

J00A04
Debt Service Requirements
Maryland Department of Transportation

Executive Summary

This program provides funds to pay debt service on the Consolidated Transportation Bonds issued by the Maryland Department of Transportation.

Operating Budget Data

(\$ in Thousands)

	<u>FY 18</u>	<u>FY 19</u>	<u>FY 20</u>	<u>FY 19-20</u>	<u>% Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
Special Fund	\$340,060	\$333,816	\$354,848	\$21,033	6.3%
Adjustments	0	0	0	0	
Adjusted Special Fund	\$340,060	\$333,816	\$354,848	\$21,033	6.3%
 Adjusted Grand Total	 \$340,060	 \$333,816	 \$354,848	 \$21,033	 6.3%

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The fiscal 2019 working appropriation is understated by approximately \$3.7 million because it has not been adjusted to reflect the larger than projected first debt issuance in fiscal 2019. Adjusting for the higher level of debt service in fiscal 2019, the fiscal 2020 allowance grows by \$17.3 million (5.1%).
- The fiscal 2019 to 2024 Transportation Trust Fund forecast shows planned issuances of \$631 million and \$635 million for fiscal 2019 and 2020, respectively. Debt outstanding at the end of fiscal 2020 is projected at nearly \$3.8 billion.
- Nontraditional debt outstanding at the end of fiscal 2020 is projected to be nearly \$1.5 billion. Debt service on nontraditional debt in fiscal 2020, exclusive of debt service paid by capitalized interest, is projected to be \$66.8 million.

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

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Key Observations

- Based on current revenue and debt issuance projections, Consolidated Transportation Bond debt levels meet both the statutory limit on maximum debt outstanding and the debt service coverage requirements set forth in bond resolutions for the entire six-year forecast period.
- The use of debt to support the capital program has increased at a relatively steady pace since fiscal 2011 but is projected to begin decreasing after fiscal 2020 due to debt service coverage ratios reaching minimum acceptable levels under agency debt management practices.

Operating Budget Recommended Actions

1. Add annual budget bill language establishing the debt outstanding limit for Consolidated Transportation Bonds.
2. Add annual budget bill language requiring reports on nontraditional debt.
3. Add annual budget bill language establishing the debt outstanding limit for nontraditional debt.

J00A04
Debt Service Requirements
Maryland Department of Transportation

Budget Analysis

Program Description

Consolidated Transportation Bonds

The Maryland Department of Transportation (MDOT) issues 15-year Consolidated Transportation Bonds (CTB), which are tax-supported debt. Bond proceeds are dedicated for construction projects. Revenues from taxes and fees and other funding sources are combined in the Transportation Trust Fund (TTF) to pay debt service and operating budget requirements and to support the capital program. Debt service on CTBs is payable solely from the TTF.

Nontraditional Debt

MDOT also uses nontraditional debt, which is any debt instrument that is not a CTB or a Grant Anticipation Revenue Vehicle (GARVEE) bond. This includes, but is not limited to, Certificates of Participation (COP); debt backed by customer facility charges, passenger facility charges, or other revenues; and debt issued by the Maryland Economic Development Corporation (MEDCO), the Maryland Transportation Authority (MDTA), or any other third party on behalf of MDOT.

Fiscal 2020 Allowance

Overview of Agency Spending

The fiscal 2020 allowance for CTB debt service is \$354.8 million, an increase of \$21.0 million (6.3%) over the fiscal 2019 working appropriation. The fiscal 2019 working appropriation is understated by approximately \$3.7 million, however, because it has not been adjusted to reflect the larger than projected first fiscal 2019 issuance level. Adjusting for the higher level of debt service in fiscal 2019, the fiscal 2020 allowance grows by \$17.3 million (5.1%).

Debt Service Coverage Ratios Remain Above Minimum Requirements

State law, bond covenants, and agency debt practices limit CTB issuances with three criteria: a debt outstanding limit and two debt service coverage tests. The debt outstanding limit is set in statute at \$4.5 billion. Within this limit, statute further requires the General Assembly to establish in the budget for each fiscal year the maximum outstanding aggregate amount of these bonds at the end of the fiscal year. The statutory CTB limit is periodically increased to reflect revenue growth, which increases the capacity of the TTF to support additional debt. The CTB debt limit was last increased during the 2013 session. CTBs are included within the State debt affordability limits, and the level of debt service and debt outstanding are therefore evaluated annually by the Capital Debt Affordability Committee.

J00A04 – MDOT – Debt Service Requirements

The two debt service coverage tests are established in the department's bond resolutions and require that annual net income and pledged taxes from the prior year each equal at least 2.0 times the maximum level of future debt service payments on all CTBs outstanding and to be issued. The department has adopted a management practice that requires a minimum coverage of 2.5 times maximum future debt service.

The net income coverage test is the ratio of all the prior year's income (excluding federal capital contributions, bond proceeds, and third-party reimbursements) minus prior year operating expenses, debt service payments, and deductions for nontransportation agencies to maximum future debt service. The net income coverage test is typically the limiting coverage ratio.

The pledged taxes coverage test is the ratio of prior year net revenues from vehicle excise, motor fuel, rental car sales, and corporate income taxes (excluding refunds and all statutory deductions) to maximum future debt service. If either of these coverage ratios fall below the 2.0 times level, the department is prohibited under its bond covenants from issuing additional debt until the ratios are once again at the minimum 2.0 times level.

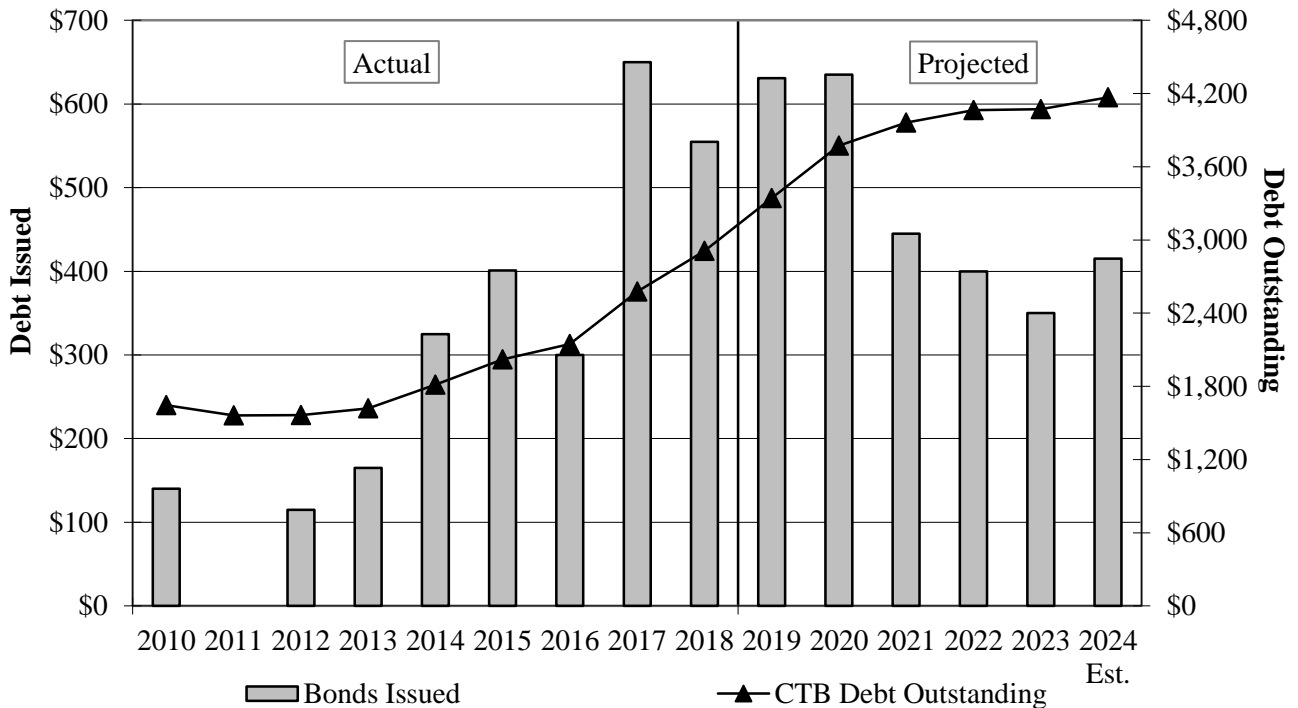
Projected CTB issuances in fiscal 2019 will increase the total amount of debt outstanding to over \$3.3 billion, and the debt service coverage ratios in fiscal 2019 are estimated to be 4.7 times for pledged taxes and 2.8 times for the net income test. In fiscal 2020, the level of debt outstanding is projected to increase to almost \$3.8 billion with the pledged taxes coverage ratio falling to 4.3 times and the net income ratio falling to 2.5 times maximum future debt service, the lowest allowable under the department's management practice. These ratios increase slightly in the out-years of the forecast. In fiscal 2024, the final year of the forecast, debt outstanding is projected to be nearly \$4.2 billion with the coverage ratios estimated to be 4.6 times and 2.7 times for pledged taxes and net income, respectively.

Based on current revenue and debt issuance projections, CTB debt levels meet both the statutory limit on maximum debt outstanding and the pledged taxes and net income to maximum future debt service ratios set forth in bond resolutions for the entire six-year forecast period.

Consolidated Transportation Bond Debt Trends

Exhibit 1 shows annual new CTB issuances and net debt outstanding from fiscal 2010 to 2024. Use of debt to finance the capital program has increased fairly steadily since 2011, peaking in fiscal 2017 with the issuance of \$650 million.

Exhibit 1
Bond Sales and Debt Outstanding
Fiscal 2010-2018 Actual and Fiscal 2019-2024 Estimated
(\$ in Millions)



CTB: Consolidated Transportation Bond

Source: Maryland Department of Transportation

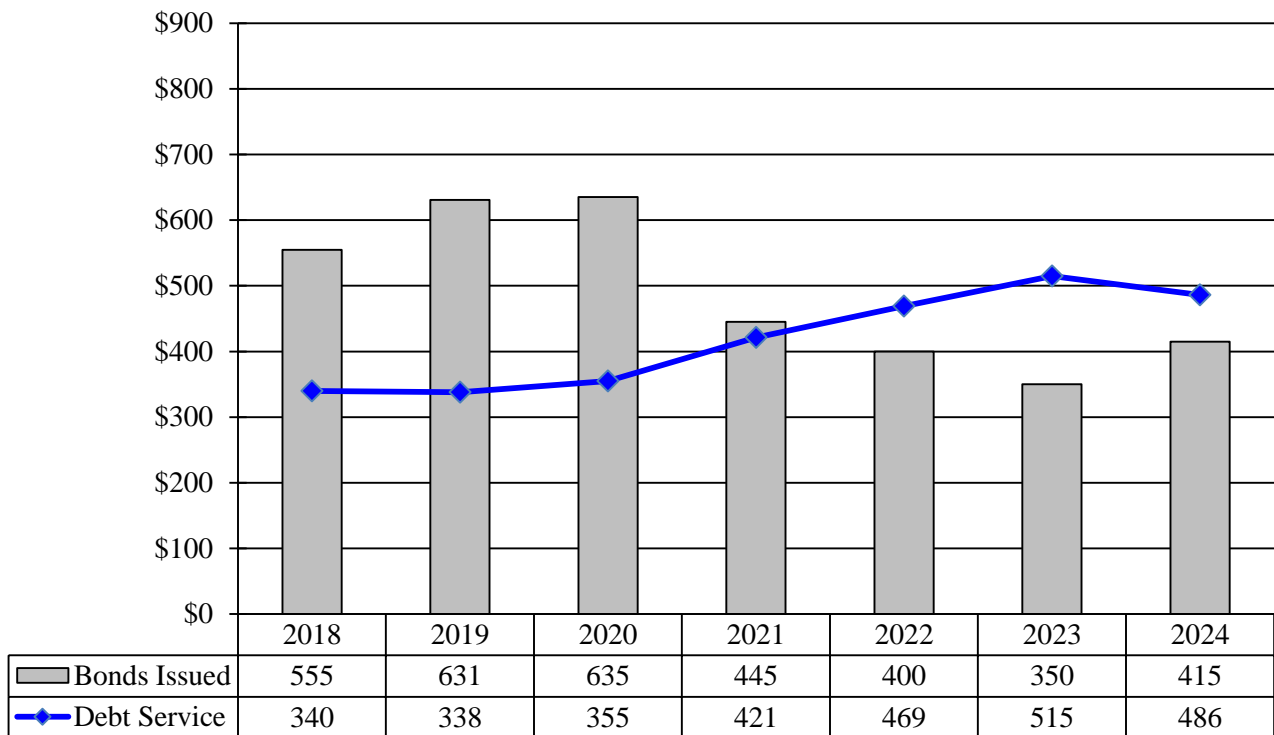
Debt outstanding, which stood at just over \$1.6 billion in fiscal 2010, rose to just over \$2.9 billion by the end of fiscal 2018. Debt issuances above \$630 million are projected for both fiscal 2019 and 2020 with reduced debt issuances projected for fiscal 2021 through 2024 due to projected debt service coverage ratios falling to minimum acceptable levels.

Consolidated Transportation Bond Debt Outlook

Exhibit 2 shows new CTB debt issuances of \$631 million and \$635 million are planned for fiscal 2019 and 2020, respectively, with issuance levels dropping in each of the following three years before increasing in the final year of the forecast period. The fiscal 2019 to 2024 MDOT forecast includes projected debt issuances totaling \$2.88 billion, which is \$56 million more than was projected in the prior six-year forecast. Debt outstanding is projected to increase by more than 43% between

fiscal 2018 and 2024 to \$4.2 billion, and debt service grows by almost 43% to \$486 million in fiscal 2024. **Appendix 3** shows debt service and debt outstanding by fiscal year for current CTB debt.

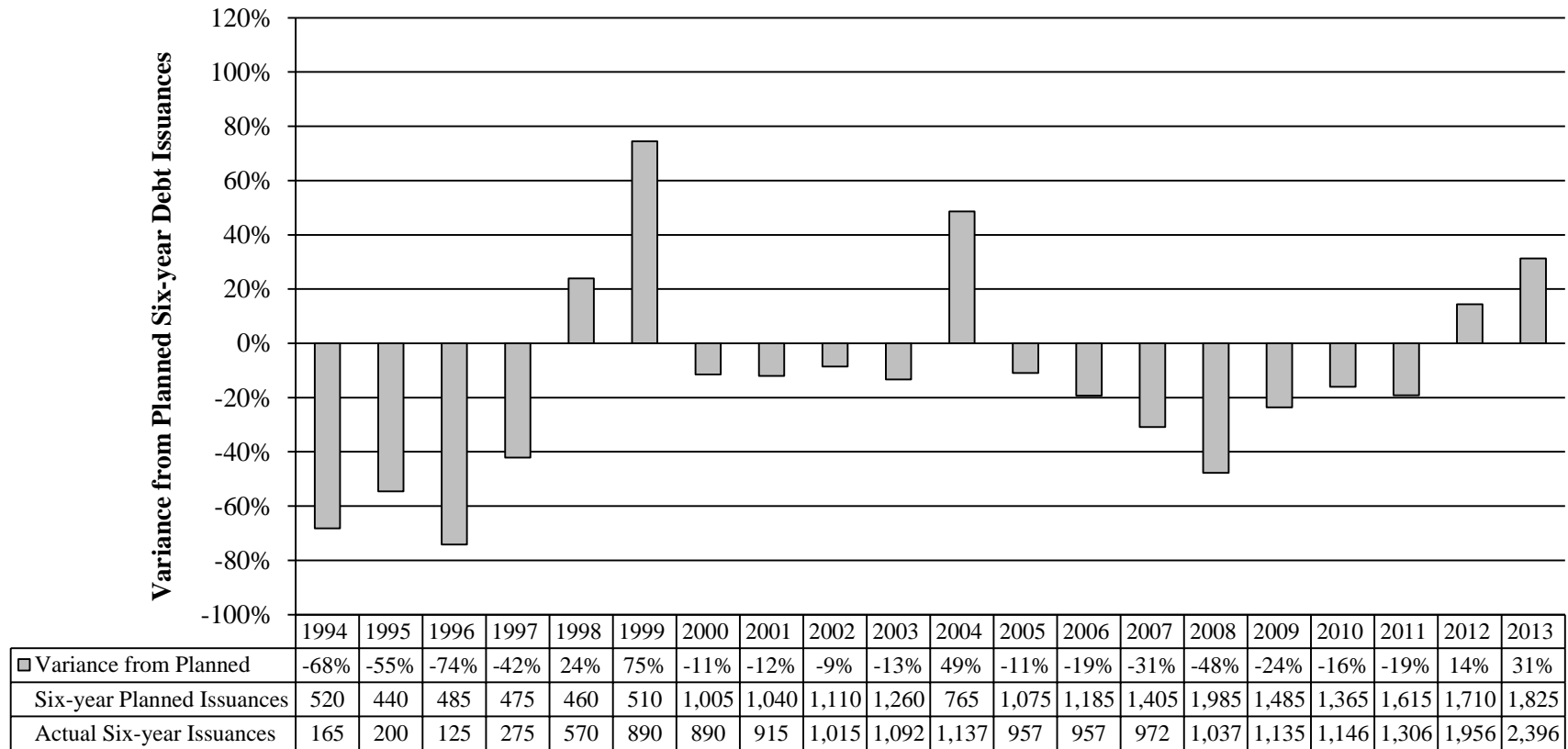
Exhibit 2
Bond Issuances and Debt Service
Fiscal 2018 Actual and Fiscal 2019-2024 Estimated
(\$ in Millions)



Source: Maryland Department of Transportation

Although MDOT does not usually end up issuing as much debt as forecasted, as shown in **Exhibit 3**, it did issue more debt than originally projected for the two most recently completed forecast periods.

Exhibit 3
Variance from Six-year Planned Debt Issuance Level
MDOT Six-year Forecasts: 1994-2013
(\$ in Millions)



MDOT: Maryland Department of Transportation

Source: Maryland Department of Transportation; Department of Legislative Services

Nontraditional Debt

In addition to CTBs, the department uses nontraditional debt. Nontraditional debt is any debt other than a CTB or a GARVEE bond. This includes, but is not limited, to COPs; debt backed by customer facility charges, passenger facility charges, or other revenues; federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans; and debt issued by MEDCO, MDTA, or any other third party on behalf of MDOT.

Exhibit 4 shows that the department currently has 12 nontraditional debt issuances outstanding and 2 pending debt issuances. Combined, these outstanding issuances are projected to have \$1,450.2 million in unpaid principal at the end of fiscal 2020. **Appendix 4** shows debt service and debt outstanding by fiscal year for current nontraditional debt.

Exhibit 4
Nontraditional Debt Outstanding and Debt Service
(\$ in Thousands)

<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/20)</u>	<u>Fiscal 2020 Debt Service Payment ²</u>	<u>Purpose</u>
Certificates of Participation			
2010-2025	\$7,550	\$1,689	Expand Pier B and a de-icing facility at the Baltimore-Washington International Thurgood Marshall Airport (BWI Marshall Airport).
2010-2025	6,150	1,161	Construction of a parking garage at Maryland Area Regional Commuter Amtrak station near BWI Marshall Airport.
2016-2024	8,415	2,285	Refunding of 2006 Certificates of Participation (COP) used for construction of a paper shed at South Locust Point.
Subtotal	\$22,115	\$5,135	
Maryland Transportation Authority Revenue Bonds			
2012-2027	\$101,135	\$18,166	Construction of Elm Road parking garage near BWI Marshall Airport, roadway improvements, enhanced pedestrian access, and upgrading of utility plants. Bonds backed by parking fees.

J00A04 – MDOT – Debt Service Requirements

<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/20)</u>	<u>Fiscal 2020 Debt Service Payment ²</u>	<u>Purpose</u>
2002-2032	77,375	8,949	Construction of consolidated rental car facility at BWI Marshall Airport. Bonds backed by customer facility charge of \$3.25 per vehicle rental per day.
2012-2032	35,260	3,905	Passenger Facility Charge revenue bonds to construct B/C concourse connector.
2012-2027/32	94,105	10,136	Passenger Facility Charge to complete Runway Safety Area and Pavement Management Program improvements.
2014-2034	31,790	2,953	Passenger Facility Charge revenue bonds to construct D/E concourse connector.
<i>Subtotal</i>	<i>\$339,665</i>	<i>\$44,109</i>	
Maryland Economic Development Corporation Debt			
2002-2022 ¹	\$5,245	\$2,797	Construction of new Maryland Department of Transportation headquarters building.
2012-2030	114,945	14,763	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Marshall Airport.
2016-2050 ²	313,035	0	Private activity bonds for construction of the Purple Line Light Rail Transit project.
<i>Subtotal</i>	<i>\$433,225</i>	<i>\$17,560</i>	
Purple Line Transit Partners LLC Debt			
2018-2050 ²	\$655,184	\$0	Federal Transportation Infrastructure Finance and Innovation Act loan for construction of the Purple Line Light Rail Transit project.
Total – Issued Debt	\$1,450,189	\$66,804	

J00A04 – MDOT – Debt Service Requirements

<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/20)</u>	<u>Fiscal 2020 Debt Service Payment ²</u>	<u>Purpose</u>
Pending Debt			
2019-TBD	\$35,850	TBD	COPs for purchase of shuttle buses at BWI Marshall Airport.
2019-TBD	120,000	TBD	Improvements and renovations to Pier A at BWI Marshall Airport.

TBD: to be decided

¹ State tax-supported debt.

² Excludes debt service paid from capitalized interest.

Source: Maryland Department of Transportation; Department of Legislative Services

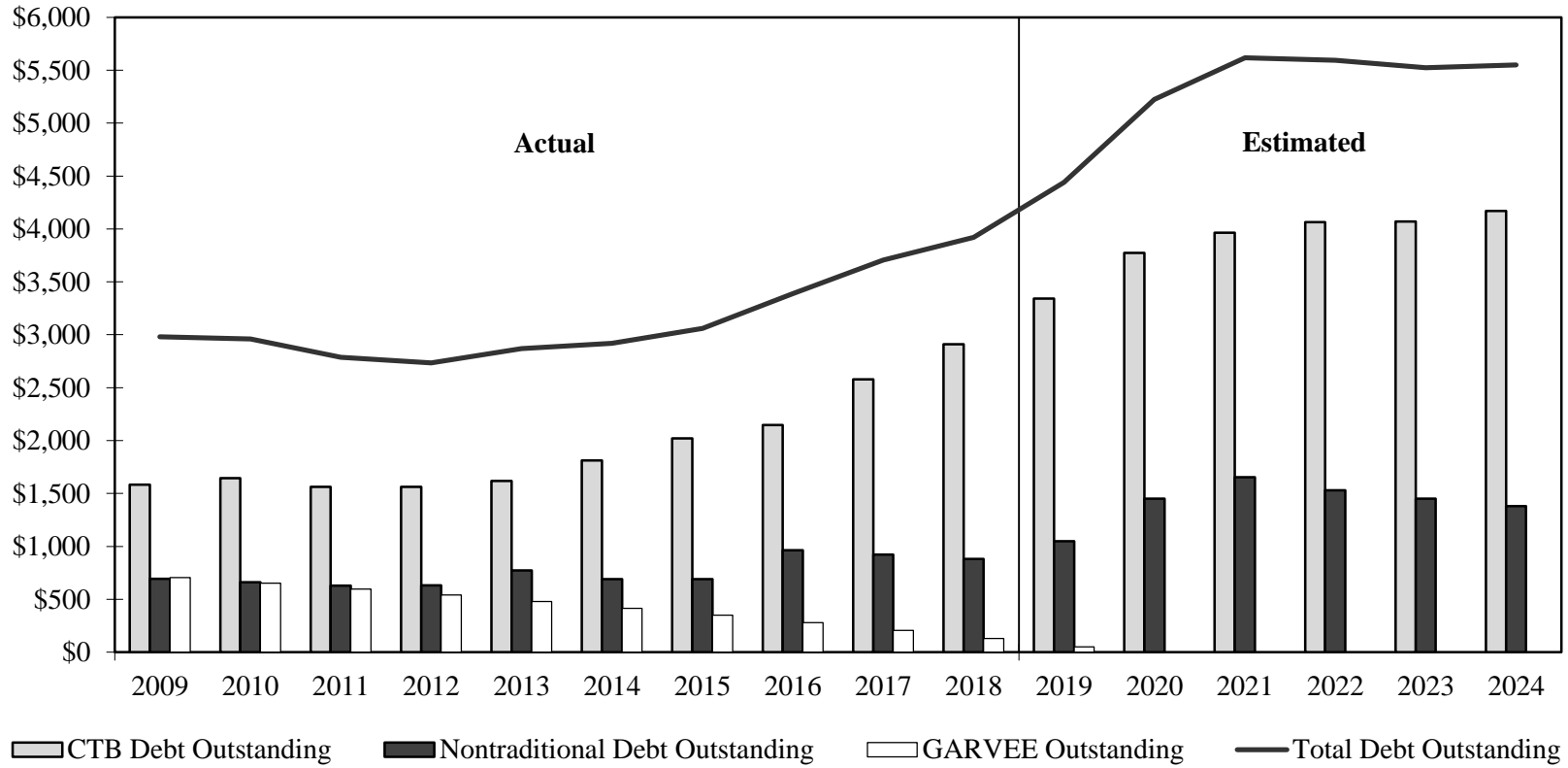
The General Assembly began placing limits on COPs in fiscal 2002 and then all of the MDOT nontraditional debt in fiscal 2005. The limits on nontraditional debt are established in the same manner as the limits placed on CTBs – the General Assembly limits the amount of nontraditional debt to the amount already issued plus any additional nontraditional debt proposed by MDOT in its January nontraditional debt report. If MDOT finds that circumstances warrant additional issuances, it must report to the budget committees on the proposed additional debt and allow 45 days for the committees to review and comment on the proposal. **It is recommended that the General Assembly continue the policy of limiting total nontraditional debt outstanding and that the amount of debt outstanding at the end of fiscal 2020 be limited to \$951.0 million for nontraditional debt other than TIFIA debt and that TIFIA debt outstanding be limited to \$925.3 million.**

The General Assembly annually requires that MDOT report to the budget committees on nontraditional debt when it releases its September and January forecasts. Specifically, the language requires that MDOT report on the outstanding and proposed issuances, debt service costs, and annual debt outstanding. The report should cover the current fiscal year and the following 10 fiscal years. **It is recommended that the General Assembly again require that the department report this information on its nontraditional debt when it releases its September and January forecasts.**

Total Debt Outstanding

Exhibit 5 shows that total MDOT debt outstanding from all sources was nearly \$3.0 billion in fiscal 2009 and is projected to peak at just over \$5.6 billion in fiscal 2021. Nontraditional debt comprised 22.5% of MDOT debt in fiscal 2018 and is expected to total 24.9% of all MDOT debt in fiscal 2024.

Exhibit 5
Total Transportation Debt Outstanding
Fiscal 2009-2024
(\$ in Millions)



CTB: Consolidated Transportation Bond
GARVEE: Grant Anticipation Revenue Vehicle

Source: Maryland Department of Transportation; Department of Legislative Services

Grant Anticipation Revenue Vehicles

GARVEEs are transportation bonds that are issued by states and public authorities that are backed by future federal aid highway and transit appropriations. While the source of funds used to repay GARVEE issuances originates with the federal government, the federal government's agreement to the use of its funds in this manner does not constitute any obligation on the part of the federal government to make these funds available. If for any reason federal appropriations are not made as anticipated, the obligation to repay GARVEEs falls entirely to the State agency or authority that issued them. To increase the GARVEE bond rating and reduce borrowing costs, the State pledges TTF revenues should federal appropriations be insufficient to pay GARVEE debt service. Since paying the debt is an obligation of the State, and TTF revenues have been pledged, GARVEE bonds are considered State debt. GARVEE bonds were limited in State law to the issuance of \$750 million in support of the Intercounty Connector project. Fiscal 2020 is the final year of debt service on these bonds.

Operating Budget Recommended Actions

1. Add the following language:

Consolidated Transportation Bonds may be issued in any amount provided that the aggregate outstanding and unpaid balance of these bonds and bonds of prior issues may not exceed \$3,773,000,000 as of June 30, 2020. Further provided that the amount paid for debt service shall be reduced by any proceeds generated from net bond sale premiums, provided that those revenues are recognized by the department and reflected in the Transportation Trust Fund forecast. To achieve this reduction, the Maryland Department of Transportation may either use the proceeds from the net premium to reduce the size of the bond issuance and/or apply the proceeds from the net premium to eligible debt service.

Explanation: Section 3-202 of the Transportation Article requires the General Assembly to establish the maximum debt outstanding each year in the budget bill. The level is based on outstanding debt as of June 30, 2018, plus projected debt to be issued during fiscal 2019 and 2020 in support of the transportation capital program.

2. Add the following language:

The Maryland Department of Transportation (MDOT) shall submit with its annual September and January financial forecasts information on:

- (1) anticipated and actual nontraditional debt outstanding as of June 30 of each year; and
- (2) anticipated and actual debt service payments for each outstanding nontraditional debt issuance from fiscal 2019 through 2029.

Nontraditional debt is defined as any debt instrument that is not a Consolidated Transportation Bond or a Grant Anticipation Revenue Vehicle bond; such debt includes, but is not limited to, Certificates of Participation, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by the Maryland Economic Development Corporation or any other third party on behalf of MDOT.

Explanation: The General Assembly is interested in monitoring the use of nontraditional debt by MDOT. The information requested provides the budget committees with additional information on the usage and annual costs of nontraditional debt.

J00A04 – MDOT – Debt Service Requirements

Information Request	Author	Due Date
Nontraditional debt outstanding and anticipated debt service payments	MDOT	With the September forecast
Nontraditional debt outstanding and anticipated debt service payments	MDOT	With the January forecast

3. Add the following language:

The total aggregate outstanding and unpaid principal balance of nontraditional debt, defined as any debt instrument that is not a Consolidated Transportation Bond or a Grant Anticipation Revenue Vehicle bond issued by the Maryland Department of Transportation (MDOT), exclusive of any draws on the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the Purple Line Light Rail Project, may not exceed \$951,000,000 as of June 30, 2020. The total aggregate outstanding and unpaid principal balance on the Purple Line TIFIA loan may not exceed \$925,315,170 as of June 30, 2020. Provided, however, that in addition to the limits established under this provision, MDOT may increase the aggregate outstanding unpaid and principal balance of nontraditional debt so long as:

- (1) MDOT provides notice to the Senate Budget and Taxation Committee and the House Appropriations Committee stating the specific reason for the additional issuance and providing specific information regarding the proposed issuance, including information specifying the total amount of nontraditional debt that would be outstanding on June 30, 2020, and the total amount by which the fiscal 2020 debt service payment for all nontraditional debt would increase following the additional issuance; and
- (2) the Senate Budget and Taxation Committee and the House Appropriations Committee have 45 days to review and comment on the proposed additional issuance before the publication of a preliminary official statement. The Senate Budget and Taxation Committee and the House Appropriations Committee may hold a public hearing to discuss the proposed increase and shall signal their intent to hold a hearing within 45 days of receiving notice from MDOT.

Explanation: This language limits the amount of nontraditional debt outstanding at the end of fiscal 2020 for non-TIFIA debt to the total amount that was outstanding from all previous nontraditional debt issuances as of June 30, 2018, plus anticipated issuances of \$35.9 million for shuttle bus acquisitions for the Baltimore-Washington International Thurgood Marshall Airport (BWI Marshall Airport) and \$120.0 million for improvements and renovations to Pier A at BWI Marshall Airport. TIFIA debt outstanding for the Purple Line project is capped at the projected maximum debt outstanding level that will occur during the construction phase

J00A04 – MDOT – Debt Service Requirements

of the Purple Line project. The language allows MDOT to increase the amount of nontraditional debt outstanding in fiscal 2020 by providing notification to the budget committees regarding the reason that the additional debt is required.

Information Request	Author	Due Date
Justification for increasing nontraditional debt outstanding	MDOT	45 days prior to publication of a preliminary official statement

Appendix 1
Current and Prior Year Budgets
MDOT – Debt Service Requirements
(\$ in Thousands)

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2018					
Legislative Appropriation	\$0	\$328,755	\$0	\$0	\$328,755
Deficiency/Withdrawn Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	11,305	0	0	11,305
Reversions and Cancellations	0	0	0	0	0
Actual					
Expenditures	\$0	\$340,060	\$0	\$0	\$340,060
Fiscal 2019					
Legislative Appropriation	\$0	\$333,816	\$0	\$0	\$333,816
Budget Amendments	0	0	0	0	0
Working					
Appropriation	\$0	\$333,816	\$0	\$0	\$333,816

MDOT: Maryland Department of Transportation

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum due to rounding.

Fiscal 2018

Fiscal 2018 special fund expenditures for debt service were \$11,304,926 higher than the legislative appropriation. A special fund budget amendment added the additional funds to reflect larger than anticipated bond sales and higher interest rates.

Fiscal 2019

The fiscal 2019 working appropriation remains unchanged from the legislative appropriation.

Appendix 2
Object/Fund Difference Report
Maryland Department of Transportation – Debt Service Requirements

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
Objects					
13 Fixed Charges	\$ 340,059,936	\$ 333,815,631	\$ 354,848,481	\$ 21,032,850	6.3%
Total Objects	\$ 340,059,936	\$ 333,815,631	\$ 354,848,481	\$ 21,032,850	6.3%
Funds					
03 Special Fund	\$ 340,059,936	\$ 333,815,631	\$ 354,848,481	\$ 21,032,850	6.3%
Total Funds	\$ 340,059,936	\$ 333,815,631	\$ 354,848,481	\$ 21,032,850	6.3%

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.

Appendix 3
Consolidated Transportation Bonds
Debt Service and Debt Outstanding as of December 31, 2018

<u>Fiscal Year</u>	<u>Debt Service</u>	<u>Debt Outstanding on June 30</u>
2019	\$337,565,751	\$3,342,945,000
2020	348,180,981	3,137,190,000
2021	386,630,456	2,882,330,000
2022	415,244,831	2,585,580,000
2023	410,200,256	2,280,675,000
2024	342,902,544	2,028,230,000
2025	329,540,594	1,777,440,000
2026	310,802,331	1,533,775,000
2027	311,077,639	1,279,250,000
2028	300,223,345	1,024,605,000
2029	285,170,508	774,300,000
2030	252,375,864	546,465,000
2031	212,019,748	349,930,000
2032	183,160,623	176,085,000
2033	118,649,963	61,670,000
2034	62,749,225	0

Source: Maryland Department of Transportation; Department of Legislative Services

Appendix 4
Nontraditional Debt
Debt Service and Debt Outstanding as of June 30, 2018

<u>Fiscal Year</u>	<u>Debt Service</u> ¹	<u>Debt Outstanding on June 30</u>
2019	\$66,803,875	\$838,845,000
2020	66,804,159	795,005,000
2021	65,801,236	750,310,000
2022	181,068,627	604,340,000
2023	100,142,423	531,570,000
2024	78,146,695	478,110,000
2025	76,402,627	424,095,000
2026	74,268,503	369,880,000
2027	69,269,465	318,325,000
2028	48,286,550	285,585,000
2029	55,457,083	244,070,000
2030	56,667,608	199,355,000
2031	36,450,374	172,790,000
2032	36,456,226	144,815,000
2033	22,480,091	129,325,000
2034	13,687,725	122,020,000
2035	10,738,000	117,325,000
2036	10,735,375	112,395,000
2037	10,740,750	107,210,000
2038	10,738,250	101,765,000
2039	10,737,625	96,045,000
2040	10,743,000	90,030,000
2041	10,738,500	83,715,000
2042	10,738,875	77,080,000
2043	10,742,875	70,105,000
2044	10,739,875	62,780,000
2045	10,699,500	55,125,000
2046	10,657,500	47,125,000
2047	10,667,375	38,710,000
2048	10,587,375	29,950,000
2049	10,598,750	20,735,000
2050	10,567,125	11,085,000
2051	11,514,500	0

¹ Excludes debt service paid from capitalized interest.

Source: Maryland Department of Transportation; Department of Legislative Services