

Research Update:

Maryland Series 2025A, 2025B GO State And Local Facilities Loan Bonds Assigned 'AAA' Rating; Outlook Is Stable

May 27, 2025

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the State of Maryland's general obligation (GO) bonds state and local facilities loan, \$900 million tax-exempt first series 2025A bonds, and \$661.650 million tax-exempt first series 2025B refunding bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the State of Maryland's GO debt outstanding.
- We also affirmed our 'AA+' rating on state obligations outstanding, supported by lease payments subject to appropriation (including some issues of the Maryland Stadium Authority [MSA]).
- We also affirmed our '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 our '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.
- In addition, we affirmed our 'AA' long-term rating on the MSA's Built to Learn revenue bonds, which are rated two notches lower than the state's general creditworthiness to account for the appropriation risk associated with the deposit of 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.

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Rationale

Security

The state's GO bonds are secured by a pledge of the state's full faith and credit and taxing power.

The series 2025A GO bond proceeds will be used to finance 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. To achieve some savings in debt service costs, the state is issuing the series 2025B GO bonds, the proceeds of which will be held uninvested in cash or used to purchase federal and/or agency securities for deposit into escrow deposit funds and to refund certain GO bonds outstanding of the State.

After the series 2025A and 2025B bonds are issued and the refunding occurs, the state will have approximately \$10.1 billion of GO bonds outstanding.

Credit highlights

The GO rating reflects the state's historically resilient economy with a strong government presence, high wealth and income levels, and a highly educated workforce. Government and professional and business services--the largest and third-largest segments of the state economy by employment—have been instrumental and historically stabilizing for the state's economy across various cycles, although we continue to monitor the effects that potential federal funding shifts or federal workforce reductions could have for the state economy and finances. Nonetheless, we expect the state's strong financial management should help officials take proactive actions that prevent financial deterioration in the face of federal actions. Timely adjustments to close budget gaps, steady revenue collections due to the state's relatively progressive tax structure, and other recent budgetary actions taken to ensure a sustainable structural balance and adequate cash reserves will be key to rating stability.

The state has a long history of proactive budget management to maintain adequate reserves, while also demonstrating its commitment to adjust revenues and spending, which we expect will continue. This was recently evidenced by actions the state took during the 2025 legislative session to balance its budget over the near term and reducing out-year deficits. Actions included expanding the sales tax to data and IT services, modifying the personal income tax, and increasing the tax rate on cannabis and sports wagering, earmarking a share of all tobacco revenue for the Blueprint Fund, and delaying the phase-in of certain provisions related to full-day prekindergarten expansion. In addition, we believe several revisions to the Blueprint plan will further improve fiscal sustainability; these include a freeze in the implementation of collaborative time grants for fiscal years 2027 and 2028 at the fiscal 2026 level, reducing the funding for coordinated community supports, and adding a provision where if general fund and Blueprint fund revenues decrease by 3.75% or more from March estimates to December estimates, Blueprint formula funding is held flat. Our view of long-term risks to the state's credit quality still 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 liabilities within the state's affordability guidelines, particularly during downturns and periods of increased spending demands, in our view, is also key to rating stability.

In response to potential impacts from shifting federal policies and actions, a prudent statutory provision was added to the 2025 budget bill and budget reconciliation financing act of 2025 (BRFA), requiring the administration to notify the state legislature if expected federal funds revenues are \$1 billion or more below estimates for fiscal 2026 and to follow up with a report outlining possible state responses to such federal cuts. Board of Public Works (BPW) mid-year reductions or special legislative sessions remain options for the state to use as impacts from federal actions become more certain. The BPW has the power to approve budget cuts of up to 25% when the legislature is not in session. In addition, the state has allotted additional cash reserves in the final fiscal 2026 budget; conducted high level scenario modeling and options planning, and vigilant data monitoring across state government; and updated capital cost escalation assumptions to reflect the potential impact from tariff changes and construction labor supply. We expect as the fiscal year unfolds and revenue estimates are updated, the governor and the legislature will continue to make adjustments as needed to better align revenues and expenditures.

For fiscal 2025, based on the current working appropriation, we calculate the state has an operating deficit of about \$1.3 billion (5.1% of expenditures), excluding \$1.1 billion of transfers and money from the general fund balance. After accounting for these transfers, the state projects closing fiscal 2025 with a \$2.2 billion RSA balance (a strong 8.2% of expenditures) and a \$132 million general fund balance. Estimated ongoing revenues for fiscal 2025 cover ongoing spending by about 95% and total spending by about 92%. Final legislative action on the fiscal 2026 budget is intended to end fiscal 2026 with a general fund balance of \$315 million and a rainy day fund balance of \$2.1 billion (7.7% of expenditures). Revenue and spending adjustments approved during the 2025 legislative session reduced projected budget gaps. More specifically, the state's Department of Legislative Services (DLS) forecasts an annual structural budget surplus of \$5 million in fiscal 2026 (eliminating a structural budget deficit of about \$3 billion) and reduced structural budget deficits of about \$155 million (0.6% of forecast budget, down from \$2.9 billion) in fiscal 2027 to \$3 billion (9% of forecast budget, down from \$6.1 billion) by fiscal 2030. More than 70% of the state's out-year budget growth is attributable to cost increases the state can control. 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 budget gaps through a combination of revenue enhancements, spending reductions, shifting costs 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.

The state's current revenue estimates (released March 6, 2025) revised the fiscal 2025 general fund revenue estimate down \$106.8 million to \$25.1 billion from the Dec. 12, 2024, revenue estimate. The state now projects closing fiscal 2025 with a general fund balance of \$132 million and an RSA balance of \$2.2 billion (about 8.7% of general fund revenues). The March 2025 revenue estimates built upon potential negative impact of federal government actions assumed in the December 2024 revenue estimates for fiscal 2025. More specifically, the March 2025 revenue estimates reflect further reductions to the withholding income tax forecast (2.4% growth versus 3.1% growth) and reduced the nonwage income tax forecast; made reductions to corporate income tax and sales tax forecasts; and do not reflect 2025 legislative session revenue actions that will be included in the updated revenue estimates the state plans to release in June.

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. Some of Maryland's largest employers, including Lockheed Martin Corp. (115,000 jobs), the Social Security Administration (60,000 jobs), the University of Maryland's medical system (20,000 jobs), the U.S. Food and Drug Administration (16,000 jobs), and Johns Hopkins (14,000 jobs), could be affected by federal funding freezes or cuts.

At the same time, the shifting federal policy mix is altering the U.S. economic outlook, with our assumptions reflected in a likely downshift in GDP growth in 2025, based on S&P Global Economics' report "Economic Outlook U.S. Update: Higher Tariffs And Policy Uncertainty To Weaken Growth," published May 1, 2025, on RatingsDirect. We forecast the annual average real GDP growth rate will slow to 1.5% in 2025 and 1.7% in 2026 (down from 1.9% in both years in our March 2025 forecast). This is a sizable deceleration from the 3.2% and 2.8% expansion seen in 2023 and 2024, respectively. The risk of a sharper slowdown and inflationary pressures has increased amid persistent policy uncertainty and the implementation of tariffs on imports from all U.S. trading partners, which exceeded our expectations in both size and scope. This could erode purchasing power and elevate business and private investment uncertainty and will likely further weaken U.S. growth. We acknowledge that the risk of a downturn could rise if conditions weighing on growth and sentiment intensified, and we will monitor if this could dampen the state's economically sensitive revenue. Federal policy changes could weigh on the state's government sector, which accounts for 19% of total nonfarm employment in the state. S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual shifts and reassess our guidance accordingly.

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.

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.

Rating above the sovereign

In our view, 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. The institutional framework in the U.S. is predictable, with significant state autonomy and flexibility demonstrated by serial bond amortization as well as independent treasury management.

Outlook

The stable outlook reflects our expectation that the state will make timely adjustments to achieve a structural balance and adequate cash reserves by proactively managing economic and budgetary risks that arise.

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 increases debt and other liability metrics to a level that no longer aligns with the current rating. We could also lower the rating if the state's overall wealth and income, employment, and population levels materially trend in a persistently unfavorable direction due to significant weakness in the government sector.

Credit Opinion

Institutional framework

A robust institutional framework supports the state's predictability, efforts to maintain a structural balance, and transparency.

Maryland is not a voter-initiative state. No voter initiatives are permitted and power of voter veto referendum (to approve or reject an act of the general assembly) does not extend to the state budget bill.

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 Bureau of Revenue Estimates (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 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.

Management

We consider Maryland's management practices and policies as strong, well embedded, and likely sustainable.

Maryland has instituted strong budget and long-term financial planning 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. 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 cannot be carried forward into the next fiscal year.

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 the 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 non-withholding income tax revenue above certain thresholds for nonrecurring purposes or to build reserves. The state also 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 also 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.

In response to potential impacts from shifting federal policies and actions, a statutory provision was added to BRFA, requiring the administration to notify the state legislature if expected federal funds revenues are \$1 billion or more below estimates for fiscal 2026 and to follow-up with a report outlining possible state responses to such federal cuts. We expect as the fiscal year unfolds and revenues estimates are updated, the governor and the legislature will make necessary adjustments to better align revenues and expenditures.

Economy

Maryland's economic growth has been modest over the years since the pandemic. The state's change in real gross state product (GSP) in 2023 and 2024 was 1.55% and 2.21%, slower than the U.S. real gross domestic product (GDP) rates of 2.94% and 2.83%, respectively. Factors contributing to the state's slower pace of economic expansion are slow total job growth (1.1% versus US rate of 2.3% in 2023; and 0.6% versus 1.6% in 2024); the state not yet recovering the total number of jobs lost during 2020; a relatively tight labor market with a 3.1% unemployment rate in December 2024, much below the 4.2% US rate; and the state's heavy reliance on federal employment, both directly and through government contractors, and via federal research grants at Johns Hopkins University, the National Institutes of Health, and other medical systems. Although this dynamic lends stability to the state's economy, it likely limits future growth to less than that of the nation. In 2024, the state's government and education and health services payrolls both expanded, although professional and business services--which includes many government contractors--decreased. Among the rest of the economy, manufacturing, finance, retail trade, and leisure and hospitality services added jobs during 2024, while information, construction, and transportation saw layoffs. While this level of volatility among hiring/losses is normal for Maryland most of the time, with federal funding now in question, the state is in a somewhat precarious position.

Overall, the state benefits from relatively high wealth and income indicators, a highly educated workforce, and a relatively diversified economic base with the strong presence of government providing generally good stability and resiliency. In 2024, personal income was a strong \$78,481 per capita, or 108.5% of the nation, while the gross state product (GSP) was about \$68,952 per capita, or 101.3% of the nation. According to 2024 Census data, Maryland had 6.26 million residents, ranking as the 18th-largest state. Over 1.0% more of Maryland residents have a high school degree than the US average and 4.6% more have a higher-level degree.

Scientific and technological research plays an important role in Maryland's economy. The state is home to a number of internationally recognized federal research agencies, including the National Institutes of Health, NASA's Goddard Space Flight Center, and the National Oceanic and Atmospheric Administration. The presence of these agencies and two major research universities, Johns Hopkins and the University of Maryland, has been a catalyst for the state's technology base. As a result, an increasing number of biotechnology, telecommunications, and computer-science firms are expanding in the state. Maryland has been among the top 10 states in terms of concentration of high-tech employment in the nation, and it is among the top three in biotechnology.

For 2025-2028, S&P Global Market Intelligence projects the state's GSP will increase 3.46%, slower than the national growth rate of 6.01%; and state's total employment will fall 0.35%, while national total employment will increase 1.12%. 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. This deceleration, however, could become a decline if potential cuts to government and related jobs are steep and employers are unwilling to refill positions quickly if they view the hiring environment as uncertain. Over the past two decades, the state has somewhat overcome persistent employment weakness in the government sector with strong hiring in its services industries, which has provided a counterweight to federal budget cuts and volatility. 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.

Canada has the biggest share of Maryland's exports, followed by France, the Netherlands, India, and Germany. The largest export sector is transportation equipment, followed by chemicals, and oil and gas, according to S&P Global Market Intelligence.

Financial performance

The state, in our view, has strong budgetary performance by consistently adopting a balanced approach in addressing previous structural imbalances through a combination of revenue enhancements, spending reductions, shifting costs 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. It also has not been overly reliant on one-time measures, with ongoing revenues covering most spending. The state's fiscal 2024 general fund total current revenue profile remains stable, compared with that in previous years, with approximately 55% derived from personal income taxes, 24% from sales-and-use taxes, and about 21% from other sources.

Fiscal 2024 audited results

As of fiscal year ended June 30, 2024, Maryland had an unassigned fund balance in the general fund of about \$839 million and a total general fund balance of about \$11.7 billion (on a generally accepted accounting principles basis). The state reserve fund is classified as committed fund balance and totaled about \$2.9 billion. General fund revenues increased \$2.6 billion (5.5%) to \$49.5 billion, primarily due to an increase in state income tax of \$1.5 billion and interest income of about \$700 million, while general fund expenditures rose by \$2.7 billion (5.8%) from the previous year, due mostly to expenditures for health and mental hygiene, which increased by \$1.1 billion (6.0%).

On a budgetary basis, actual fiscal 2024 income taxes totaled about \$15.7 billion, \$201 million or only 1% higher than the final budget, while actual sales and use taxes totaled about \$5.9 billion, \$13 million or 0.2% lower than the final budget.

Reserves and liquidity

We expect the state will maintain strong reserves and liquidity. 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 ended fiscal 2024 with a \$1.1 billion general fund balance and about a \$2.4 billion RDF balance (a strong 9.2% of general fund revenues) on a budgetary basis. The current working appropriation for fiscal 2025 shows an estimated structural shortfall of about \$1.3 billion, an estimated ending general fund balance of \$132 million, and an estimated ending RSA account balance of \$2.2 billion (8.7% of general fund revenues). During the 2024 legislative session, the governor was given authorization to transfer up to \$474 million from the RSA account, including up to \$275 million for the purpose of implementing Chapter 3 of 2024 (Maryland Protecting Opportunities and Regional Trade [PORT] Act) to support certain response and recovery efforts related to the collapse of the Francis Scott Key Bridge, and up to \$199 million to cover potential funding shortfalls in entitlement programs. As of March 31, 2025, \$45.5 million has been transferred out of the RSA and used, along with just over \$30 million in other state and federal funds, to administer programs under the PORT act. See table 2. Ninety million

dollars of the \$199 million authorized to cover shortfalls in entitlement programs was used in fiscal 2024 with not additional transfers expected for such purposes in fiscal 2025.

The adopted fiscal 2025 budget includes a one-time \$150 million contribution from the RSA to provide additional operational support for the state's annual Washington Metropolitan Area Transit Authority (WMATA) contribution. The state will provide the same level of supplemental support permanently to WMATA from its Transportation Trust Fund for fiscal 2026 and beyond as a result of increased transportation revenues approved by the legislature during the 2024 and 2025 legislative sessions.

Debt and liabilities

We consider the state's tax-supported debt burden moderate-to-moderately high with a moderate 9.4% current cost of debt and liabilities, moderate \$2,248 net direct debt per capita, and high \$4,026 net pension liability (NPL) per capita, based on 2024 data. Net direct debt includes GO bonds, capital lease and appropriation-supported debt, and bay restoration bonds, as well as MDOT consolidated transportation bonds and county transportation revenue bonds. We view the state's rapid amortization favorably in assessing its current costs of debt and liabilities. Approximately 80% of the state's tax-supported principal will be retired in the next 10 years. All its GO bonds will be retired in the next 15 years, as required by the Maryland constitution. The pension discount rate of 6.8%, which is above our guideline of 6.0% for a sustainable discount rate, could increase the state's future long-term liabilities. See table 2 for more information.

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 2026-2030) CIP totals about \$9.2 billion. Anticipated funding sources include about \$9 billion of GO bonds and bond premiums and \$712 million of general fund pay-as-you-go amounts. GO bonds and bond premiums will fund \$4 billion of state-owned facilities, \$2.3 billion of school improvement costs, and \$2.7 billion for other capital needs, while general fund pay-as-you-go amounts will fund \$800,000 of state-owned facilities and \$711 million for other capital needs.

The fiscal 2026 capital budget passed by the general assembly, excluding the consolidated transportation program, totals \$3.1 billion. The capital budget is funded from a variety of sources, including \$1.75 billion from new GO debt authorization, 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 \$325.2 million since it began collecting the tax at the beginning of fiscal 2022 through March of fiscal 2025. 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. If the courts rule against the state, it may need to issue debt to fund Blueprint unless another funding source is established.

From Oct. 1, 2023 to April 30, 2025, the state has been named as a defendant in lawsuits involving plaintiffs alleging abuse while in the custody of juvenile detention facilities. The state is uncertain how many plaintiffs may ultimately sue the state. Although it is too early for the state to estimate the financial effect of cases brought against it, state officials believe the impact will be material. Funding sources to finance amounts owed is still under consideration.

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 for the Purple Line P3 project, after reaching a \$250 million settlement with the previous design-build contractor. 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. Construction activities for the new 16-mile 21-station light rail system are underway and completion is expected in late 2027. As of Mar. 31, 2025, the project is 78.6% complete.

Pensions

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.

Although we consider funding levels relatively low (which we calculate to be 72% as of June 30, 2024, on an aggregate basis across all pension plans), 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. Legislation enacted during the 2025 legislative session repealed supplemental contributions to each pension system to support other budgetary needs. The previous funding policy required supplemental contributions to each pension system of \$75 million until the system is 85% funded, directing--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, the legislature reduced the \$75 million supplemental payment, permanently, to \$50 million, and starting in fiscal 2026, the supplemental contribution requirement has been eliminated from statute. Any remaining unappropriated general funds above these distributions are appropriated to the RSA. 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 totaled \$50 million.

Plans representing a significant portion of the state's unfunded pension liability as of June 30, 2024, include:

- Teachers' Retirement and Pension Systems: 75.1% funded, with the state's applicable net pension liability (NPL) of about \$13.7 billion; and
- Employees' Retirement and Pension Systems: 68.1% funded, with the state's applicable NPL of about \$10.6 billion.

The recent annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, has varied significantly, at 6.9% in fiscal 2024, 3.1% in fiscal 2023, negative 3% in fiscal 2022, 26.7% in fiscal 2021, and 3.5% in fiscal 2020. The average rate of return over this period is 7.4%.

Contributions failed to meet our minimum funding progress metric for the two largest plans in fiscal 2024 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, 2024, the state's applicable net OPEB liability was \$12.1 billion, or \$1,935 per capita. 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 \$514.9 million in net assets as of fiscal 2024, was only 4.3% 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. On May 20, 2025, the courts decided on all outstanding issues related to these reforms, ending the case in favor of the state.

Francis Scott Key Bridge

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. Toward the end of September 2024, the state, along with other state agencies, filed a lawsuit against the owner and operator of the ship, which follows a lawsuit submitted earlier in September by the U.S. Department of Justice (DOJ) against the same parties. The DOJ lawsuit is seeking more than \$100 million in costs the U.S. incurred in responding to the bridge's collapse, while the state's lawsuit is pursuing punitive damages and seeking compensation for, but not limited to, lost toll revenues, fees, and taxes, and the cost to replace the bridge. Estimated damages for the Maryland Transportation Authority exceed \$2 billion. Litigation related to the collapse is ongoing. State officials report that the impact of such litigation cannot be determined at this time.

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. As of March 31, 2025, \$45.5 million has been transferred out of the RSA

and used, along with just over \$30 million in other state and federal funds, to administer these programs

The full 50-foot channel reopened in mid-June 2024, providing full access again to the more than 30 public and private marine terminals that make up the Port of Baltimore. The Maryland Transportation Authority is partnering with state, local, and federal agencies to reconstruct the FSK Bridge through a competitive progressive design-build contract with expected completion in 2028. Pre-design preliminary estimates to reconstruct the bridge range from \$1.7 billion to \$1.9 billion. Use of \$60 million in federal emergency relief funding are in process. In 2024, the state received the full policy limit of \$350 million property loss payment under its property insurance policy covering the bridge. Such insurance proceeds will be applied to reconstruction. Congress passed the American Relief Act in December 2024, providing 100% federal funding subject to any compensation paid by the owner and operator of the container ship that struck the bridge and net of insurance proceeds.

Maryland--Credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	1.90
Economy	1.5
Financial performance	1
Reserves and liquidity	2
Management	1.00
Debt and liabilities	4.00

Maryland--Key credit metrics

	2026	2025	2024	2023	2022	2021
Economy						
State Population (000s)	N.A.	N.A.	6,268	6,223	6,195	6,181
Real GSP per capita (\$)	N.A.	N.A.	68,955	67,955	67,217	65,838
Real GSP per capita % of U.S.	N.A.	N.A.	101	102	103	102
State PCPI (\$)	N.A.	N.A.	78,481	74,877	70,983	69,014
State PCPI % of U.S.	N.A.	N.A.	108	108	108	107
State unemployment rate (%)	N.A.	N.A.	3.0	2.2	3.0	5.2
Financial performance - S&P Global Ratings adjusted						
Operating fund revenues (mil. \$)	26,767	25,248	26,336	26,796	24,768	21,031
Operating fund expenditures (mil. \$)	26,761	26,526	27,213	25,410	20,825	18,645
Operating result (mil. \$)*	6	(1,278)	(877)	1,386	3,943	2,386
Operating result % of revenues	0.0	(5.1)	(3.3)	5.2	15.9	11.3
Reserves and liquidity - S&P Global Ratings adjusted						
Available reserves (mil. \$)	2,050	2,185	2,411	2,958	1,662	631
Available reserves % of operating revenues	7.7	8.7	9.2	11.0	6.7	3.0
Debt and liabilities						
Net direct debt cost % of revenues	N.A.	N.A.	3.6	3.8	3.2	3.5
Pension and OPEB cost % of revenues	N.A.	N.A.	5.8	6.0	5.4	6.0
Total current cost % of total government revenues	N.A.	N.A.	9.4	9.8	8.6	9.5

Maryland--Key credit metrics

	2026	2025	2024	2023	2022	2021
Economy						
Net direct debt (mil. \$)	N.A.	N.A.	14,087	14,295	15,286	14,907
Net direct debt per capita (\$)	N.A.	N.A.	2,248	2,297	2,467	2,412
Direct debt 10-year amortization (%)	N.A.	N.A.	78	81	78	87
Combined net pension liabilities (mil. \$)	N.A.	N.A.	25,237	22,168	19,384	15,064
Net pension liabilities per capita (\$)	N.A.	N.A.	4,027	3,562	3,129	2,437
Combined pension plan funded ratio (%)	N.A.	N.A.	71.7	73.3	75.7	80.8

Economy data for years 2021-2024 are actual. Financial data for years 2021 to 2024 are actual and years 2025 and 2026 are estimated. Economy data are reported on a calendar year basis, while financial data are reported on a June 30 FYE basis. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--other postemployment benefits. N.A.--Not Available. *Negative operating results for fiscals 2024 and 2025 do not include transfers from the rainy day fund and draws from the general fund balance. Financial data sourced from Maryland's Annual Comprehensive Financial Reports; Maryland State Retirement and Pension System; The 90 Day Report - A Review of the 2025 Legislative Session; and March 6, 2025 revenue estimates. Economic data provided by S&P Global Market Intelligence.

Ratings List**New Issue Ratings**

US\$661.65 mil GO bnds st and local facs loan of 2025 ser 1ST 2025B due 08/01/2030

Long Term Rating AAA/Stable

US\$900.0 mil GO bnds st and local facs loan of 2025 ser 1ST 2025A due 06/01/2040

Long Term Rating AAA/Stable

Ratings Affirmed**States**

Maryland Dept of Transp, MD m State Shared Transportation Trust Fund Capital Grant Appropriation Contract AA+/Stable

Maryland MD Maryland Stadium Authority Tax Secured Lease Appropriation AA+/Stable

Maryland MD Maryland Stadium Authority Tax Secured Lease Appropriation 2023A AA/Stable

Maryland Stadium Authority MD, Non-Lease Appropriation AA/Stable

Maryland, MD Appropriation Contract AA+/Stable

Maryland, MD General Obligation AAA/Stable

Maryland, MD Maryland Stadium Authority Tax Secured Lease Appropriation AA/Stable

Maryland, MD Maryland Stadium Authority Tax Secured Lease Appropriation Minor League Baseball Project 2023B AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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