,958,086.48
2028	$ 55,558,196	$ 130,826,559	235.48%	$ 75,268,362.72
2029	$ 51,131,826	$ 130,826,559	255.86%	$ 79,694,732.74
2030	$ 44,326,031	$ 130,826,559	295.15%	$ 86,500,527.73
2031	$ 35,854,071	$ 130,826,559	364.89%	$ 94,972,487.72
2032	$ 29,835,176	$ 130,826,559	438.50%	$ 100,991,382.74
2033	$ 23,428,713	$ 130,826,559	558.40%	$ 107,397,846.50
2034	$ 20,905,073	$ 130,826,559	625.81%	$ 109,921,486.50
2035	$ 20,576,824	$ 130,826,559	635.80%	$ 110,249,735.23
2036	$ 16,480,178	$ 130,826,559	793.84%	$ 114,346,381.50
2037	$ 8,427,356	$ 130,826,559	1552.40%	$ 122,399,202.74
2038	$ 4,528,550	$ 130,826,559	2888.93%	$ 126,298,009.00
2039				
2040				
2041				
2042				

Reserve Coverage: Maine Educational Loan Authority

- MELA's reserve levels cover MADS by 127%
  - These reserve levels provide significant coverage
  - Reserve levels include a cash capital reserve, a guaranty fund, and an Assured Guaranty surety bond that covers up to $18 million

6/30 Fiscal Year	MELA Total	Capital Reserves	Reserve Coverage	Reserves less DS
2009				
2010	$11,103,087	$ 25,339,966	228.22%	$ 14,236,879
2011	$12,855,750	$ 25,339,966	197.11%	$ 12,484,216
2012	$17,816,025	$ 25,339,966	142.23%	$ 7,523,941
2013	$19,932,850	$ 25,339,966	127.13%	$ 5,407,116
2014	$19,676,638	$ 25,339,966	128.78%	$ 5,663,329
2015	$18,990,500	$ 25,339,966	133.43%	$ 6,349,466
2016	$19,070,713	$ 25,339,966	132.87%	$ 6,269,254
2017	$18,520,625	$ 25,339,966	136.82%	$ 6,819,341
2018	$18,251,875	$ 25,339,966	138.83%	$ 7,088,091
2019	$16,985,625	$ 25,339,966	149.18%	$ 8,354,341
2020	$16,332,625	$ 25,339,966	155.15%	$ 9,007,341
2021	$15,758,625	$ 25,339,966	160.80%	$ 9,581,341
2022	$15,457,875	$ 25,339,966	163.93%	$ 9,882,091
2023	$13,592,938	$ 25,339,966	186.42%	$ 11,747,029
2024	$11,712,500	$ 25,339,966	216.35%	$ 13,627,466
2025	$10,403,125	$ 25,339,966	243.58%	$ 14,936,841
2026	$ 9,441,563	$ 25,339,966	268.39%	$ 15,898,404
2027	$ 8,908,125	$ 25,339,966	284.46%	$ 16,431,841
2028	$ 6,447,813	$ 25,339,966	393.00%	$ 18,892,154
2029	$ 4,700,000	$ 25,339,966	539.15%	$ 20,639,966
2030	$ 4,700,000	$ 25,339,966	539.15%	$ 20,639,966
2031	$12,465,000	$ 25,339,966	203.29%	$ 12,874,966
2032	$11,995,000	$ 25,339,966	211.25%	$ 13,344,966
2033	$11,525,000	$ 25,339,966	219.87%	$ 13,814,966
2034	$11,055,000	$ 25,339,966	229.22%	$ 14,284,966
2035	$10,585,000	$ 25,339,966	239.40%	$ 14,754,966
2036	$10,115,000	$ 25,339,966	250.52%	$ 15,224,966
2037	$ 9,645,000	$ 25,339,966	262.73%	$ 15,694,966
2038	$ 9,175,000	$ 25,339,966	276.18%	$ 16,164,966
2039	$ 8,705,000	$ 25,339,966	291.10%	$ 16,634,966
2040	$ 8,235,000	$ 25,339,966	307.71%	$ 17,104,966
2041				
2042				

Rating Agency Views/Considerations

PFM
The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

Moody's Approach to the Moral Obligation Pledge

- Moody's view of Moral Obligation debt was reaffirmed in November 2008 report
  - Moody's views the pledge as just one credit feature of a bond program, while the central focus of the analysis typically remains on the credit of the issuer and the revenues available to governmental units, projects, or revenue generating systems
  - The approach makes risk distinctions among credits on a case-by-case basis to best reflect the varied nature of transactions backed by a moral obligation pledge and allows for the recognition of the individual merits of a credit rather than a formulaic approach that "notches" a rating off of the entity offering the pledge
  - Key components of the Moody's approach to reviewing moral obligation backed transactions and determining the weight of the pledge include an analysis of the following elements once the revenue system has been analyzed separately:
    - **Essentiality:** how important is the project to the State providing the pledge?
    - **Economic benefit/motive:** what is the cost to the State supporting the issue vs. the cost of not supporting the issue in the event of potential/pending default?
    - **Reputation:** did the State's prior moral obligation bonds price based on the State's support? Would the State's reputation with investors be damaged if support were withheld?
    - **History:** has the State demonstrated a commitment to honoring the moral obligation pledge when it has been called upon?
    - **Mechanics/timing:** are the mechanics for drawing on the moral obligation pledge structured to allow sufficient timing for the State to act to make timely payment?

S&P's Approach to the Moral Obligation Pledge

- S&P approach was last reviewed in June 2006
  - In rating any moral obligation bonds, S&P expects a standard structure to be in place:
    - A reserve fund, funded at MADS at the time of the issue, either by proceeds or other available moneys
    - Language in the statute that outlines the duty and process of monitoring this fund and notifying an appropriate official in the event the money in the reserve fund falls below the required level. Such notification must be made in a timely manner as to meet the budgetary requirements of that government
    - A requirement that the appropriate budgetary official request an appropriation to return the reserve fund to its maximum debt service required level whenever there is a draw on the fund; and
    - Language that provides the appropriate body of elected official the option to make such an appropriation
  - Additionally, S&P will evaluate the essentiality of the financing's purpose to the issuer: legislative history, how important the pledge is to ongoing operations, and how motivated the issuer would be to live up to the moral obligation, even if it comes under pressure to allocate scarce resources in other ways. The Government must:
    - Represent that it fully intends to satisfy future moral obligation payments; and
    - Provide evidence of legislation authorizing the project or program being financed, also detailing the requirements with respect to deficiency payments

Maine Municipal Bond Bank

- Summary of the Moody's report dated April 22, 2009
  - State is morally, though not legally, obligated to make up through annual appropriations any deficiency that may occur in the primary debt service reserve fund ("DSRF")
  - Primary DSRF covers MADS by over $13 million (1.11x)
  - Additional reserves pledged to debt service total $13.2 million, and MMBB also has a $20 million discretionary fund that is available to repay debt service
  - Reserves are sufficient such that the top five largest borrowers could default on all payments, assuming no replenishment of reserves by the State, and debt service payments could still be made in full and on time

Maine State Housing Authority

- Summary of the Moody's report dated August 19, 2009
  - Rating reflects the program's strong financial position resulting from the Authority's active financial management and very strong legal provisions
  - Strong insurance provisions on the single family loans will protect the program from significant losses associated with potential defaulted loans. Additionally, losses not covered by mortgage insurance should be covered by the large fund balances and surpluses generated by the program
    - The multifamily portfolio consists of 637 developments comprising $341.018 million of loans outstanding; approximately 30.56% of the loans are Section 8/236, and 69.11% are uninsured
  - Strong program asset-to-debt ratio of 1.176x
    - FY2008 adjusted fund balance is $250.210 million or 17.34% of bonds outstanding. Net revenue as a percentage of total revenue in 2008 decreased to 9.47% from the previous year's profitability percentage of 19.58%
  - Moody's believes that the program will continue to generate enough revenue from its loans and investments to meet existing debt obligations under all prepayment scenarios
  - Cash flow projections indicate ample funds to meet all debt service obligations under stressful prepayment scenarios

Maine Health and Higher Educational Facilities Authority

- Summary of the Moody's report dated November 4, 2008
  - The establishment of the Reserve Fund Resolution obligates the State morally, though not legally, to make up any deficiency that may occur in the reserve fund for the MHHEFA bonds through annual appropriations
  - Authority initially established to assist health care providers, higher education institutions, and other eligible facilities to obtain capital
  - In prior legislative session, a change was made to the Resolution to expand the types of eligible borrowers
    - The inclusion of "cultural institutions" in the expansion introduces some uncertainty regarding their impact on the underlying credit quality of MHHEFA, given the typical marginal operations of these institutions and their potential capital needs

Maine Educational Loan Authority

- Summary of the Moody's report dated May 14, 2009
  - In the event of a shortfall in revenue pledged, the Authority will certify to the governor on or before 12/1 the amount needed to restore the capital reserve fund to the required level and, if necessary, reimburse the insurance policy holder for draws on the surety bond
  - Practically speaking, the State's moral obligation pledge depends entirely on timely action by the legislature to provide the funds needed to replenish the capital reserve fund: **Appropriation Risk**
  - Potential timing gap exists between the 6/1 interest payment and the State's moral obligation to restore the capital reserve fund with the current fiscal year (ending 6/30), however the likelihood of a later or insufficient appropriation appears slim given the legislature's voted support of the MELA student loan revenue bond program

Conclusions

The PFM Group
Public Financial Management, Inc.
PFM Asset Management, LLC
PFM Advisors

Conclusions

- Moral obligation continues to be an effective tool for the State
- Moral obligation debt obligations have increased moderately ($514 million, or 15%)
- The State's credit is protected by existing levels of mandated reserves and additional reserves
  - Significant draws on the reserve cushion could raise rating agency concerns
- The moral obligation pledge provides the most effective and low-cost form of credit enhancement in the marketplace, especially given the absence of viable triple-A bond insurers
- The State has utilized a conservative reserve structure and diversified financial partners to mitigate the risks associated with this structure