S&P Global
Ratings

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Summary:

Maryland; Appropriations; General Obligation

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Rating Action

S&P Global Ratings assigned its 'AAA' rating to Maryland's state and local facilities loan of 2021, second series general obligation (GO) bonds totaling about $858 million. The outlook is stable. The bonds include the following:

- Second series A (tax-exempt),

- Second series B (taxable), and

- Second series C and D refunding forward delivery bonds (tax-exempt).

At the same time, we affirmed our:

- 'AAA' rating on the state's outstanding GO debt;

- 'AA+' rating on outstanding state obligations supported by lease payments subject to appropriation, (including some issues of the Maryland Stadium Authority); and

- 'AA+' rating on Maryland Department of Transportation's (MDOT) county transportation revenue bonds supported by capital grants appropriated from MDOT's transportation trust fund.

We also affirmed our 'AA+/A-1' rating on the Maryland Stadium Authority's series 2007 sports facilities lease revenue refunding bonds secured by lease-rental payments subject to annual appropriation by the state.

The outlook on all outstanding debt is stable.

The second-series 2021 bonds are GOs of the state to which it has pledged its full faith and credit. The second series A bond proceeds will be used for the acquisition and construction of state facilities; capital grants to local governments for various purposes; and matching fund loans and grants to local governments, nonprofit institutions, and other

entities. The second-series B bond proceeds will be applied for a variety of public purposes, including various loan programs for environmental and housing purposes. The second-series C and D bond proceeds will be escrowed to refund existing state GO bonds at a later date.

Credit overview

Maryland's fundamental economic strengths include its high wealth and incomes, which, along with relative stability in recent federal employment, provided some steadiness to income tax collections and better-than-forecasted revenue performance in fiscal 2021. Maryland's employment picture has improved since 400,000 jobs were lost at the height of the pandemic in April 2020, or 12% of its employment base. The state still has 135,000 less total jobs than it did pre-pandemic, particularly due to ongoing challenges in the leisure and hospitality sector; however, professional service employment has recovered to pre-pandemic levels. Maryland's unemployment rate in June 2021 of 6.2% is just slightly above the national rate of 5.8%, although the state's average annual unemployment rate has remained below national levels. Further, wage growth across a broad array of sectors has helped boost state income tax withholdings in 2021.

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

- Slow-growing economy during mature periods of economic expansion, offset by strong wealth and income levels relative to those of the nation and stable federal employment;
- Long history of proactive financial and budget management, including implementation of frequent and timely budget adjustments to align revenues and expenditures and long-term financial planning that should continue to help the state 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 benefit (OPEB) liabilities remain moderately high.

Overall, the state continues to benefit from very strong wealth and income indicators and a relatively diversified economic base. Per capita personal income and GDP remain above average at 114% and 110% of the nation, respectively, in 2020. Government remains the largest employer in Maryland, representing about 19% of total nonfarm employment in 2020 (9.3% local, 5.8% federal, and 4.2% state) and the sector has been largely shielded from job loss over the past year.

The receipt of federal aid for part of the fiscal year had a stabilizing effect on the state's economy and revenue, including direct aid to individuals that offset anticipated declines in tax receipts. Both income tax and sales tax collections have performed better than prior estimates. State officials expect final fiscal 2021 general fund revenue after legislative changes to total almost $18.8 billion in line with current expectations, after accounting for estimated accruals. Excluding legislative changes, estimated fiscal 2021 general fund revenue would have grown 3% compared to prior year incorporating timing anomalies from shifting tax deadline deferrals. At the end of fiscal 2021, total estimated combined general fund and RSA balances of $2 billion at the end of fiscal 2021 represent 10.7% of estimated expenditures, which is strong in our opinion. Fiscal 2021 financial results benefited from better-than-projected revenue, enacted budget cuts, and enhanced federal aid.

IHS Markit forecasts employment and income growth will continue to outpace the nation in the near-term, reflecting

particularly robust growth in professional services jobs; however, projected annual job growth rates will moderate after 2022 given employment concentration in the government sector. State revenue forecasts for fiscal 2022 align with IHS Markit economic forecasts and assume economic impacts on consumer spending due to federal aid support from various stimulus programs. State officials estimate total economic impacts from federal stimulus programs could be close to $38 billion, or almost 9% of Maryland's pre-pandemic GDP. However, state sales tax forecast assumptions also anticipate slower growth in fiscal 2023 after federal stimulus dollars and programs wane next year.

The enacted fiscal 2022 general fund budget appropriations totaled $20.9 billion, including $530 million to restore rainy day fund balances and more than $400 million for paygo capital funding. Excluding the one-time spending, fiscal 2022 general fund spending is budgeted to grow about 6% compared with fiscal 2021. Ongoing spending growth primarily incorporates general fund spending on Medicaid due to caseload and utilization growth and the expiration of enhanced FMAP support at the end of calendar 2021. The fiscal 2022 general fund budget includes appropriations to restore the revenue stabilization account (RSA) balance to $1.1 billion, or a good 5.3% of appropriations which is in line with its statutory minimum balance after draws to $577 million, or 3% of appropriations in fiscal 2021. Fiscal 2022 budgeted year-end combined general fund and RSA balances of $1.8 billion represent what we view as a good 8.5% of general fund appropriations.

Maryland is slated to receive $11.8 billion in total aid to state and local government through the federal American Rescue Plan (ARP), with $3.7 billion in direct state fiscal relief. ARP federal aid dollars will be leveraged to boost balances in the state's Unemployment Insurance Trust Fund by $1.1 billion, support the Maryland Relief Act to provide temporary tax relief to certain residents, support state aid spending related to pandemic relief and education needs, make certain investments in education and other health and social welfare programs and fund transportation and broadband infrastructure. While most of the uses are nonrecurring in nature, we understand a portion of the state aid support to various programs could be recurring pressures in out years when federal aid is depleted.

The state passed the "Blueprint for Maryland's Future" legislation (also known as the Kirwan plan for public education), which is estimated to increase state and local education aid formulas with mandated public school spending growing by $4 billion per year by 2030. Estimated state general and special fund spending will grow by $1.4 billion annually by fiscal 2025 according to fiscal and policy notes issued by the Department of Legislative Services. Initial funding for the plan included dedicated video lottery terminal revenue and the establishment of an Education Trust Fund Lockbox. A new state sales and use tax imposed on the sale of digital products and codes (digital download tax) could generate $119 million annually toward the special Blueprint fund by fiscal 2025; however, significant outyear gaps remain. In our opinion, long-term funding of the state's education initiatives will likely weigh on future budgets.

We currently view Maryland's tax-supported debt burden as moderate-to-moderately high, although a moderate debt service carrying charge, rapid amortization, and strong debt affordability management currently remain mitigating strengths in our opinion. The state also finalized the "Built to Learn" capital financing plan for public schools, which provides for the issuance of $2.2 billion of appropriation-backed bonds by the Maryland Stadium Authority. The Maryland Department of Transportation's most recent consolidated transportation plan also projected $1.9 billion of consolidated transportation bonds would be issued between fiscal 2021 and fiscal 2026 for transportation infrastructure. If debt issuance or further state obligations outpace economic growth, it could pressure our view of the

state's debt profile. The stable outlook on Maryland's rating continues to reflect our opinion of the state's ability to proactively manage economic and budgetary risks that arise in a structurally balanced manner to alleviate fiscal pressures. However, our view of long-term risks to the state's credit quality include pressures on future structural budgetary balance with expected growth in state school spending and managing capital needs within its moderately high debt burden.

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, on RatingsDirect), 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' (as the strongest) to '4.0' (as the 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 relatively strong economic factors and wealth levels, rapid debt amortization, and financial management profile, which we believe supports credit characteristics in line with those of comparable 'AAA' rated peers.

Environmental, social, and governance (ESG) factors

We consider the state's social and governance risks in line with that of the sector. While we view its environmental risk as elevated, it has taken proactive steps to manage these risks. Located along the Atlantic Ocean and home to Chesapeake Bay, Maryland faces risk from rising sea levels. It actively manages the Chesapeake watershed and runoff, has enacted fees to provide funding for state and local resilience projects, and has adopted legislation with the goal of reducing greenhouse gas emissions.

Stable Outlook

The state's stable outlook reflects its long history of proactive budget management to maintain adequate reserves levels, enact expenditure reductions when needed, and navigate periods of fiscal stress we expect will continue. Nonetheless, fiscal pressures beyond the current year are also expected as the state grapples with increased expenditure demands for public education and health and social services. Its ability to manage these costs in a structurally balanced way will be a key credit consideration.

We also view the state's debt and other liabilities metrics as moderate to moderately high. Continued management of these liabilities within the state's affordability guidelines, particularly during periods of economic downturn and increased spending demands, is also critical to rating stability.

Downside scenario

Should the state significantly rely on nonrecurring resources to balance its budget, prove unable to enact budget cuts or make other timely corrective action, draw down reserves to a level that is unlikely to be meaningful replenished, or see debt and other liability metrics increase to a level that no longer aligns with the current rating level, we may revise our outlook or lower the rating. Furthermore, economic trends that sustainably lag that of the nation could also

pressure the rating.

Credit Opinion

Budgetary Performance and outyear risks

While the fiscal 2022 budget is balanced and maintains good ending reserve balances, the state faces continued pressures from rising costs. Fiscal 2022 is the third year in a 10-year phase-in of the Kirwan Education Commission's recommendations, "Blueprint for Maryland's Future," to improve public education. Although federal ARP funding helped to backfill $431 million of state funding to the special Blueprint Fund in fiscal 2022, the state budget outlook reflects increased mandated state appropriations beginning in fiscal 2023.

In our opinion, elevated mandated spending for schools and long-term funding of the state's education initiatives will likely weigh on service levels and future budgets. While spending mandates are not externally imposed, practical flexibility to adjust services and expenditures is somewhat limited and future funding of the initiatives is expected to be a continued point of contention in future budget negotiations.

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' the weakest.

Management of long-term liabilities are key to future credit stability

The 2022 capital budget totals about $5 billion, of which about half supports transportation projects, and includes $1.1 billion in general obligation debt, which is consistent with recent annual issuance. The annual GO bond issuance authorized by the legislature has also historically aligned with the Spending Affordability Committee's recommendation in most years.

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, of which $100 million was paid from the state's transportation trust fund. MDOT seeks out a replacement contractor and expects to repay the balance by the end of 2021. We understand MDOT could pursue a P3 agreement for a toll bridge expansion. Although details of the obligation are not available at this time, MDOT officials indicate the agreement would not include state milestone or availability payments. As described in our commentary, "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, we incorporate the net present value of milestone payments into the state's net tax-supported debt ratios through the period before Maryland starts making availability payments for a P3 project.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of August 2, 2021)		
Maryland Dept of Transp APPROP		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of August 2, 2021) (cont.)		
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 GO		
Long Term Rating	AAA/Stable	Affirmed
Maryland Dept of Transp, Maryland		
Maryland		
Maryland Dept of Transp (Maryland) certs of part (Baltimore Washington Intl Thurgood Marshall Arpt Shuttle Bus Fleet Acqu)		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) (Aviation Admin Fac) certs APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) (Port Admin Fac Proj) certs APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) (Transit Admin Proj) certs APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Econ Dev Corp, Maryland		
Maryland		
Maryland Economic Development Corporation (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Economic Development Corporation (Maryland) (Maryland Aviation Admin Fac) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Econ Dev Corp (Maryland) lse rev (Maryland) (Mayland Dept Of Transp Headquarters Fac)		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth, Maryland		
Maryland		
Maryland Stad Auth (Maryland) sports facs taxable lse rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) sports facs tax-exempt lse rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) APPROP		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) (Camden Station Proj)		
Long Term Rating	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) (Conference Ctr Facs)		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of August 2, 2021) (cont.)

Maryland Stad Auth (Maryland) (Football Stadium)		
Long Term Rating	AA+/A-1/Stable	Affirmed
Maryland Stad Auth (Maryland) (Montgomery Cnty Conf Ctr Proj)		
Long Term Rating	AA+/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.