FitchRatings

Public Finance
State General Obligation
U.S.A.

State of Maryland

The State of Maryland's 'AAA' IDR and GO ratings reflect its broad, diverse and wealthy economy, strong and forward-looking fiscal management, and broad budgetary flexibility despite the challenges posed by increasing medium-term obligations. Liabilities are elevated for a state, but are carefully managed and moderate relative to the economic resource base. The state's economy reaps substantial benefits from its proximity to the nation's capital. However, its exposure to changes in the federal budget, including future budget cuts, poses greater uncertainty for Maryland than for most states, given the large federal agency presence and associated private contracting in Maryland.

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 remain strong and comparable with overall U.S. economic growth over the long term. Risk from reliance on personal income tax is mitigated by a robust federal institutional presence.

Expenditure Framework — 'aaa'

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

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 a 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 historical willingness to trim spending and increase revenues, and a disciplined multiyear forecasting and planning process.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- An inability to effectively manage rising spending demands with recurring revenues, notably from expanding education funding commitments, which weaken Fitch's assessments of either the state's 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.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Not applicable for a 'AAA' rating.

Ratings

Long-Term IDR	AAA

Rating Outlook

Long-Term IDR	Stable

New Issues

$1 Billion State and Local Facilities Loan, First Series A of 2024, Tax-Exempt Bonds (competitive)	AAA
$200 Million State and Local Facilities Loan, First Series B of 2024, Taxable Bonds (competitive)	AAA

Sale Date

Week of June 5, 2024 via competitive sale

Outstanding Debt

State of Maryland General Obligation Bonds	AAA
Maryland Stadium Authority Lease Revenue Bonds	AA+
Maryland Department of Transportation Certificates of Participation	AA+
Maryland Department of Transportation Payment Obligation - Purple Line	AA–

Applicable Criteria

U.S. Public Finance State Governments and Territories Rating Criteria (April 2024)

Related Research

Fitch Rates Maryland's $1.2B GOs 'AAA'; Outlook Stable (May 2024)

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Economic Resource Base

Maryland's economy is relatively wealthy, diverse and service-oriented, with 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 is an anchor and long-term economic stabilizer to Maryland's economy.

The state houses numerous federal agencies, military facilities and contractors. The collapse of the Francis Scott Key Bridge in March 2024 temporarily disrupted almost all port operations, though the state was able to reopen limited access channels to all port facilities within eight weeks. Resumption of full-channel port access is anticipated by mid-June 2024.

IDR 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. The board's March 2024 estimate for fiscal 2024 is essentially unchanged, down 0.8% from the September 2023 projection. The March 2024 estimate forecasts total general revenues to expand by a mere 0.1% yoy to $24.5 billion in fiscal 2024 as strong pandemic-era individual tax growth has slowed considerably, followed by 1.8% yoy growth in fiscal 2025, as a continued U.S. economic expansion and steadier growth of other revenue sources translates into somewhat healthier growth in collections.

Low Unemployment while Labor Force Recovery Still Lags

Maryland post-pandemic jobs recovery has lagged national trends, though the labor market looks tight. Early in the pandemic, Maryland's labor market suffered a decline close to the nation's, with 14% of the state's jobs lost between February and April 2020, versus 15% nationally. Since then, Maryland has experienced relatively slow employment recovery, with March 2024 employment almost 1 percentage point lower than pre-pandemic levels, trailing the national employment recovery of 3%. Maryland's headline unemployment rate of 2.5% in March 2024 was well below the 3.8% U.S. rate for the same month, whereas prior to the pandemic, Maryland's unemployment rate was similar to the national rate. Maryland's employment to population ratio (EPOP, a measure of labor force utilization) of 63.4% as of March 2024 was significantly below the state's February 2020 pre-pandemic level of 66.8%, indicating a large number of labor force departures, but was nonetheless well above the national EPOP of 60.6% for March 2024.

Mixed Reserves Outlook

Fitch anticipates that, absent unknown revenue or expense shocks, the state will be able to significantly mitigate projected out-year funding gaps. The state's budgetary and administrative functions have allowed the state to navigate budgetary issues in the past, even when the executive and legislature have been controlled by different political parties. Maryland's fiscal 2025 budget continues to grapple with a post-pandemic slowdown in revenue growth alongside increased ongoing spending commitments. The budget incorporates a one-time $900 million transfer from the Rainy Day Fund (RDF) to the Blueprint for Maryland's Future Fund (Blueprint Fund) in fiscal 2024, as well as almost $200 million in new recurring tax revenue decreases as a result of the expansion and extension of the state earned income tax credit and modification of family leave benefits. A new tax on adult cannabis use taking effect in fiscal 2024 is expected to increase general fund revenues by $18 million in its first year.

Maryland's fiscal 2025 budget continues a recent trend of drawdowns in the general fund balance while maintaining the long-run RDF at around 10% of general fund expenditures. The RDF reached a high of $2.9 billion (12.5% of general fund revenues) in fiscal 2023, and the 2025 budget projects RDF balances will stay in the $2.3 billion to $2.6 billion range through fiscal 2029. The fiscal 2029 RDF of $2.6 billion projected in the state's fiscal year outlook would constitute 8.3% of $28.1 billion general fund revenues.

Maryland built up its Revenue Stabilization Account (RSA) and sizable general fund balances during the pandemic, with largely one-time uses for these accumulated balances since the pandemic focused mainly on capital spending, resulting in a net decrease in fund balances to levels that Fitch considers adequate to support Maryland's robust financial resilience. The latest budget projections show unbalanced general fund operations beginning in fiscal year 2026, with the state projecting imbalance through the fiscal 2029 projection horizon. Out-year deficits are the norm for Maryland state budgets, though at 13.7% of expected revenue, the gap currently anticipated in fiscal 2029 represents a larger share of general fund revenues than in any out-year projection since the Great Recession. Fitch expects the state to sustainably mitigate these gaps in subsequent budget cycles.

Credit Profile

Revenue Framework

Maryland's revenue framework includes a broad range of tax revenues, with personal income tax (PIT) making up the majority of the state's annual general fund revenues. Sales and use taxes are also significant, at approximately one-fourth of the total. Gaming revenues (approximately $600 million in fiscal 2023) provide an important source of support for K-12 education spending and flow through the state's Education Trust Fund. Transportation receipts, most significantly motor fuel taxes, have been reallocated by the legislature at times for general spending, but various statutory changes have tightened the dedication to be solely for transportation needs. The state also levies a small statewide property tax to support general obligation debt that flows through the annuity bond fund.

The state authorized $350 million in permanent tax reductions beginning in fiscal 2023, including income tax credits for retirees and tax credits for up to 50% of the federal Work Opportunity Tax Credit, as well as various sales tax exemptions. These cuts assumed revenue growth would outpace the scope of the cuts enough to support recurring expenses. The fiscal 2024 budget included approximately $200 million in reduced revenues due to expanded income tax exemptions and child tax credits.

Maryland's wealthy, service-oriented economy is the basis for a revenue growth profile that, while subject to economic cyclicality and federal policy actions, is likely to grow at least in line with national economic growth over time.

The state has an unlimited legal ability to raise revenues through rate increases or base broadenings.

Expenditure Framework

Education and social services represent Maryland's largest spending commitments. K-12 education spending, provided via transfers to counties, remains the most significant expenditure item for the state. Education spending also includes amortization contributions for local teacher retirement liabilities, increasing capital support, and a large network of higher education institutions. Social services, primarily for Medicaid, are also a substantial and growing component of the state's budget.

Blueprint for Maryland's Future to Determine New Baseline for Education Funding

In 2019, the state established the Blueprint Fund as a tool to manage and track related funding needs. In February 2020, the legislature overrode gubernatorial vetoes to enact House bills 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 statewide education policy and funding issues. The enacted plan, entitled the Blueprint for Maryland's Future, leverages those funds, as it gradually increases state and local education aid to over $4 billion by fiscal 2029: $2.8 billion from the state and $1.2 billion from local governments.

To date, the state has funded the Blueprint with significant but as-yet insufficient revenues. The state's Department of Legislative Services estimates Blueprint Fund revenues and reserves could support costs through at least fiscal 2026 before requiring ongoing general fund support.

Fitch anticipates that Maryland will adjust revenues or moderate Blueprint expenditure growth to accommodate Blueprint Fund needs. To fund the Blueprint, 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. HB732 established additional tobacco taxes that generated $100 million in additional general fund revenues in fiscal 2022, and $80 million-$90 million annually thereafter. The legislature has also directed annual gaming revenues from the Education Trust Fund to the Blueprint Fund (estimated at $600 million), and annual sales and use tax revenues over $100 million from remote sellers and marketplace facilitators (estimated at $400 million-$500 million). The state provided additional support to the Education Trust Fund through $1.8 billion of one-time transfers through fiscal 2024.

Consistent with most states, Maryland's spending will likely be in line with to marginally above expected revenue growth, absent offsetting policy action, driven by both education and Medicaid. The fiscal challenge of Medicaid is common to all U.S. states and the nature of the program, as well as federal government rules, limit states' options in managing the pace of spending growth. Federal action to revise Medicaid's fundamental programmatic and financial structure does not appear to be a near-term priority for the current federal administration or Congressional leadership. As with all federal programs, Medicaid remains subject to regulatory changes that could affect various aspects of the program.

Maryland's carrying costs for liabilities are double the median state level (9.3% vs. 4.5% in fiscal 2023), but remain well within the state's ability to control given its fiscal and economic resource base. Debt service is elevated due partially to a constitutional requirement to amortize most tax-supported borrowing within 15 years. Carrying costs also include those for accrued pension liabilities of local teachers, although newly earned benefits are the responsibility of local governments.

Maryland regularly contributes additional resources, including supplemental contributions, to pensions to accelerate funding progress. A "sweeper" provision to divert a portion of unappropriated surpluses was originally scheduled to sunset in 2021. The state lifted the 2021 sunset provision and extended the sweeper indefinitely, tied to pension system funding level triggers, and split the sweeper between pension and OPEB payments. Given these contributions are beyond the actuarially determined contributions, Fitch does not incorporate them into the carrying cost metric. After reaching a top value of $100 million, the full amount was contributed in fiscals 2022 and 2023. Total combined supplemental payments were reduced to $35 million in fiscal 2024 to fund other state budgetary needs, with a budgeted increase to $51 million for fiscal 2025.

Long-Term Liability Burden

On a combined basis, debt and net pension liabilities attributable to the state as of Fitch's 2023 state pension update are above average, measuring 9% of 2023 personal income, more than double the 4% U.S. states median. Fitch expects the long-term liability burden to remain relatively unchanged. Please see "2023 State Liability Report (Post-Pandemic Asset Surge Lowers Pension Burdens)," published on Nov. 15, 2023.

Fitch's calculations incorporate project debt associated with the Purple Line availability payment-based PPP entered into by the Maryland Department of Transportation (MDOT), as well as Maryland Stadium Authority bonds issued for Baltimore City Public Schools (approximately $1 billion) that partially benefit from state revenue support. The state's debt affordability guidelines include holding tax-supported debt as defined by the state (which excludes the PPP and Baltimore school obligations) at or below 4% of personal income.

After selection of a new contractor, Purple Line project costs now total $3.7 billion, with $2.5 billion in associated debt consisting of $643.5 million of private activity revenue bonds and a $1.8 billion TIFIA Loan issued by the Maryland Economic Development Corporation.

The veto override of HB1300 (mentioned above) also made effective the Built to Learn Act. The Built to Learn Act authorizes the Maryland Stadium Authority (MSA) to issue up to $2.2 billion in gaming revenue-backed bonds for school construction projects. Fitch's analysis indicates the additional issuance would not change the 'aa' assessment of Maryland's long-term liability burden, nor the 'aaa' assessment of the state's expenditure framework, even if issued immediately in a single tranche. Fitch anticipates issuance would likely be spread over multiple years, with approximately $720 million currently issued.

Pensions are a comparative credit weakness in Maryland, although the state has taken repeated action since 2011 to revise benefits and contribution practices to improve sustainability. Specific measures include lower benefit accruals, longer service requirements, a phased-in decline in the discount rate, revising the contribution methodology to achieve full actuarial contributions and appropriating supplemental contributions.

Most of the state's net pension liability (NPL) consists of obligations for state employees and local teachers in the State Retirement and Pension System, which calculates its liabilities based on a 6.8% investment return assumption. The consolidated ratio of pension assets to liabilities was approximately 81% as per the plan's 2023 annual comprehensive financial report. The Fitch-adjusted ratio, based on the standard 6% investment return assumption we apply to all U.S. public sector pension systems, is approximately 78%.

OPEB Litigation and Related Legislation Shifts Liability Estimate

Other post-employment benefits (OPEB) liabilities are sizable, but not exceptionally large. Maryland's reported total net OPEB liability as of fiscal 2023 was down to $12 billion, or 2.6% of 2022 personal income. State net OBEP liabilities are down significantly from a fiscal 2020 peak of $17 billion, though still above the recent low water mark of $11 billion from fiscal 2018. The state's ability to abrogate OPEB prescription drug benefits, per a 2011 law, was mired in federal court proceedings for over a decade. Recent court wins mean Maryland will likely be able to adjust prescription benefits for some retirees, but litigation risk remains. The state estimates that total litigation loss could increase OPEB liabilities by an additional $9 billion. Strong restrictions to the state's capacity to make benefit changes could lead Fitch to consider the OPEB liability as an asymmetric rating factor consideration.

Operating Performance

Maryland's financial resilience is extremely strong. The state has historically relied on spending cuts, revenue increases and limited use of nonrecurring resources, including drawdowns of general fund balance and draws on the RSA, when confronted with budgetary weakness.

Legislation in 2017 addressed revenue volatility and reserve balances to provide additional financial resilience. Beginning in fiscal 2020, personal income tax revenues from nonwithholding components that exceed a 10-year average have been diverted from routine spending first, to address any deficit in general fund revenues versus the last estimate; second, to build the RSA up to 10% of general fund revenues; and third, to cover pay-as-you-go project needs for K-12 and higher education.

Maryland's disciplined and collaborative approach to budget management during expansions has positioned it well to address downturns. Regular consensus revenue forecasting identifies material changes in economic and revenue performance. The state's Board of Public Works (BPW) regularly exercises its ability to reduce spending to manage projected revenue shortfalls, including at the onset of the pandemic. Under statute, the BPW can reduce appropriations up to 25% without legislative approval.

The state routinely budgets to maintain flexibility in the form of a general fund unencumbered balance and the separate RSA balance. The latter had been consistently funded at 5% of general fund revenues, including through most of the last downturn, and is projected to remain around the 10% level through the state's budget projections window. Recent improvements to the state's budgetary management practices include the transition to full actuarial funding of pensions and implementation of the revenue volatility cap.

Maryland Stadium Authority Details

Lease revenue bonds of the MSA are backed by leases between the MSA and the State of Maryland, with lease payments subject to annual legislative appropriation. The 'AA+' long-term rating on 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. 1, 2022 for additional information on the MSA revenue bonds.

Maryland Department of Transportation Certificates of Participation 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 Sept. 10, 2021 for additional information on the MDOT COPs.

MDOT Purple Line PPP Counterparty Obligation Rating Details

The Purple Line is a planned 16.2-mile light rail transit line between Bethesda and New Carrollton, MD. It will include 21 stations and intersections with three existing Washington Metro Area Transit Authority (WMATA) lines, Amtrak and Maryland Area Regional Commuter (MARC) train lines. It will be owned by MDOT and the Maryland Transit Administration (MTA), the arm of MDOT that oversees various transit operations for the state. The grantor obligations under the PPP agreement meet Fitch's expectation for a ratable PPP counterparty obligation. The commitment of the grantors, MDOT and MTA to make construction progress payments, milestone payments and long-term availability payments to the concessionaire is structured to resemble the state's existing transportation COPs. All MDOT and MTA obligations under the PPP agreement benefit from MDOT's contractual commitment to seek annual legislative appropriations for all scheduled payments.

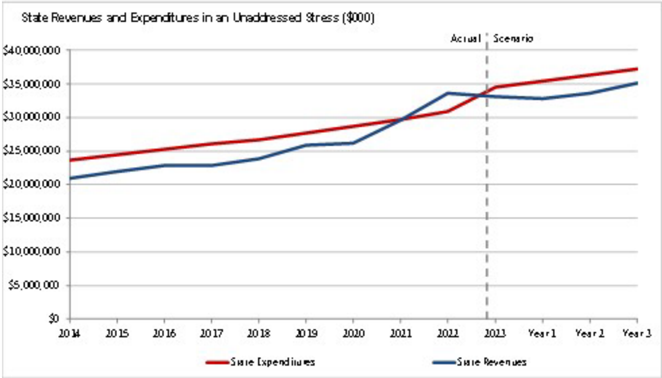
Please see "Fitch Affirms Purple Line Transit Partners' Sr PABs & Sub TIFIA Loan at 'BBB'; Outlook Negative," published on March 19, 2024 for additional information on the project revenue bonds.

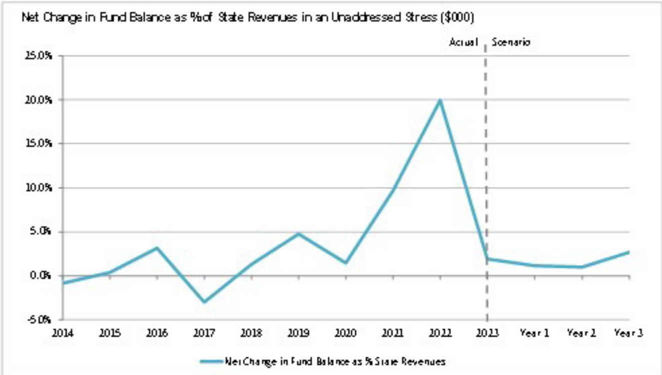
Peer Analysis

Maryland is in fourth decile of US states by GDP, along with Arizona (unrated), Indiana ('AAA'/Stable), Minnesota ('AAA'/Stable) and Tennessee ('AAA'/Stable). Maryland's 'aaa' revenue framework is on par with those of Minnesota and Tennessee, and above Indiana's. The state's 'aaa' expenditure framework and operating performance are on par with all its rated cohorts. Maryland's 'aa' long-term liability burden is the lowest of its cohort.

Maryland, State of (MD)

Scenario Analysis
Ver 42





Analyst Interpretation of Scenario Results

The Fitch Analytical Stress Test (FAST) scenario analysis model is not a forecast, but it represents Fitch's estimate of possible revenue behavior in a downturn based on historical tax revenue performance in relation to national GDP Actual revenue declines will vary from FAST results. FAST provides a sense of the relative risk exposure of a particular state to economic declines compared to other states.

Maryland's FAST results show a 1% revenue decline in year one of the scenario in response to a standard 1% GDP contraction, lower than the 3% median year one decline for U.S. states, indicating Maryland appears to be less vulnerable to cyclical revenue declines tied to economic downturns than most other states. The state's strong reserves and track record of prudent budgetary management position it to weather typical economic downturns without materially weakening financial resilience

Scenario Parameters:				Year 1	Year 2	Year 3
GDP Assumption (% Change)				(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)				2.5%	2.5%	2.5%
Revenue Output (% Change)	*Minimum Y1 Stress:* -1%	*Case Used:*	Moderate	(1.0%)	2.6%	4.5%

Revenues, Expenditures, and Net Change in Fund Balance	Actuals										Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Year 1	Year 2	Year 3
Expenditures													
Total Expenditures	33,549,167	35,482,603	36,222,129	38,070,729	38,413,090	40,067,785	42,962,832	48,421,917	53,938,473	54,882,369	56,254,428	57,660,789	59,102,309
% Change in Total Expenditures	6.5%	5.8%	2.1%	5.1%	0.9%	4.3%	7.2%	12.7%	11.4%	1.7%	2.5%	2.5%	2.5%
State Expenditures	23,651,953	24,449,447	25,222,491	26,099,992	26,651,078	27,688,805	28,695,916	29,729,701	30,847,221	34,531,586	35,394,876	36,279,748	37,186,741
% Change in State Expenditures	5.6%	3.4%	3.2%	3.5%	2.1%	3.9%	3.6%	3.6%	3.8%	11.9%	2.5%	2.5%	2.5%
Revenues													
Total Revenues	30,871,592	32,998,321	33,804,745	34,822,757	35,653,516	38,214,220	40,437,550	48,269,535	56,675,858	53,433,294	53,611,238	54,990,992	57,023,954
% Change in Total Revenues	3.6%	6.9%	2.4%	3.0%	2.4%	7.2%	5.8%	19.4%	17.4%	(5.7%)	0.3%	2.6%	3.7%
Federal Revenues	9,897,214	11,033,156	10,999,638	11,970,737	11,762,012	12,378,980	14,266,916	18,692,216	23,091,252	20,350,783	20,859,553	21,381,041	21,915,567
% Change in Federal Revenues	8.8%	11.5%	(0.3%)	8.8%	(1.7%)	5.2%	15.3%	31.0%	23.5%	(11.9%)	2.5%	2.5%	2.5%
State Revenues	20,974,378	21,965,165	22,805,107	22,852,020	23,891,504	25,835,240	26,170,634	29,577,319	33,584,606	33,082,511	32,751,686	33,609,951	35,108,387
% Change in State Revenues	1.4%	4.7%	3.8%	0.2%	4.5%	8.1%	1.3%	13.0%	13.5%	(1.5%)	(1.0%)	2.6%	4.5%
Excess of Revenues Over Expenditures	(2,677,575)	(2,484,282)	(2,417,384)	(3,247,972)	(2,759,574)	(1,853,565)	(2,525,282)	(152,382)	2,737,385	(1,449,075)	(2,643,190)	(2,669,797)	(2,078,355)
Total Other Financing Sources	2,500,707	2,554,458	3,138,354	2,560,038	3,074,102	3,068,542	2,906,860	3,002,852	3,954,649	2,072,842	3,001,149	2,987,670	3,003,832
Net Change in Fund Balance	(176,868)	70,176	720,970	(687,934)	314,528	1,214,977	381,578	2,850,470	6,692,034	623,767	357,959	317,874	925,478
% Total Expenditures	(0.5%)	0.2%	2.0%	(1.8%)	0.8%	3.0%	0.9%	5.9%	12.4%	1.1%	0.6%	0.6%	1.6%
% State Expenditures	(0.7%)	0.3%	2.9%	(2.6%)	1.2%	4.4%	1.3%	9.6%	21.7%	1.8%	1.0%	0.9%	2.5%
% Total Revenues	(0.6%)	0.2%	2.1%	(2.0%)	0.9%	3.2%	0.9%	5.9%	11.8%	1.2%	0.7%	0.6%	1.6%
% State Revenues	(0.8%)	0.3%	3.2%	(3.0%)	1.3%	4.7%	1.5%	9.6%	19.9%	1.9%	1.1%	0.9%	2.6%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. For further details, please see Fitch's US Tax-Supported Rating Criteria.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.