Maryland State Treasurer's Office
Nancy K. Kopp, Treasurer

NEWS RELEASE

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CONTACT:

Bernadette Benik
(410) 260-7390

Maryland Retains AAA Bond Rating, To Sell an estimated $100 Million In Bonds First to Maryland Investors

ANNAPOLIS (July 14, 2011) – Maryland State Treasurer Nancy K. Kopp announced today that all three bond rating agencies have affirmed the State's strong Triple AAA bond rating in preparation for the upcoming sale of approximately $718 million of General Obligation Bonds on Wednesday, July 27, 2011 at the Board of Public Works meeting.

This offering will include the direct retail sale of approximately $100 million of bonds with first priority to Maryland citizens, similar to successful transactions that began in 2009. "Marylanders get first preference in buying highly desirable, conservative quality bonds while investing in their State - a win-win situation," Treasurer Kopp said.

The retail bond sale begins Friday, July 22 and likely will end on Monday, July 25. For more information, potential buyers should check www.buymarylandbonds.com.

The bond sale will conclude with four competitive bids for the remaining bonds, which are expected to be sold to institutions. The sale will include approximately $390 million of tax-exempt bonds, $15.9 million of taxable Qualified Zone Academy Bonds, $6.5 million of taxable Qualified Energy

Conservation Bonds and approximately $206 million of tax-exempt refunding bonds.

As has always been the case with the issuance of Maryland's General Obligation Bonds, the State uses the proceeds only to finance necessary capital projects, such as schools, community colleges, university projects and hospitals.

Treasurer Kopp said, "While Maryland has historically received Triple AAA ratings from the three major bond rating agencies, today's recognition of Maryland's fiscal strength and prudent management is an extraordinary accomplishment. Considering the uncertainty at the federal level over debt ceilings and deficit reductions we are pleased the rating analysts recognize Maryland's strong, stable and prudent financial management."

"Retention of the Triple A rating allows us to continue to save millions of taxpayer dollars resulting from the low interest rates achieved because of these ratings," Treasurer Kopp said.

The Maryland Board of Public Works, comprising Governor Martin O'Malley, Comptroller Peter Franchot and Treasurer Kopp, will preside over the competitive bond sale on Wednesday, July 27, 2011 in the Assembly Room in the Goldstein Treasury Building in Annapolis.

Maryland is one of only eight states to hold the coveted AAA rating, the highest possible rating, from all three bond rating agencies. Standard and Poor's has rated the bonds AAA since 1961. Moody's Investors has assigned the bonds a rating of Aaa since 1973, and Fitch Ratings has rated the bonds AAA since 1993.

Fitch, in assigning its AAA rating and stable outlook, said, "Debt oversight is strong and centralized, and the debt burden is moderate. The state has policies to maintain debt affordability, and the constitution requires GO and transportation bonds to amortize within 15 years. Pension funding levels have deteriorated, although the state is undertaking extensive pension and other post-employment benefit (OPEB) reforms."

Fitch Ratings further said, "Financial operations are conservative, with the state consistently demonstrating a strong commitment to maintaining budgetary balance through the downturn, including through repeated spending cuts, fund balance transfers and revenue increases. The state has also maintained flexibility in the form of RDF (Rainy Day Fund), which has remained funded at or near 5% of general fund revenues in recent years."

Moody's, in explaining its Aaa rating and stable credit outlook, said, "The outlook for Maryland's general obligation debt is stable. The state faces

significant budget pressure, including the need to address the declines in retirement system funded levels, that will test its financial management abilities. The stable outlook reflects Moody's expectation that the state, consistent with its history of strong financial management, will appropriately address its structural budget gap and pension funding concerns."

Moody's also said, "The highest quality rating reflects Maryland's strong financial management policies, stable economy with high personal income levels, and ability to maintain positive available reserves despite sustained pressure on its budget. The rating also acknowledges the state's above average debt burden and low retirement system funding levels."

In assigning its 'AAA' long-term rating and stable outlook, Standard & Poor's said, "The stable outlook reflects what we view as Maryland's economic strength and historically strong financial and debt management policies. We believe the state has proactively responded to recent structural budget imbalance and we would expect it to continue to focus on achieving structural budget balance. Maryland has made a steady commitment to funding reserves, which we believe enhances its flexibility in the current economic environment."

Standard and Poor's further states: "Once the budget is approved, the state monitors both revenue and expenditure performance on a regular basis and reports results in addition to an economic update. Budget adjustments have historically been implemented regularly on a timely basis. The governor has the authority to make adjustments to the budget and has a track record of doing so. Deficits can't be carried forward into the next fiscal year."

Referring to pension reforms enacted during the 2010 Legislative Session, Standard & Poor's said, "The enacted reforms are expected to raise the State funded ratio to 80% by 2023, three years sooner than currently projected. The actuary also projects the system will reach nearly full funding by fiscal 2031."

All three rating agencies point to the State's strong, diverse economy. Standard & Poor's referred to Maryland's "diverse, broad-based economy, which has historically outperformed the national economy…strong wealth and income levels, coupled with unemployment that remains below the national average through economic cycles." Fitch Ratings said, "The state is wealthy and its diverse economy, benefits from its proximity to the nation's capitol."

Moody's said, "Maryland's economy has diversified in recent years, but continues to be proportionally more affected by the activities of the federal

government than any other state…the ongoing Base Realignment and Closure Commission (BRAC) reorganization is expected to result in a significant increase in new jobs." "The state projects a direct employment increase of about 21,000 jobs as a result of BRAC reorganization by the end of calendar 2011."

Treasurer Kopp noted that the rating agencies continue to follow closely the progress in Washington on negotiations to raise the debt limit in time to prevent a missed payment of US interest or principal and the implications that would have on Aaa-rated municipal issuers. On July 13, 2011, Moody's published a Special Comment, "Implications of a U.S. Government Downgrade for Aaa-rated municipal issuers". Moody's states they will review the Aaa-related issuers during the week of July 18 to identify the impact of the federal stalemate on them and whether their ratings should also go on review.

The Maryland State Treasurer's Office expects to conduct another bond sale either in late February or early March 2012.

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