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Operating Budget Data

($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Allowance	FY 08-09 Change	% Change Prior Year
Special Fund	$114,609	$128,319	$141,934	$13,615	10.6%
Total Funds	**$114,609**	**$128,319**	**$141,934**	**$13,615**	**10.6%**

- The fiscal 2009 allowance for debt service payments totals $141.9 million – an increase of $13.6 million, or 10.6%, from the fiscal 2008 working appropriation.

- The January 2007 financial forecast assumed that $400 million in Consolidated Transportation Bonds (CTB) would be issued in fiscal 2008; however, the department is currently planning a January 2008 sale totaling $250 million. The department assumes $370 million in CTB debt will be issued in fiscal 2009.

- The total amount of CTB debt outstanding is expected to total approximately $1.6 billion and nontraditional debt outstanding will total $693.8 million at the end of fiscal 2009.

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

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Analysis in Brief

Major Trends

Debt Service Payments Expected to Increase throughout Forecast Period: Debt service payments are expected to continue to increase as the department relies on larger debt issuances to support the expanded transportation capital program. For the period fiscal 2008 to 2013, the department expects to issue almost $2.0 billion in debt.

Issues

Current Plan of Debt Issuances Is Projected to Exceed State Debt Limits in Future: The statutory debt outstanding limit for bonds issued by the department was increased from $2.0 million to $2.6 million during the 2007 special session. The effect of this increase on broader State debt measures is that total State debt outstanding as a percent of personal income will exceed the 3.2% limit in fiscal 2011 based upon estimates. **The Department of Legislative Services (DLS) recommends that the General Assembly apply any reductions made to the Maryland Department of Transportation's capital program also be made to the department's annual debt limit. Insofar as funds will not be needed in fiscal 2009, there is no need to issue the debt.**

Operating Budget Recommended Actions

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

2. Add annual budget bill language limiting the total amount of nontraditional debt outstanding at the end of fiscal 2009.

3. Add annual language requiring the submission of information concerning nontraditional debt outstanding.

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 CTB 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.

Governor's Proposed Budget

The fiscal 2009 allowance for CTB debt service payments totals $141.9 million, an increase of $13.6 million, or 10.6%, compared to the fiscal 2008 working appropriation. The increase is largely due to planned issuances with the first payments on the fiscal 2008 issuance occurring in fiscal 2009, totaling $11.7 million, and a half-year interest payment on a planned initial $200.0 million issuance in fiscal 2009 totaling $4.5 million.

The two largest payments for the fiscal 2009 allowance for debt service are for the fiscal 2003 series which totals $50.1 million, a decrease of $10.1 million from the fiscal 2007 payment. This decrease is offset by the fiscal 2004 series where the payment increases $13.3 million to $42.7 million.

Amount of Debt Is within Departmental Limits

Departmental debt policies limit CTB issuances with three criteria: a debt outstanding limit and two coverage tests. The debt outstanding limit is set in statute and is periodically increased to reflect the revenue growth and potential of the TTF. The debt outstanding limit was increased in Chapter 6 of the 2007 special session from $2.0 billion to $2.6 billion as a result of the increase in transportation revenues. With additional revenue available, the TTF can support a higher level of debt service payments, which allows for a higher level of debt outstanding. CTBs are also State debt and are evaluated by the Capital Debt Affordability Committee (CDAC). The effect of CTBs on State debt is discussed in Issue 1.

The two coverage tests used by the department are established in the department's bond resolutions and mandate that the department's annual net revenues and pledged taxes from the prior year must each be at least two times greater than the maximum level of future debt service payments. The department has adopted an administrative policy that requires a minimum coverage of 2.5 times. The net revenues coverage test is the ratio of all the prior year's net income (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior-year operating expenses, to maximum annual future debt service and typically is the limiting coverage ratio. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, sales, and corporate taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service.

The fiscal 2008 bond sale will raise the total amount of debt outstanding to approximately $1.3 billion. The bond coverage ratio in fiscal 2008 is estimated to be 7.5 times for pledged taxes and 4.2 times for the net revenues test, well above the 2.5 limit. In fiscal 2009, the level of debt outstanding is expected to increase to $1.6 billion with coverage ratios decreasing to 5.9 times for pledged taxes and 3.0 times for the net revenue test due to higher debt service payments.

The department manages its debt through the use of the coverage ratios. 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. An important note is that the level of revenues provided for in the special session ensures that future bond issuances will be constrained by the debt outstanding limit as opposed to the net revenues and pledged taxes test. Despite bond issuances being constrained by the debt outstanding limitation, debt service payments will continue to grow and as a result diminish the amount of cash available for the operating and capital program.

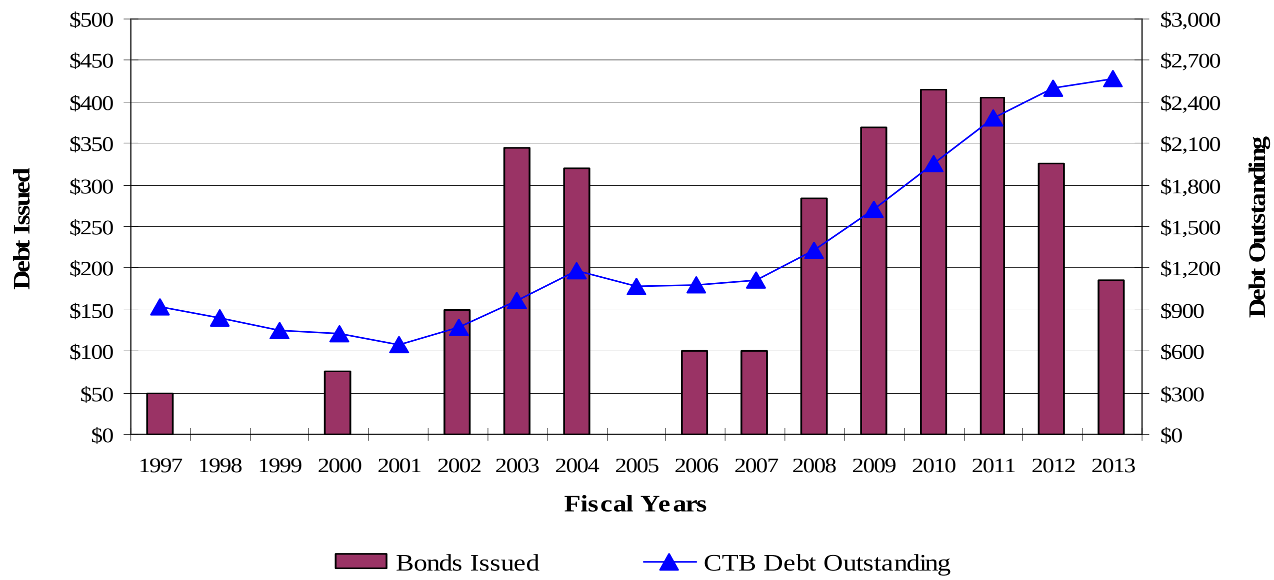
The General Assembly places annual limits on the total debt outstanding at the end of the current and subsequent fiscal years. Statute also limits debt issuance over the six-year forecast period to ensure that transportation debt is managed prudently. Based on current revenue projections, MDOT will be able to manage its CTB debt outstanding within the mandates set by the General Assembly in fiscal 2008 and 2009.

Section 3-202 of the Transportation Article requires the General Assembly to add annual budget bill language limiting the level of maximum CTB debt outstanding. It is recommended that the limit be set at $1.621 billion in fiscal 2009. This level of debt outstanding matches the amount included in the TTF.

Historical Trends in CTB Debt

Exhibit 1 shows annual new CTB issuances and net debt outstanding from fiscal 1997 through 2013.

Exhibit 1
Bond Sales and Debt Outstanding
Fiscal 1997-2007 Actual and Fiscal 2008-2013 Estimated Data
($ in Millions)



Source: Maryland Department of Transportation, January 2008

From fiscal 1997 to 2001, bond issuances were limited and totaled $125 million in new debt. During this five-year time frame, revenues were growing at a rate that exceeded estimates, and as a result, the department was able to maximize cash rather than debt to support the capital program. Debt outstanding actually decreased from roughly $925 million in fiscal 1997 to a low of $650 million in fiscal 2001.

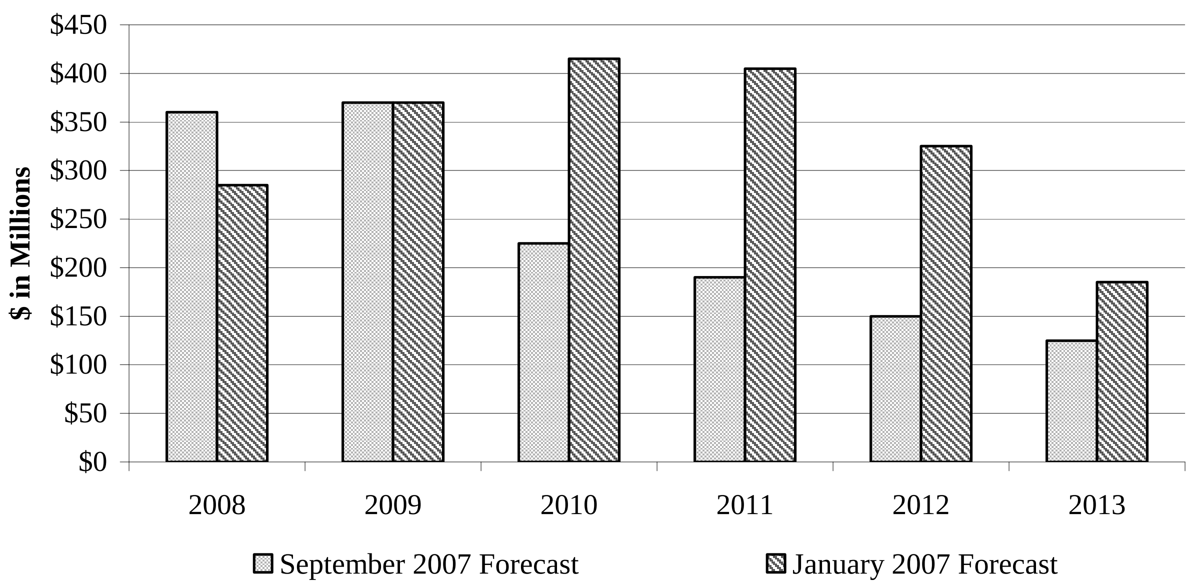
In fiscal 2003 and 2004, bond sales increased to $345.0 million and $320.0 million, respectively. During these two fiscal years, revenues were diverted from the TTF to the general fund to help balance the budget. In addition, MDOT was beginning to expand the capital program. Given that debt capacity was available, to meet the demands of the capital program and the general fund transfers, bond issuances increased. During this time frame, the department also took advantage of low interest rates to refund previous bond sales. By fiscal 2004, debt outstanding reached a high point of $1.2 billion for actual debt outstanding.

The department did not issue any bonds in fiscal 2005 due to its cash position from cash flow changes in projects and higher than expected revenues in the early part of the fiscal year. This was also the first fiscal year that the increase in registration fees went into effect, such that the additional revenue provided was also used to reduce bond sales for the capital program. In fiscal 2006 and 2007, the department issued $100.0 million of debt each fiscal year. The smaller bond sales were due to a significant cash balance which could be used to support the capital program rather than debt issuances. Due to moderate bond sales and the retirement of prior debt issuances, debt outstanding totaled $1.1 billion at the end of fiscal 2007.

CTB Debt Outlook

Due to the increase in the debt outstanding limit to $2.6 billion and additional revenue as provided for in the 2007 special session, future year bond issuances and corresponding debt service payments will continue to grow to support the capital program. From fiscal 2008 through 2013, MDOT estimates CTB issuances will total $1,985.0 million or approximately $565.0 million more than the September 2007 forecast. **Exhibit 2** compares the bond sales estimated in the September 2007 forecast to the January 2008 forecast. The increase in bond sales means that the level of debt outstanding is estimated to more than double from the fiscal 2007 actual level to fiscal 2013, with debt outstanding expected to equal almost $2.6 billion in fiscal 2013.

Exhibit 2
Projected Bond Sales
September 2007 Compared to January 2008
Fiscal 2008-2013



Source: Maryland Department of Transportation, January 2008

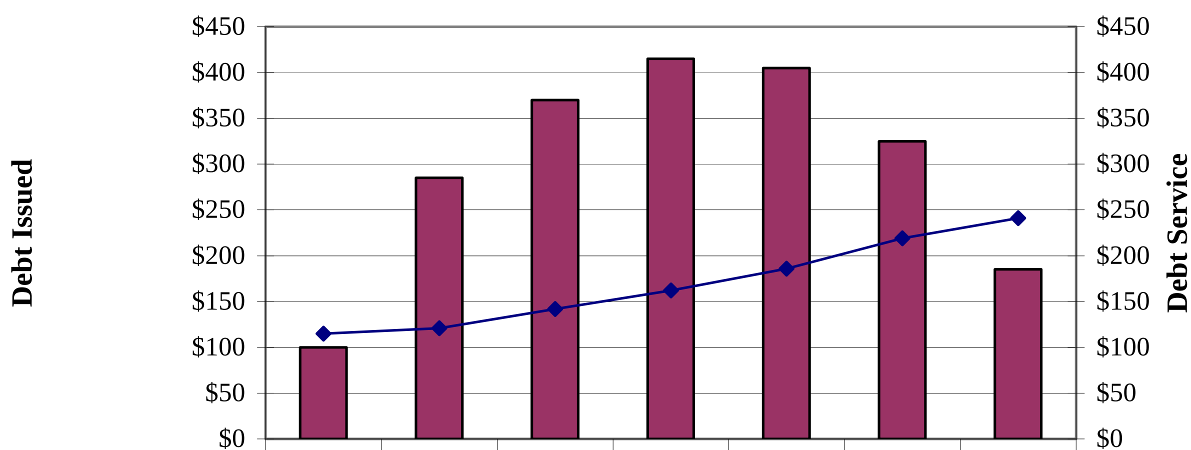
The increase in bonds issued is due to additional spending in the capital program. Spending for the capital program is expected to increase through fiscal 2011 and then begin to decline, whereas in a normal planning period, the working appropriation or allowance represents the highest year of spending. Due to the timing of expenditures for construction projects, typically several years elapse prior to new spending associated with the revenue increase actually occurring.

Exhibit 3 details bond issuances and debt service payments for each fiscal year of the planning period. Bond issuances continue through the forecast period with a bond issuance of $185 million in fiscal 2013 and debt service payments totaling $241 million. The fiscal 2013 debt service payment will equal approximately 8.2% of the revenues received by MDOT in that year. By way of comparison, State debt is limited to debt service payments being no greater than 8.0% of revenues. **The Department of Legislative Services (DLS) recommends that MDOT discuss with the committees whether or not this percentage of revenues paying for debt service, as well as the increased level of bond sales relative to recent history, is an acceptable and fiscally prudent level.**

Exhibit 3

Debt Service Payments and Bond Issuances

Fiscal 2007 Actual Data and Fiscal 2008-2013 Estimated Data
($ in Millions)



	2007	2008	2009	2010	2011	2012	2013
Debt Issued	100	285	370	415	405	325	185
Debt Service	115	121	142	162	186	219	241

Fiscal Years

Source: Maryland Department of Transportation, January 2008

Nontraditional Debt

In addition to CTB, the department uses nontraditional debt. Nontraditional debt is any debt instrument that is not a CTB or a GARVEE bond. This includes, but is not limited to COP, debt backed by customer facility charges, passenger facility charges, or other revenues, and debt issued by MEDCO or MdTA on behalf of MDOT.

Exhibit 4 shows that the department currently has nine nontraditional debt issuances outstanding. These issuances are projected to have a combined total of $693.8 million in unpaid principal outstanding at the end of fiscal 2009.

The General Assembly began placing limits on COP in fiscal 2002 and then all of MDOT's nontraditional debt in fiscal 2005. The limits placed on nontraditional debt are consistent with the limits placed on CTBs. The General Assembly limited the total amount of nontraditional debt outstanding to the amount proposed by the department during the legislative session. If the agency finds that circumstances warrant additional issuances, the department must report to the budget committees on any proposed debt and provide the committees with 45 days to review and comment on the proposal. **It is recommended that the General Assembly continue its policy to limit total nontraditional debt outstanding. It is also recommended that the limit be established at $693,780,000 at the end of fiscal 2009.**

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

Year Issued and Maturity	Amount Issued	Principal Outstanding (06/30/09)	FY 2009 Debt Service Payment	Purpose
Certificates of Participation				
1999-2025	$42,750	$21,325	$2,304	Expand Pier B and a de-icing facility at the Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport).
2000-2025	33,000	13,910	3,137	Construction of a parking garage at Maryland Rail Commuter/Amtrak station near BWI Marshall Airport.
2004-2016	15,500	10,300	1,653	Purchase buses for parking garage shuttle operations at BWI Marshall Airport.
2006-2024	26,530	24,645	1,928	Construction of a paper shed at South Locust Point.
Subtotal	**$117,780**	**$70,180**	**$9,022**	

Year Issued and Maturity	Amount Issued	Principal Outstanding (06/30/09)	FY 2009 Debt Service Payment	Purpose
Maryland Transportation Authority Revenue Bonds				
2002-2027	$264,075	$229,590	$20,739	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.
2002-2032	117,345	107,890	9,072	Construction of consolidated rental car facility at BWI Marshall Airport. Bonds backed by customer facility charge of $3.25 per vehicle rental per day.
2003-2013	69,700	51,800	11,674	Additional construction at BWI Marshall Airport, including roadway improvements, installation of pedestrian skywalks, and work on taxiway parallel to runway. This issue has a floating interest rate structure. Bonds backed by passenger facilities charges.
Subtotal	**$451,120**	**$389,280**	**$41,485**	
Maryland Economic Development Corporation Debt				
2002-2022	$36,000	$27,375	$2,901	Construction of new Maryland Department of Transportation headquarters building.
2003-2030	223,660	206,945	16,705	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Marshall Airport.
Subtotal	**$259,660**	**$234,320**	**$19,606**	
Total	**$828,560**	**$693,780**	**$70,113**	

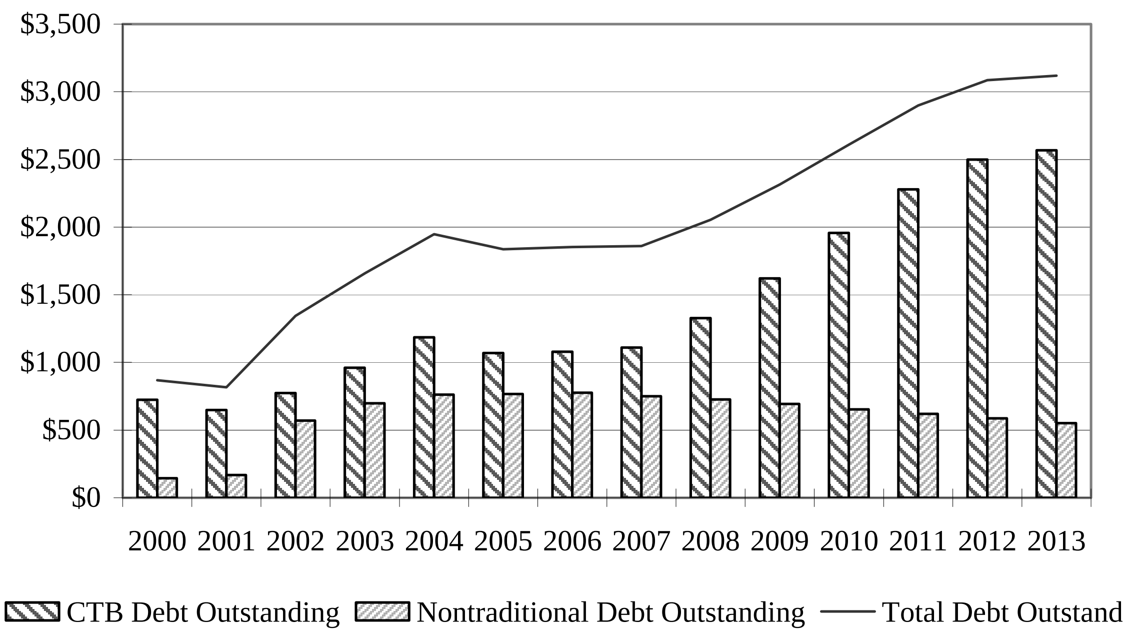
Source: Maryland Department of Transportation, January 2008

The General Assembly also typically 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 on the costs of nontraditional debt when it releases its September and January forecasts.**

Total Debt Outstanding

Exhibit 5 shows that MDOT's total debt outstanding from all sources is expected to increase 165% from $868.0 million in fiscal 2000 to $2.3 billion in fiscal 2009. The percent of total debt outstanding that comes from nontraditional debt is expected to total 30.0% in fiscal 2009. While this is significantly higher than the 17.2% in fiscal 1999, the level of nontraditional debt peaked in fiscal 2004 and has slowly decreased since – as there has been only one nontraditional debt issuance since 2003. In fiscal 2013, CTB and nontraditional debt outstanding is estimated to total $3.1 billion. In fiscal 2013, CTB debt outstanding is estimated to be $33.0 million less than the $2.6 billion statutory limit.

Exhibit 5
Growth in Maryland Department of Transportation's Total Debt
Fiscal 2000-2007 Actual Data and Fiscal 2008-2013 Estimated Data
($ in Millions)



Source: Maryland Department of Transportation, January 2008

Issues

1. Current Plan of Debt Issuances Is Projected to Exceed State Debt Limits in Future

CDAC evaluates the affordability of State debt. State debt includes general obligation bonds, CTBs, GARVEEs, capital leases, stadium authority bonds, and bay restoration bonds. State policy is to limit the total State debt outstanding so that it does not exceed 3.2% of Maryland personal income. In October 2007, the committee released its report and recommended affordable debt levels. The recommendation was consistent with State law, which limited CTBs debt outstanding to $2.0 billion.

Chapter 6 of the 2007 special session increased the limit of transportation bonds outstanding from $2.0 billion to $2.6 billion due to the increase in transportation revenues. As indicated, MDOT has essentially developed its capital program and bond issuances out to the $2.6 billion limit in fiscal 2013. This increase in MDOT's debt outstanding limit has implications for the broader State debt outstanding to personal income and debt service to revenue ratios.

Based on the Board of Revenue Estimates projections of Maryland personal income, increasing CTB issuances to support the enhanced transportation capital program will increase State debt outstanding beyond 3.2% of State personal income by fiscal 2011. The Treasurer's Office estimates that State debt will be 3.26% of personal income, which is $184 million above the limit, at the end of fiscal 2011. This will force the CDAC to review State debt policies. The statewide implications of this action are addressed in the Public Debt analysis.

To slow the growth in debt outstanding, it is recommended that the General Assembly apply any reductions made to MDOT's capital program also be made to the department's annual debt limit. Insofar as funds will not be needed in fiscal 2009, there is no need to issue the debt.

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 $1,620,850,000 as of June 30, 2009. Provided, however, that the debt service will be reduced by any proceeds generated from net bond sale premiums. To achieve this reduction, the Maryland Department of Transportation may either use projected proceeds from bond sale premiums to reduce the size of the bond issuance or apply the proceeds from the premium to debt service for that bond issuance provided that those revenues are recognized by the department and reflected in the Transportation Trust Fund forecast.

    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, 2008, plus projected debt issued during fiscal 2009 in support of the transportation capital program.

2. 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), may not exceed $693,780,000 as of June 30, 2009. Provided, however, that in addition to the limit 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 Committee on Appropriations 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, 2009, and the total amount by which the fiscal 2009 debt service payment for all nontraditional debt would increase following the additional issuance; and

    (2) the Senate Budget and Taxation Committee and the House Committee on Appropriations 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 Committee on Appropriations may hold a public hearing to discuss the proposed increase and must 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 2009 to the total amount that is projected to be outstanding from all previous nontraditional debt issuances as of June 30, 2008, and all anticipated sales in fiscal 2009. The language allows MDOT to increase the amount of nontraditional debt outstanding in fiscal 2009 by providing notification to the budget committees regarding the reason that the additional issuances are required.

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

3. Add the following language:

<u>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 2008 through 2019. 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.</u>

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	With September forecast With 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 2007					
Legislative Appropriation	$0	$119,945	$0	$0	$119,945
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-5,336	0	0	-5,336
Actual Expenditures	**$0**	**$114,609**	**$0**	**$0**	**$114,609**
Fiscal 2008					
Legislative Appropriation	$0	$128,319	$0	$0	$128,319
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$128,319**	**$0**	**$0**	**$128,319**

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

Fiscal 2007

Fiscal 2007 actual special fund expenditures for mandated debt service totaled $114.6 million. This is approximately $5.3 million less than the legislative appropriation, due to a lower actual bond sale as well as the timing of the sale.