J00A04
Debt Service Requirements
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 02	FY 03	FY 04	FY 02-04 Change	FY 05	FY 04-05 Change
Operations	$113,505	$130,322	$143,579	$30,073	$178,028	$34,449
Special Funds	$113,505	$130,322	$143,579	$30,073	$178,028	34,449
Annual % Change		**14.8%**	**10.2%**		**24.0%**	

- The fiscal 2005 debt service allowance increases by $34 million over the fiscal 2004 debt service appropriation.
- The allowance assumes that the department will issue $370 million in Consolidated Transportation Bonds (CTB) in fiscal 2004 and $205 million in bonds in fiscal 2005. The total amount of CTB debt outstanding is expected to exceed $1.3 billion by the end of fiscal 2005.
- The total amount of nontraditional debt outstanding is expected to exceed $771 million at the end of fiscal 2005.

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

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Analysis in Brief

Operating Budget Recommended Actions

1. Add annual language limiting the total amount of Consolidated Transportation Bond debt outstanding.

2. Add language limiting the total amount of nontraditional debt outstanding.

3. Add language requiring submission of information on nontraditional debt outstanding.

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 usually 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.

County Transportation Bonds

The department previously issued county transportation bonds that were considered both State and county debt and counted toward State debt affordability limits. Chapter 539 of the Acts of 1993 altered this policy by authorizing the department to continue to issue bonds on behalf of local jurisdictions but excluding the local debt from counting toward State debt affordability limits. Currently, this debt counts only toward the debt outstanding of the counties. Debt service on the bonds was and will continue to be paid from the local share of transportation revenues. MDOT continues to be responsible for all aspects of administering and issuing debt for the counties.

In November 1993, MDOT refunded nine series of previously issued county debt. There is one remaining series of county debt issues that was not refunded and that will therefore continue to count against State debt affordability limits until the debt is retired. As of October 31, 2003, the remaining net principal balance on the 14th Series bonds totaled approximately $3.155 million. This issue will be retired in November 2006.

Governor's Proposed Operating Budget

The fiscal 2005 allowance for debt service payments is $178,027,819. This figure includes $177,674,626 for debt service payments on CTBs and $353,193 for payments on the remaining county bond issues. Funding for the fiscal 2005 debt service payment increases by $34.4 million (nearly 24%) over the fiscal 2004 working appropriation.

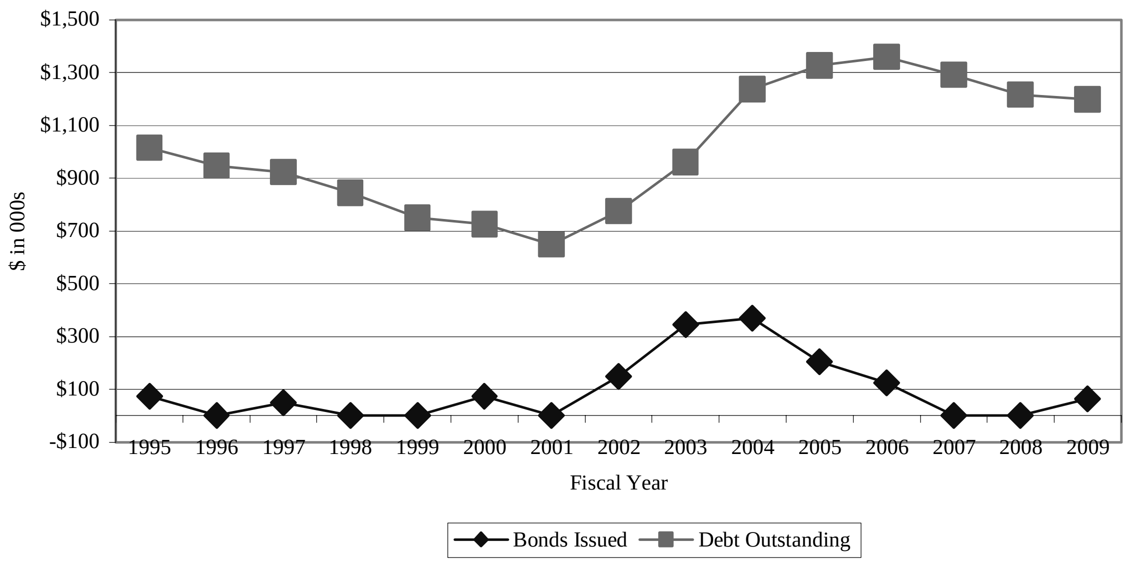
The fiscal 2005 debt service payment includes $16.5 million for anticipated bond issuances in fiscal 2004. In addition, one large bond series from the early 1990s is being retired in fiscal 2005, and the department will make the largest payment ($83.5 million) on refinancing bonds issued in fiscal 2003 to refinance earlier debt issuances at the lower interest rates available in 2003. The remaining amount of the fiscal 2005 debt service payment is attributable to the timing of amortized payments due on the seven other previous debt issuances still outstanding.

Historical Trends in CTB Debt

Exhibit 1 shows annual CTB issuances and net debt outstanding from fiscal 1995 through 2009.

Exhibit 1

MDOT Debt Issuance and Debt Outstanding
Fiscal 1995 - 2003 Actual and Fiscal 2004 - 2009 Projected
($ in Millions)



Source: Maryland Department of Transportation

Between fiscal 1990 and 1995, the department issued $880 million of debt. Debt issuances were sharply reduced between fiscal 1996 and 2001, when a combined total of only $125 million was issued. The department issued $150 million in debt in fiscal 2002. Following the planned transfer from the TTF to the general fund of a combined total of $314 million in fiscal 2003 and 2004, the department issued an unprecedented $345 million in new debt in fiscal 2003 to sustain the ongoing capital program. Taking advantage of the low interest rates available in fiscal 2003, the department also issued bonds totaling $262,405,000 to refinance previous bond sales.

Planned Debt Issuances

In fiscal 2004, MDOT is projected to issue an unprecedented $370 million in new CTB debt in a single sale expected to be held in the spring. MDOT also anticipates that it will issue an additional $205 million in debt in fiscal 2005. Over the six-year forecast period (fiscal 2004 – 2009), MDOT projects that a total of $765 million in new debt will be issued.

Consolidated Transportation Bonds Outstanding Meet Legislative and Departmental Limits

The issuance of CTBs is limited by two criteria: an outstanding debt limit and a coverage test. The outstanding debt limit is set by statute. During the 1992 session, the outstanding debt limit was increased from $950 million to $1.2 billion with the proviso that a debt ceiling be set annually in the budget bill. During the 2002 session, the maximum outstanding debt limit was increased to $1.5 billion when certain revenues briefly dedicated to the TTF were shifted back to the general fund (including 55% of the total collected from the sales tax on rental cars, a portion of the security interest filing fees, and a portion of uninsured motorist penalties).

The bond revenue coverage test, which is established in the department's bond resolutions, mandates that the department's annual net revenues and pledged taxes must each equal at least twice (2.0) the maximum future debt service. The department has adopted an administrative policy establishing a minimum coverage of 2.5. The net revenues coverage test is the ratio of all prior-year net revenues (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior-year operating expenses, to maximum annual future debt service. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, and corporate taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service.

The fiscal 2004 bond sales are projected to raise the total debt outstanding at the end of that year to $1.237 billion – well under the statutory ceiling of $1.5 billion. The bond coverage ratio for fiscal 2004 is estimated to be 2.6 times the maximum debt service under the net revenue test and 6.3 times the maximum debt service under the pledged taxes coverage test. The fiscal 2005 bond sales are projected to raise the total debt outstanding at the end of that year to $1.327 billion, while the coverage ratio under the net revenue test will be raised to 2.9 and the coverage ratio under the pledged taxes test will be raised to 6.4.

The department prudently manages its debt through the use of the coverage ratios. Its bond issuances have consistently been rated AA by Moody's, Fitch Ratings, and Standard and Poor's – the highest rating that a State entity typically receives. In addition, the department's policy of maintaining an administrative coverage ratio that is higher than what is required has improved its standing with respect to its debt management.

In sum, the General Assembly places limits on the total debt outstanding at the end of the current and subsequent fiscal years. MDOT also limits debt issuance over the six-year forecast period to ensure that transportation debt is managed prudently. Based on current revenue projections, MDOT will be able to manage its CTB debt outstanding within the mandates set by the General Assembly.

Section 3-202 of the Transportation Article requires the General Assembly to adopt annual budget bill language limiting the level of maximum consolidated transportation bond debt outstanding.

Nontraditional Debt

In addition to CTBs, the department issues debt known as "nontraditional" debt. This debt currently includes debt sold by the Maryland Transportation Authority (MdTA) and the Maryland Economic Development Corporation (MEDCO), and Certificates of Participation (COP) issued on behalf of the Maryland Aviation Administration (MAA) and the Maryland Transit Administration (MTA) by MDOT. Since 1992, the department has released 10 separate issuances of nontraditional debt backed by a variety of revenue sources.

In fiscal 2003, the department called both a 1992 and a 1993 COP series; these bonds were repaid with appropriations from the TTF. These series had higher than prevailing interest rates and by calling the debt, MDOT saved $1,126,280 in interest costs that would have been due over the remaining life of the certificates.

In fiscal 2003, the department also paid off an MdTA revenue bond issuance dating from 1994 which saved the department approximately $10.5 million in interest costs over the remaining life of the bond. These bonds, which were backed with the passenger facility charges (PFC) paid by passengers traveling through Baltimore-Washington International (BWI) airport, were used to finance construction of the International terminal and Pier C at the airport. After the sum necessary for the defeasement of the bonds was placed in escrow for the repayment of the bonds, $13.7 million in remaining PFC revenues was deposited with MEDCO to fund that portion of the ongoing Pier A expansion project that was designated for payment with PFCs. In addition, $8.3 million in fiscal 2003 PFC revenue was deposited in the TTF, and an estimated $41.9 million in PFC revenues will be deposited in the TTF in fiscal 2004. These deposits will repay the TTF for the money it advanced to fund projects that are now designated to receive PFC funding.

As shown in **Exhibit 2,** seven nontraditional debt issuances remain outstanding, and one additional issuance is expected in fiscal 2004; these issuances are projected to have a combined total of $782.7 million in unpaid principal outstanding at the end of fiscal 2004.

Exhibit 2
Nontraditional Debt Outstanding – Fiscal 2005
($ in Thousands)

Year Issued and Maturity	Amount Issued	Principal Outstanding (06/30/04)	FY 2005 Debt Service Payment	Purpose
Certificates of Participation				
1999 to 2025	$42,750	$27,155	$2,538	Expand Pier B and a de-icing facility at BWI Airport.
2000 to 2025	33,000	26,795	4,391	Construction of parking garage at Maryland Rail Commuter/Amtrak station near BWI.
Expected issuance - 2nd quarter of 2004	20,000	20,000	TBD	Purchase buses for parking garage shuttle operations at BWI Airport.
Subtotal	**$95,750**	**$73,950**	**$6,929**	
Maryland Transportation Authority Revenue Bonds				
2002 to 2027	264,075	264,075	17,558	Construction of Elm Road parking garage near BWI, roadway improvements, enhanced pedestrian access, and upgrading of utility plants. Bonds backed by parking fees.
2002 to 2033	117,345	116,745	9,042	Construction of central rental car facility at BWI. Bonds back by customer facility charge of $3.25 per vehicle rental per day.
2003 to 2013	69,700	69,700	2,942	Additional construction at BWI Airport, including roadway improvements, installation of pedestrian skywalks and work in taxiway parallel to runway. This issue has a floating interest rate structure. Bonds backed by PFCs.
Subtotal	**$451,120**	**$450,520**	**$29,542**	
Maryland Economic Development Corporation Debt				
2003 to 2030	223,600	223,600	11,596	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Airport.
2002 to 2022	36,000	34,655	2,902	Construction of new MDOT headquarters building.
Subtotal	**$259,600**	**$258,255**	**$14,498**	
TOTAL	**$806,470**	**$782,725**	**$50,969**	

Source: Maryland Department of Transportation

Nontraditional Debt Issuances in Fiscal 2004

The department issued $69.7 million in MdTA revenue bonds in December 2003 (fiscal 2004) to finance additional construction at BWI Airport, including improvements to terminal access roads, installation of pedestrian skywalks, and construction of a taxiway parallel to the runway; this issuance will mature in fiscal 2013. The issuance has a floating interest rate that changes when the market rate changes. Currently, these rates are lower than fixed rates; further, the use of a floating rate allows the department to pay-off the bonds prior to their full maturity without having to pay the premium that would be required for early repayment of a fixed rate bond. Should interest rates begin to rise, the department will be able to convert these bonds to fixed rates. The debt service on these bonds will be met using revenues from PFCs assessed on enplaning passengers at the rate of $4.50 per passenger.

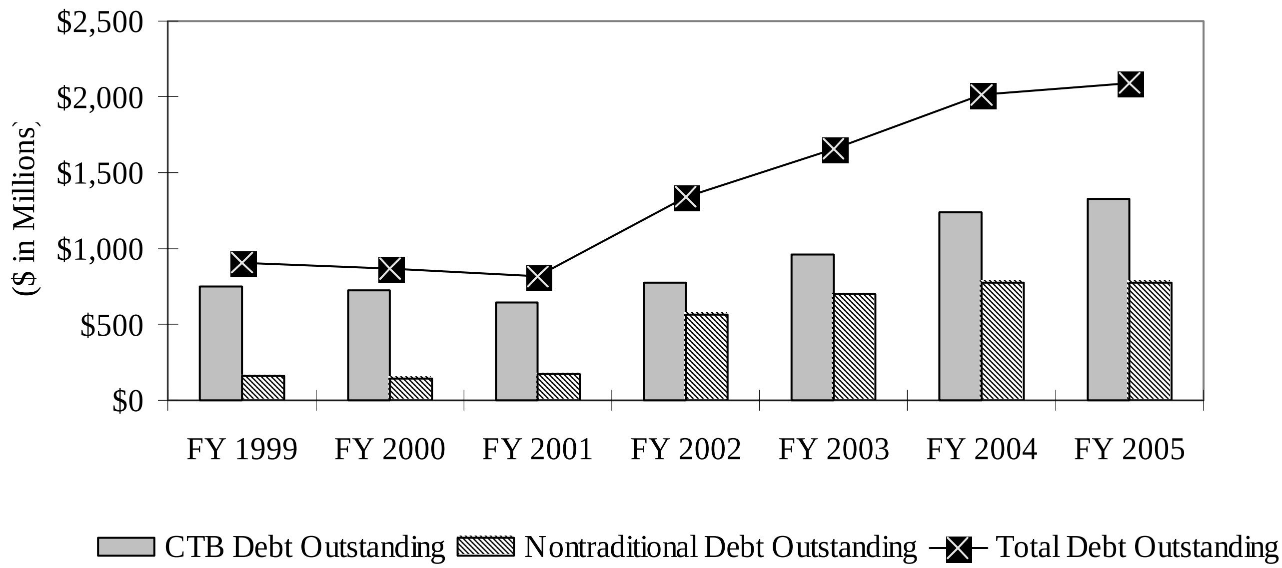
MDOT also anticipates issuing a new $20 million COP before the end of fiscal 2004 to fund the purchase of 50 new shuttle buses for the MAA's BWI airport shuttle service. MAA's current parking and shuttle bus service contract expires in January 2005. MAA has determined that it would be more cost effective for it to purchase shuttle buses and then amortize their cost over a certain period than to continue contracting for shuttle services. Unlike the COPs previously issued by MDOT, the COPs that will be issued to finance the bus purchases will be considered tax-supported debt. The debt service payments will be subject to annual appropriations. Repayment will be made with revenues from the MAA's parking operations, which will be deposited in the TTF.

MDOT's Total Debt Outstanding

Exhibit 3 shows that MDOT's total debt outstanding from all sources, including CTBs and all types of nontraditional debt, is expected to more than double from $904.5 million in fiscal 1999 to $2.1 billion in fiscal 2005. Further, the percent of total MDOT debt outstanding comprised by nontraditional debt is projected to increase from 17.1% in fiscal 1999 to 36.8% in fiscal 2005.

Exhibit 3

Total MDOT Debt Outstanding
Fiscal 1999 - 2003 Actual and Fiscal 2004 - 2005 Projected



Source: Maryland Department of Transportation

While issuances of CTBs are limited by the debt ceiling and the debt coverage tests and these issuances count against the calculations of debt affordability made by the Capital Debt Affordability Committee (CDAC), there are very few controls placed on MDOT's issuance of nontraditional debt. Nontraditional debt does not count against any of MDOT's debt limits, and only the $36 million bond issued by MEDCO to finance the construction of MDOT headquarters building is currently included in the calculations of the State's debt capacity made by the CDAC[1].

Beginning with the fiscal 2002 budget, the General Assembly adopted budget bill language to establish an oversight process for the issuance of COPs. However, there are no limits placed on the issuance of any other types of nontraditional debt, nor has any limit been placed on the total amount of such nontraditional debt that may be outstanding at any one time. Given the increasing amount of nontraditional debt issued by MDOT and the increasing percentage of total departmental debt outstanding comprised by this debt, the Spending Affordability Committee adopted language recommending that the budget committees give serious consideration to imposing limits on the issuance of nontraditional debt.

[1] When issued, the $20 million in COPs that finance the MAA's shuttle bus purchases will also count against State debt limits as calculated by the CDAC.

In keeping with the recommendation set forth by the Spending Affordability Committee, DLS recommends that the General Assembly adopt a provision in the Budget Reconciliation and Financing legislation that imposes a new debt ceiling that caps the maximum amount of debt from all currently used debt sources – including consolidated transportation bonds and all types of nontraditional debt – that may be outstanding at any one time at $2.3 billion.

In the event that the General Assembly does not support the recommendation regarding the introduction of a new debt limit, DLS recommends that the General Assembly adopt budget bill language limiting the outstanding and unpaid principal balance of all nontraditional debt (which is defined for the purpose of this limit as all types of debt vehicles utilized by MDOT except consolidated transportation bonds and GARVEE bonds).

GARVEE Bonds

Grant Anticipation Revenue Vehicles (GARVEE) are bonds issued by states and public authorities backed by future federal-aid highway and transit appropriations. At the federal level, the use of GARVEE bonds was authorized by the National Highway System Designation Act of 1995, which expanded the debt-related costs eligible for repayment with federal funds to include interest expenses and almost all other debt-related expenses (bond rating costs, insurance costs etc.). It should be noted, however, that while the source of funds used to repay GARVEEs originates with the federal government, the government's agreement to the use of its funds in this manner (and its agreement to pay funds directly to a GARVEE bond's trustee) does not constitute any obligation on the part of the U.S. government to make these funds available. If for any reason federal appropriations are not made as anticipated, the obligation to repay the GARVEEs falls entirely to the state that issued them.

MDOT's conceptual financing plan for the InterCounty Connector (ICC) highway calls for the issuance of between $900 million and $1 billion in GARVEE bonds; these bonds would comprise between 53% and 59% of the entire funding needed to construct the ICC.

Both MDOT and MdTA are permitted to issue GARVEEs under current Maryland law. MDOT was expressly permitted by Chapter 470, Acts of 2002 (Transportation Article Title 3, subtitle 6) to pledge and use existing and anticipated federal funds for the payment of the principal and interest costs on bonds (the mechanism through which GARVEEs are issued). Bonds issued by MDOT under this provision are known as "Special Transportation Project Bonds" and their issuance must be approved by the Board of Public Works. Chapter 470 further specifies that the maturity of a GARVEE issued by MDOT may not exceed 30 years and that GARVEEs are not considered to be a debt or pledge of the full faith and credit of the State.

The Attorney General has advised that MdTA has the authority to issue GARVEE bonds under the current statutes that define its power to issue revenue bonds. Specifically, Section 4-301 of the Transportation Article provides that by one or more resolutions, MdTA may finance the costs of transportation facilities projects; borrow money for the purpose of financing the projects; and evidence the borrowing by the issuance and sale of revenue bonds, notes, or other evidence of obligation. A GARVEE issuance released by the MdTA could not exceed the 40-year maturity limit imposed on MdTA's revenue bond issuances by the transportation article. As with all debt issued by MdTA, GARVEEs issued by MdTA would not be considered a debt or pledge of the full faith and credit of the State of Maryland. Under the current conceptual financing plan for the ICC, GARVEE bonds would be issued by MdTA.

GARVEE Bonds in the 50 States

While GARVEE bonds have never been issued by Maryland, **Exhibit 4** shows that at least 11 states and one U.S. territory (the Virgin Islands) had issued GARVEE bonds as of January 30, 2004; an additional five new GARVEE issuances (by California, Georgia, Maine, Oklahoma, and Puerto Rico) were pending at that time. In addition to those states that have issued GARVEE bonds, at least three states have issued state transportation bonds backed by the full faith and credit of the state but repaid with funds from federal highway attainments.

Exhibit 4
GARVEE Issuances in the United States
(January 30, 2004)

State	**Alabama**	**Alaska**	**Arizona**	**Arizona**	**Arkansas**	**Colorado**	**Colorado**	**Massachusetts**	**Massachusetts**	**Michigan**
Rating[1]	*A	AA	AA	AA	*AA	AA	AA	AA	AA	AA-
Amount	$200 million	$102.8 million (2003)	$39.4 million (2000); $142.9 million (2001)	$166.5 million (2003)	$175 million (2000); $185 million (2001) $215 million (2002)	$537 million (2000); $506.4 million (2001); $208.3 million (2002); $100 million (2003)	$341.4 million (2002)	$600 million (1998 A); $321.7 million (1998 B); $577.6 million (2000)	$500 million (2003)	$400 million (2001); $200 million (2002)
Purpose	County Bridge Program	Road repairs around the state	Major roadway projects in Maricopa County	Refinance 2008 bonds; Maricopa County projects	Overlay superpave mix over 380 miles of interstate highway	28 high-priority corridor projects	Refinance earlier issuances	Central Artery Project ("Big Dig")	Refinance earlier issuances	Build Michigan II projects
Date of Final Maturity of All Bonds	2017	2013	2008	2015	2014	2017	2016	2015	2015	2009
# of Future Reauthorization Cycles Spanned	2	2	1	2	2	3	2	2	2	1
Primary Security	Federal aid debt service reimbursements	Bonds sold as GO bonds and backed by state's full faith/credit	Federal direct pay project agreement	Federal direct pay project agreement	Bonds sold as GO bonds and backed by state's full faith/credit	Federal direct pay project agreement	Federal direct pay project agreement	Federal reimbursements	Federal reimbursements	Federal reimbursements
Additional Security	All federal construction reimbursements; bond insurance	Repayments to be made with federal highway funds	Transfers from certain federal/ construction sub-accounts; State Highway and Regional Area Road funds	Transfers from certain federal/ construction sub-accounts; State Highway and Regional Area Road funds	Repayments from federal funds; other state funds available as recourse; gas tax increase approved with GARVEE issuance	Highway users trust fund and 10% of the state sales tax	Highway users trust fund and 10% of the state sales tax	10 cents/gallon from state's gas tax receipts	10 cents/gallon from state's gas tax receipts	None

State	**Mississippi**	**New Mexico**	**New Jersey Transit**	**New Jersey Transit**	**Ohio**	**Rhode Island**	**South Carolina**	**US Virgin Islands**	**Virginia**
Rating	AAA	*A-	A	A	AA-	AA-	AAA	*AAA	AA
Amount	$200 million (1999)	$100.2 million (1998); $18.5 million (2001) Anticipated total $287 million	$160 million (1999); $704.8 million (2000); $234.1 million (2000 2nd series)	$129 million (2002); $150 million (2003)	$70 million (1998); $20 million (1999); $100 million (2001); $135 million (2002); $115 million (2003)	$225 million (first tranche of a series; total authorization for bonds up to $709.6 million)	$200 million (1999); $350 million (2001)	$20.8 million (2002)	$375 million (2000); $523.2 million (2002)
Purpose	Four-lane highway program	U.S. 550 Project	Lease/purchase of rolling stock	Refinance earlier issuances	Spring-Sandusky Interchange/ Relocation of US 33; construction of I-670	5 statewide priority projects, including relocation of I-195 thru Providence; Seconet River Bridge	Acceleration of interstate projects	Enighed Pond Cargo Facility; Red Hook Ferry and Marine Terminal on St. Thomas Island	Six-year capital improvement program
Date of Maturity	2009	2015	2015	2015	2011	2015	Not more than 25 years (state limit on maturity of transportation bonds)	2009	2012
# of Future Reauthorization Cycles Spanned	1	2	2	2	2	2		1	2
Primary Security	Federal reimbursements	Federal aid debt service reimbursements	Master equipment lease/purchase agreement; payments from federal transit funds	Master equipment lease/purchase agreement; payments from federal transit funds	Federal direct pay project agreement	Federal direct pay project agreement	Bonds sold as GO bonds and backed by state's full faith/credit	Federal direct pay project agreement	Federal reimbursements
Additional Security	Various fuel taxes, certain highway funds, motor vehicle registration fees	None (though bonds have been insured)	None	None	Deficiency appropriation covenant until 2008; covenant ends when 1998 and 1999 bonds are retired	None	Repayment to be made with federal highway funds	None	Legally available trans. trust fund revenues and other funds

[1] All ratings are those issued to the bond releases by Fitch except ratings marked by an *, which indicates that the rating is issued by Standard and Poor.

Source: Department of Legislative Services

The longest maturity of a GARVEE bond issued to date has been approximately 17 years. Federal transportation funds are reauthorized on six-year cycles; as the length of the maturity of GARVEE bonds increases, the number of reauthorization cycles spanned by the bonds increases. With the increase in this span, the risks associated with the bonds are perceived to increase; the risk level associated with the length of maturity is one factor that rating houses assess when determining the rating that a GARVEE issuance carries.

Of the 11 states that have issued GARVEEs to date, at least 6 have backed their bonds with pledges of state-sourced revenues other than their projected federal fund attainments; such pledges of additional revenues – especially to bonds with longer maturities – help to mitigate the perceived risks associated with the uncertainties surrounding federal reauthorizations. Among the additional revenue sources that have been pledged to GARVEEs are portions of fuel tax receipts, sales tax receipts, and motor vehicle registration fees. In those cases in which states have declined to pledge additional revenues to back their GARVEEs, they have nonetheless always pledged that the GARVEEs will be backed by all other federal highway reimbursements received by the state.

Other factors that influence the rating of a GARVEE beside the number of reauthorization cycles spanned by the bonds and the type and amount of additional financial recourses provided to back the bonds include such considerations as the percent of a state's total annual federal highway attainment that would be comprised by the debt service payment on the GARVEE, and whether the bonds have been insured.

Similar to the way in which Maryland currently limits the issuance of CTBs, several other states have enacted statutes that limit some elements of GARVEE issuances. For example, Florida has limited the total amount of the state's annual federal aid that can be dedicated to a GARVEE debt service payment to 10%, while Arkansas, Arizona, Colorado, and Mississippi have enacted provisions requiring that another financial recourse be made available in addition to federal funds to backstop GARVEE issuances. Arkansas, Florida, and Mississippi have also set limits of between 10 and 12 years on the maturity of GARVEE issuances.

Long-term Costs of Issuing GARVEE Debt

The total amount of interest paid on a GARVEE issuance as well as the size of the annual debt service payment can vary significantly depending on the length of maturity and the final rating issued to the GARVEE. **Exhibit 5** provides sample amortization schedules for a 30-year and 20-year issuance by Maryland.

Exhibit 5
Sample GARVEE Bond Amortization Schedule for 30-Year Debt Rated AA, A, and BBB
($ in Millions)

Bond Rating	**AA**	**A**	**BBB**
Principal Retired	$900	$900	$900
Interest Paid	1,175	1,223	1,284
Total Debt Service	**$2,075**	**$2,123**	**$2,184**
Annual Debt Service – Years 1 and 2	$58	$60	$62
Annual Debt Service – Years 3 – 30	$70	$72	$74

Sample GARVEE Bond Amortization Schedule for 20-Year Debt Rated AA, A, and BBB

	AA	**A**	**BBB**
Principal Retired	$900	$900	$900
Interest Paid	698	730	769
Total Debt Service	**$1,598**	**$1,630**	**$1,669**
Annual Debt Service – Years 1 and 2	$54	$56	$58
Annual Debt Service – Years 3 – 20	$80	$82	$83

Assumptions

- True interest cost for AAA Bond Sale in July 2003: 3.71%.
- Projected Increase in Interest Rate for Possible 2006 GARVEE Bond Sale: 1.5%.
- Premium for Issuing 30-year Bonds: .99 to 1.02%.
- Premium for Issuing Lower Rated Bonds: .18 to .72%.

Source: Department of Legislative Services

As the exhibits show, the total interest payment on a 30-year GARVEE could range between $1.2 billion and $1.3 billion depending on the rating assigned to the issuance; thus, approximately $100 million in total interest payments over the life of the bond would be contingent on the rating. Annual debt service payments for years 3 through 30 of the 30-year GARVEE are projected to range between $70 million and $74 million depending on the rating (it is assumed that with the GARVEE as with CTBs, no principal payments would be made during the first two years after the issuance is released).

For the 20-year GARVEE, the total interest payment over the life of the bonds is reduced to between $698 million and $769 million depending on the rating assigned to the bonds; thus, approximately $70 million in total interest payments on a 20-year GARVEE would be contingent on the rating. However, for the 20-year GARVEE, the annual interest payment for years 3 through 20 would be approximately $80 million.

Under ISTEA (1992-1997), Maryland received an average of $355 million per year in federal funds. Under TEA-21 (1998-2003), Maryland received an average of $430 million in federal funds per year (this figure does not include earmarked appropriations for such projects as the Woodrow Wilson Bridge). TEA-21 expired in September 2003 but was extended until February 2004. Three authorization bills are currently under consideration in Congress; they are widely divergent in terms of the overall size of the federal highway program they would fund. MDOT has assumed that the State would be likely to receive an additional $100 million per year in federal highway attainments under the new reauthorization which would raise Maryland's annual attainment to approximately $530 million. Under this assumption, debt service for any GARVEE issuance of the magnitude proposed by MDOT for the ICC ($900 million - $1 billion) could consume between 70% and 90% annually of the entire amount of the increase the State could receive under the new federal reauthorization.

GARVEEs and State Debt Capacity

GARVEEs do not count against MDOT's debt ceiling (even if issued by MDOT) and would also not be included in the calculations of the State's capital debt affordability as they are currently made by the CDAC. If GARVEE bonds are issued over a period of four to five years, the bonds appear to be affordable if they are included in the State's debt limit. CDAC guidelines limit debt outstanding to 3.2% of personal income. Currently, this ratio peaks at 2.92% in fiscal 2005. If the State were to begin issuing GARVEEs in fiscal 2006, the ratio would peak at approximately 3.1%. Currently, general obligation debt, Stadium Authority debt, eligible capital leases, and CTBs are considered in calculations of the State's debt capacity. In calculating the amount of GARVEEs that could be sold without exceeding the 3.1% coverage test, DLS has included all CTB sales currently anticipated in the TTF forecast as well as the additional amount of CTB debt that the revenue attainments included in the TTF forecast would allow to be sold.

As part of the review of MDOT's GARVEE proposal, rating agencies were consulted. While the funds supporting GARVEE debt service originate from federal sources, the rating agency advises that they view these federal funds as a State resource; thus, the use of these funds for debt service creates an obligation against the State's future revenues. As a result, Fitch Ratings has advised that they will take a GARVEE bond issuance into consideration when assessing the State's debt capacity and rating the State's GO bonds. While Fitch is not recommending that the GARVEE bonds be included in the debt outstanding to personal income ratio, they are recommending that CDAC consider the level of GARVEE debt when debt affordability is examined.

In recommending that the budget committees give serious consideration to imposing limits on the issuance of nontraditional debt, the Spending Affordability Committee singled out GARVEEs as a debt instrument that the budget committees should consider limiting. In

keeping with the recommendation of the Spending Affordability Committee, DLS recommends that the General Assembly should pass legislation or adopt provisions in the Budget Reconciliation and Financing Act that would amend the Transportation Article to impose debt ceiling limits and a coverage test on GARVEE bond issuances made by either MDOT or MdTA. Specifically, GARVEE issuances should be constrained in the following manner:

- **the total amount of GARVEE debt outstanding should not exceed $500 million;**

- **anticipated debt service payments on GARVEE bonds should not exceed 10% of the State's total annual federal highway aid; and**

- **GARVEE issuances should not exceed 15 years' maturity.**

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 shall not exceed $___________ as of June 30, 2005. Provided, however, that in addition to the limits established under this provision, the department may increase its debt outstanding by not more than $15,000,000, so long as (1) notice stating the specific reason for the additional debt requirement is provided to the budget committees; and (2) the budget committees shall have 45 days to review and comment on the proposal before publication of a preliminary official statement that includes the debt.

   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 will be based on outstanding debt as of June 30, 2004, plus projected debt issued during fiscal 2005 in support of the transportation capital program. The language further provides that the Maryland Department of Transportation may request the budget committees to increase the level of maximum debt outstanding by $15 million during the fiscal year upon the provision of notification to the budget committees of the specific reason why the additional debt is required.

Information Request	**Author**	**Due Date**
Justification for an increase of up to $15 million in debt outstanding	MDOT	45 days prior to the publication of a preliminary official statement

2. Add the following language:

   The total amount of nontraditional debt outstanding at the end of fiscal 2005 shall not exceed $771,160,000. Nontraditional debt is defined as any debt instrument that is not a consolidated transportation bond or a GARVEE bond.

   Explanation: The total amount of nontraditional debt outstanding is projected to increase nearly fivefold from $155.5 million at the end of fiscal 1999 to more than $771 million at the end of fiscal 2005. Further, the percent of total transportation debt outstanding comprised by nontraditional debt is projected to increase from 17.1% in fiscal 2004 to 36.8% in fiscal 2005. This language would limit the amount of nontraditional debt outstanding at the end of fiscal 2005 to the total amount that is projected to be outstanding from all previous nontraditional debt issuances including all anticipated sales in fiscal 2004.

3. Add the following language:

The Maryland Department of Transportation (MDOT) shall submit with its annual September and January financial forecasts information on (1) anticipated nontraditional debt outstanding as of June 30 of each year and (2) anticipated debt service payments for each outstanding nontraditional debt issuance from fiscal 2004 through fiscal 2015. Nontraditional debt outstanding is defined as any debt instrument that is not a consolidated transportation bond or a GARVEE 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 budget committees are 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.

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

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Debt Service Requirements
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2003					
Legislative Appropriation	$0	$134,508	$0	$0	$134,508
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	-4,186	0	0	-4,186
Actual Expenditures	**$0**	**$130,322**	**$0**	**$0**	**$130,322**
Fiscal 2004					
Legislative Appropriation	$0	$143,579	$0	$0	$143,579
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$143,579**	**$0**	**$0**	**$143,579**

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

Object/Fund Difference Report
MDOT Debt Service Requirements

Object/Fund	FY03 Actual	FY04 Working Appropriation	FY05 Allowance	FY04 - FY05 Amount Change	Percent Change
Objects					
13 Fixed Charges	$ 130,321,909	$ 143,578,737	$ 178,027,819	$ 34,449,082	24.0%
Total Objects	**$ 130,321,909**	**$ 143,578,737**	**$ 178,027,819**	**$ 34,449,082**	**24.0%**
Funds					
03 Special Fund	$ 130,321,909	$ 143,578,737	$ 178,027,819	$ 34,449,082	24.0%
Total Funds	**$ 130,321,909**	**$ 143,578,737**	**$ 178,027,819**	**$ 34,449,082**	**24.0%**

Note: Fiscal 2004 appropriations and fiscal 2005 allowance do not include deficiencies, cost containment, and contingent reductions.