

J00A04
Debt Service Requirements
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 12</u> <u>Actual</u>	<u>FY 13</u> <u>Working</u>	<u>FY 14</u> <u>Allowance</u>	<u>FY 13-14</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$172,342	\$191,915	\$212,224	\$20,309	10.6%
Adjusted Special Fund	\$172,342	\$191,915	\$212,224	\$20,309	10.6%
 Adjusted Grand Total	 \$172,342	 \$191,915	 \$212,224	 \$20,309	 10.6%

- The fiscal 2014 allowance for debt service payments on Consolidated Transportation Bonds totals \$212.2 million, an increase of \$20.3 million or 10.6% compared to the fiscal 2013 working appropriation. The fiscal 2013 appropriation does not reflect the downward adjustment in the bond sale. After reducing the bond sale, fiscal 2013 appropriations are expected to be \$180.4 million. Compared to the revised fiscal 2013 amount, the fiscal 2014 allowance increases approximately \$31.8 million, or 17.6%.
- The fiscal 2013 bond sale was revised downward by \$50 million due to the department ending fiscal 2012 with a higher than expected fund balance allowing the department to use cash instead of debt for the capital program.
- The department's financial forecast shows that it plans to issue \$395 million of debt in fiscal 2014 and debt outstanding will total approximately \$2.0 billion at the end of fiscal 2014. Nontraditional debt outstanding will total \$724.7 million.

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

For further information contact: Jonathan D. Martin

Phone: (410) 946-5530

Analysis in Brief

Major Trends

Department's Coverage Ratios Remain Above Limits: The department's ability to issue debt is limited by the statutory debt outstanding limit of \$2.6 billion and two agreed upon coverage ratios that must be greater than 2.0 times. In fiscal 2014, the amount of debt outstanding will reach approximately \$2.0 billion. The department's two coverage ratios are expected to total 5.4 for the pledged taxes test and 3.1 times for net income in fiscal 2014. By fiscal 2018, the net income test decreases to 2.9 times and debt outstanding totals \$2.4 billion.

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 a report on nontraditional debt.
3. Add annual budget bill language establishing nontraditional debt outstanding limit.

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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.

Proposed Budget

The fiscal 2014 allowance for CTB debt service totals \$212.2 million, an increase of \$20.3 million, or 10.6%, compared to the fiscal 2013 working appropriation. The fiscal 2013 working appropriation is overstated because the fiscal 2013 bond sale was revised downward due to the department closing fiscal 2012 with a higher than expected fund balance. The higher fund balance allows the department to reduce the overall amount of debt it has to issue for the capital program. The adjusted fiscal 2013 appropriation should be \$180.4 million. When adjusting for the revised fiscal 2013 bond sale, the fiscal 2014 allowance increases \$31.8 million, or 17.6%, compared to the fiscal 2013 revised debt service cost. The increase in the allowance is due to the amortization schedule of prior debt issuances, as well as the interest costs for the fiscal 2013 and 2014 bond sales.

1. Department's Coverage Ratios Remain Above Limits

State law and agency debt policies limit CTB issuances with three criteria: a debt outstanding limit and two coverage tests. The debt outstanding limit is set in statute at \$2.6 billion, with the proviso that the limit be set in the annual budget bill. The limit is periodically increased to reflect the revenue growth and potential of the TTF and was last increased in the 2007 special session. CTBs count under

Analysis of the FY 2014 Maryland Executive Budget, 2013

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State debt affordability limits, and thus are evaluated annually by the Capital Debt Affordability Committee.

The two coverage tests are established in the department's bond resolutions and mandate that annual net income and pledged taxes from the prior year must each be at least 2.0 times greater than the maximum level of future debt service payments. The department has adopted a management practice that requires a minimum coverage of 2.5 times. The income coverage test is the ratio of all the prior year's 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, rental car sales, and corporate income taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service. If the department falls below the 2.0 times level, the department has agreed not to issue additional debt until it achieves at least 2.0 times coverage.

The fiscal 2013 bond sale will raise the total amount of debt outstanding to approximately \$1.7 billion, and the bond coverage ratio in fiscal 2013 is estimated to be 5.5 times for pledged taxes and 3.1 times for the net revenues test. In fiscal 2014, the level of debt outstanding is expected to increase to \$2.0 billion with coverage of 5.4 times for pledged taxes and 3.1 times for the net income test. The fiscal 2013 net income ratio improves slightly compared to what was estimated last year due to the revision in the bond sales. In fiscal 2018, the level of net income is expected to be 2.9 and pledged taxes at 5.6. Debt outstanding will total \$2.4 billion in fiscal 2018.

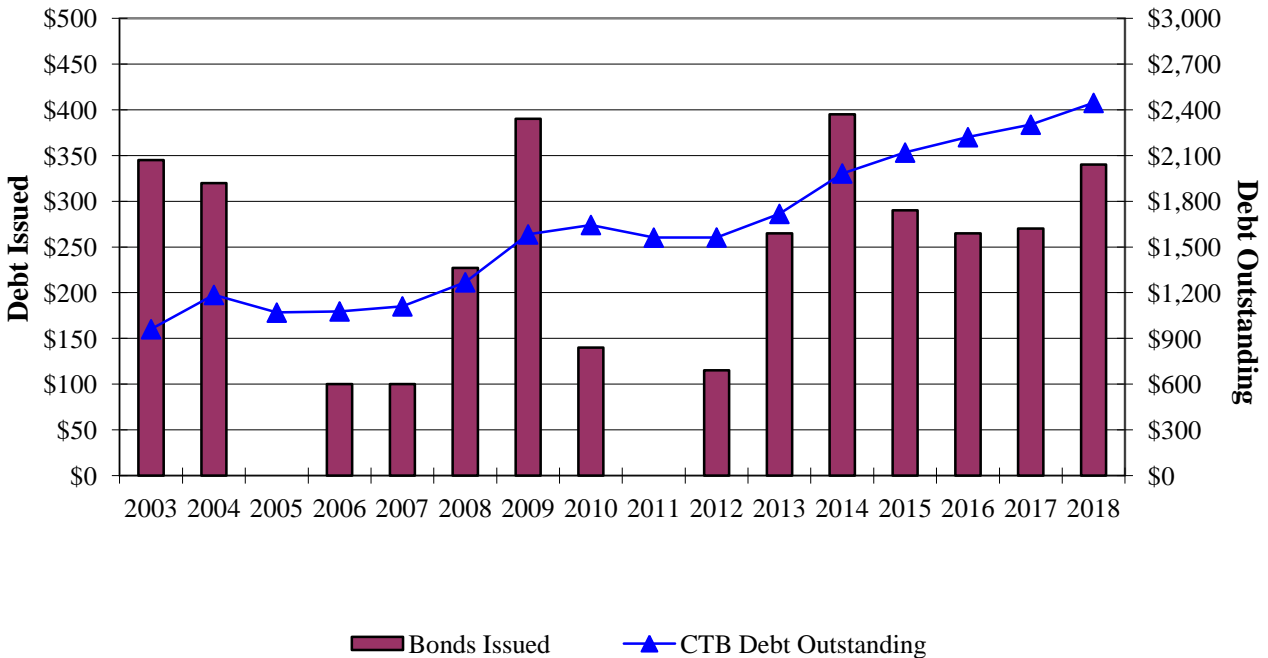
Statute limits debt issuance over the six-year forecast period to ensure that transportation debt is managed prudently. Based on current revenue projections, MDOT will be able to manage its CTB debt outstanding within the mandates set by the General Assembly in fiscal 2013 and 2014.

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 \$1.983 billion in fiscal 2014.

Historical Trends in CTB Debt

Exhibit 1 shows annual new CTB issuances and net debt outstanding from fiscal 2003 to 2018.

Exhibit 1
Bond Sales and Debt Outstanding
Fiscal 2003-2012 Actual and Fiscal 2013-2018 Estimated
(\$ in Millions)



CTB: Consolidated Transportation Bonds

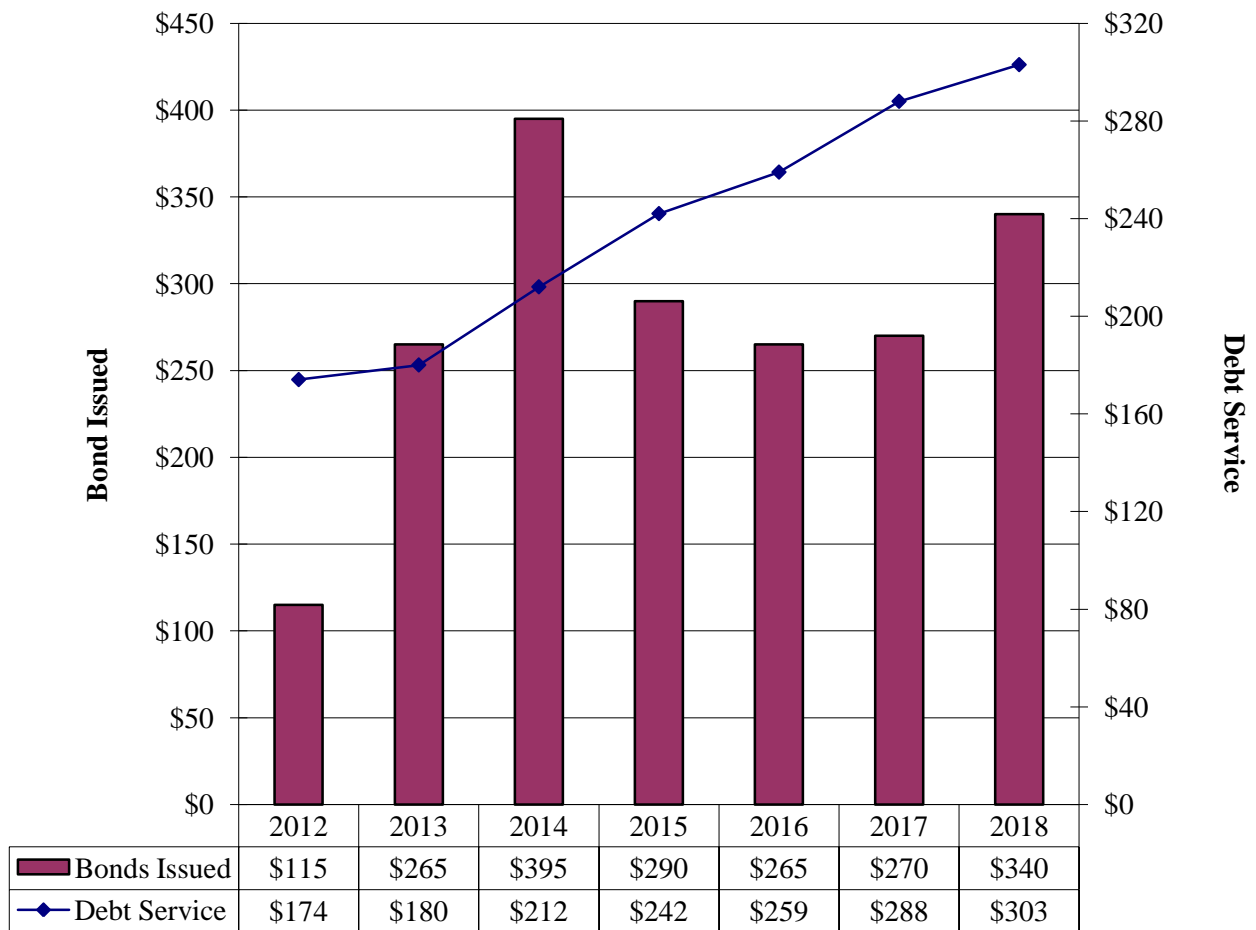
Source: Maryland Department of Transportation, January 2013

From fiscal 1993 to 2001, the department issued very little debt for the capital program because revenue growth from the titling tax allowed it to use cash instead of debt. The sizable debt issuances in fiscal 2003 and 2004 offset the transfer of revenue to the general fund to help balance the budget. As a result, the fiscal 2004 level of debt outstanding nearly doubled compared to the fiscal 2002 level. During the 2004 session, the limit on debt outstanding was increased to \$2.0 billion in conjunction with the registration fee increase. Smaller bond sales occurred from fiscal 2005 to 2007 due to the availability of cash from the registration fee increase and the gradual ramping up of capital spending. During the 2007 special session, revenues were increased, and the debt outstanding limit was raised to \$2.6 billion. To maintain capital spending during the recession, the department chose to issue large amounts of debt in fiscal 2008 and 2009. For example, the department issued \$390 million in debt in fiscal 2009. From fiscal 2010 to 2012, the department did not issue that much in debt because it had higher than expected fund balances which allowed it to use cash instead of debt to support the capital program.

CTB Debt Outlook

As **Exhibit 2** shows, bond sales totaling \$265 million in fiscal 2013, and bond sales of \$395 million in fiscal 2014 are planned.

Exhibit 2
Debt Service Payments and Bond Issuances
Fiscal 2012 Actual Data and Fiscal 2013-2018 Estimated Data
(\$ in Millions)



Source: Maryland Department of Transportation

The department is planning to issue \$1.8 billion in debt from fiscal 2013 to 2018 for the capital program. Debt issuances over the fiscal 2013 through 2018 period are \$115 million greater than in the fiscal 2012 through 2017 forecast. When compared to the draft fiscal 2013 to 2018

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financial forecast, debt issuances are \$35 million less in the final forecast. The lower level of bond sales is attributable to the higher than expected closing fund balance.

In total, debt issuances support approximately 32% of the six-year special fund capital program. As a result of the debt issuances, debt outstanding will total \$2.4 billion by fiscal 2018. Debt service payments will increase from \$174 million in fiscal 2012 to \$303 million in fiscal 2018, an increase of 74%.

Nontraditional Debt

In addition to CTBs, the department uses nontraditional debt. Nontraditional debt is any instrument that is not 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; and debt issued by MEDCO or MDTA.

Exhibit 3 shows that the department currently has 11 nontraditional debt issuances outstanding with 1 issuance planned pending the outcome of a lawsuit. Combined, these issuances are projected to have \$724.7 million in unpaid principal outstanding at the end of fiscal 2014. The planned issuance is for the construction of a parking garage at the proposed State Center development. MEDCO will issue the debt with the debt service to be paid by parking revenues and the TTF. Due to a lawsuit, the State Center parking garage project has been put on hold, and it is not clear when the project will move forward. MDOT also refinanced two nontraditional debt issuances in calendar 2012 due to favorable interest rates, which resulted in approximately \$54.8 million of net present value savings over the life of the bonds.

Exhibit 3
Nontraditional Debt Outstanding and Debt Service Payments
(\$ in Thousands)

<u>Year Issued and Maturity</u>	<u>Amount Issued</u>	<u>Principal Outstanding (06/30/14)</u>	<u>Fiscal 2014 Debt Service Payment</u>	<u>Purpose</u>
Certificates of Participation				
2010-2025	\$19,610	\$14,515	\$1,680	Expand Pier B and a de-icing facility at the Baltimore/Washington International (BWI) Thurgood Marshall Airport.
2010-2025	13,070	10,950	1,171	Construction of a parking garage at Maryland Area Regional Commuter/Amtrak station near BWI Marshall Airport.
2004-2016	15,500	3,800	1,454	Purchase buses for parking garage shuttle operations at BWI Marshall Airport.
2006-2024	26,530	19,225	2,278	Construction of a paper shed at South Locust Point.
<i>Subtotal</i>	<i>\$74,710</i>	<i>\$48,490</i>	<i>\$6,583</i>	
Maryland Transportation Authority Revenue Bonds				
2012-2027*	\$264,075	\$171,180	\$19,725	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	96,495	8,990	Construction of consolidated rental car facility at BWI Marshall Airport. Bonds back by customer facility charge of \$3.25 per vehicle rental per day.
2003-2014	69,700	0	11,239	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.

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<u>Year Issued and Maturity</u>	<u>Amount Issued</u>	<u>Principal Outstanding (06/30/14)</u>	<u>Fiscal 2014 Debt Service Payment</u>	<u>Purpose</u>
2012-2032	50,905	47,275	4,122	Passenger Facility Charge revenue bonds to construct B/C concourse connector.
2012-2027/32	135,470	130,010	10,140	Passenger Facility Charge to complete Runway Safety Area and Pavement Management Program improvements.
Subtotal	\$637,495	\$444,960	\$54,216	

Maryland Economic Development Corporation Debt

2002-2022	\$22,715	\$18,720	\$2,790	Construction of new Maryland Department of Transportation headquarters building.
2013-2030*	223,660	177,525	14,768	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Marshall Airport.
Subtotal	\$246,375	\$196,245	\$17,558	
Pending TBD	\$35,000	\$35,000	\$0	Construction of a Parking Garage at State Center.
Total	\$993,580	\$724,695	\$78,357	

TBD: to be decided

*Refunding occurred in calendar 2012.

Source: Maryland Department of Transportation, January 2013

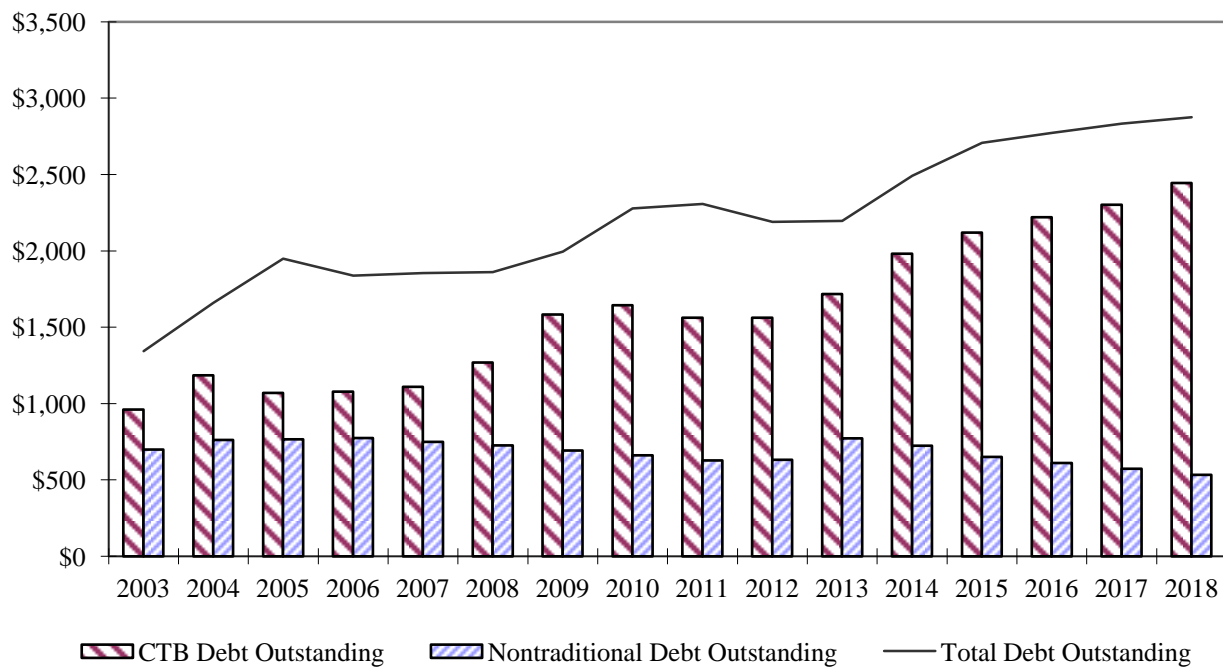
The General Assembly began placing limits on COPs in fiscal 2002 and then all of MDOT's nontraditional debt in fiscal 2005. The limits placed on nontraditional debt are consistent with the limits placed on CTBs. The General Assembly limited the amount of nontraditional debt outstanding to the amount 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 the policy limiting total nontraditional debt outstanding. It is also recommended that the limit be established at \$724.7 million at the end of fiscal 2014.**

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 11 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 4 shows that MDOT's total debt outstanding from all sources is expected to increase from \$1.7 billion in fiscal 2003 to \$3.0 billion in fiscal 2018. Debt outstanding from nontraditional debt is expected to total 18% of all debt in fiscal 2018.

Exhibit 4
Total Transportation Debt Outstanding
Fiscal 2003-2018
(\$ in Millions)



CTB: Consolidated Transportation Bonds

Source: 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.

Chapters 471 and 472 of 2005 authorized the use of GARVEE bonds for the InterCounty Connector (ICC) project. The law stipulates that the State may issue no more than \$750.0 million in GARVEE bonds and that bond maturity may not exceed 12 years after date of issue. MDTA issued \$325.0 million in GARVEE bonds on May 22, 2007, with a net premium of \$16.9 million to support construction of the ICC. A second GARVEE debt issuance of \$425.0 million was issued on December 11, 2008, with a net premium of \$17.7 million. GARVEE debt service payments are \$87.5 million from fiscal 2010 to 2019 and \$51.4 million in fiscal 2020, the last year of debt service payments.

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 \$1,982,670,000 as of June 30, 2014. 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. Further provided that the appropriation for debt service shall be reduced by any proceeds generated from net bond sale premiums. To achieve this reduction, MDOT may either use the proceeds from the net premium to reduce the size of the bond issuance or apply the proceeds from the net premium to debt service for that bond issuance.

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, 2013, plus projected debt issued during fiscal 2014 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 2013 through 2024. 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 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, and with 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), may not exceed \$724,695,000 as of June 30, 2014. 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 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, 2014, and the total amount by which the fiscal 2014 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 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 2014 to the total amount that is projected to be outstanding from all previous nontraditional debt issuances as of June 30, 2013, and all anticipated sales in fiscal 2014. The language allows MDOT to increase the amount of nontraditional debt outstanding in fiscal 2014 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 publication of a preliminary official statement

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2012					
Legislative Appropriation	\$0	\$184,671	\$0	\$0	\$184,671
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-12,330	0	0	-12,330
Actual Expenditures	\$0	\$172,342	\$0	\$0	\$172,342
Fiscal 2013					
Legislative Appropriation	\$0	\$191,915	\$0	\$0	\$191,915
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$191,915	\$0	\$0	\$191,915

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

Fiscal 2012

Fiscal 2012 expenditures were \$12.3 million less than estimated due to bond sales being smaller than projected.

**Object/Fund Difference Report
MDOT–Debt Service Requirements**

<u>Object/Fund</u>	<u>FY 12 Actual</u>	<u>FY 13 Working Appropriation</u>	<u>FY 14 Allowance</u>	<u>FY 13 - FY 14 Amount Change</u>	<u>Percent Change</u>
Objects					
13 Fixed Charges	\$ 172,341,890	\$ 191,915,100	\$ 212,223,613	\$ 20,308,513	10.6%
Total Objects	\$ 172,341,890	\$ 191,915,100	\$ 212,223,613	\$ 20,308,513	10.6%
Funds					
03 Special Fund	\$ 172,341,890	\$ 191,915,100	\$ 212,223,613	\$ 20,308,513	10.6%
Total Funds	\$ 172,341,890	\$ 191,915,100	\$ 212,223,613	\$ 20,308,513	10.6%

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.