MOODY'S RATINGS

Rating Action: Moody's Ratings downgrades Maryland's issuer and GO ratings to Aa1; outlook revised to stable

14 May 2025

New York, May 14, 2025 -- Moody's Ratings (Moody's) has downgraded the State of Maryland's issuer and general obligation ratings to Aa1 from Aaa, and assigned a Aa1 rating to the state's $900 million General Obligation Bonds, State and Local Facilities Loan of 2025, First Series A Tax-Exempt Bonds (Competitive) and $710 million First Series B Tax-Exempt Refunding Bonds (Competitive). The downgrade was driven by economic and financial underperformance compared to Aaa-rated states, which is expected to continue given the state's heightened vulnerability to shifting federal policies and employment, and its elevated fixed costs. The downgrades affect outstanding debt with aggregate par value of about $15 billion. The outlook on the issuer and long-term ratings has been revised to stable from negative.

Rating actions are as follows:

Downgrades:

- Issuer rating, downgraded to Aa1 from Aaa

- General obligation (GO) bonds, downgraded to Aa1 from Aaa

- Annual appropriation obligation bonds for essential purposes, downgraded to Aa2 from Aa1

- Maryland Infrastructure Financing Intercept Program, downgraded to Aa2 from Aa1

- Annual appropriation obligation bonds for less essential purposes, downgraded to Aa3 from Aa2

- Built to Learn Revenue bonds, downgraded to Aa3 from Aa2

- Bay Restoration Fund Revenue bonds, downgraded to Aa3 from Aa2

- Baltimore City Public Schools Construction and Revitalization Program Revenue bonds, downgraded to A1 from Aa3

Affirmation:

- Maryland Stadium Authority variable-rate debt, affirmed at VMIG 1

RATINGS RATIONALE

Maryland's Aa1 issuer rating reflects the state's wealthy and diverse economy and proactive financial management practices including a well-established tax revenue forecasting process and strong capacity to impose midyear spending cuts. The state recently addressed a trend of overspending in various programs through a combination of tax increases and restraints on expenditures. These actions closed a budget gap although the need for further corrective steps may arise directly from federal funding cuts or the economic consequences of federal layoffs and other policy shifts, to which Maryland has a very high degree of exposure. The state's financial reserves remain strong by its historical standards, although lower than those of Aaa-rated states.

The state's Aa1 general obligation bond rating incorporates a pledge of the state's full faith and credit. In addition, a statewide property tax is dedicated to GO debt repayment.

The Aa2 ratings on annual appropriation obligation bonds factor in the contingent nature of the state's payment obligation, which requires annual legislative appropriation, as well as the more essential nature of the projects financed (such as transportation infrastructure).

The Aa2 pledge specific rating on the Maryland Infrastructure Financing Intercept Program incorporates the state's commitment to the program and the essentiality of purposes supported by the program, which are public infrastructure projects. The position of the intercept program in the hierarchy of state debt and spending priorities is comparable to the state's obligation on subject-to-appropriation debt. Funds subject to intercept include local governments' shares of state-collected revenue (from income and highway use taxes).

The Aa3 ratings on bonds issued by the Maryland Stadium Authority for sports arena and convention center projects incorporate the contingent nature of these obligations, which are payable subject to annual legislative appropriation, in addition to the financed facilities' less essential nature.

The Built to Learn Revenue bonds' Aa3 rating is supported by strong coverage (9.7 times MADS) from a larger pool of casino table game and video lottery terminal receipts, provided subject to annual appropriation. Gaming revenue is constitutionally restricted to education purposes, including Built to Learn program debt service. The economically sensitive nature of revenue from discretionary spending entails elevated social risk, vulnerabilities that came to the fore during the pandemic. Transfers are subject to annual appropriation.

The Bay Restoration Fund Revenue bonds' Aa3 rating accounts for payment of debt service from pledged water treatment system user fees, which have stagnated during the past decade because of weak economic and demographic trends and technology that allows reduced water use. The challenges collecting fees from systems of varying sizes were highlighted during the pandemic. Current MADS coverage of 3.8 times is solid, but the program includes a comparatively lax leverage constraint, requiring only 1.1 times MADS.

The A1 rating on the Baltimore City Public Schools Construction and Revitalization Program Revenue Bonds incorporates the relationship of the state, and City of Baltimore (Aa2 stable) and the Baltimore City Board of School Commissioners, to the program, which relies on revenue from various sources. The program's three-notch distinction from the state issuer rating is consistent with the need for annual legislative appropriation for payment with a substantial share of revenue, as well as the narrow and potentially volatile nature of revenue included: from the state, portions of state lottery proceeds and aid to the Baltimore City Board of School Commissioners; from the city, other school aid in addition to city revenue from bottle taxes, table game proceeds and casino rentals. The city's obligation to the program is supported by a state pledge to intercept undistributed city income tax collections if needed.

The VMIG 1 rating on one of the Maryland Stadium Authority issues, the Sports Facilities Lease Revenue Refunding Bonds Football Stadium Issue, Series 2007, is based on a standby letter of credit and reimbursement agreement issued by Sumitomo Mitsui Banking Corporation (A1 long-term counterparty risk rating, P-1 short-term counterparty risk rating), expiring March 1, 2026, the bonds' maturity date. The rating incorporates low probability of premature SBPA termination without payment of the debt. Events that would trigger termination without payment are linked to the state's credit quality, such as rating downgrades below investment grade (below Baa3).

RATING OUTLOOK

A stable outlook on the issuer and long-term ratings is consistent with Maryland's capacity to adjust to conditions including federal policy changes that may undermine tax revenue or increase need for state funding. The outlook also applies to the Baltimore City Schools Construction and Revitalization Program, MD, the Baltimore Board of School Commissioners, MD, and the Maryland Infrastructure Financing Intercept Program.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Economic outperformance demonstrated by real GDP growth, exceeding the national pace by at least 30 basis points, and demonstrating reduced vulnerability to federal actions

- Sustainable measures that eliminate out-year budget gaps linked to education funding or other programs

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to maintain fiscal balance despite recent revenue increases that leads to a 20% reduction in available fund balance

- Recurrence of unanticipated program expense increases or reliance on one-time sources to achieve balance that undermines governance profile

- Failure to adhere to policies to address large, unfunded pension liabilities

PROFILE

Maryland includes 3,190 miles of the US East Coast, according to the National Oceanic and Atmospheric Administration. Its population of about 6.26 million ranks 18th among states and their $542.8 billion 2024 GDP (current-dollar), according to the US Bureau of Economic Analysis, was the 18th-largest.

METHODOLOGY

The principal methodology used in the issuer, general obligation, annual appropriation obligation, Built to Learn Revenue bonds, Bay Restoration Fund Revenue bonds, and Baltimore City Public Schools Construction and Revitalization Program Revenue bonds ratings was US States and Territories published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425428. An additional methodology used in the Baltimore City Public Schools Construction and Revitalization Program Revenue bonds ratings was US State Aid Intercept Programs and Financings published in February 2024 and available at https://ratings.moodys.com/rmc-documents/415020. The principal methodology used in the short-term rating was US Municipal Short-term Debt published in October 2024 and available at https://ratings.moodys.com/rmc-documents/430699. The principal methodology used in the other notched general government obligation non GO rating was US State Aid Intercept Programs and Financings published in February 2024 and available at https://ratings.moodys.com/rmc-documents/415020. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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