FitchRatings

FITCH RATES $728MM STATE OF MARYLAND GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-18 July 2012: Fitch Ratings assigns an 'AAA' rating to the following State of Maryland (state) general obligation (GO) bonds, state and local facilities loan of 2012, second series, consisting of:

--$75 million second series A tax-exempt bonds (negotiated);
--$430 million second series B tax-exempt bonds (competitive);
--$20 million second series C taxable bonds (competitive);
--$15.32 million second series D taxable qualified zone academy bonds (competitive);
--$187.6 million second series E tax-exempt refunding bonds (competitive).

Series A will be sold via negotiated sale on July 27 and July 30; series B, C, D and E will be sold via competitive sale on August 1. The par amount for the second series E refunding bonds is approximate and will be determined upon final sale.

In addition, Fitch affirms the following ratings:
--$7.5 billion state GO bonds at 'AAA';
--$20.67 million Maryland Transportation Authority parking lease revenue bonds, Calvert Street parking garage project, series 2005 at 'AA+';
--$33.05 million taxable certificates of participation, series 2011A at 'AA+'.

The Rating Outlook is Stable.

SECURITY
General obligations to which the state's full faith and credit are pledged.

KEY RATING DRIVERS

STRONG DEBT MANAGEMENT: Debt oversight is strong and centralized, and the debt burden is moderate. The state has policies to maintain debt affordability, and the constitution requires GO and transportation bonds to amortize within 15 years.

PENSION FUNDING REFORMS: Pension funding levels have deteriorated, although the state has undertaken extensive pension and other post-employment benefit (OPEB) reforms.

BROAD ECONOMY: The state has a diverse, wealthy economy, benefiting from its proximity to the nation's capital.

CONSERVATIVE FINANCIAL OPERATIONS: Financial operations are conservative, and the state maintains a well-funded rainy day fund to manage revenue cyclicality. The state took repeated action during the course of the recession to address projected budget gaps, including raising tax revenues, cutting spending, and using rainy day and other balances.

CREDIT SUMMARY
The 'AAA' rating on Maryland's GO bonds reflects its sound financial operations, a wealthy, diversified economy and strong management of debt. The state is wealthy and its economy benefits from proximity to the nation's capital. Economic and revenue recovery has been slow since the end of the last recession, although the state has benefited recently from job gains associated with federal realignment. The state's approach to fiscal management has been consistently conservative both through the last recession and during the recovery, with the state relying on spending cuts, revenue increases and the use of non-recurring resources to maintain balance. Maryland retains a well-funded rainy day fund (RDF) and ample fiscal flexibility. Federal spending cuts could weigh

on the state in the near term, although Fitch believes the state would have time to react to the impact of federal changes.

After uneven economic performance through much of 2011, the state's economy in 2012 is now returning to more solid growth. May 2012 employment rose 1.3% year-over-year, compared to 1.4% nationally, and job gains are widespread across key service sectors, including government. The state continues to benefit from employment shifts associated with the 2005 federal military base realignment (BRAC) process. The state's unemployment rate, at 6.8% in May 2012, is well under the 8.2% national average. Measured on a per capita basis, Maryland's 2011 personal income ranks fourth among the states at 123% of the U.S. level.

Personal income grew in the first quarter of 2012 by 2.9% year-over-year, matching the national rate of growth. The state anticipates 2.9% annual growth in 2012 and 3.5% growth in 2013. The impact and timing of federal austerity on the state's economic performance remains unknown, although the state has begun to incorporate possible effects into its forecast assumptions.

Financial operations are conservative, with the state consistently demonstrating a strong commitment to budgetary balance through the downturn, including through repeated spending cuts, fund balance transfers and revenue increases. The state has also maintained flexibility in the form of the RDF, which has remained funded at or near 5% of general fund revenues in recent years. State financial performance in fiscal 2012, which ended on June 30, is estimated to have been stronger than anticipated. Preliminary revenue collections year-to-date through June, at $13.4 billion, are 1.5% over estimate and 5.7% ahead of the prior year, with solid year-over-year growth in personal income, corporate income and sales and use taxes. The fiscal year ended with a fund balance at an estimated $323 million (2.3% of general fund revenues; includes the impact of special session adjustments in the budget restoration fund), and an RDF balance of $672 million (4.8% of general fund revenues).

The fiscal 2013 adopted budget closed a gap estimated at nearly $1.1 billion. The plan assumes general fund revenues rise 5%, to $14.7 billion; the state's revenue forecast includes $343 million in revenues from various tax rate changes, the largest part of which stems from personal income tax rate and exemption changes for high earners. State appropriations include $698 million in spending reductions, including $340 million from various Medicaid savings measures and $137 million from shifting a portion of the annual contributions for teacher pensions to local school boards. The latter is the first year of a four-year phased-in shift of the normal cost of employer contributions for teacher pensions, estimated to reduce state spending by $217 million by fiscal 2016. The fiscal year is forecast to close with a general fund balance of $200 million (1.4% of general fund revenues) and an RDF balance of $714 million (4.8% of general fund revenues).

The burden of total tax-supported debt is moderate, and the state's strong and centralized debt management remains a credit strength. Net tax-supported debt as of March 31, 2012, equals approximately $10.4 billion, or 3.5% of 2011 preliminary personal income. More than two-thirds of tax-supported debt is GO bonds. GO and transportation bonds are constitutionally required to mature within 15 years, ensuring rapid amortization. Debt affordability guidelines include holding tax-supported debt at or below 4% of personal income.

The funding of pensions has deteriorated in recent years, with June 30, 2011 system-wide funded ratios for the employees at 62.8% and teachers at 66.3%. Using Fitch's more conservative 7% discount rate assumption, the employees and teachers' plans would be funded at 58% and 61.2%, respectively. On a combined basis, net tax-supported debt and the portion of pension liabilities attributable to the state are estimated by Fitch at 11.2% of 2011 preliminary personal income, higher than the 6.6% median of Fitch-rated states. In addition to the shift of teacher pension contributions noted earlier, the state has taken several steps in recent years to reduce the burden of pensions, including reducing benefit accruals and requiring higher state contributions to improve funded ratios over time. Benefit changes in 2011 to other post-employment benefits are estimated to have reduced the state's OPEB liability to $9.7 billion, from $15.9 billion.

Contact:

Primary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889
Fitch Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Ken Weinstein
Senior Director
+1-212-908-0571

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'U.S. State Government Tax-Supported Rating Criteria'(Aug. 15, 2011);
--'Enhancing the Analysis of U.S. State and Local Government Pension Obligations' (Feb. 17, 2011).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648897
Enhancing the Analysis of U.S. State and Local Government Pension Obligations
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=604785