

RatingsDirect®

Summary:

Maryland; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Summary:

Maryland; Appropriations; General Obligation

Credit Profile

US\$500.0 mil st and local facs loan of 2019 second ser A tax-exempt bnds ser A due 08/01/2029

Long Term Rating AAA/Stable New

US\$50.0 mil st and local facs loan of 2019 second ser B taxable bnds ser B due 08/01/2023

Long Term Rating AAA/Stable New

Maryland GO

Long Term Rating AAA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the state of Maryland's general obligation (GO) state and local facilities loan of 2019 second series A and B (taxable) bonds. At the same time, we affirmed our 'AAA' rating on the state's outstanding GO debt and our 'AA+' rating on its appropriation-backed obligations. In addition, we affirmed our 'AA+/A-1' joint support rating on issuances where the short-term ratings are based on the liquidity support from various financial institutions. The outlook is stable.

The state and local facilities loan of 2019 second series A and B (taxable) bonds are GOs of Maryland of which the full faith and credit of the state are pledged. The proceeds from the sale of the bonds will be deposited into the State and Local Facilities Loan Fund and expended as needed on any project authorized by an enabling act. The legislature annually enacts a Maryland Consolidated Capital Bond Loan appropriating funds for various capital programs to be funded through the sale of state GO bonds. The GO bond proceeds are credited to the State and Local Facilities Loan Fund and cash is transferred to fund capital project expenditures as needed.

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

- Broad and diverse economy, which continues to post slow growth;
- Strong wealth and income levels relative to those of the nation;
- 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 be helpful in addressing 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, in our opinion.

Fiscal 2019 projections and fiscal 2020 adopted budget

After adjustments to revenues, legislative reductions, and estimated revisions, the state expects its fiscal 2019 ending balance to increase 22% from \$589.6 million to \$718.2 million. For fiscal 2019, the state estimates preserving \$1.6 billion of cash in the rainy day fund (\$882.3 million). The latter is approximately 4.9% of fiscal 2019 general fund

revenues and when combined with the ending balance, the state's reserves are a strong 8.9% of estimated fiscal 2019 revenues.

The adopted 2020 general fund budget totals \$19.4 billion, an 8.4% increase over the prior year. The budget reduces the ending balance to \$95.5 million while increasing the balance in the state's rainy day fund to \$1.2 billion or, a strong 6.5% of estimated general fund revenues. The budget includes a 3% pay increase for most state employees and \$75 million in supplemental funding for the state pension system, and uses one-time surplus for savings and infrastructure investment, including \$110 million toward Washington Metropolitan Area Transportation Authority (WMATA).

In addition to the 2020 budget bill, the legislature passed SB 1030 establishing the "Blueprint for Maryland's Future." The Blueprint is the direct result of the work of the Commission on Innovation and Excellence in Education, or the Kirwan Commission. The result is \$255.7 million in funding to implement initiatives outlined in the Blueprint, largely at the discretion of the governor for primary and secondary education. The report authorizes funding through fiscal year 2022, which is supported by current revenues and the constitutional education "lockbox." The lockbox is a constitutional amendment approved last year to incrementally dedicate gambling revenue (from Maryland's six casinos) to education through 2023. The phase-in starts at \$125 million in fiscal 2020 and rises to over \$500 million in fiscal 2023.

Economy

Maryland's fundamental economic strengths include strong wealth and income indicators and a relatively diversified base. The population exceeds 6 million, although population growth has slowed slightly when compared with that of the nation in the past four years. Over the past 10-years, the state's population growth was 0.61% compared to 0.73% for the nation. International immigration into the state has boosted population growth historically as has federal spending, and changes in federal policy could affect demographic trends in the state. Wealth and income levels have consistently been strong, in our view, with 2018 per capita personal income of \$62,914 at a high 117% of the U.S. level for 2018.

One economic issue is weaker federal employment. Government (all levels) remains the largest employer in Maryland, representing an 18% share of total nonfarm employment. This is having an effect on overall economic growth, with the state registering just 0.8% job growth in 2018, compared with 1.1% in 2017, mostly due to weakness in government payrolls, according to IHS Markit. However, professional and business services has been hiring, with 8.4% employment growth in the third quarter of 2018. Overall, we expect a gradual long-term decline in job growth. Given its proximity to the country's capital, the federal government is a major player in Maryland's economy with many local private-sector employers dependent on federal contracts. IHS forecasts real gross state product to average 1.8% (2019-2022) compared to an average 1.9% for the nation.

Overall, an established higher education and research presence, favorable location, and a well-educated workforce are among the state's strengths in attracting future economic development. Maryland also has demonstrated a commitment to transportation infrastructure investment to continue to foster economic development. Federal research agencies in the state as well as Johns Hopkins University and the University of Maryland also position it well for economic and technology development.

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 '1.6' to the state, which reflects an indicative rating of 'AA+'. We have notched up to 'AAA' as allowed per our state rating methodology due to Maryland's relatively strong economic and financial management profile, which we believe supports credit characteristics in line with those of comparable 'AAA' rated peers.

For more information on the state's general creditworthiness, see our full analysis on Maryland, published March 15, 2019, on RatingsDirect.

Outlook

The stable outlook reflects Maryland's continued focus on structural budget alignment and maintenance of minimum state reserves at levels we consider good, despite continued slow economic growth. The state's practice of making proactive midyear adjustments to align the budget in case of slower-than-anticipated revenue growth will remain an important credit factor over the two-year outlook horizon, given Maryland's above-average economic dependence on federal government employment and spending. Cost pressures related to health and human services spending as well as education funding could exacerbate future budget gaps. Should the state fail to make proactive budget adjustments or rely significantly on reserves and other one-time sources, we could lower the rating. Further slowing of economic growth compared with that of the nation, withdrawal of federal fiscal aid, or changes to tax policy that strain the state's economy and budget, coupled with ongoing growth in debt and liability burdens and failure to demonstrate a consistent commitment to fully funding pensions and OPEB obligations, could also pressure the rating.

Ratings Detail (As Of July 29, 2019)		
Maryland Dept of Transp		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Dept of Transp cnty transp rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Dept of Transp GASTAX		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Dept of Transp GASTAX		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Econ Dev Corp APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Econ Dev Corp APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth (Hippodrome Performing Arts Center)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of July 29, 2019) (cont.)		
Maryland Stad Auth (Montgomery County Conf Ctr Proj)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Maryland GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Maryland GO		
<i>Long Term Rating</i>	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)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) (Aviation Admin Fac) certs APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) (Port Admin Fac Proj) certs APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Dept of Transp (Maryland) (Transit Admin Proj) certs APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Econ Dev Corp, Maryland		
Maryland		
Maryland Econ Dev Corp (Maryland) lse rev (Maryland) (Maryland Dept Of Transp Headquarters Fac)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth, Maryland		
Maryland		
Maryland Stad Auth (Maryland) sports facs taxable lse rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) sports facs tax-exempt lse rev bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) (ATM) (Baseball Stadium Issue)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) (Baseball Stadium Issue)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) (Camden Station Proj)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) (Conference Ctr Facs)		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maryland Stad Auth (Maryland) (Football Stadium)		
<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed

Summary: Maryland; Appropriations; General Obligation

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.

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