MARYLAND STATE TREASURER
Nancy K. Kopp

FOR IMMEDIATE RELEASE

CONTACT:

Bernadette Benik
(410) 260-7080
(410) 507-5040

Maryland Retains Triple AAA Bond Rating,
To Sell $500 Million of General Obligation Bonds

ANNAPOLIS (July 7, 2015) – Maryland State Treasurer Nancy K. Kopp announced today that all three major national bond rating agencies have re-affirmed the State's strong AAA bond rating, all with stable outlooks, in preparation for the upcoming competitive sale of State General Obligation Bonds on Thursday, July 16, 2015.

Maryland is one of eleven states* to hold the coveted AAA rating, the highest possible rating, from all three major 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.

Treasurer Kopp said, “Today’s announcement of Maryland’s retention of its AAA rating from the three major bond rating firms serves as confirmation of the State’s overall fiscal strength and longstanding commitment to prudent financial management. We are pleased the rating agencies recognize the contribution of our diverse economy, well-educated workforce, and above-average wealth and income levels to the overall quality of an investment in Maryland.”

“The citizens of Maryland will continue to save millions of taxpayer dollars as they benefit from lower interest rates warranted by these AAA ratings. This achievement allows us to continue to invest in our communities, notably our schools, libraries, institutions of higher education, healthcare facilities and cultural projects important to the residents of our State,” Treasurer Kopp added.

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 [General Obligation] and transportation bonds to amortize within 15 years.”

Fitch Ratings further noted: “Financial operations are conservatively managed, and the state maintains a well-funded rainy day fund. The state took repeated action during the course of the last recession to address projected budget gaps, including raising tax revenues, cutting spending, and using rainy day and other balances.”

Moody’s, in explaining its Aaa rating and stable outlook said “The highest quality rating reflects Maryland’s strong financial management policies and stable economy with high personal income levels.” While Moody’s acknowledged “…the state’s economic exposure to constrained federal spending, its above average debt burden and large unfunded pension liabilities relative to the size of its economy,” they also noted “[c]onsistent with its history of strong financial management, the state has been appropriately addressing its structural budget gap and pension funding concerns even under pressure from federal budget reductions.”

In assigning its AAA long-term rating and stable outlook, Standard & Poor’s said: “The rating reflects what we view as the state’s: Broad and diverse economy, which has experienced tepid overall growth in 2013 and 2014 due to sequestration and federal budget uncertainty; Strong wealth and income levels; Long history of proactive financial and budget management, including implementation of frequent and timely budget adjustments to align revenues and expenditures; Well-developed financial and debt management policies including long-term financial planning that should continue to be helpful in addressing future budget challenges; and Still-moderate debt burden across all measures, despite increasing issuance. Although some growth in debt levels is likely based on planned issuance and the potential for public-private partnership (P3) projects, we expect the debt burden will remain moderate for most measures due to a clearly defined debt affordability process that limits annual issuance, coupled with a rapid 15-year debt maturity schedule as required by the Maryland Constitution.”

Standard and Poor’s further stated: “The stable outlook on Maryland reflects our view of the state’s proactive midyear adjustments to align the budget with slower-than-anticipated revenue growth and a proposed fiscal 2016 budget that maintains current reserve and reduces reliance on one-time measures for budgetary balance."

All three rating agencies praised Maryland's history of strong, sound financial management. Moody's recognized "Maryland's financial practices and flexibility are very strong. For example, the state has a binding consensus revenue forecast, multi-year financial planning, and the Board of Public Works is able to respond swiftly to mid-year budget challenges. The state also has no tax and spending limitations or supermajority requirements limiting its flexibility." Standard & Poor's assigned a rating of "strong" to Maryland's management practices, noting that "…Maryland has demonstrated strong revenue and budget monitoring practices with a track record of making expenditure adjustments midyear when required."

Each rating agency recognized the impact of federal budget cuts on Maryland's economy. S&P noted "We expect Maryland's economic recovery will continue and could accelerate as uncertainties relating to federal fiscal issues moderate." Fitch indicated "Sound fiscal management practices and the consistent maintenance of fiscal flexibility (including budgetary reserves) are expected to provide the state with significant ability to respond to near-term economic or fiscal conditions, such as federal budget reductions, in a manner consistent with the 'AAA' rating."

Each of the rating agencies recognized significant pension funding challenges as well as reforms enacted over the past three years. Moody's indicated "[l]ow retirement system funded levels" represent a credit challenge for the state and "[f]ailure to adhere to plans to address low pension funded ratios" could make the rating go down. Fitch Ratings noted "Pensions are a comparative credit weakness in Maryland, although the state has taken repeated action since 2011 to reform benefits and contributions to strengthen funding." While acknowledging "implementation of various reforms and some improvements in funded ratios," S&P indicated "the state's below-average pension funded ratios and annual contributions that have not met the ARC also continue to represent downside risk to the rating."

The bond sale will include two competitive bids which are expected to be sold to institutions. The sale will include $450 million of tax-exempt bonds and $50 million of taxable bonds.

As has always been the case with the issuance of Maryland's tax-exempt General Obligation Bonds, the State uses the proceeds to finance necessary capital projects, such as schools, community colleges, university projects and hospitals. Proceeds from the taxable bonds will be used primarily to support State housing and community development programs as well as water quality financing programs offered by the State.

The Maryland Board of Public Works, composed of Governor Lawrence J. Hogan, Jr., Comptroller Peter Franchot and Treasurer Nancy K. Kopp, will preside over the competitive bond sale on Thursday, July 16, 2015 in the Assembly Room in the Goldstein Treasury Building in Annapolis.

The Maryland State Treasurer's Office expects to conduct another bond sale in February or March 2016.

##

* The other ten states with AAA ratings from all three rating agencies are Alaska, Delaware, Georgia, Missouri, Indiana, Iowa, North Carolina, Texas, Utah, and Virginia.