

State of Maryland – G.O.

ANALYTICAL CONTACTS

Peter Scherer, CFA
Senior Director
+1 646-731-2325
peter.scherer@kbra.com

Linda Vanderperre
Managing Director
+1 646-731-2482
linda.vanderperre@kbra.com

METHODOLOGY

[Public Finance: U.S. State](#)
[General Obligation Rating](#)
[Methodology](#)

Ratings

Description	Rating Action	Rating/Outlook or Watch
Issuer: State of Maryland		
General Obligation Bonds, State and Local Facilities Loan of 2026, First Series Tax-Exempt Bonds (Competitive)	Assigned	AAA/Stable
General Obligation Bonds	Affirmed	AAA/Stable

Rating Summary

The rating continues to be underpinned by the established track record of conservative budget management; moderate debt and continuing obligations profile; and, a resource base that while slow growing, is characterized by strong educational attainment, structurally low unemployment, and per capita personal income exceeding the national average. The rating places particular emphasis on the proven effectiveness of the State’s budget management framework which is evidenced by consistent maintenance of prudent reserves through the full economic cycle over the last two decades.

Proceeds of the currently offered bonds will be used for purposes including: acquisition and construction of State facilities; capital grants to local governments; and, grants to local governments, nonprofit institutions, and other entities for hospitals, cultural, and other projects.

Federal job cuts beginning in early 2025 have been a headwind to the State economy, with federal employment declining 18.1% between January 2025 and March of 2026. The unemployment rate has risen but remains low, matching that of the Nation as of March 2026. The absolute level of federal employment is currently in line with the level recorded in 2009. Federal workforce reductions have slowed in recent months which may signal stabilization, though it remains to be seen if further cuts may be pursued through the remaining term of the current federal administration. KBRA nevertheless views this headwind as manageable in the near-term and anticipates that the State’s proximity to the seat of the federal government in Washington, DC will continue to confer economic stability and high value-added employment over the longer-term.

Maryland’s General Obligation (G.O.) Bonds are secured by the State’s full faith and credit and by the pledge of its unlimited taxing power, including a specifically dedicated State ad valorem property tax levied on all taxable real property. Under the Maryland Constitution and the enabling acts authorizing each series of G.O. Bonds, the State must levy an annual property tax sufficient to pay principal and interest on the G.O. Bonds, and such tax may not be repealed or used for any other purpose until the associated debt is fully retired. However, taxes so levied need not be collected to the extent that funds sufficient for debt service requirements have been appropriated from other sources. Approximately 78.6% of GO Bond debt service is to be paid from State property tax per the FY 2027 budget (FYE June 30).



The State benefits from a well-defined framework for fiscal discipline that incorporates conservative revenue forecasting, continuous monitoring of fiscal conditions, and flexible mechanisms for mid-year budget adjustments. Revenue projections are updated three times each year while monthly revenue and expenditure reports are continuously monitored. Mid-year budget adjustments may be implemented by the Governor to maintain budget balance. The State's reserve policies are clearly structured, requiring annual appropriations to the Revenue Stabilization Account (RSA) when balances fall below 7.5% of estimated general fund revenues. Long-term budget planning performed by the Department of Legislative Services and affordability committees further supports sustainable budgeting practices.

Maryland's debt and continuing obligations profile is characterized by a moderately elevated tax-supported debt burden and satisfactory pension funding progress. Tax-supported debt ranks among the highest 30% of states measured on a per capita basis and the highest 40% as a percentage of personal income. All G.O. Bonds are fixed-rate and amortize rapidly with more than 80% of principal scheduled to be retired within 10 years. Defined benefit pensions for teachers and general state employees are provided from the Maryland State Retirement and Pension System (MSPRS) which has a history of full actuarial contributions and satisfactory funding progress with a ratio of plan fiduciary net position to total pension liabilities at 72.1% as of FYE 2025. The net pension liability is affordable but ranks among the highest 20% of States measured on a per capita basis and as a percentage of gross state product. Fixed costs including debt service, pension contributions, and OPEB pay-go are affordable at 8.5% of governmental expenditures as of FY 2025.

Maryland, like other States, accumulated unusually large reserves in the years following the pandemic. Combined ending general fund and reserve fund balances peaked at 34.8% of appropriations at FYE 2022 and have been drawn down to 10.3% of appropriations as of FYE 2025. The State made significant progress in restoring structural budget balance in the FY 2026 budget, addressing a \$3.0 billion baseline general fund gap. Tax changes, including increasing the top marginal tax rate to 6.5% from 5.75%, implementing a 2.0% surcharge on net capital gains for high-income earners, expanding the 3% sales tax base to online services, and implementing new limits to corporate income tax deductions and credits provided \$1.2 billion in new recurring revenues. Adjustments to baseline expenditure growth totaling \$1.3 billion, namely through the postponement of certain previously planned education spending increases, resolved much of the remaining gap, with the residual \$0.5 billion gap managed through a combination of transfers and reversions. As of April 17, 2026 the Department of Legislative Services projects ending FY 2026 with a slight YoY increase in aggregate reserves to a level equivalent to 10.5% of appropriations.

The FY 2027 budget signed into law on April 8, 2026 addresses a \$1.6 billion baseline general fund gap primarily through reductions and reversions (\$800 million), decoupling from certain federal tax policies (\$133 million), and the drawdown of general fund balance (\$552 million). The State is projected to end FY 2027 with a measured YoY decrease in aggregate reserves to a level equivalent to 8.5% of appropriations.

Maryland's resource base is broad and diverse, characterized by per capita income at 107% of the nation and a historically structurally low level of unemployment. The State has long benefited from proximity to Washington, DC, which supports a significant level of direct federal jobs and indirect federal contractor employment. These strengths are balanced to some extent by economic growth that has trailed the U.S. since 2010 and the expectation that federal budget cuts and workforce reductions that are the prerogative of the current federal administration will drag on the State's economy over the near term. Nevertheless, KBRA views the outsized role of the federal government in Maryland's economy as supportive of high value economic activity and stability through economic cycles over the longer term.

The Stable Outlook reflects KBRA's expectation that Maryland will maintain disciplined fiscal management, prudent reserves, and structural budget balance despite near-term economic headwinds.



Key Credit Considerations

The rating actions reflect the following key credit considerations:

Credit Positives

- Inherent strength and breadth of the State GO payment pledge.
- Established history of conservative budget management and maintenance of prudent reserves through economic cycles.
- Governor has broad executive authority to reduce spending to maintain budget balance.

+

Credit Challenges

- Economic growth lags that of the Nation.
- Highest reliance on federal employment among the 50 states amid the current federal administration's focus on shrinking federal employment will be a headwind to economically sensitive tax receipts over the near to medium term.
- Federal policy changes to Medicaid cost-sharing and SNAP administration costs will increase program costs for the State. The full extent of these additional costs is not yet known.

-

Rating Sensitivities

- Not applicable at AAA rating level.
- Deeper than anticipated impact of federal employment and contract cuts resulting in sharp and continuing decline in economic indicators and State revenue performance.
- Significant deterioration in reserves and liquidity to levels no longer consistent with the rating level.

+

-



Key Ratios

Personal Income Per Capita (2025)	\$81,834
as a % of U.S.	107%
Real GDP CAGR 2015 to 2025	
Maryland	1.40%
United States	2.40%
Unemployment Rate, Mar 2026 (SA)	
Maryland	4.3%
United States	4.3%
General Fund + State Reserve Fund Balance as a % of Appropriations	
FYE 2025	10.3%
FYE 2026 (Estimated)	10.5%
FYE 2027 (Budget)	8.5%
Fixed Costs as a % of Expenditures, FY 2025	8.5%
Net Pension Liability as a % of Personal Income	
Maryland	4.4%
Average of U.S. States	2.5%
Pension Fiduciary Net Position as a % of Pension Liability, FY 2025	72.1%

Rating Determinants

Rating Determinants (RD)	
1. Management Structure, Budgeting Practices and Policies	AAA
2. Debt and Additional Continuing Obligations	AA
3. Financial Performance and Liquidity Position	AAA
4. State Resource Base	AA

In KBRA's analysis, greater emphasis was placed on Rating Determinants 1 and 3 given the exceptionally strong track record of State leadership and financial performance.

A detailed discussion of each rating determinant and KBRA's bankruptcy assessment can be found in prior reports, the most [recent](#) of which is dated January 9, 2026.

RD 3: Financial Performance and Liquidity Position Update

Maryland, like other States, accumulated an unusually high level of reserves in the years following the pandemic, with combined ending general fund and reserve fund balances peaked at 34.8% of appropriations at FYE 2022. Reserves have been drawn down to 10.3% of appropriations as of FYE 2025 and are projected to be drawn down to 8.5% of appropriations by FYE 2027.

The State faces near-term challenges to economically sensitive revenue performance given recent federal budget cuts and its distinction as being more reliant on federal employment than any other states. However, the State has a strong track record of conservative budget management, restrained revenue forecasts, and excellent reserves and liquidity management which KBRA anticipates will continue to position the State well to weather near-term challenges.



Figure 1

State of Maryland							
Budgetary Basis Financial Summary							
FYE June 30 (dollars in millions)							
	Actual					Estimated	Budget
	2021	2022	2023	2024	2025	2026	2027
General Fund							
Revenues							
Incomes Taxes	13,167	15,248	15,286	15,520	16,442	17,268	17,546
Sales and Use Taxes	4,988	5,967	6,005	5,897	6,049	6,430	6,630
Lottery	632	635	655	655	519	543	475
Franchises, Excises, Licenses and Fees	1,686	2,208	2,527	2,641	2,706	2,853	2,352
Transfer - Stabilization Fund	-	-	1,186	479	346	326	43
Transfers - Other Funds	474	-	-	324	793	909	77
Reimbursement - Tax Credits	26	-	-	51	32	45	53
Adjustments / Extraordinary Items	359	(14)	(800)	150	(382)	53	25
Other Changes to Revenue from Legislation	-	(870)	42	-	-	(7)	93
Total	21,331	23,174	24,901	25,717	26,505	28,420	27,294
Appropriations							
Public Education	9,066	9,176	10,281	10,954	11,339	11,396	11,454
Health	5,157	5,815	6,590	7,492	8,792	9,423	9,121
Public Safety, State Police, Juvenile Services	1,794	1,669	2,100	2,303	2,551	2,599	2,648
Human Services	707	721	828	843	959	1,049	1,036
Debt Service	131	260	430	425	397	155	178
PAYGO Capital	-	453	2,044	1,145	146	115	109
State Reserve Funds	114	883	2,843	1,211	3	80	23
Transportation	-	9	-	-	197	1	3
Administrative and Other	1,701	2,048	2,856	3,025	3,049	3,250	3,375
Prior Year Adjustments / Reversions	(868)	(119)	(157)	(156)	(138)	(129)	(100)
Other Adjustments	993	-	-	-	-	-	-
Total	18,795	20,915	27,815	27,242	27,295	27,939	27,847
Change in Fund Balance	2,536	2,260	(2,914)	(1,525)	(790)	481	(553)
Beginning Balance	704	3,239	5,499	2,584	1,060	271	753
Ending Balance	3,239	5,499	2,584	1,060	271	753	201
State Reserve Fund							
Revenue Stabilization Account	631	1,662	2,958	2,411	2,380	2,141	2,156
Other Accounts	16	120	512	472	151	30	11
Total State Reserve Fund	647	1,782	3,469	2,883	2,531	2,171	2,167
<i>as a % of General Fund Appropriations</i>	<i>3.4%</i>	<i>8.5%</i>	<i>12.5%</i>	<i>10.6%</i>	<i>9.3%</i>	<i>7.8%</i>	<i>7.8%</i>
Aggregate Reserves							
Ending General Fund Balance	3,239	5,499	2,584	1,060	271	753	201
State Reserve Fund	647	1,782	3,469	2,883	2,531	2,171	2,167
Aggregate Reserves	3,886	7,281	6,053	3,943	2,802	2,924	2,368
<i>as a % of General Fund Appropriations</i>	<i>20.7%</i>	<i>34.8%</i>	<i>21.8%</i>	<i>14.5%</i>	<i>10.3%</i>	<i>10.5%</i>	<i>8.5%</i>

Sources: POS and KBRA Calculations



FY 2027 Budget

The FY 2027 budget signed into law on April 8, 2026 addresses a \$1.6 billion baseline general fund gap primarily through reductions and reversions (\$800 million), decoupling from certain federal tax policies (\$133 million), and the drawdown of general fund balance (\$552 million). The State is projected to end FY 2027 with a measured YoY decrease in aggregate reserves to a level equivalent to 8.5% of appropriations which remains historically strong.

Revenues are projected to decline 4.0% YoY to \$27.3 billion due primarily to reduced reliance on fund transfers and normalization in estate and inheritance tax receipts which were abnormally strong in the preceding year. Income taxes, which comprise 64.2% of revenues are projected to increase by a modest 1.6% YoY to \$17.5 billion while sales taxes, the second largest source, are projected to increase 3.1% YoY to \$6.6 billion. Appropriations are budgeted to decline 0.3% YoY to \$27.8 billion reflecting a combination of very constrained spending growth across most functions and nonrecurrence of FY 2026 deficiency and prior-year catch-up spending, particularly in health and entitlement programs.

The Department of Legislative Services estimates in its April 17, 2026 review of the 2026 legislative session a structural general fund shortfall for FY 2027 of approximately \$598 million, with materially larger gaps beginning in FY 2028 as ongoing spending growth outpaces recurring revenue growth. However, KBRA views the State's continued willingness to take timely budgetary action, while protecting reserve levels, as an important mitigant to these ongoing operating pressures.

FY 2026 Projections

The enacted FY 2026 budget was balanced after solving for a substantial \$3.0 billion budget gap due to a combination of moderating revenue growth following the stimulus-fueled pandemic-era surge, residual inflationary cost pressures, and waning pandemic-related federal assistance. Maryland faced two additional notable challenges. First was the need to address the progression of a ten-year plan to increase annual education spending by nearly \$4.0 billion by FY 2032 (the Blueprint for Maryland's Future). The budget ultimately deferred certain initiatives targeted for this year to achieve savings. Second were expectations for an unfavorable employment and economic growth outlook over the near-term given the State's significant reliance on direct and indirect federal employment (the highest in the Nation) amid the current federal administration's efforts to cut costs and reduce federal employment.

The State nevertheless made significant progress in restoring structural budget balance in the FY 2026 budget. Tax changes provide \$1.2 billion of new recurring revenues through increasing the top marginal tax rate to 6.5% from 5.75%, implementing a 2.0% surcharge on net capital gains for high-income earners, expanding the 3% sales tax base to online services, and implementing new limits to corporate income tax deductions and credits, among other changes. Adjustments to baseline expenditure growth totaling \$1.3 billion, primarily through the postponement of certain previously planned education spending increases, resolved much of the remaining gap, with the residual \$0.5 billion gap handled through a combination of non-recurring transfers and revisions. As of April 17, 2026 the Department of Legislative Services projects ending FY 2026 with a slight YoY increase in aggregate reserves to a level equivalent to 10.5% of appropriations.

Looming Federal Cost Pressures

Like other States, Maryland will face higher costs associated with certain social welfare programs as a result of federal policy changes implemented in Public Law 119-21, more commonly known as HR 1 of 2025 or the One Big Beautiful Bill Act. The State has not yet provided specific year-by-year projections, nor the law's full budgetary impact. Nonetheless, KBRA understands that many of the law's most significant provisions will be phased in through FY 2028, while others, such as required reductions to state hospital provider taxes, must be phased in through FY 2032. Among its many provisions, the law will, over several years, tighten eligibility for social welfare programs including Medicaid and the Supplemental Nutrition Assistance Program (SNAP), impose new penalties for improper benefit payments from these state-administered programs, and reduce federal cost-sharing for Medicaid Expansion and health insurance exchange subsidy programs.



The State has budgeted for higher Medicaid and SNAP administrative costs beginning in FY 2027, with the most clearly quantified item being \$54 million increase in SNAP administrative costs to be borne by the general fund due to a reduced federal match. The Department of Legislative Services indicates that direct out-year costs, while not specifically identified, will be partially mitigated by anticipated Medicaid enrollment declines due to the aforementioned looming work requirements. Information from the Maryland Department of Health underscores the magnitude of funding expected to be lost with an estimated 175,000 individuals projected to lose Medicaid coverage and up to \$2.7 billion in annual funding at risk for the State and its healthcare providers annually when all of the law's provisions are implemented. KBRA believes that while much of this cost may not be borne directly by the State, it could be called upon to play a role in stabilizing safety net providers to the extent that they experience a material increase in uncompensated care.

While these changes will pressure the State budget, the most significant changes will not be phased in for several years. In KBRA's opinion, this timeline and the State's solid reserve position should provide lawmakers an adequate buffer to address these challenges.

© Copyright 2026, Kroll Bond Rating Agency, LLC and/or its affiliates and licensors (together, "KBRA"). All rights reserved. All information contained herein is proprietary to KBRA and is protected by copyright and other intellectual property law, and none of such information may be copied or otherwise reproduced, further transmitted, redistributed, repackaged or resold, in whole or in part, by any person, without KBRA's prior express written consent. Information, including any ratings, is licensed by KBRA under these conditions. Misappropriation or misuse of KBRA information may cause serious damage to KBRA for which money damages may not constitute a sufficient remedy; KBRA shall have the right to obtain an injunction or other equitable relief in addition to any other remedies. The statements contained herein are based solely upon the opinions of KBRA and the data and information available to the authors at the time of publication. All information contained herein is obtained by KBRA from sources believed by it to be accurate and reliable; however, all information, including any ratings, is provided "AS IS". No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, or fitness for any particular purpose of any rating or other opinion or information is given or made by KBRA. Under no circumstances shall KBRA have any liability resulting from the use of any such information, including without limitation, for any indirect, special, consequential, incidental or compensatory damages whatsoever (including without limitation, loss of profits, revenue or goodwill), even if KBRA is advised of the possibility of such damages. The credit ratings, if any, and analysis constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. KBRA receives compensation for its rating activities from issuers, insurers, guarantors and/or underwriters of debt securities for assigning ratings and from subscribers to its website. Please read KBRA's full disclaimers and terms of use at www.kbra.com.

Doc ID: 1015128