

June 2026 General Obligation Bond Sale

Overview

On June 3, 2026, the State sold \$800 million in tax-exempt general obligation (GO) bonds for capital projects in three groups. The true interest cost (TIC) for the bonds is 3.31%. The TIC for the most recent tax-exempt bond sale in June 2025 was 3.69%.

- Group 1, which sold \$307 million in par value, tax-exempt bonds that mature in 3 to 8 years. Six underwriters bid for the bonds sold in this group, with Morgan Stanley & Co. LLC submitting the winning bid with a TIC of 2.71%.
- Group 2, which sold \$261 million in par value, tax-exempt bonds that mature in 9 to 12 years. Seven underwriters bid for the bonds sold in this group, with Jefferies LLC submitting the winning bid with a TIC of 3.20%.
- Group 3, which sold \$232 million in par value, tax-exempt bonds that mature in 13 to 15 years. Six underwriters bid for the bonds sold in this group, with Morgan Stanley & Co. LLC submitting the winning bid with a TIC of 3.76%.

Fiscal Impact

The fiscal 2027 operating budget assumed debt service costs, and the capital budget authorized premiums from the sale for capital projects. The capital budget bill authorizes the State Treasurer to determine how much of the bond sale premiums are deposited into the Annuity Bond Fund (ABF), which supports GO bond debt service, and how much can be used for capital projects. The results of the sale are that:

- ***Fiscal 2027 Debt Service Costs Are \$1.8 Million Less Than Estimated:*** The budget assumed that \$800 million would be sold at a 5.00% coupon rate, resulting in a \$40 million interest-only debt service payment. That amount sold at that rate, but the first debt service payment period is less than six months after the delivery date, reducing fiscal 2027 debt service costs to \$38.2 million.
- ***Bond Sale Premiums Are \$28.3 Million More Than Projected:*** While the ABF assumed \$80 million in premiums supporting the operating and capital budgets, actual premiums totaled \$108.3 million.

The Department of Legislative Services (DLS) notes that the June 2025 bond sale realized \$35 million less in premiums than projected. Premiums from this bond sale could support projects

funded with June 2025 bond sale premiums. The State Treasurer's Office has yet to determine how the bond sale premiums will be distributed.

Bond Ratings

Prior to the sale, State officials briefed FitchRatings, S&P Global (S&P), and Kroll Bond Rating Agency, LLC (KBRA) on economic, financial, fiscal, and governance issues affecting Maryland State government. KBRA is new to rating Maryland bonds, as the State no longer procures ratings from Moody's Investors Service (Moody's). FitchRatings and KBRA rated Maryland AAA stable, while S&P revised its outlook to AAA negative.

As in prior years, all 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.

Even with these credit strengths, S&P revised Maryland's outlook to negative. S&P noted that the State faces sizable and growing out-year budget gaps unless timely structural adjustments are made. S&P also cited slower economic growth in Maryland than the U.S. average since the COVID-19 pandemic and projects that lower growth will persist through calendar 2029. S&P articulated the factors that could result in a rating downgrade, which are:

- a lack of willingness by the State to make ongoing structural adjustments to return to a sustainable budget; or
- persistently unfavorable income, wealth, employment, and population growth, compared to the U.S. overall, due to uncertainty in the federal government sector.

GO bonds are supported by an issuer's broadest revenues. As such, they are generally rated higher than bonds supported by limited revenues and act as a cap on those bond ratings. Moody's downgraded Maryland GO bonds in May 2025. At the time, other Maryland bonds, including Maryland Stadium Authority (MSA) bonds, were also downgraded by Moody's. In its recent ratings, S&P reaffirmed the ratings for various MSA bonds and Maryland Department of Health

leases but revised these bonds' outlook from stable to negative. These bonds could receive additional scrutiny and be downgraded if GO bonds are eventually downgraded.

Conclusions and Recommendations

Recent bond ratings suggest that rating agencies and markets are aware of Maryland's fiscal condition and that persistent structural deficits can affect bond ratings. Addressing structural issues not only improves the fiscal condition and reduces annual pressure on the State budget but is also expected to contribute to maintaining AAA bond ratings and a lower cost of capital. DLS recommends that the State consider long-term solutions to the structural deficit instead of addressing structural deficits annually in State budgets.