

Rating Action: Moody's assigns Aaa to Maryland's 2018 Second Series GO bonds; outlook stable

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New York, July 23, 2018 -- Moody's Investors Service has assigned a Aaa rating to Maryland's \$510 million General Obligation Bonds State and Local Facilities Loan of 2018, Second Series. The outlook is stable. The state expects to sell the bonds in a competitive sale on or about August 1.

RATINGS RATIONALE

The highest-quality rating reflects Maryland's strong financial management policies, ample liquidity levels, stable economy and high personal income levels, all of which offset the state's economic exposure to constrained federal spending, as well as the above-average debt and pension burdens stemming from the state's practice of issuing debt and absorbing certain pension costs on behalf of local governments.

RATING OUTLOOK

The outlook for Maryland's general obligation debt is stable. The state's proactive fiscal management enables it to make midcourse corrections and weather economic cycles. It has also taken often difficult actions to strengthen the foundation for long term fiscal sustainability. Even so, growth in fixed costs for pensions, debt service and retiree health benefits will continue to be a challenge.

In fiscal 2018, buoyant equity markets boosted capital gains and bolstered personal income tax collections, and helped raise general fund revenues more than \$200 million or 1.3% greater than expected, based on the latest estimates. In fiscal 2019, state income tax collections will benefit from federal tax reform because more filers are expected to claim the standard deduction. These factors contribute to improved year-end cash balances. Before taking into account additional favorable year-end results, the combined general fund and rainy day balance for 2018 fiscal year-end was projected to exceed \$1 billion, more than 6% of revenue, and was projected at nearly the same level for fiscal year-end 2019. Favorable revenue and spending variances will likely boost the fiscal 2018 balances.

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Economic and financial deterioration that results in deficits, fund transfers and reserve draws without a plan for near-term replenishment and structural balance
- Failure to adhere to policies to redress large unfunded pension liabilities
- Downgrade of the US government

LEGAL SECURITY

The bonds are full faith and credit obligations of the State of Maryland.

USE OF PROCEEDS

Proceeds from the Second Series bonds will be used for various public purposes of the state, including acquisition and construction of state facilities, capital grants and loan programs for environmental and housing projects.

PROFILE

Maryland is located on the east coast of the United States and has 3,190 miles of shoreline, according to the National Oceanic and Atmospheric Administration. Its population of 6 million places it 19th among the 50 states. Its state gross domestic product is 15th largest. The state has above average wealth, with per-capita personal income equal to 118% of the US level in 2017.

METHODOLOGY

The principal methodology used in this rating was US States and Territories published in April 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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