June 11, 2025 General Obligation Bond Sale

On June 11, 2025, the State sold $1.6 billion in general obligation (GO) bonds for capital projects. This was $900 million in new tax-exempt bonds and $657 million in refunding bonds. The true interest cost (TIC) for the sale's tax-exempt bonds is 3.69%, and the TIC for the refunding sale is 2.81%. The TIC for the most recent tax-exempt bond sale in June 2024 was 3.28%.

- Series A Group 1, which sold $485 million in par value, tax-exempt bonds that mature in 3 to 10 years. Six underwriters bid for the bonds sold in this group, with Jefferies LLC submitting the winning bid.

- Series A Group 2, which sold $415 million in par value, tax-exempt bonds that mature in 11 to 15 years. Six underwriters bid for the bonds sold in this group, with BofA Securities submitting the winning bid.

- Series B Group 1, which sold $362 million in par value, tax-exempt refunding bonds that mature in 1 to 2 years. Six underwriters bid for the bonds sold in this group, with Morgan Stanley & Co. LLC submitting the winning bid.

- Series B Group 2, which sold $295 million in par value, tax-exempt refunding bonds that mature in 3 to 4 years. Six underwriters bid for the bonds sold in this group, with J.P. Morgan Securities LLC submitting the winning bid.

Fiscal 2026 Capital and Operating Budget Impacts

Operating and capital budgets are affected by the fiscal 2026 debt service costs, refunding savings, and the net premium from the tax-exempt sale. At this sale:

- ***Fiscal 2026 Debt Service Costs Equal Estimated Costs:*** The budget assumed that $900 million would be sold at a 5.00% coupon rate. That amount sold at that rate so debt service costs are the same as estimated.

- ***Refunding Savings Are $4.5 Million More Than Projected:*** The financial advisor estimated $30.3 million in refunding savings. Actual savings were $34.8 million. Savings are realized in fiscal 2026 so there is no appreciable difference in debt service past fiscal 2026.

- ***Bond Sale Premiums from the Tax-exempt Issuances Are $42 Million Less Than Projected:*** The State budgeted $134 million in premiums supporting the operating and capital budgets. Actual premiums totaled $91.8 million.

Exhibit 1 shows that the operating and capital budgets anticipated $164 million in refunding savings and net premiums. The sale provided $38 million less than anticipated. Although this is sufficient to fund debt service costs, there is not enough to fund the anticipated capital project costs.

Exhibit 1
Bond Sale's Effect on Operating and Capital Budgets
Fiscal 2026
($ in Millions)

	Estimated Operating	Estimated Capital	Estimated Total	Actual Total	Difference
Refunding Savings	$30.3	$0.0	$30.3	$34.8	$4.5
Bond Sale Premium	44.0	90.0	134.0	91.8	-42.2
Total	**$74.3**	**$90.0**	**$164.3**	**$126.5**	**-$37.8**

Note: Numbers may not sum to total due to rounding.

Source: Department of Budget and Management; State Treasurer's Office; Public Resources Advisory Group; Department of Legislative Services

The capital budget bill authorizes the State Treasurer to determine how much of the bond sale premiums are deposited into the Annuity Bond Fund, which supports GO bond debt service, and how much can be used for capital projects. Given the timing of issuances, the lower than expected premium revenues will not have an immediate impact on cash flows for capital projects.

Moody's Downgrades Bonds to Aa1, Other Rating Agencies Keep Maryland's Rating AAA Stable

Prior to the sale, State officials briefed FitchRatings, S&P Global, and Moody's Investors Service Inc. on economic, financial, fiscal, and governance issues affecting Maryland State government. Fitch and S&P rated Maryland AAA stable. Moody's downgraded Maryland's debt to Aa1. Since they began rating Maryland debt, this is the first sale for which Maryland did not have a AAA rating from all three rating agencies. Although Maryland no longer has AAA ratings from all three agencies, Maryland debt remains highly rated debt. The bond sale had six bidders for all four issuance groups, which is high for such a large bond sale. All three rating agencies acknowledge the State's longstanding credit strengths, which are:

- high wealth and income levels;
- a broad and diverse economy;

- strong and well-embedded financial practices;

- strong debt affordability management and rapid debt amortization; and

- adequate reserves and liquidity.

Before the last bond sale in June 2024, Moody's revised Maryland's outlook to negative. In downgrading Maryland's rating, Moody's cited Maryland's vulnerability to federal job reductions and evolving U.S. government policies. Moody's noted that Maryland's gross domestic product (GDP) growth from December 2018 to December 2024 was half of the U.S. real GDP growth. Moody's anticipates that federal actions will extend Maryland's economic underperformance. Factors that could lead to an upgrade in the rating are:

- economic outperformance demonstrated by real GDP growth, exceeding the national pace by at least 0.3% (30 basis points) and demonstrating reduced vulnerability to federal actions; and

- eliminating the structural deficit.

The Department of Legislative Services (DLS) has been analyzing the factors that influence the TIC rates from GO bond sales for two decades. Specific factors change over time, but the variables that have been most statistically significant in all bond sales are (1) an index for State and local government interest rates at the time of the sale and (2) Maryland personal income compared to U.S. personal income. This suggests not only that economic performance is important, but that slower growth in recent years has already been factored into Maryland's TIC. The generally accepted rule is that a ratings downgrade increases annual interest rates by 0.15% (15 basis points) to 0.20% (20 basis points). DLS will continue to monitor factors that influence interest rates in an attempt to estimate what effect this downgrade has had on Maryland GO bonds.

Although Fitch and S&P gave the State AAA stable ratings, they identified factors that could lead to a downgrade, such as:

- an inability to manage increasing spending demands with ongoing revenues;

- a material increase in long-term liabilities, particularly those associated with retiree benefits; or

- State wealth and income, employment, and population levels that materially trend in a persistently unfavorable direction due to significant weakness in the government sector.