S&P Global
Ratings

RatingsDirect®

Maryland; Appropriations; General Obligation

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Table Of Contents

Maryland; Appropriations; General Obligation

Credit Profile		
US$1000.0 mil GO bnds state and local facs loan of 2024, 1st Ser Tax-Ex ser A due 06/01/2039		
Long Term Rating	AAA/Stable	New
US$200.0 mil GO bnds state and local facs loan of 2024, 1st Ser Taxable ser B due 06/01/2029		
Long Term Rating	AAA/Stable	New
Maryland GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Maryland's state and local facilities loan of 2024, first series general obligation (GO) bonds, totaling $1.2 billion, consisting of pro forma $1 billion first series A (tax-exempt) and pro forma $200 million first series B (taxable).
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the state's GO debt outstanding and 'AA+' rating on state obligations outstanding, supported by lease payments subject to appropriation (including some issues of the Maryland Stadium Authority [MSA]).
- S&P Global Ratings also affirmed its 'AA+' rating on the Maryland Department of Transportation's (MDOT) county transportation revenue bonds, supported by capital grants appropriated from MDOT's transportation trust fund; and its 'AA+/A-1' rating on the MSA's series 2007 sports facilities lease revenue refunding bonds secured by lease-rental payments subject to annual appropriation by the state.
- We also affirmed our 'AA' long-term rating on the MSA's Built to Learn revenue bonds outstanding, which are rated two notches lower than the state's general creditworthiness to account for the appropriation risk associated with the deposit of lottery and gaming revenues from the education trust fund into the financing fund.
- Finally, we affirmed our 'AA' long-term rating on the MSA's football stadium issue revenue bonds and sports entertainment facilities revenue bonds outstanding, which are rated two notches lower than the state's general creditworthiness to account for our opinion of the state's authority to appropriate lottery revenues to pay the debt service on the bonds, the obligor's involvement with the projects being funded, the intended payment source, and political or administrative risks.
- The outlook is stable.

Security

The first series 2024 bonds are GOs of the state to which it has pledged its full faith and credit. The bond proceeds will be allocated to a variety of public purposes. These include the acquisition and construction of state facilities; capital grants to local governments for public schools, community colleges, jails, and correctional facilities; and grants to local governments, nonprofit institutions, and other entities for hospitals, cultural projects, and other projects. A portion of the bond proceeds will also be allocated to various loan programs for environmental and housing purposes.

Credit overview

Maryland's high wealth and income levels remain a key credit strength for the state. Return of government and professional and business services--the largest and third-largest segments of the state economy by employment--has been a linchpin of Maryland's recovery. Although jobs in lower-wage industries are still not at pre-pandemic levels, the state's higher-wage industries have largely recovered in terms of total employment. Revenue collections have remained generally intact given the state's relatively progressive tax structure.

The state has a long history of proactive budget management to maintain adequate reserves and reduce expenditures when needed, which we expect will continue. However, our view of long-term risks to the state's credit quality includes pressures on future structural budgetary balance with expected growth in state school spending and managing capital needs within its moderately high debt burden. The ability to manage these costs while keeping its liabilities within the state's affordability guidelines, particularly during downturns and periods of increased spending demands, is crucial to rating stability.

The enacted budgets for fiscal years 2024 and 2025 include general fund spending of $27.4 billion and $25.9 billion, respectively. These spending amounts include changes from supplemental budgets. The largest categories of general fund spending for both budgets are public education, including kindergarten-grade 12 and higher education; support for public health programs, including medical assistance; and public safety and correctional services. For the enacted 2024 budget, the state reserve fund (SRF) is also one of the largest categories of general fund spending. The state's Bureau of Revenue Estimates (BRE) March 2024 revenue estimates shows fiscal 2024 general fund revenues totaling $24.5 billion (0.1% up from actual fiscal 2023 current revenues), down from the $25.1 billion estimate in December 2022, and lower than other revenue estimates done in March 2023, September 2023, and December 2023. BRE's March 2024 revenue estimates for fiscal 2024 show personal income taxes and sales and use taxes--the state's two largest revenue sources--increasing 1.7% to $13.7 billion and decreasing 1.6% to $5.9 billion, respectively, from fiscal 2023 actuals. BRE's March 2024 revenues estimates show fiscal 2025 general fund revenues totaling $24.9 billion, down $134.9 million from estimates in December 2023. The downward revenue estimates are mainly attributed to slowing withholding collections.

The state now projects closing fiscal years 2024 and 2025 with a general fund balance of $696 million and $110 million, respectively, and with revenue stabilization account (RSA) balances of $2.45 billion or a strong 8.9% of expenditures and $2.28 billion or a strong 8.8% of expenditures, respectively, despite using $479 million and $246 million from the RSA in fiscal years 2024 and 2025 to achieve positive fiscal year ending general fund balances. The state's Department of Legislative Services forecasts a structural budget deficit of $483.0 million in fiscal 2025, growing to $3.7 billion by fiscal 2029. Increased spending for the Blueprint for Maryland's Future Fund (also known as the Kirwan plan for public education) is the primary cause of the growing projected budget deficits. We expect the state, like it has in the past, will address such structural deficits through a combination of revenue enhancements, spending reductions, cost-shifting to local governments, and using reserves to achieve a balanced budget, which under the Maryland Constitution requires the governor to submit and the legislature to enact.

S&P Global Ratings believes that a recession in the next 12 months appears less likely than it did in the spring of last year. The factors that supported rising demand through 2023--especially consumer spending and direct government outlays--are likely to fade over time, while the impact of restrictive monetary policy on the economy will limit fixed business investment and residential investment.

We expect U.S. real GDP growth of 2.5% in 2024 supported by a continued sturdy labor market with the economy transitioning to slightly below-potential growth in the next couple of years with real GDP growth of 1.5% and 1.7%, respectively, in 2025 and 2026. Inflation will likely remain above (but approaching) the Fed's target of 2% through 2024, reflecting persistently higher service price inflation, even as goods prices ease modestly. Expected above-target inflation will limit the Fed's ability to ease rates this year. We estimate about 75 basis points (bps) of rate cuts this year, with the first rate cut likely coming in the summer. Our base case assumes a sharper easing of 125 bps next year unless risks slow the pace of easing this year and next. Supply-side forces (such as increasing labor productivity) could reverse, and disruptions from conflicts around the world (between Israel and Hamas and between Russia and Ukraine) could reignite inflation. For more information, see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published Mar. 26, 2024, on RatingsDirect.

Our 'AAA' long-term rating on Maryland's GO bonds reflects our view of the state's:

- Slow-growing economy during mature periods of expansion, offset by strong wealth and income levels compared with those of the nation, and relatively stable federal employment;
- Long history of proactive financial and budget management, including implementing frequent and timely budget adjustments to align revenues and expenditures, and long-term financial planning that should continue to help address future budget challenges; and
- Well-developed debt management practices with rapid amortization of principal, although some debt ratios and long-term pension and other postemployment benefits (OPEB) liabilities remain moderately high.

Maryland's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013), U.S. states are considered to have moderate sensitivity to country risk. State-derived revenues are the sole source of security on the bonds, and the institutional framework in the U.S. is predictable with significant state autonomy and flexibility.

Based on the analytic factors evaluated for Maryland, on a scale of '1.0' (strongest) to '4.0' (weakest), S&P Global Ratings has assigned a composite score of '1.7' to the state, which reflects an anchor rating of 'AA+'. We have notched up to 'AAA', as allowed per our state rating methodology, due to Maryland's strong financial management and ability and willingness to adjust spending, if revenues decline, which we believe supports credit characteristics in line with those of comparable 'AAA' rated peers.

Environmental, social, and governance

Environmental, social, and governance factors have no material influence on our credit rating analysis for Maryland. Along the Atlantic Ocean and home to Chesapeake Bay, Maryland faces physical risk from rising sea levels. However, we believe the risk is addressed by the state's active management of the Chesapeake watershed and runoff, enacted fees to provide funding for state and local resilience projects, and adopted legislation with the goal of reducing greenhouse gas emissions.

Outlook

The stable outlook reflects our opinion of the state's ability to proactively manage economic and budgetary risks that arise, and maintain a structural balance.

Downside scenario

We could revise our outlook to negative or lower the rating within the two-year outlook period if the state significantly relies on nonrecurring measures to balance its budget, draws down reserves to a level that is unlikely to be meaningfully replenished, or its debt and other liability metrics increase to a level that no longer aligns with the current rating. Economic trends of the state that consistently lag those of the nation could also lead to a lower rating.

Credit Opinion

Government Framework

The Maryland Constitution requires the state to approve balanced budgets each fiscal year and for its budgets to remain balanced. To help manage the budget and maintain adequate fund balances despite revenue decreases, the governor is empowered by statute to adjust spending as needed if the BRE, which meets three times per year, reduces its initial revenue estimate on which the budget is formulated. Such adjustments can only be made after first providing adequate provision for the payment of the principal and interest on state bonds and notes according to their terms. Maryland has considerable revenue-raising ability and can increase its income and sales tax rates and approve new revenues without voter approval. It also has a fair amount of budgetary flexibility regarding its expenditures, although this does not extend to all program areas. By law, the governor has the power, with the approval of the Board of Public Works (BPW), to reduce by not more than 25% any appropriation that he might consider unnecessary, except appropriations for the payment of interest and the retirement of state debt, the legislature, the public schools, the judiciary, and the salaries of public officers. When needed, the state has adjusted agency spending accordingly.

Voters approved a ballot measure in November 2020 that expands the legislature's budget authority to adjust the governor's budget recommendations that took effect at the start of the current gubernatorial term. However, consistent with current law, the legislature does not have the ability to increase appropriations above the governor's budget proposal.

We have assigned a score of '1.4' to Maryland's government framework, on a scale where '1.0' is the strongest and '4.0' is the weakest.

Financial Management

We consider Maryland's management practices strong under our Financial Management Assessment (FMA) methodology. In our framework, an FMA of strong indicates that practices are strong, well embedded, and likely sustainable.

Maryland has instituted strong financial management practices. Its use of a five-year financial plan, updated annually with the adopted budget, provides the basis for future fiscal decisions, and recognizes future fiscal-year gaps. Monthly monitoring and reporting of key revenues allow the state to make midyear financial adjustments, if necessary, to maintain balance. Maryland has consistently maintained its statutory rainy day fund (RDF) balance at or above its legal minimum of 5% of general fund revenues, excluding fiscal 2021 when the RSA account balance dropped to 3% of general fund revenues from using RSA account funds for pandemic-related relief efforts enacted before the state received federal relief funding. Under current law, the governor is required to include an appropriation of $100 million if the RSA balance is less than 3.0% of estimated general fund revenues; and $50 million or an amount necessary to bring the RSA balance to above 7.5% of estimated general fund revenues if the RSA balance is at least 3.0% of estimated general fund revenues but less than 7.5% of estimated general fund revenues. The governor is authorized to expend funds from the RSA if resultant balance is no lower than 5% of estimated general fund revenues. Withdrawals that result in an RSA balance lower than 5% of estimated general fund revenues must be authorized by an act of the general assembly. Maryland law defines estimated general fund revenues as those stated in the annual report of the BRE submitted to the governor. To mitigate revenue volatility in the general fund budget, the state legislature passed a mechanism that designates a portion of nonwithholding income tax revenue above certain thresholds for nonrecurring purposes or to build reserves. The state has a formal debt management policy based on defined measurements, including debt as a percentage of personal income and debt service as a percentage of revenues, along with a statutory debt amortization schedule. Maryland produces a five-year capital improvement plan (CIP) that outlines expected capital requirements and identifies funding sources. The treasurer provides monthly investment inventory reports on its website and is required to report general fund investments to the general assembly in January of each year.

Once the budget is approved, the state monitors both revenue and expenditure performance regularly 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 adjust the budget, which has been exercised in the past. Deficits can't be carried forward into the next fiscal year.

On a scale ranging from '1.0' (strongest) to '4.0' (weakest), we have assigned a score of '1.0' to Maryland's financial management.

Economy

Overall, the state continues to benefit from very strong wealth and income indicators and a relatively diversified economic base. In 2023, personal income was $73,849 per capita and 108% of the nation. Gross domestic product is also strong, at about $82,900 per capita, or 101% of the nation.

Maryland's total employment returned to its pre-pandemic level in late 2023 due to hiring in professional and business services, construction, wholesale trade, transportation and warehousing, utilities, and government surpassing early 2020 levels, according to S&P Global Market Intelligence. Payrolls in manufacturing, retail trade, finance, information, education and health services, and leisure and hospitality services, however, are still below pre-pandemic levels. The rebound in government and professional and business services—the largest and third-largest segments of the state economy by employment—were instrumental in the state's recovery from the pandemic. Given Maryland's proximity to the nation's capital, the government sector accounts for the largest share of jobs (19% of total nonfarm employment) in the state. Maryland, like Virginia and the District of Columbia—home to many defense and nondefense agencies and contractors—receives among the highest amount of federal dollars as a percentage of gross state product (GSP), according to S&P Global Market Intelligence. With the government sector's payrolls growing more slowly, at 0.8% from 2018 to 2023 compared with 0.9% for professional and business services, S&P Global Market Intelligence expects that professional and business services will likely overtake government as the largest employer by share of jobs in the next decade or two.

Over the past decade, Maryland has somewhat overcome persistent employment weakness in the government sector with strong hiring in its services industries. The state's private-services sectors have offset federal budget cuts and volatility. The cost of doing business varies widely in Maryland, but lower-cost areas of the state have a competitive advantage over much of the adjacent Mid-Atlantic region, potentially siphoning off some activity from nearby areas.

Aggregate wages (and therefore income tax withholding) have fallen less than would typically be expected given the extent of job losses because employment in the higher-paying sectors is experiencing more complete recoveries to pre-pandemic levels, offsetting the slower recovery in jobs for the lower-paying accommodations and food service sectors that were directly affected by the pandemic.

As we have noted in the past, Maryland's decelerating economic growth is due in part to a concentration in federal employment, which limits significant exposure to traditional recessions but also dampens economic growth while the rest of the nation recovers. Although this dynamic lends stability to the state's economy, it likely limits future growth to less than that of the nation. However, the relocation of the Federal Bureau of Investigation headquarters to a 61-acre site in Greenbelt is anticipated to bode well for the state, bringing more than 7,500 jobs and over $4 billion in economic activity to Maryland. The impacts of this, however, will not be immediate. Construction of the project is anticipated to be begin 2029, with FBI employees working out of the new space by 2036.

On a scale ranging from '1.0' (strongest) to '4.0' (weakest), we have assigned a score of '1.4' to Maryland's economy.

Budgetary Performance

The state has consistently adopted a balanced approach in addressing previous budget shortfalls through a combination of revenue enhancements, spending reductions, cost-shifting to local governments, and using reserves.

State law requires appropriations to the RSA depending on fund balance levels and unappropriated general fund surpluses until it reaches up to 7.5% of revenue, with executive authority to spend to a minimum 5.0% of revenue. Since fiscal 2008, the RSA has been maintained at the 5% minimum level, except for fiscal 2021 when the account balance dropped to 3% of general fund revenues from using RSA account funds for pandemic-related relief efforts enacted before the state received federal relief funding. The state estimates closing fiscal 2024 with a general fund balance of $696 million and an RDF balance of about $2.45 billion (a strong 10% of general fund revenues). The estimated RDF balance assumes $25 million will be transferred from the fund related to Chapter 3 of 2024 (Maryland Protecting Opportunities and Regional Trade (PORT) Act). The fiscal 2025 budget bill also includes language authorizing the transfer of up to $90 million in fiscal 2024 and up to $134 million in fiscal 2025 (but not exceeding a total of $199 million across both years) out of the RDF to cover potential funding shortfalls in entitlement programs. The effect of these transfers, however, is not reflected in the projected fund RDF balances because it is not yet clear whether such transfers will be necessary.

The adopted fiscal 2025 budget includes a one-time $150 million contribution from the RDF to provide additional operational support for the state's annual Washington Metropolitan Area Transit Authority (WMATA) contribution. It is our understanding that the state intends to provide the same level of supplemental support permanently to WMATA from its Transportation Trust Fund for fiscal 2026 and beyond.

The state's general fund total current revenue profile remains stable compared with that in previous years, with approximately 56% derived from personal income taxes, 25% from sales and use taxes, and about 19% from other sources.

Fiscal 2023 audited results

As of fiscal year ended June 30, 2023, Maryland had an unassigned fund balance in the general fund of about $3.0 billion and a total general fund balance of about $11.3 billion (on a generally accepted accounting principles basis). The state reserve fund is classified as committed fund balance and totaled $3.5 billion. Revenues decreased $3.6 billion (7.2%) to $46.9 billion, primarily due to the receipt of federal coronavirus relief funds (CRF), while expenditures increased by $700 million (1.6%) from the previous year due mostly to agency spending of CRF funds for health and mental hygiene expenditures that increased $1.2 billion (6.4%).

The receipt of CRF and other federal aid for part of the fiscal year stabilized the state's revenue, including direct aid to individuals that offset anticipated declines in tax receipts. On a budgetary basis, actual income taxes totaled about $14.5 billion, $149 million or only 1% lower than the final budget, while actual sales and use taxes totaled about $6.0 billion, $13 million or 0.2% lower than the final budget.

We have assigned a score of '1.5' to Maryland's budgetary performance, on a scale where '1.0' is the strongest and '4.0' is the weakest.

Debt And Liabilities Profile

In our view, the state's tax-supported debt burden is still moderate, at about 3.1% of personal income and 2.8% of GSP. We estimate the state's fiscal 2023 debt per capita at $2,296, including the net present value of P3 milestone payments, which we consider moderately high. Tax-supported debt includes GO bonds, capital lease and appropriation-supported debt, and bay restoration bonds, as well as MDOT consolidated transportation bonds, county transportation bonds, and grant anticipation revenue vehicle bonds partially secured by transportation tax revenue. Annual debt service in fiscal 2023 represented 5.8% of general government spending, which we consider moderate. We believe the carrying charge is somewhat tempered by rapid amortization, with about 89% of tax-supported principal retired in the next 10 years, including all GO bonds retired in the next 15 years, as required by the Maryland Constitution.

Despite the state's moderate-to-moderately high debt and liability burden, it does present several strengths, including a moderate debt service carrying charge, rapid amortization, and strong debt affordability management. Its debt affordability study defines certain affordability ratios (including maximum tax-supported debt as a percentage of personal income and debt service as a percentage of revenues), along with a statutory debt amortization schedule. However, if debt issuance outpaces economic growth, it could pressure our view of the state's debt profile.

Maryland's five-year (fiscal years 2025-2029) CIP totals about $9.2 billion. Anticipated funding sources include $8.7 billion of GO bond proceeds and $577 million of general fund pay-as-you-go (PAYGO) amounts. GO bond proceeds will fund $3.9 billion of state-owned facilities and transportation project costs, $2.2 billion of school improvement costs, and $2.6 billion for other capital needs, while general fund PAYGO amounts will fund $506 million of the transportation budget and $51 million for other capital needs.

The fiscal 2025 capital budget passed by the general assembly, excluding the consolidated transportation program, totals $3.37 billion, which is $147 million above the amount originally introduced by the governor. The capital budget is funded from a variety of sources, including $1.8 billion from GO bonds, which is in line with amounts recommended by the spending affordability committee.

There are several ongoing court cases challenging the constitutionality of the tax on the gross revenues of specified digital advertising. The state has collected approximately $186.0 million since it began collecting the tax at the beginning of fiscal 2022 through March of fiscal 2024. This revenue is being deposited into the Blueprint Fund, but it is not included in the state revenue forecast and the state budget does not include it in its projections.

From Oct. 1, 2023 to May 1, 2024, the state has been named as a defendant in lawsuits involving plaintiffs alleging abuse while in the custody of juvenile detention facilities. It is our understanding that it is too early to estimate the financial impact of these cases brought against the state; arguments have not yet been scheduled; and the Maryland Supreme Court could take almost a year to issue its ruling after hearing arguments.

The ship owner and ship operator of the container ship that caused the collapse of the Francis Scott Key Bridge (FSK) on March 26, 2024, filed a limitation of liability action seeking to limit their liability to the value of the vessel and cargo, estimated at $44 million. The state has until Sept. 24, 2024, to file a claim to participate in that action. Estimated damages for the Maryland Transportation Authority exceed $1 billion. Other state agencies are also incurring costs. We expect the state could make an affirmative claim in this action or another separately filed action. In addition, there may be claims filed against the state in connection with this event. It is too early, however, to determine the impact of any such claims on the state's finances.

Within two weeks of the collapse, the general assembly enacted the Maryland Protecting Opportunities and Regional Trade Act, which was signed by the governor on April 9, 2024, to support people and businesses affected by the bridge collapse and partial closure of the port. The Maryland Department of Labor provided programs to ensure workers attached to the port would be ready to resume work immediately as operations return and to provide income replacement and a measure of economic stability for workers, their families, and communities. The general assembly authorized the governor to transfer up to $275 million from the RSA to fund these programs. Currently $72 million has been transferred out of the RSA and is being used, along with just over $30 million in other state and federal funds, to administer these programs.

The full 50-foot channel is expected to reopen no later than mid-June, providing full access again to the more than 30 public and private marine terminals that make up the Port of Baltimore. According to the port's most recent economic impact study from 2023, there are an estimated 19,970 direct jobs from cargo operations at port terminals and private terminals and an additional 223 jobs related to cruise activity. The Maryland Department of Labor estimates that 9,200 full-time equivalent positions are at risk due to the disruption of port operations. In the time that the shipping channel has been hampered, the loss of economic activity has only been partial since some of the port's operations remain open following the FSK Bridge collapse. The Maryland Transportation Authority is partnering with state, local, and federal agencies to reconstruct the FSK Bridge through a competitive progressive design-build procurement with a fall 2028 completion date. Estimated costs to reconstruct the bridge range from $1.7 billion to $1.9 billion. To date, $60 million in federal emergency relief funding has been approved by the Federal Highway Administration for immediate needs and an additional request will be submitted for recovery efforts when better estimates are known. Federal funding is expected to be available for 90% of eligible costs of rebuilding the FSK Bridge. Maryland's congressional delegation is pursuing a bipartisan effort to have federal funding provide for 100% of eligible costs of the rebuild. We expect the state will receive the full policy limit of $350 million property loss payment in the coming weeks under its property insurance policy covering the bridge.

Outside of the budget, the state has also settled with its construction contractor regarding delays associated with the P3 agreement for a light-rail transportation project (the Purple Line) for $250 million. Since the settlement was reached, a new design-build contractor was selected (in October 2021) and approved by the BPW (in January 2022) with the cost of the new design-build contract at $2.3 billion. Construction activities are financed through a federal New Starts grant, state contributions, $643.5 million of private activity bonds, a $1.8 billion Transportation Infrastructure Finance and Innovation Act loan, and private equity. As described in "How Standard & Poor's Treats Public-Private Partnerships In U.S. State And Local Government Debt Analysis" (Sept. 17, 2015), on financial close of the project (April 2022), we incorporated the net present value of the milestone payments into the state's net tax-supported debt ratios through the period before Maryland starts making availability payments for the P3 project. The new 16-mile 21-station light rail system is expected to open in December 2027. Construction is more than 65% complete.

Maryland maintains its commitment to adequately funding its pension liabilities, although we view unfunded pension and OPEB liabilities as a significant credit pressure. When determining the state's liabilities, we view in aggregate its proportionate share of liabilities in its six defined-benefit pension systems and its retiree health care plan, a part of the Maryland State Retirement and Pension System. We include pension and retiree health care plans of the Maryland Transit Administration as part of the state's retiree benefit liabilities.

We view the state's pension funding discipline as adequate, as it annually contributes an amount to its major pension plans to cover static funding, but not enough to meet our minimum funding progress metric. The state's contributions, however, have met the actuarially determined contribution (ADC) for the past several fiscal years.

The state's OPEB liability is a source of credit pressure because the liability is high compared with that of peers and the state has made minimal progress in funding its OPEB obligations.

Pensions

As of June 30, 2023, we calculate Maryland's overall aggregated pension-funded ratio across all plans decreased to 73.3% from 75.7% (as of June 30, 2022) but was higher than the 69.9% funded ratio as of June 30, 2020. The fluctuating funded ratio is attributed to volatility in investment returns of 6.4%, 3.5%, 26.7%, negative 3%, and 3.1% from fiscal years 2019-2023, respectively. We view these recent results as unsustainable and significantly different than the assumed 6.8% rate of return. Our calculation of the state's three-year average funded ratio increased modestly to 77% in fiscal 2023 (from 75% in fiscal 2022), a level we still consider relatively low. The total unfunded liability of all plans in fiscal 2023 weakened to $3,603 per capita (from $3,147 per capita in fiscal 2022) and 4.9% of state personal income (from 4.5% in fiscal 2022).

Plans representing a significant portion of the state's unfunded pension liability as of June 30, 2023, include:

- Teachers' Retirement and Pension Systems: 76.8% funded, with the state's applicable net pension liability (NPL) of $11.9 billion; and
- Employees' Retirement and Pension Systems: 69.6% funded, with the state's applicable NPL of $9.5 billion.

Although we consider funding levels relatively low, Maryland maintains its commitment to adequately fund its pension liabilities annually. Since fiscal 2018, the state has funded its pension systems based on an ADC. The current funding policy also requires supplemental contributions of $75 million until the system is 85% funded and directs--to each of the state retirement system and the OPEB trust fund--one-quarter of any annual unappropriated general fund balance more than $10 million, up to $25 million annually, to pension contributions. Beginning in fiscal 2025, however, the legislature will reduce the $75 million supplemental payment, permanently, to $50 million. Any remaining unappropriated general funds above these distributions are appropriated to the RSA. However, budgetary pressures if present, may prevent these additional payments. These supplemental contributions totaled $35.3 million in fiscal 2024, resulting from the diversion of $10 million to the Maryland Equity Investment Fund and $39.7 million to other priorities in the state budget. For fiscal 2025, supplemental contributions are budgeted to total $50.8 million.

The recent annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, has varied significantly, at 3.1% in fiscal 2023, negative 3% in fiscal 2022, 26.7% in fiscal 2021, 3.5% in fiscal 2020, and 6.4% in fiscal 2019. The average rate of return over this period is 7.3% and is above the current 6.8% discount rate assumed, which is somewhat higher than our guideline of 6.0% for a sustainable discount rate.

Contributions failed to meet our minimum funding progress metric for the two largest plans in fiscal 2023 but did meet static funding. As a result, we expect funded ratios will be stable, but not materially improve.

OPEB liabilities

Maryland offers retiree health care benefits through the state employee and retiree health and welfare benefits program, which includes subsidies of approximately 50%-85% of retiree premiums to cover medical, dental, prescription, and hospitalization costs, depending on the type of insurance plan. The plan assesses a charge to retirees for postemployment health care benefits, which is based on health care insurance charges for active employees.

As of June 30, 2023, the state's applicable net OPEB liability was $11.9 billion, or $1,921 per capita, and approximately 2.6% of personal income, which is above medians. Although Maryland also established an irrevocable trust, it has not regularly appropriated funds to prefund it. The state employee and retiree health and welfare benefits program trust, with approximately $463 million in net assets as of fiscal 2023, was only 4.0% funded at the end of the fiscal year.

The state has previously implemented measures to reduce its unfunded OPEB liability, including reforms passed in 2011 that raised employee and retiree prescription drug copayments and increased retiree premium payments and out-of-pocket maximums. At the time of passage, the state estimated these reforms reduced OPEB liabilities to $9.2 billion from $15.9 billion.

Although we believe Maryland maintains the legal and practical flexibility to implement reforms related to its retiree health care liabilities, the state is involved in litigation regarding state retirees' challenge to legislation eliminating the retiree prescription drug benefit. It is our understanding that recent court rulings were in favor of the state. State officials cannot predict when this lawsuit, which is under appeal, will be resolved.

We have assigned a score of '3.0' to Maryland's debt and liability profile, on a scale where '1.0' is the strongest and '4.0' is the weakest.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 28, 2024)		
Maryland Dept of Transp APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland GO		
Long Term Rating	AAA/Stable	Affirmed
Maryland GO		
Long Term Rating	AAA/Stable	Affirmed
Maryland Department of Transportation, Maryland		
Maryland		
Maryland Dept of Transp (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of May 28, 2024) (cont.)		
Maryland Stadium Authority, Maryland		
Maryland		
Maryland Stadium Authority rev bnds (Football Stadium Issue)		
Long Term Rating	AA/Stable	Affirmed
Maryland Stadium Authority (Maryland) sports entertainment facs rev bnds (Maryland) (Minor League Baseball Projects)		
Long Term Rating	AA/Stable	Affirmed
Maryland Stadium Authority (Maryland) sports entertainment rev bnds (Hagers Town Project)		
Long Term Rating	AA/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA+/A-1/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA/Stable	Affirmed