

08 MAR 2023

Fitch Rates Maryland's \$400 Million GOs 'AAA'; Outlook Stable

Fitch Ratings - San Francisco - 08 Mar 2023: Fitch Ratings has assigned a 'AAA' rating to the following State of Maryland general obligation (GO) bonds, state and local facilities loan of 2023, first series:

--\$350 million first series A, tax-exempt bonds (competitive);

--\$50 million first series B, taxable bonds (competitive).

The first series A and B bonds are expected to be offered by competitive sale on or about March 15, 2023.

Additionally, Fitch has affirmed the Issuer Default Rating (IDR) of the State of Maryland at 'AAA' and the following ratings on securities that are linked to the IDR:

--GO bonds at 'AAA';

--Certificates of participation (COPs) issued by the Maryland Department of Transportation supported by annual state general and transportation appropriations at 'AA+';

--Maryland Stadium Authority lease revenue bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY

The bonds being issued are general obligations for which the state's full faith and credit are pledged. Appropriation-backed debt issued by the Maryland Department of Transportation and the Maryland Stadium Authority is rated one notch below the state's IDR, reflecting repayment from annual state appropriations.

ANALYTICAL CONCLUSION

Maryland's 'AAA' IDR reflects its broad, diverse and wealthy economy, strong and forward-looking fiscal management, and broad budgetary flexibility. Liabilities are elevated for a state, but carefully managed and moderate relative to available resources. The state's economy benefits from proximity to the nation's capital, although exposure to federal budget changes poses a greater uncertainty for Maryland than for most states given its large federal agency presence and associated private contracting.

Economic Resource Base

Maryland's economy is relatively wealthy, diverse and service-oriented. Fitch's D-Trend indicates a robust economic profile, coupled with mid-range growth trends relative to other U.S. states. In addition to world-class trade centered around the Port of Baltimore, the federal government's presence is an anchor and long-term economic stabilizer to Maryland's economy. The state houses numerous federal agencies, military facilities and contractors.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Maryland retains unlimited legal authority to raise operating revenues on its solid economic base. Revenue growth prospects are expected to be strong and comparable with overall U.S. economic growth. Risk from reliance on personal income tax is mitigated by a robust federal presence.

Expenditure Framework: 'aaa'

Maryland has a strong ability to adjust its spending commitments, of which education and Medicaid remain the largest components. Carrying costs for liabilities remain moderately low but above states' median.

Long-Term Liability Burden: 'aa'

Maryland's debt and net pension liabilities are elevated for a state but moderate relative to its resource base. Pensions are the more significant burden, which the state is addressing through benefit and contribution policy changes.

Operating Performance: 'aaa'

Financial resilience is extremely strong, with well-funded budgetary reserves, consensus-oriented decision-making with a willingness to trim spending and increase revenues, and disciplined multiyear forecasting and planning.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--Inability to effectively manage rising spending demands with recurring revenues, notably from expanding education funding commitments, which weaken Fitch's assessments of either its expenditure framework or operating performance;

--A material increase in long-term liabilities, particularly those associated with retiree benefits, much closer to 20% of personal income.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Maryland Budgetary Update

Maryland's current revenue and economic forecast anticipates moderate growth into the medium term. Maryland's Board of Revenue Estimates, the official revenue forecasting body for the state, adjusts its forecast thrice annually. Following two years of stimulus-charged double-digit revenue growth, the Board's December 2022 estimate projects fiscal 2023 (ending June 30) revenues to grow 2.4% to \$24.6 billion, with 2.3% growth for fiscal 2024. Revenue growth is projected to be driven by individual income tax. A revenue forecast update is anticipated during March, which will inform final legislative deliberations on a budget for fiscal 2024. Maryland typically finalizes its budget by early April under a constitutional provision requiring budget agreement one week before the end of the legislative session.

Reserves to Remain Adequately Funded

Maryland is simultaneously building its Revenue Stabilization Account (RSA) while reducing the sizable general fund reserves amassed during the pandemic with largely one-time uses including capital spending, resulting in a net decrease in reserves to levels that Fitch considers adequate to support Maryland's robust financial resilience. The state ended fiscal 2022 with \$1.8 billion in various reserve funds, mostly its RSA, or 7.5% of general fund revenues. The combined reserve funds (collectively, the state reserve account) and general fund balance in fiscal 2022 were a sizable \$7.3 billion (30% of general fund revenues).

The state estimates additional reserve growth in fiscal 2023, with a \$3.5 billion balance in the state reserve account (15%), or \$5.8 billion (24.4%) when combined with the general fund balance. The state estimates a second year draw on general fund reserves in fiscal 2024, with \$3.1 billion in the state reserve account (12%), and \$3.9 billion when combined with the general fund ending balance (16%).

Blueprint Fund Sets New Course for Education Funding

In February 2020, the legislature overrode gubernatorial vetoes to enact House Bill 1300 (HB1300) and HB732. HB1300 implemented and provided initial funding for key recommendations of the

Commission on Innovation and Excellence (also known as the Kirwan Commission), which was empaneled to address education policy and funding. The enacted plan gradually increases state and local education aid to \$4 billion by 2033 (see details below).

Importantly, HB1300 established the nation's first taxes on digital goods and downloads, including advertising. Up to \$119 million in annual receipts will flow outside the general fund to the Blueprint for Maryland's Future Fund, pending resolution of litigation preventing implementation. HB732 established additional tobacco taxes that generated approximately \$100 million in additional general fund in fiscal 2022, and \$80 million-\$90 million annually thereafter.

Low Unemployment while Labor Force Still Lags

Fitch's December 2022 analysis of BLS data indicates the state had almost nine out of 10 of the pandemic-driven decline in non-farm payrolls, when 14% of Maryland jobs were lost. Maryland's unemployment rate has nonetheless improved to near all-time lows. The monthly unemployment rate for December 2022 was 4.6% versus the 3.5% national rate. Fitch also considers the employment to population ratio (EPOP) when evaluating the health of labor markets. Maryland's EPOP of 62.7% in December is lower than its pre-pandemic rate of 66.6% and in line with the states median of 60.1%, indicating a potentially faster economic growth trajectory than other states given its higher labor force utilization. This indicates that the state's service-sector labor markets weakened more than most other states despite relative strength in government and related business services.

Federal Relief for State Used to Address One-Time Needs

Under the March 2021 American Rescue Plan Act (ARPA), Maryland's state and municipal governments received \$11.8 billion in direct aid from the Coronavirus State and Local Fiscal Recovery Fund, of which the state's portion is \$3.7 billion. An additional \$2.5 billion is allocated for education statewide. The governor and legislature allocated its ARPA funds largely for one-time uses including \$1.1 billion to the state's Unemployment Insurance Trust Fund, \$800 million to existing statewide pandemic relief efforts, \$723 million to the safe opening of schools, \$500 million to transportation and infrastructure, and \$300 million to broadband expansion.

CREDIT PROFILE

Maryland Stadium Authority Details

Lease revenue bonds of the MSA are secured by leases between the MSA and the State of Maryland, with lease payments subject to annual legislative appropriation. The 'AA+' long-term rating of the bonds is thus linked to the credit quality of the State of Maryland. The MSA has funded several sports, cultural and convention venues statewide using a master lease structure, and MSA borrowing is part of state debt oversight.

Please see "Fitch Rates Maryland Stadium Auth's \$59.5MM Lease Revenue Bonds 'AA+'; Outlook Stable," published on Feb. 01, 2022 for additional information on the MSA revenue bonds.

Maryland Department of Transportation (MDOT) Certificates of Participation (COPs) Details

MDOT's COPs are payable solely from purchase installments from MDOT pursuant to purchase agreements, subject to appropriation in each year by the Maryland General Assembly. MDOT intends to make payments from the department's Transportation Trust Fund, but the state's full resources are available for appropriation.

Please see "Fitch Rates Maryland DOT's \$628 Million Consolidated Transportation Bonds 'AA+'; Outlook Stable," published on Sep. 10, 2021 for additional information on the MDOT COPs.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Bryan Quevedo

Director

Primary Rating Analyst

+1 415 732 7576

Fitch Ratings, Inc. One Post Street Suite 900 San Francisco, CA 94104

Eric Kim

Senior Director

Secondary Rating Analyst

+1 212 908 0241

Douglas Offerman

Senior Director

Committee Chairperson

+1 212 908 0889

Media Contacts









Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Maryland, State of (MD) [General Government]	LT IDR	AAA 	Affirmed	AAA 
<ul style="list-style-type: none"> Maryland, State of (MD) /General Obligation - Unlimited Tax/ 1 LT 	LT	AAA 	Affirmed	AAA 
<ul style="list-style-type: none"> Maryland, State of (MD) /Stadium Revenues/ 1 LT 	LT	AA+ 	Affirmed	AA+ 
<ul style="list-style-type: none"> Maryland, State of (MD) /State Appropriation - Transportation/ 	LT	AA+ 	Affirmed	AA+ 

ENTITY/DEBT	RATING	RECOVERY	PRIOR
1 LT			

RATINGS KEY OUTLOOK WATCH

POSITIVE	+	◇
NEGATIVE	-	◇
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Maryland Stadium Authority (MD) EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/>

[understanding credit ratings](https://www.fitchratings.com/rating-definitions-document). In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a

security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.