



FitchRatings

Maryland Spring GFOA 2023
Rating Agency Update:
Fitch Ratings

Evette Caze, Director, U.S. Local
Governments – Tax Supported

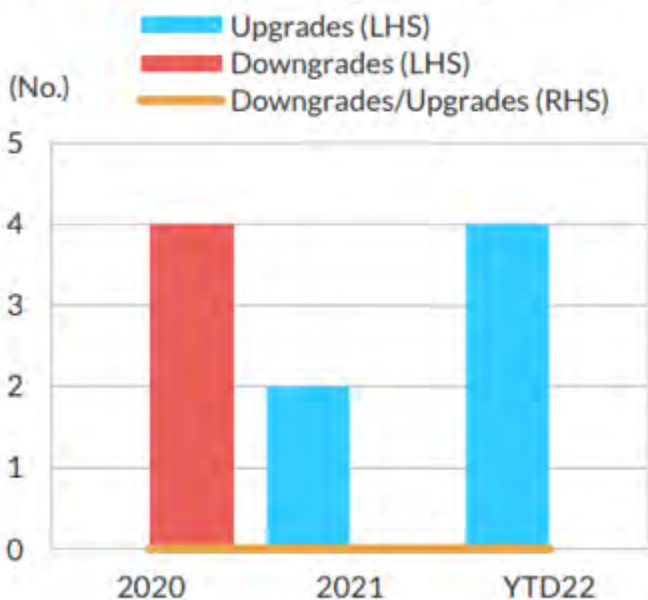
A white lighthouse with a glass-enclosed lantern room sits atop a cliff. A paved walkway with a metal railing leads up to the base of the lighthouse. Several people are visible on the walkway. The sky is filled with large, white, fluffy clouds, and the overall lighting suggests a bright, slightly overcast day.

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**Local
Government
Sector Outlook**

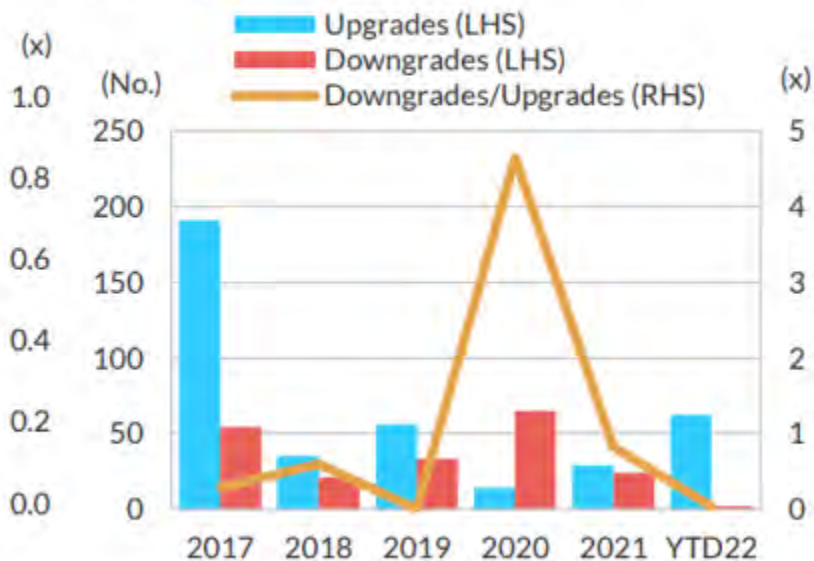
Fitch Ratings- More Upgrades than Downgrades in 2022

State IDR – Rating Changes



Source: Fitch Ratings.

Local Government IDRs – Rating Changes

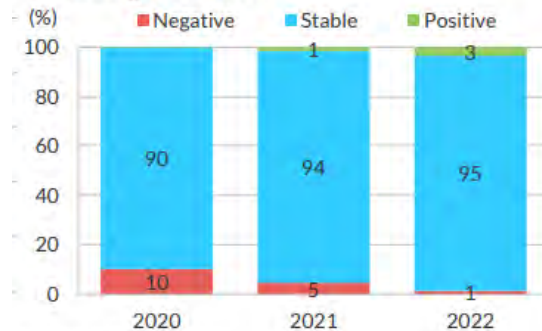


Source: Fitch Ratings.

Majority of Ratings in 2022 on Stable Outlook

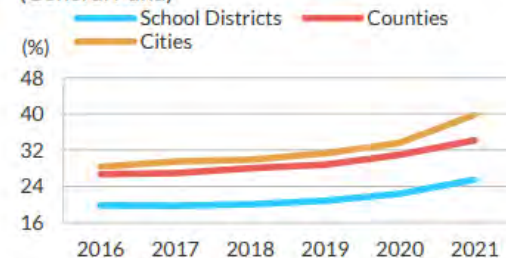
- In 2022, 95% of Local Government ratings had a Stable Outlook
- The stability in 2022 reflects the fundamental strengths of state and local governments, including broad and diverse revenue bases, control over revenues and spending, moderate long-term liabilities and sound financial cushions
- Local Government Medians indicate healthy available general fund balances as a % of spending

Local Government IDRs — Rating Outlooks



Source: Fitch Ratings

Local Governments — Median Available Fund Balance as % of Spending (General Fund)



Note: Includes data for Fitch-rated U.S. local governments.
Source: Fitch Ratings; Audited comprehensive financial statements

Fitch's 2023 US State & Local Government Outlook

Ample Fiscal Capacity Offsets Weakening Economy

Core Credit Drivers: States and Local Governments

Subsectors	Revenues			Expenditures				Financial Profile		
	Personal Income/Affordability	Real-Estate Values	Demand/Volumes	Labor Costs	Labor Availability	Non-Labor Operating Costs	Capital Input Costs	Leverage	Cost of Debt	Financial Reserves & Liquidity
States and Local Governments	↓	↘	N.A.	↘	↘	↔	↘	↘	↘	↔

Note: N.A. not a material driver of credit quality in sector; ↑ improving - high relevance; ↗ improving - moderate relevance; ↔ neutral; ↘ deteriorating - moderate relevance; ↓ deteriorating - high relevance.

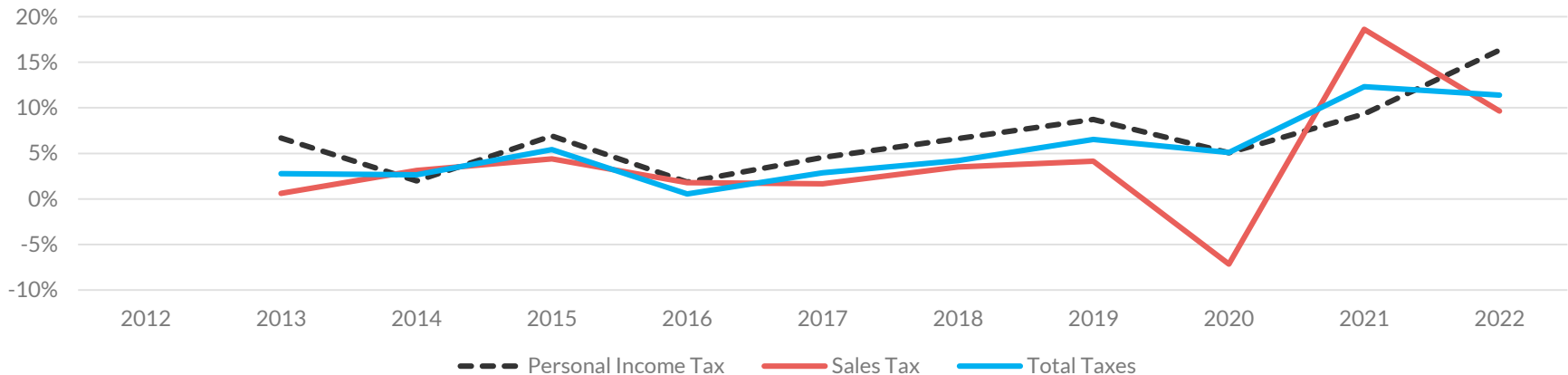
Source: Fitch Ratings.

Things to Watch

- Likely budgetary pressures from revenue growth slowdown
- Expenditure pressures, particularly from wage pressures and inflation
- Housing market: deceleration/decline in prices

Slower Growth Expected for Income Tax Revenues

Maryland Tax Collections
YoY % Change

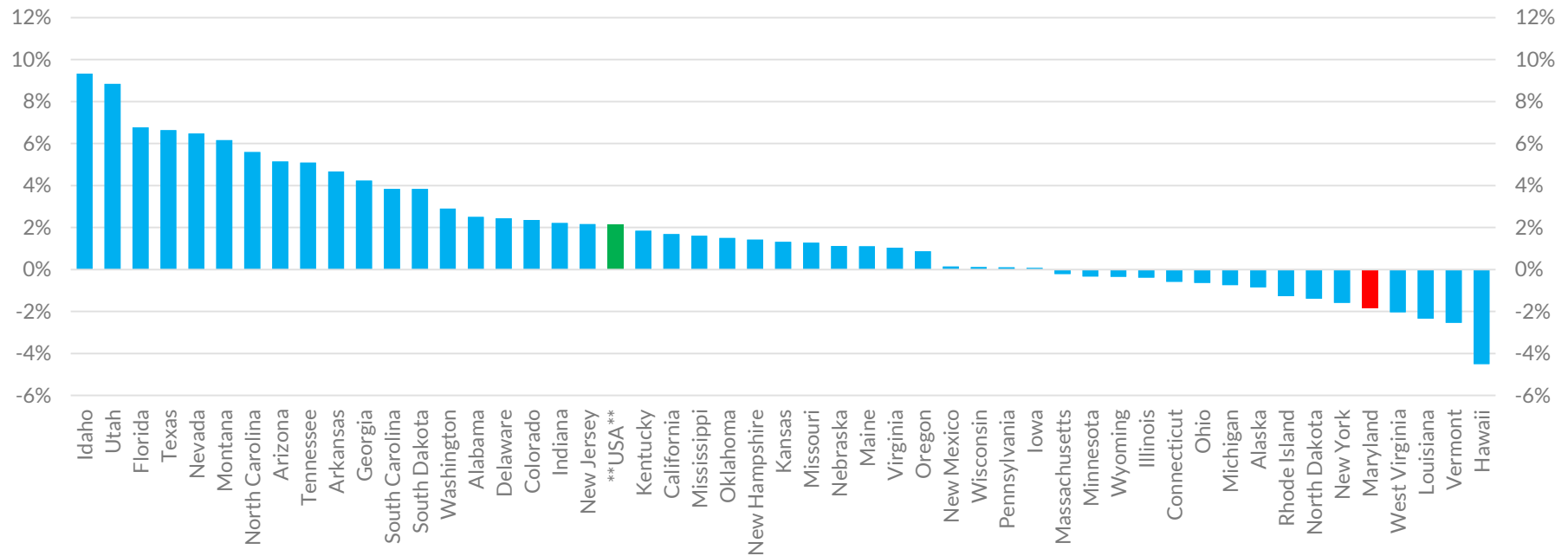


- Personal income tax revenue grew by substantially between 2020 and 2022
- Fitch Ratings expects a slowdown in economic growth in 2023
- The Fed's aggressive tightening cycle will increasingly weigh on job growth in 2023

Maryland's Employment Trends

Maryland's employment trends were more affected, and recovered more slowly than many other states.

U.S. States: Nonfarm Payroll - Feb 2023
% Change Since Feb 2020



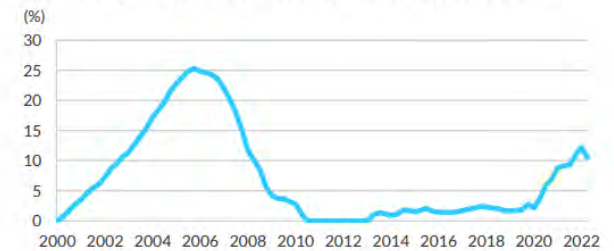
Source: Fitch Ratings, Bureau of Labor Statistics.

Housing Prices

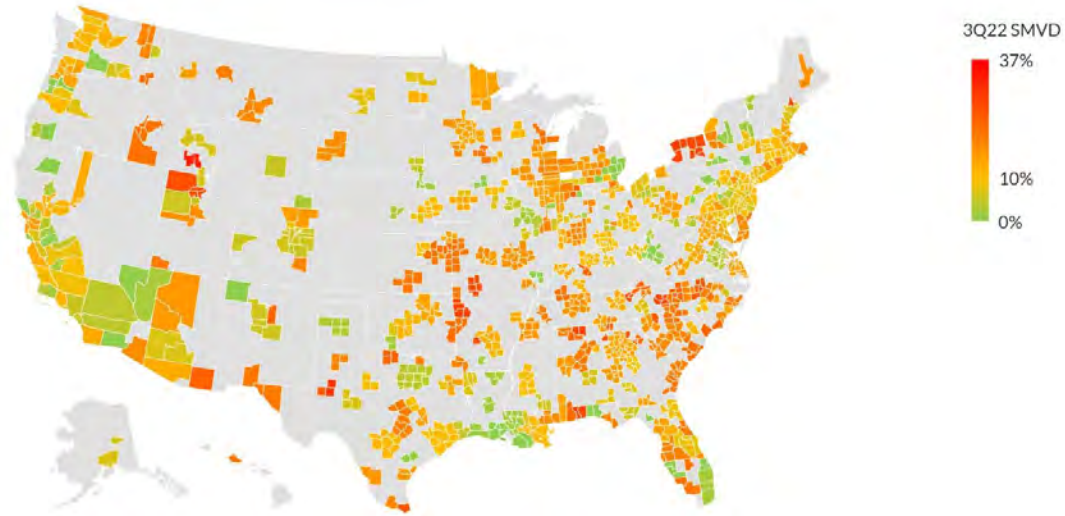
- Among the top 50 most populated MSAs, Baltimore –Columbia-Towson, is estimated to be just 5-9% overvalued
- The slowing of the residential housing market could affect taxable assessed valuations

Fourth-Quarter 2022

National Home Prices Currently 10.5% Overvalued



Fitch's Overvaluation Estimate
(3Q22)



What to Watch

- Lingering Effects of Inflation
- Impact of Spend Down of Federal Funds on Budgets
- Cost of Capital & Labor
- Increasing Pension Costs
- Educational Funding Pressures



Credit Considerations

- Fitch believes the outlook for US state and local governments currently have sound financial cushion for all but a few issuers, relative to a challenging credit environment in the near-term
- Fundamental credit strengths for Maryland local governments include solid control over revenues and spending, moderate to low long-term liability burdens
- Local budget policy choices to counteract a slowing economic environment
- Spending needs driven by labor and infrastructure; tight labor markets may pressure compensation demands and infrastructure needs will drive pace of spending
- Pension Fund losses due to weakening in pension valuations from shifts in asset values.



Thank you

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Maryland GFOA Spring Conference: Maryland Local Government Credit Conditions

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US Public Finance
Local Governments - East

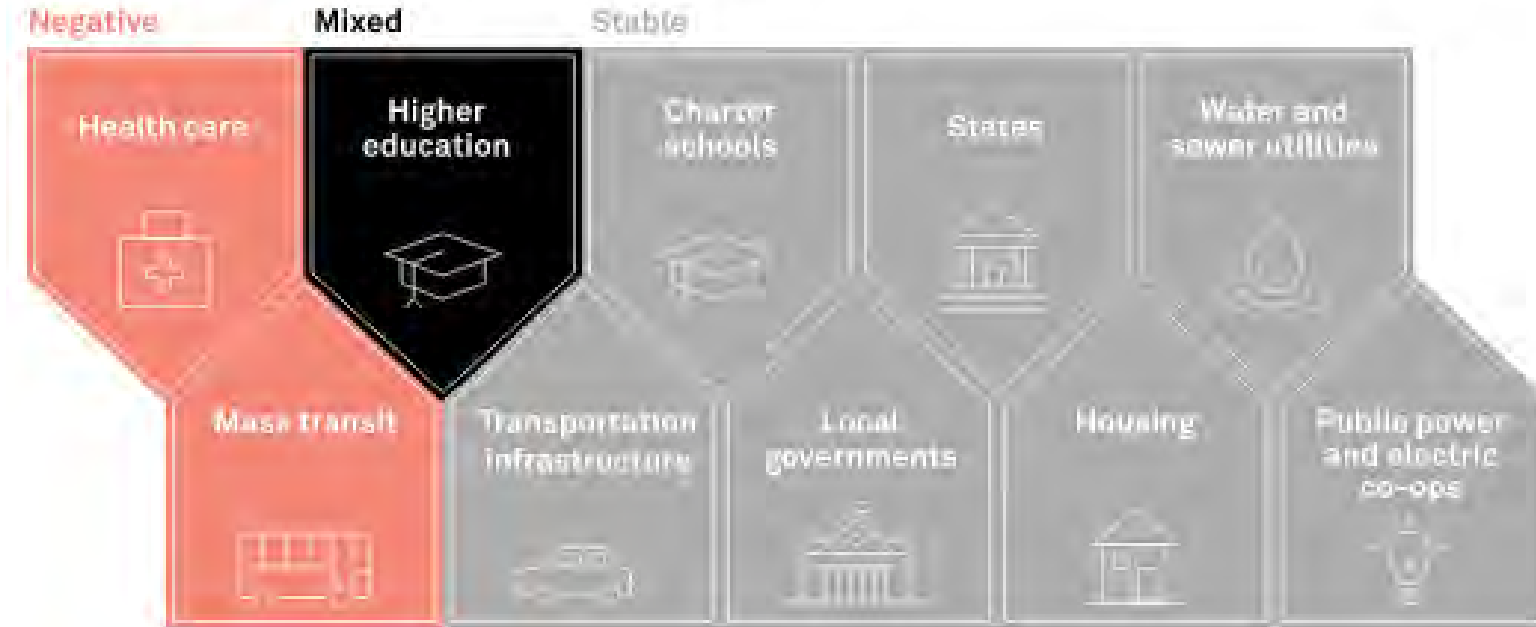


S&P Global
Ratings

April 14, 2023

Big Picture - U.S. Public Finance Sector Outlook for 2023

U.S. Public Finance Sector Views For 2023









- Health Care and Mass Transit outlooks remain negative.
- While Higher Education's outlook was revised to mixed on January 18, 2023.
- In our opinion, credit conditions have weakened, but remain stable for a majority of sectors.

Mixed=some negative, some positive. Source: S&P Global Ratings.
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For more, see "2023 Credit Outlook For U.S. Public Finance: Credit Headwinds Accelerate" published on January 31, 2023, on Ratings Direct

Drilling down - Sector Outlook For Local Governments

What We're Watching -- U.S. Local Governments

 <p>Federal stimulus</p> <p>ARPA and other federal stimulus can help maintain credit quality and provide liquidity for many LGs</p>	 <p>Looming recession</p> <p>Federal aid helps with downside cushion, but a deteriorating economy could still disrupt stability</p>	 <p>Inflation implications</p> <p>Higher costs affect labor, materials, borrowing, etc., and could have long-term implications</p>
 <p>Housing market</p> <p>Slower housing market should cool prices, but an extended slowdown could affect tax base</p>	 <p>State credit health</p> <p>State credit strength lessens the chance for cuts to locals and supports economic stability</p>	 <p>Wildcards</p> <ul style="list-style-type: none">• RTO/downtown core• Unemployment• Infrastructure needs

For more, see "Outlook For U.S. Local Governments: Reserves And Agile Management Will Provide Stability in A Recession" published on January 10, 2023, on Ratings Direct

All About Maryland – Key Factors

Credit Fundamentals

- Strong economic characteristics, with above- average wealth and income indicators, supported by the broad and diverse Washington-Arlington-Alexandria and Baltimore-Columbia-Towson MSAs
- A quick economic recovery particularly in the state's higher-wage industries, resulting in lower unemployment figures relative to national levels
- Strong financial performance and budgetary flexibility bolstered by good growth in property and income tax revenues
- Financial Management Assessments (FMAs) we typically consider good or strong, indicating the use of formalized financial policies and practices by most management teams
- **Since January 2022, two LG credits within the state were placed on CreditWatch Negative, one of which was returned to stable, and one of which remains on CW Negative due to lack of timely information**
- Otherwise Maryland LG credit ratings remained **unchanged** since 1/1/2022 demonstrating resiliency and strength in the portfolio.

12
Munis

19
Counties

42% of the portfolio is AAA, while 94% is AA- or higher.

Organization	Rating	Outlook
Aberdeen	AA+	Stable
Annapolis	AA+	Stable
Baltimore Mayor & City Council	AA	Stable
Bowie	AAA	Stable
Cheverly Twn	AA+	Stable
Cumberland Mayor & City Council	A	Stable
Frederick City	AA+	Stable
Hagerstown	AA	Stable
Mayor and City Council of Ocean City	AA+	Stable
Mayor and Council of Rockville	AAA	Stable
Salisbury	AA	Stable
Westernport Twn	A+	Stable

Organization	Rating	Outlook
Allegany Cnty	AA-	Stable
Anne Arundel Cnty	AAA	Stable
Baltimore Cnty	AAA	Stable
Calvert Cnty	AAA	Stable
Caroline Cnty	AA-	Stable
Carroll Cnty	AAA	Stable
Cecil Cnty	AA+	Stable
Charles Cnty	AAA	Stable
Dorchester Cnty	AA-	Watch Neg
Frederick Cnty	AAA	Stable
Harford Cnty	AAA	Stable
Howard Cnty	AAA	Stable
Montgomery Cnty	AAA	Stable
Prince George's Cnty	AAA	Stable
Queen Annes Cnty	AAA	Stable
St Marys Cnty	AA+	Stable
Washington Cnty	AA+	Stable
Wicomico Cnty	AA+	Stable
Worcester Cnty	AA+	Stable

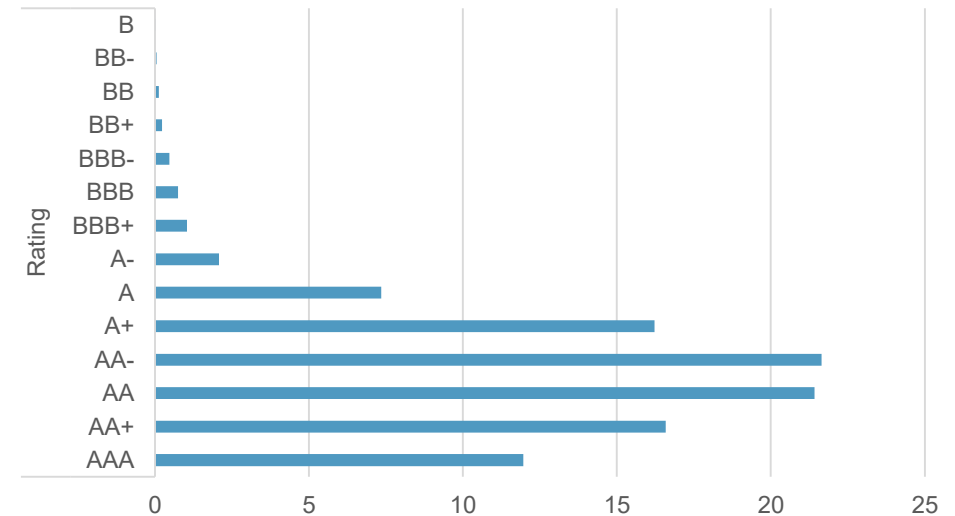
For more information see "U.S Local Governments Credit Brief: Maryland Counties and Municipalities" published April 10, 2023 on RatingsDirect. All Ratings are as of 30 March 2023.

MD Municipalities – Medians & Ratings Distribution

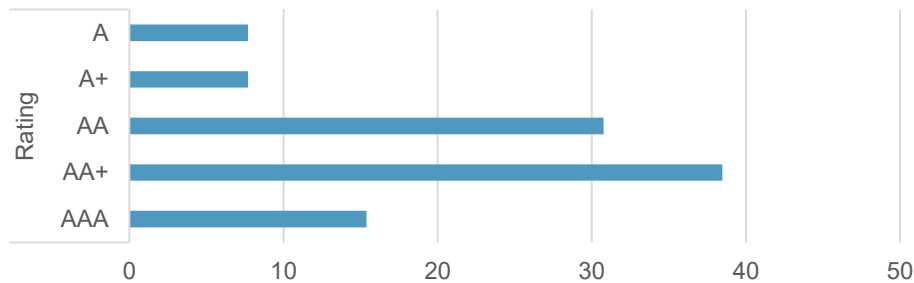
MD Muni Medians	AAA	AA+	AA	A+	A-
Projected per capita EBI (%)	149	115	65	54	67
Market value per capita (\$)	178,283	136,217	75,844	32,461	53,858
Available general fund (%)	50	52	33	379	40
General fund performance (%)	4	10.3	1.6	15.1	9
Cash and expense (%)	109	76	53	259	21
Carrying charge (%)	4.6	5.6	4.3	2.8	11.6
Pension ARC + OPEB as % expense	4.2	9.5	10.3	2.3	7.2

US Muni Medians	AAA	AA+	AA	AA-	A+	A	A-	BBB+ or Lower
Projected per capita EBI (%)	163	124	101	85	75	71	68	70
Market value per capita (\$)	221,205	156,922	118,497	81,613	63,421	51,662	48,091	50,764
Available general fund (%)	41	41	46	55	50	41	28	15
General fund performance (%)	3.4	4.5	5.1	5.6	5.7	4.9	5	2.6
Cash and expense (%)	79	84	93	100	98	90	73	48
Carrying charge (%)	6.5	6.1	7.5	7.8	9	8.8	8.5	8.8
Pension ARC + OPEB as % expense	6	6.2	6.7	6	5.4	5.6	4.9	8.7

US Municipalities: Rating Distribution



Maryland Municipalities: Rating Distribution



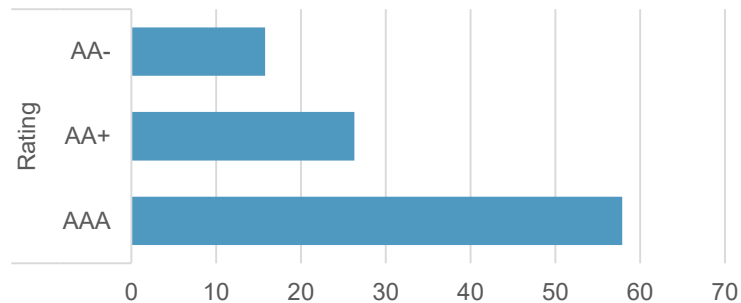
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MD Counties – Medians & Ratings Distribution

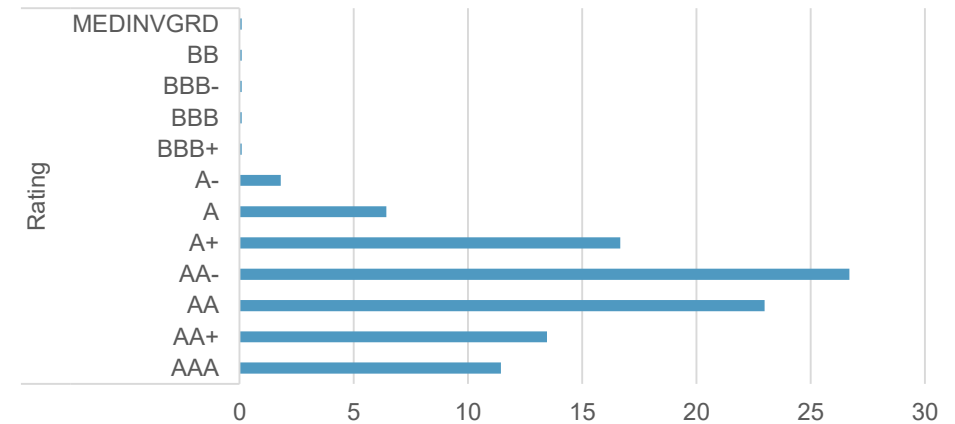
MD County Medians	AAA	AA+	AA-
Projected per capita EBI (%)	119	90	83
Market value per capita (\$)	137,323	102,456	79,368
Available general fund (%)	21	35	30
General fund performance (%)	3.2	7.9	4.6
Cash and expense (%)	38	39	49
Carrying charge (%)	6.7	6	6.3
Pension ARC + OPEB as % expense	4.1	3.7	2.6

US County Medians	AAA	AA+	AA	AA-	A+	A	A-	BBB+ or Lower
Projected per capita EBI (%)	118	97	86	76	71	69	75	47
Market value per capita (\$)	165,141	126,297	110,728	94,887	76,604	66,017	62,004	77,106
Available general fund (%)	36	50	55	58	48	50	26	41
General fund performance (%)	3.8	6.8	5.4	6.5	7.3	8.4	4.6	23.1
Cash and expense (%)	70	84	77	76	69	64	35	57
Carrying charge (%)	6.3	5.3	5.1	4.9	5.5	5.8	7.3	11.9
Pension ARC + OPEB as % expense	4.6	4.4	4.4	3.6	3.5	3.1	2.9	4.6

Maryland Counties: Rating Distribution



US Counties: Rating Distribution




For more information see "U.S Local Governments Credit Brief: Maryland Counties and Municipalities" published April 10, 2023 on RatingsDirect

Emerging Risks in MD – ESG and Cybersecurity

Environment 

Risk

Social 

Neutral

Governance 

Opportunity

- We believe the state faces a number of environmental risks, including polluted stormwater runoff in Chesapeake Bay, the nation's largest estuary; sea-level rise, particularly for Maryland's eastern and southern LGs; flooding; and extreme hurricane events intensified by warming Atlantic Ocean waters.
- According to Office for Coastal Management, 72% of Maryland residents live in coastal areas including 3,190 miles of shoreline

- We view social capital risk as neutral overall
- The state maintains above-average income and wealth levels and moderate population growth averaging nearly 9% each decade since 1990.
- According to state projections, population growth is expected to continue in the long term, but at a slower rate, averaging an estimated 4%-5% each decade through 2040.

- We view governance factors as strong and as an opportunity
- Maryland LGs have considerable revenue-raising ability and can increase tax rates without voter approval.
- The state as well as its LGs in Maryland maintain a strong S&P Global Ratings' institutional framework score, indicating the legal and practical environment in which the state and LGs operate is strong.
- The vast majority of Maryland LGs maintain either a good or strong FMA, indicating governments maintain formalized and well-embedded financial practices and policies, in addition to strong internal controls.



Cyber Trends and Credit Risks

- S&P Global Ratings continues to see an increasing number of attacks on U.S. public finance entities, to where cyber is now a daily part of risk management and operations for most issuers.
- Cyber risk has moved beyond a specialized aspect to a near-ubiquitous priority that is integral to risk-management frameworks, but adoption of baseline cyber-security standards and frameworks still varies across public finance entities.
- Evolving credit risks include the changing nature of threats, rising cyber-insurance costs, third-party vendor exposure, and regulatory uncertainty. We think issuers will need to adapt to maintain credit quality.
- USPF issuers that exhibit inadequate cyber-risk management and oversight that is ineffective in mitigating risk is incorporated into our credit rating analysis, and it could result in a negative rating action.

For more information see "U.S. Local Governments Credit Brief: Maryland Counties and Municipalities" published April 10, 2023, "ESG Brief: Cyber Risk Management In U.S. Public Finance" published June 28, 2021, and "As Threats Rise, U.S. Public Finance Entities Take On Mounting Challenges To Secure The Digital Front Line" published October 25, 2022, on Ratings Direct.

Conclusion

- Strong credit conditions and resiliency during the pandemic bodes well for the stability of local government ratings in the short- to medium-term

Nevertheless, there are headwinds in the near term:

- Economic slowdown or recession?
- Inflationary pressures on expenditure; impact on costs and liabilities
- Environmental / social / governance (ESG) issues



Local Credit Factors

- Demographic trends and the coinciding effect on capital and infrastructure needs
- Potential contraction in real estate values following years of strong growth could slow increases in property tax revenues



Portfolio-Specific Factors

- Continued increases in county education funding related to the Kirwan Commission
- Unemployment rates and income trends, particularly in areas with tourism-dependent economies
- Pension funding and potential for rising costs to support plans
- Maryland residents face a number of environmental risks, including physical risks from rising sea levels along the Atlantic Ocean and Chesapeake Bay, offset in part by the state's active management of the Chesapeake watershed and runoff, enacted fees to provide funding for state and local resilience projects, and adopted legislation with the goal of reducing greenhouse gas emissions

For more information see "U.S Local Governments Credit Brief: Maryland Counties and Municipalities" published April 10, 2023 on RatingsDirect

Any Questions?

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Moody's Update

Nicole Serrano, VP-Sr. Credit Officer

April 2023

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Agenda

1. Overview of Cities and Counties Methodology
2. Issuer rating
3. Instrument rating
4. Overview of Maryland Ratings
5. Questions

Overview of Cities and Counties Methodology

Moody's Update

US Cities and Counties methodology development



**Develop
methodology
proposal**



**Publish
Request for
Comment**



**Receive
market
feedback**



**Consider
comments**



**Publish
final
methodology
(November 2)**

Key Changes and Benefits



Common drivers of potential rating changes



- Small tax base
- Strong GDP growth relative to US
- Strong financial ratios with inclusion of all governmental and business-type activities
- Low leverage and fixed costs

- Weak GDP growth relative to US
- Low MHI after RPP adjustment
- Weak financial reporting
- High leverage and fixed costs, including OPEB



- *Tax base size has not proven to be a predictor of credit strength or weakness.*
- *Some instrument ratings were placed on review for potential change even though the issuer rating was not.*

Issuer Rating

Moody's Update

Issuer and instrument ratings



Issuer Rating

Fundamental credit quality

+



Instrument Considerations

Evaluation of debt instrument characteristics

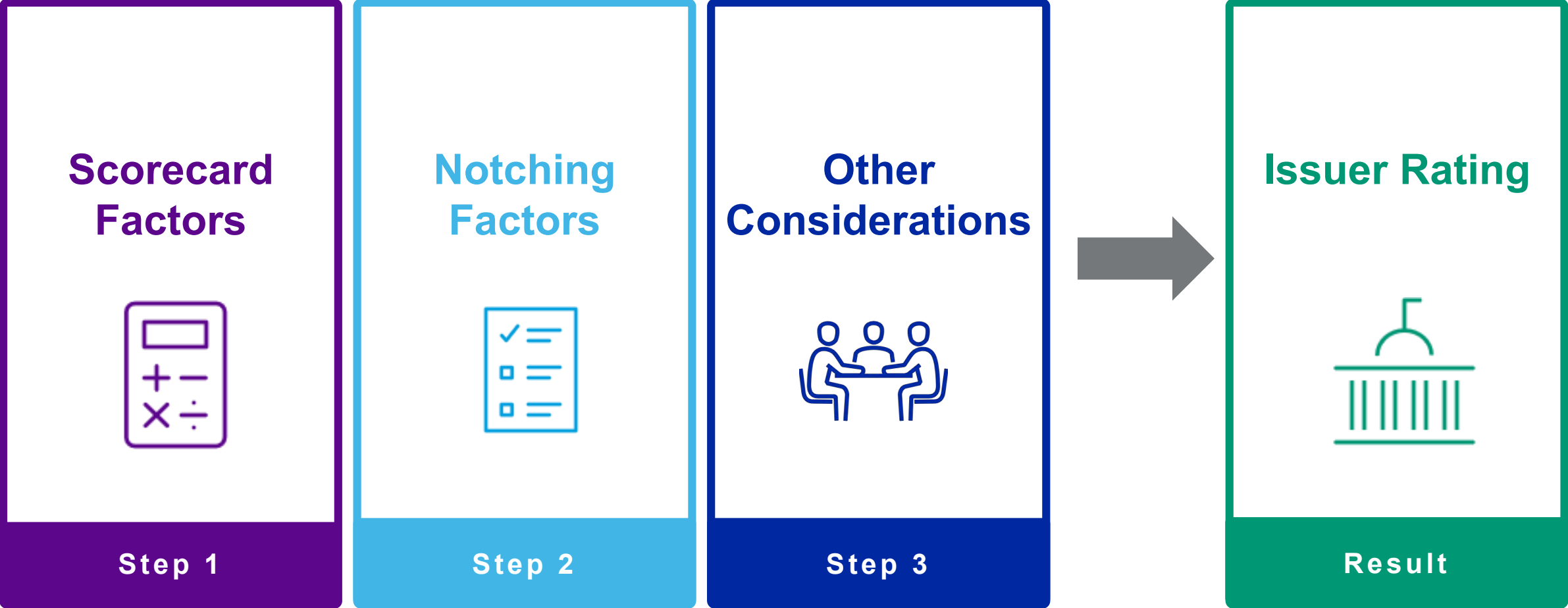
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Instrument Rating

Placed in relation to the issuer rating

Arriving at the issuer rating

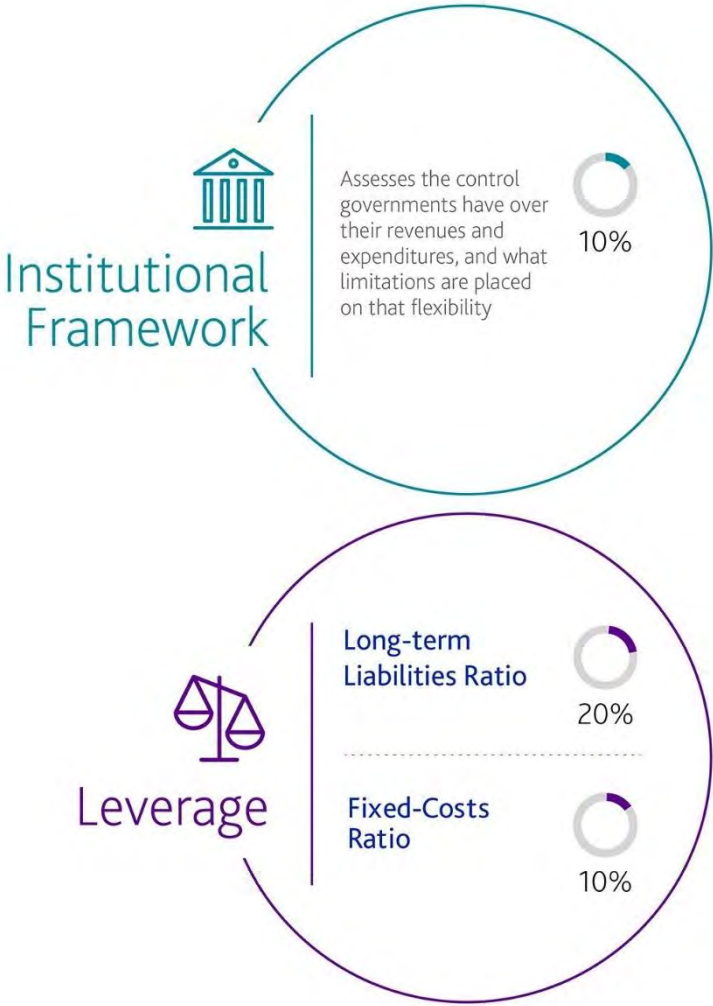
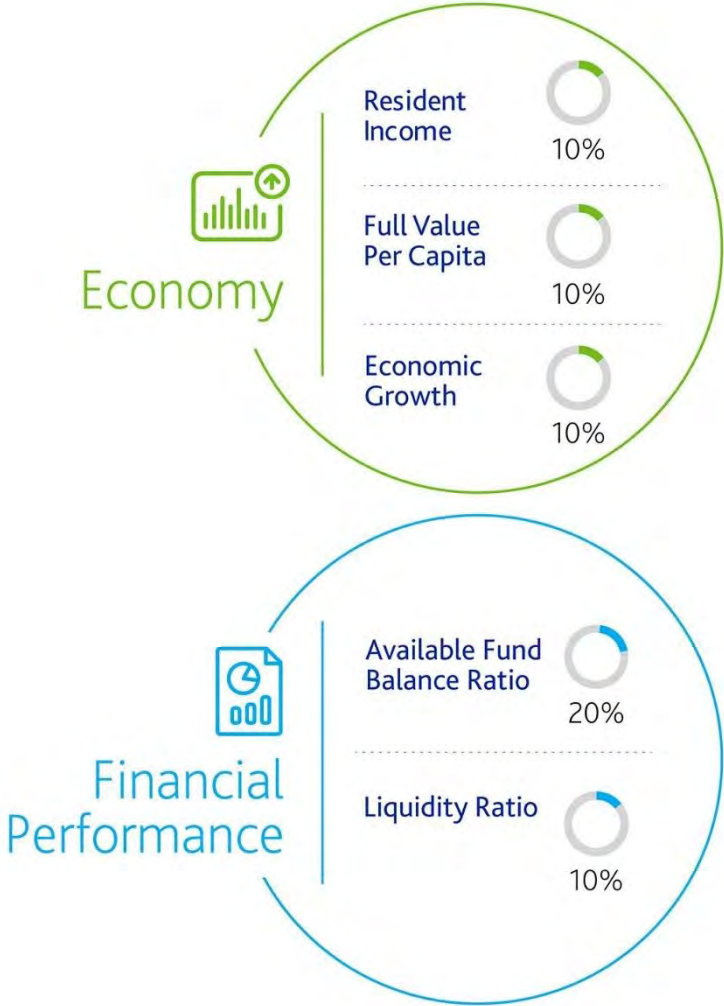


Arriving at the issuer rating – Step 1

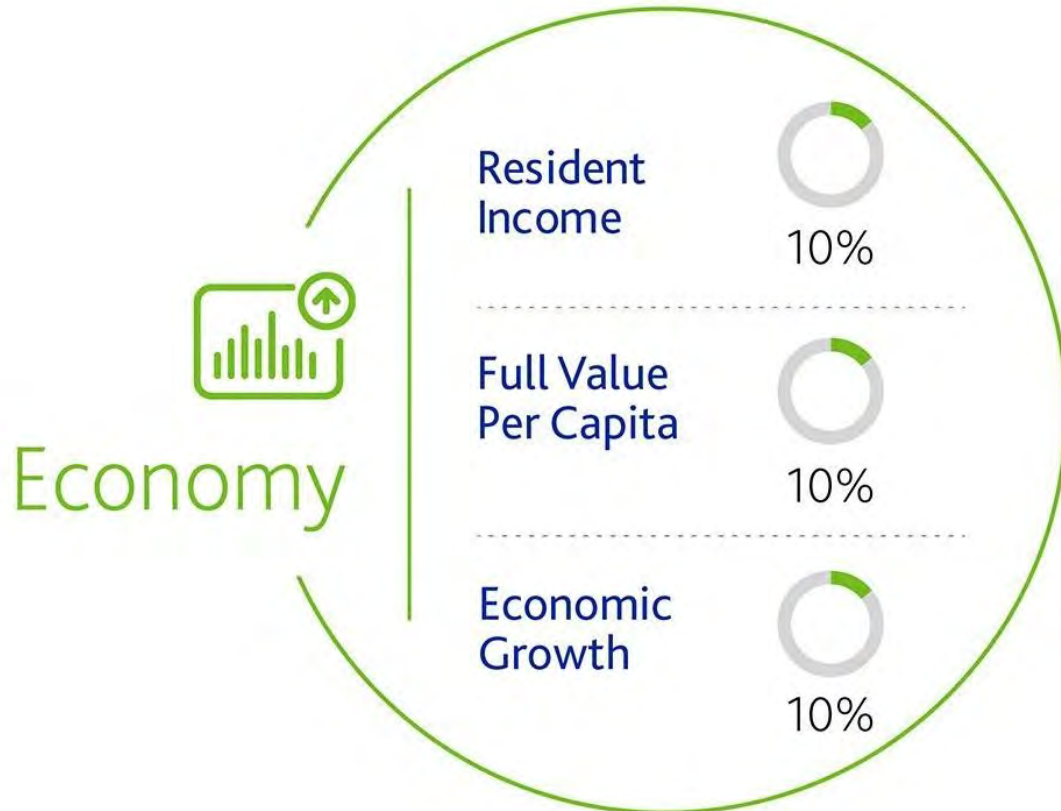
Scorecard Factors



Step 1

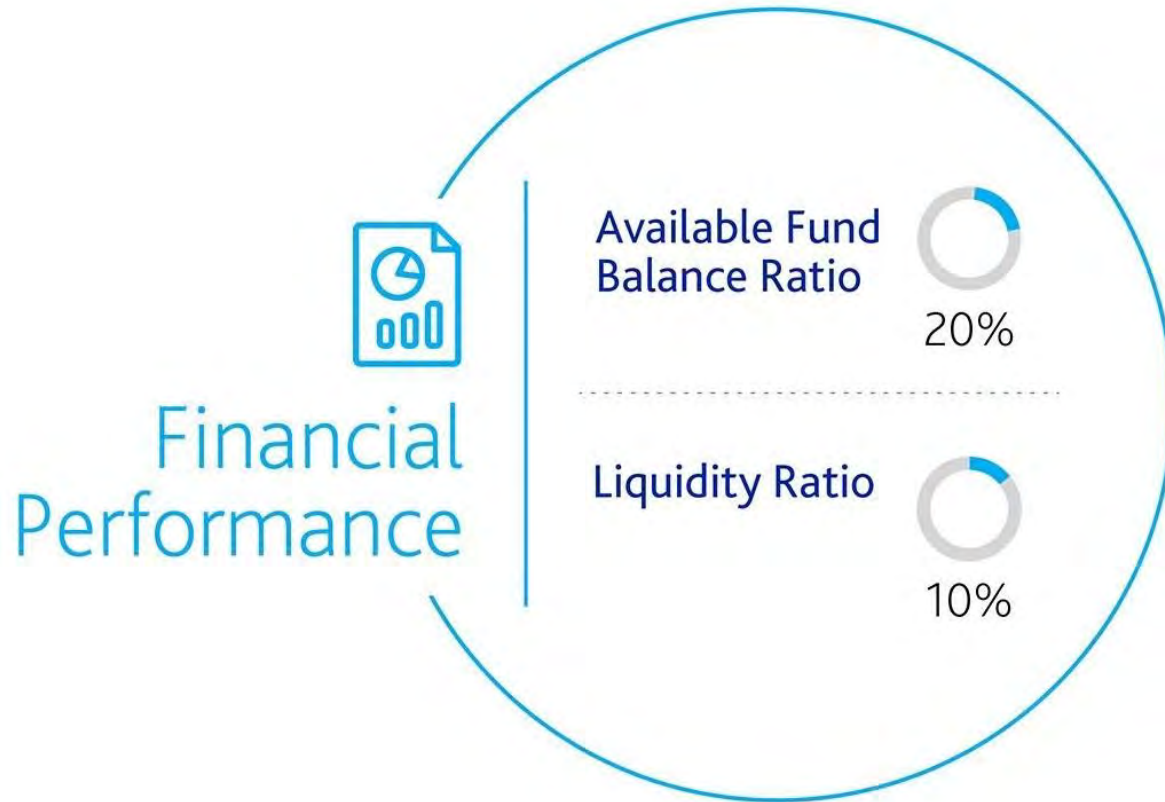


Scorecard Factor 1: Economy



Sub-factor	Sub-factor calculation
Resident Income (10%)	MHI adjusted for RPP / US MHI
Full Value Per Capita (10%)	Full valuation of tax base / population
Economic Growth (10%)	Difference between 5-year CAGR in real GDP and 5-year CAGR in real US GDP

Scorecard Factor 2: Financial Performance



Sub-factor	Sub-factor calculation
Available Fund Balance Ratio (20%)	$(\text{Available fund balance} + \text{net current assets}) / \text{revenue}$
Liquidity Ratio (10%)	$\text{Unrestricted cash} / \text{revenue}$

Treatment of funds in scorecard ratios

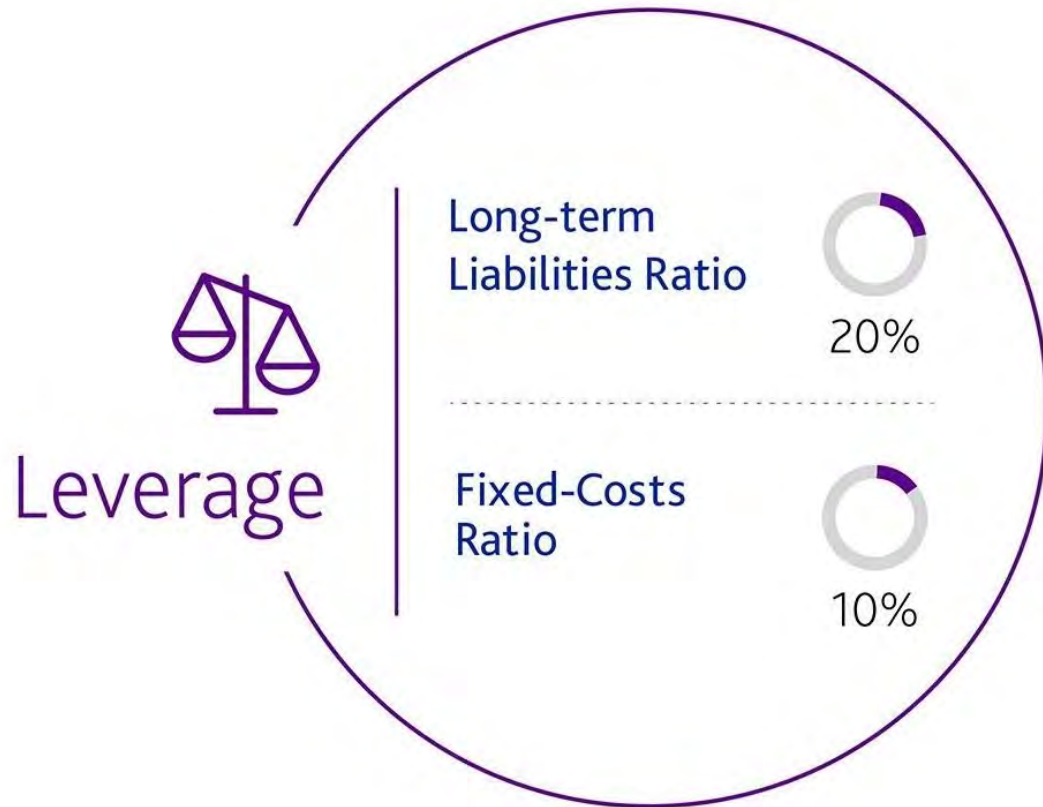
	Special Purpose District GO (formerly Local Government GO) Methodology		City and County Methodology	
	Reflected in scorecard ratios	Not reflected in scorecard ratios; only considered outside scorecard ratios	Reflected in scorecard ratios	Not reflected in scorecard ratios; only considered outside scorecard ratios
Governmental Funds	Typically the general fund, debt service fund, and other operating funds	Typically all other governmental funds, including capital project funds and non-major special revenue funds	All	None
Enterprise Funds	None	All	All	None
Discretely-Presented Component Units	None	All	None	All

Scorecard Factor 3: Institutional Framework



Aaa	Aa	A	Baa	Ba	B
The majority of revenue is not subject to externally imposed caps and the governing body can increase revenue meaningfully without limitation or without approval of voters or other governments.	The majority of revenue is subject to externally imposed caps but the governing body can increase revenue meaningfully without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is mildly constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps but the governing body can increase revenue moderately without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is moderately constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps and the governing body can increase revenue only minimally without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is heavily constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps and the governing body cannot increase revenue without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is very heavily constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps and the governing body cannot increase revenue. Or: The ability to meaningfully reduce expenditures is extremely constrained by externally imposed mandates or restrictions.

Scorecard Factor 4: Leverage



Sub-factor	Sub-factor calculation
Long-term Liabilities Ratio (20%)	$(\text{Debt} + \text{ANPL} + \text{adjusted net OPEB} + \text{other long-term liabilities}) / \text{revenue}$
Fixed Costs Ratio (10%)	$\text{Adjusted fixed costs} / \text{revenue}$

Arriving at the issuer rating – Step 2

Notching Factors



Step 2

1. Additional strength in local resources
2. Limited scale of operations
3. Financial disclosures
4. Potential cost shift to or from the state
5. Potential for significant change in leverage

Arriving at the issuer rating – Step 3



Examples of qualitative other considerations (not an exhaustive list):

- » Fund-specific financial considerations
- » Competitive enterprise risk in governmental or business-type activities
- » Likelihood of receiving extraordinary or ongoing support
- » Strengths or weaknesses related to economic concentration
- » Unusual risk or benefit posed by long-term liabilities

Instrument Rating

Moody's Update

Issuer and instrument ratings



Issuer Rating

Fundamental credit quality

+



Instrument Considerations

Evaluation of debt instrument characteristics

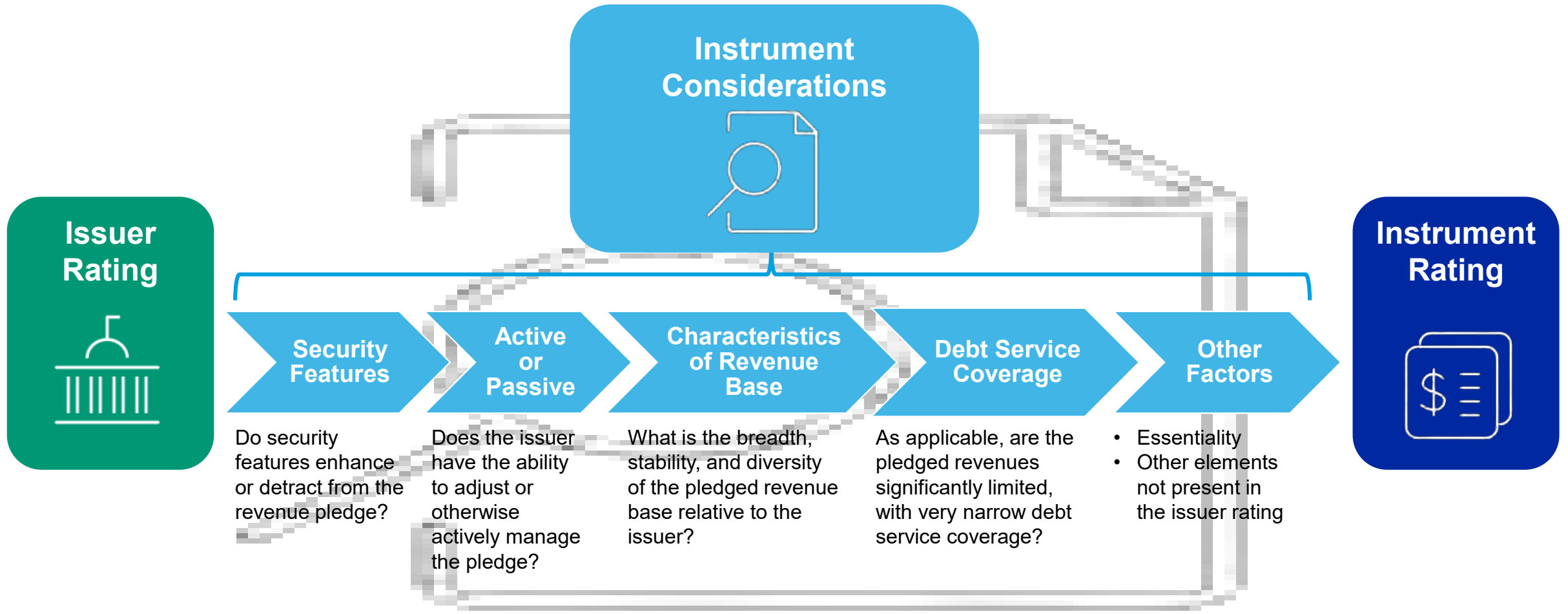
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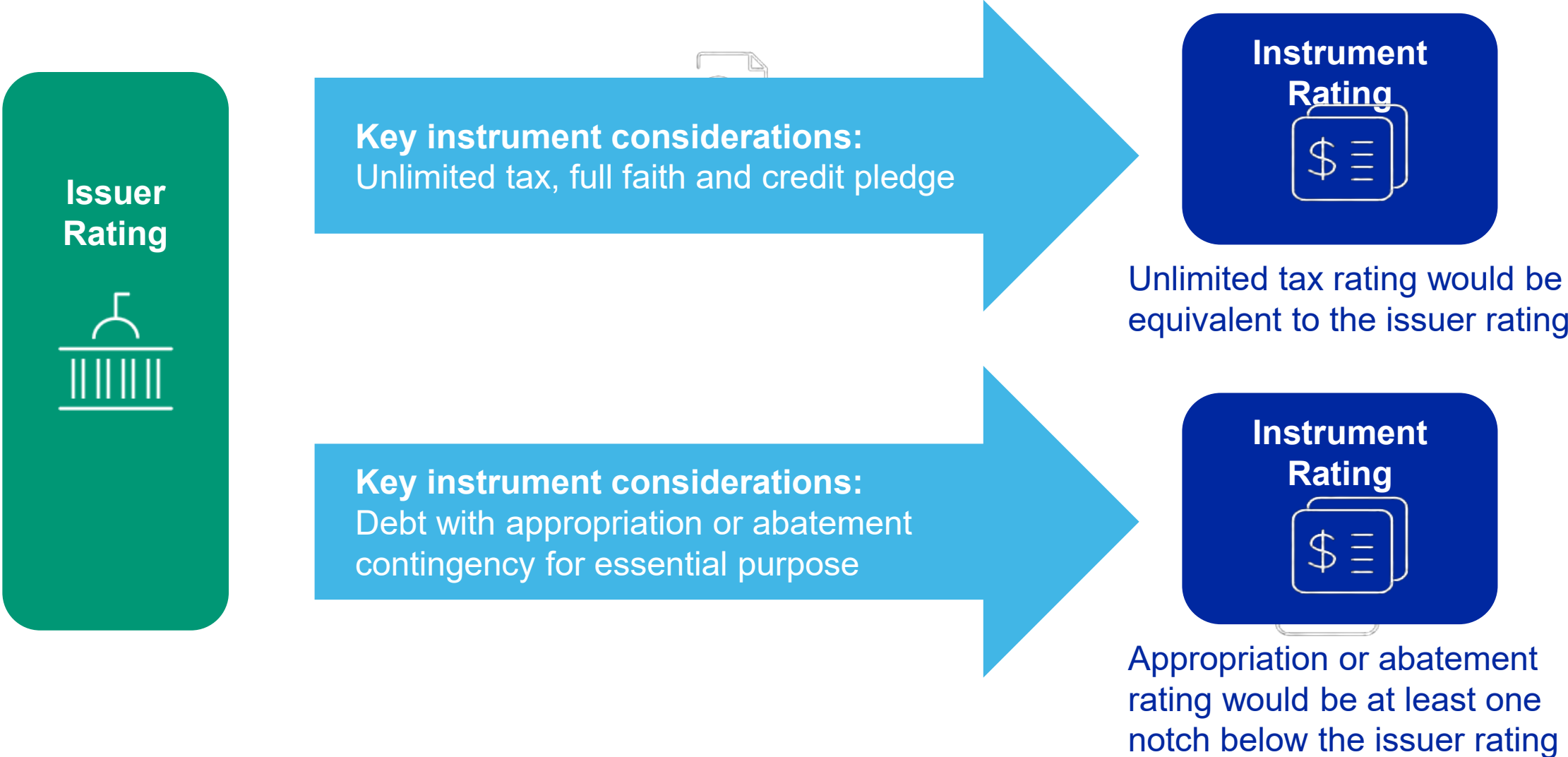
Instrument Rating

Placed in relation to the issuer rating

Arriving at the instrument rating



Instrument rating examples



Overview of Maryland Ratings

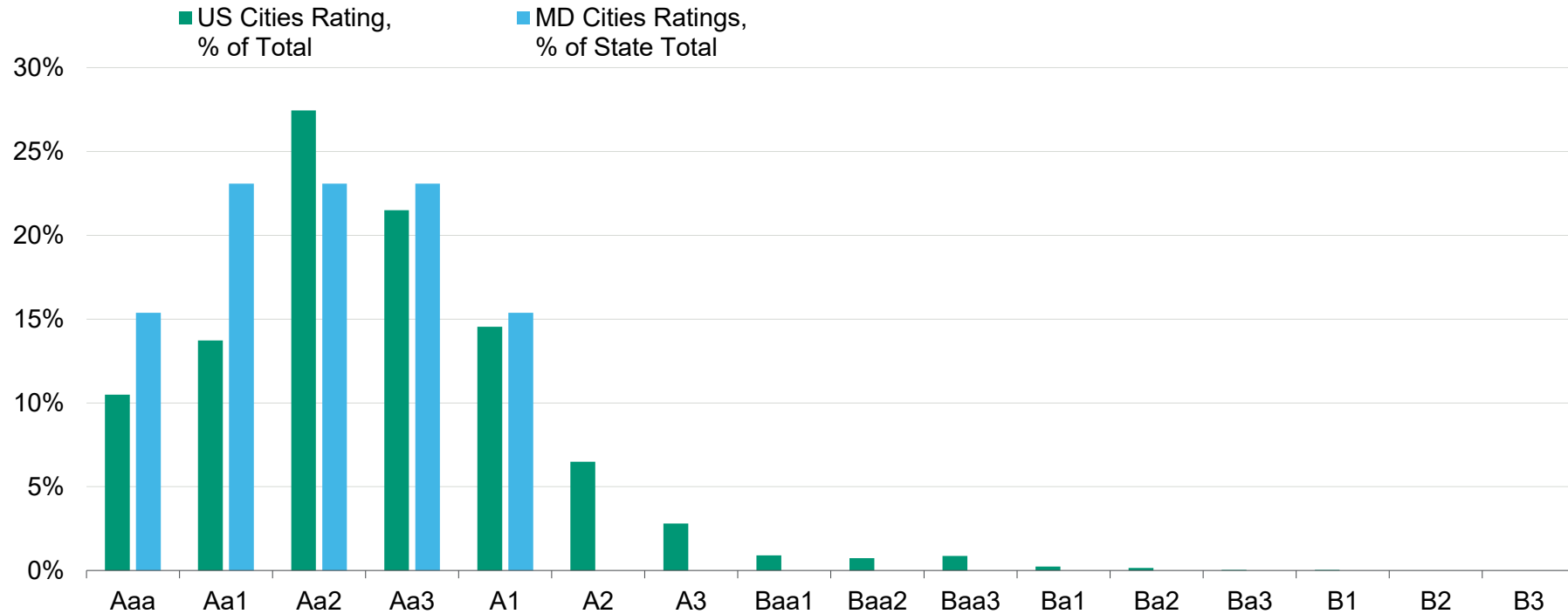
Moody's Update

Credit strengths of MD municipalities

- » Cities and counties are heavily dependent on stable property tax revenues
- » Strong governance controls characteristic of most municipalities
- » Growing economies are supported by an educated work force, relatively low cost of living and continued diversification
 - » Government-related industry, rather than government-dependent industry supports many counties

MD cities are highly rated

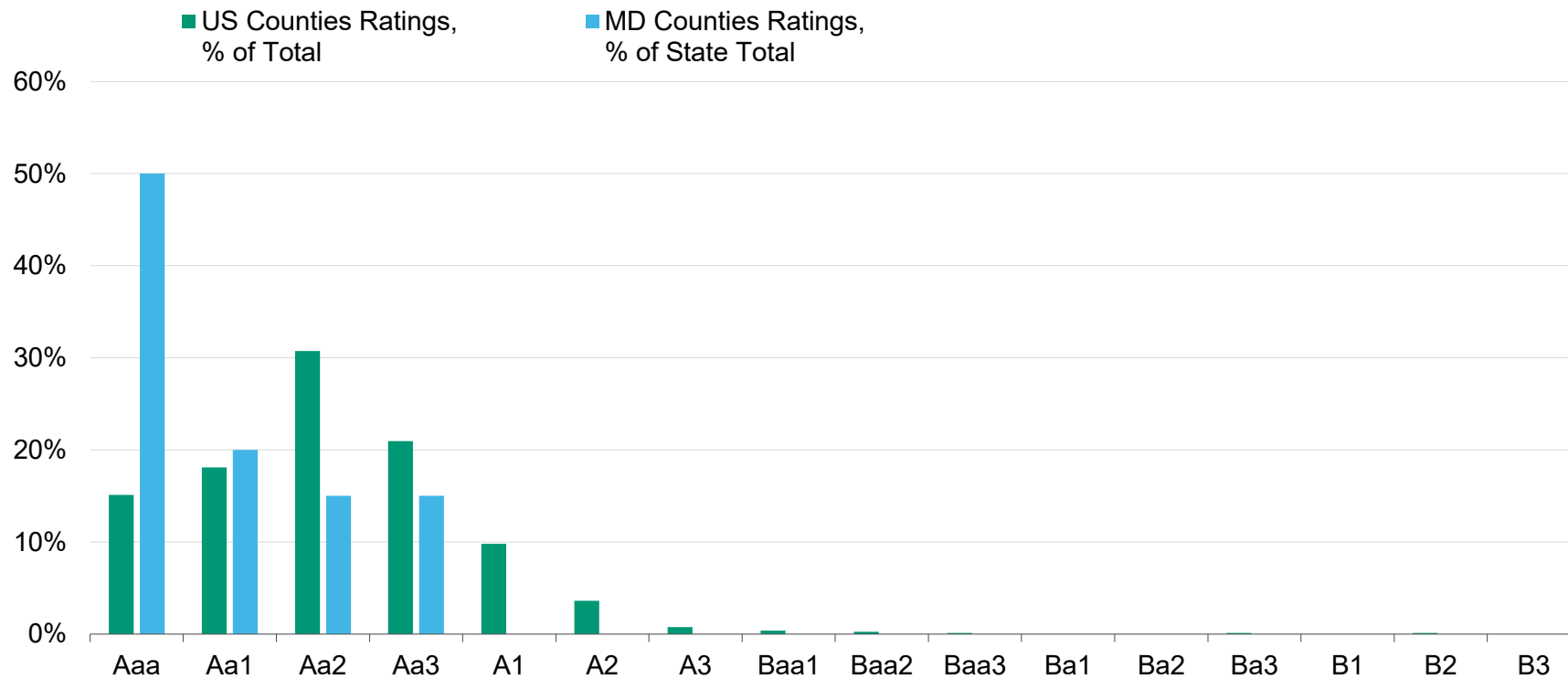
- » 13 total city ratings in the state
- » Aa2 median rating for MD cities



Source: Moody's Investors Service

MD counties are highly rated

- » 20 total county ratings in the state
- » Aaa median rating for MD counties



Source: Moody's Investors Service



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Questions & Answers

Moody's Update

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