J00A04

Debt Service Requirements

Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 13 Actual	FY 14 Working	FY 15 Allowance	FY 14-15 Change	% Change Prior Year
Special Fund	$174,278	$212,224	$255,370	$43,146	20.3%
Adjusted Special Fund	**$174,278**	**$212,224**	**$255,370**	**$43,146**	**20.3%**
Adjusted Grand Total	**$174,278**	**$212,224**	**$255,370**	**$43,146**	**20.3%**

- The fiscal 2015 allowance for debt service payments on Consolidated Transportation Bonds totals $255.4 million, an increase of $43.1 million (20.3%) compared to the fiscal 2014 working appropriation. The fiscal 2014 working appropriation is overstated, however, because it has not been adjusted to reflect the smaller debt issuance in fiscal 2013 that had been assumed when the budget was originally introduced. Adjusting for the lower level of 2014 debt service, debt service costs in fiscal 2015 increase by $52.1 million (25.7%) over the current year.

- When the fiscal 2014 budget was introduced, the Maryland Department of Transportation (MDOT) forecast assumed debt issuances in fiscal 2013 would be $265.0 million. Increased revenues, capital cash flow delays, and a sizeable premium ($15.0 million) allowed a smaller debt issuance of $165.0 million.

- MDOT's financial forecast shows that it plans to issue $455.0 million of debt in fiscal 2014 and $740.0 million in fiscal 2015. Debt outstanding at the end of fiscal 2015 is projected at $2.5 billion. Nontraditional debt outstanding is projected at $726.6 million.

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

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Analysis in Brief

Major Trends

Department's Coverage Ratios Remain Above Minimum Requirements: MDOT's ability to issue debt is limited by the statutory debt outstanding limit of $4.5 billion and two bond resolution agreements which require annual net income and pledged taxes from the prior year to be at least 2.0 times greater than the maximum level of future debt service payments. In fiscal 2015, the amount of debt outstanding will reach just over $2.5 billion. The department's two coverage ratios are expected to be 5.3 for the pledged taxes test and 3.1 for the net income test in fiscal 2015. By fiscal 2019, the net income ratio is projected to decline to 2.9, and debt outstanding is projected at $4.3 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 reports on nontraditional debt.

3. Add annual budget bill language establishing the debt outstanding limit for nontraditional debt.

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 2015 allowance for CTB debt service totals $255.4 million, an increase of $43.1 million (20.3%) from the current year working appropriation. The fiscal 2014 working appropriation is overstated, however, because it has not been adjusted to reflect the smaller debt issuance in fiscal 2013 that had been assumed when the budget was originally introduced. Adjusting for the lower level of 2014 debt service, debt service costs in fiscal 2015 increase by $52.1 million (25.7%) over the current year.

1. Department's Coverage Ratios Remain Above Minimum Requirements

State law and agency debt practices limit CTB issuances with three criteria: a debt outstanding limit and two coverage tests. The debt outstanding limit is set in statute at $4.5 billion. The statute further requires the General Assembly to establish in the budget for any fiscal year the maximum outstanding aggregate amount of these bonds at the end of the fiscal year which may not exceed the overall limit previously mentioned. The limit is periodically increased to reflect the revenue growth and potential of the TTF and was last increased in 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.

The two 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 minimum coverages of 2.5 times maximum future debt service. 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 either of these coverage ratios fall below the 2.0 times level, the department has agreed not to issue additional debt until the ratios are once again at the minimum 2.0 times level.

Projected CTB issuances in fiscal 2014 will increase the total amount of debt outstanding to approximately $2.0 billion, and the debt service coverage ratios in fiscal 2014 are estimated to be 5.2 times for pledged taxes and 3.1 times for the net revenues test. In fiscal 2015, the level of debt outstanding is expected to increase to over $2.5 billion, with the pledged taxes coverage ratio improving to 5.3 times and the net income ratio remaining at 3.1 times maximum future annual debt service. In fiscal 2019, the net income to maximum annual debt service is expected to be 2.9, and the pledged taxes are projected at 4.1 times maximum annual debt service. Debt outstanding will total $4.3 billion in fiscal 2019.

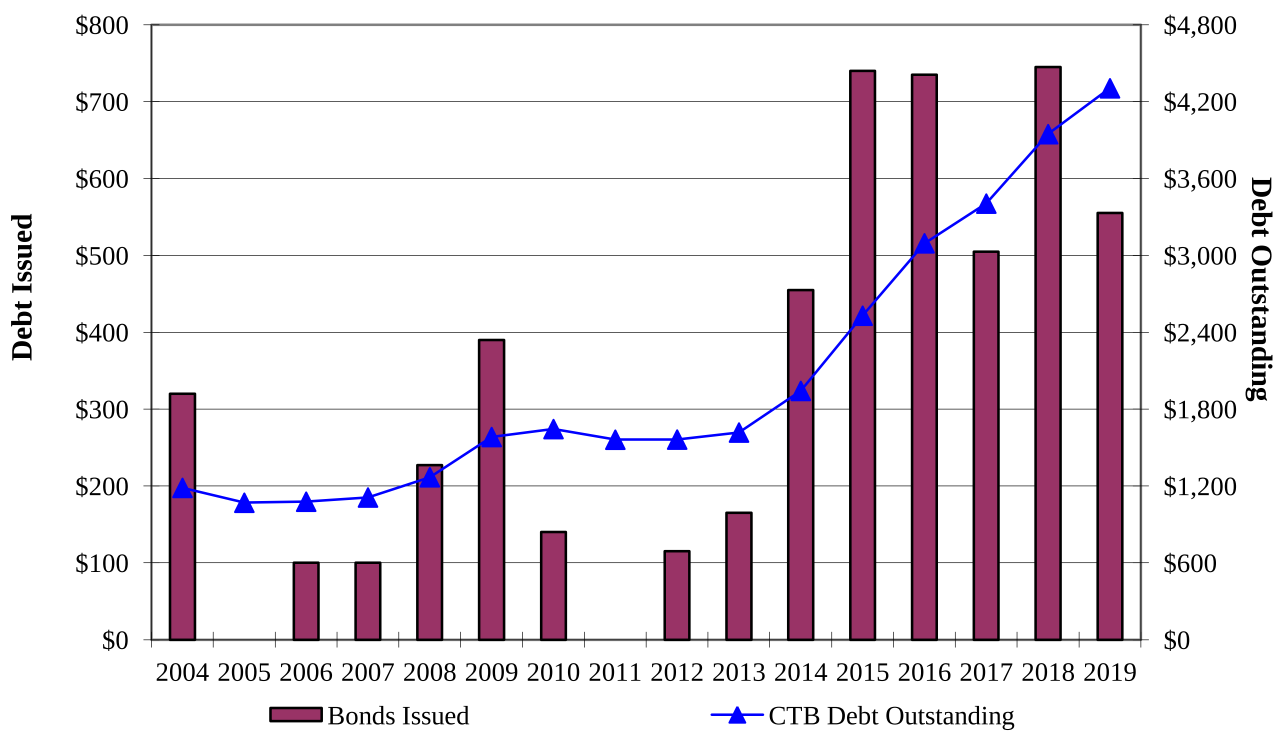
Based on current revenue and debt issuance projections, CTB debt levels meet both the statutory limit on maximum debt outstanding and the pledged taxes and net income to maximum annual debt service ratios set forth in bond resolutions for the entire six-year period of the forecast.

Section 3-202 of the Transportation Article requires the General Assembly to establish in the budget the maximum amount of CTB debt that may be outstanding at the end of each fiscal year. It is recommended that the limit for fiscal 2015 be set at $2.53 billion. Language is included in the Recommended Actions section of this analysis to implement this recommendation.

Historical Trends in CTB Debt

Exhibit 1 shows annual new CTB issuances and net debt outstanding from fiscal 2004 to 2019.

Exhibit 1
Bond Sales and Debt Outstanding
Fiscal 2004-2013 Actual and Fiscal 2014-2019 Estimated
($ in Millions)



CTB: Consolidated Transportation Bonds

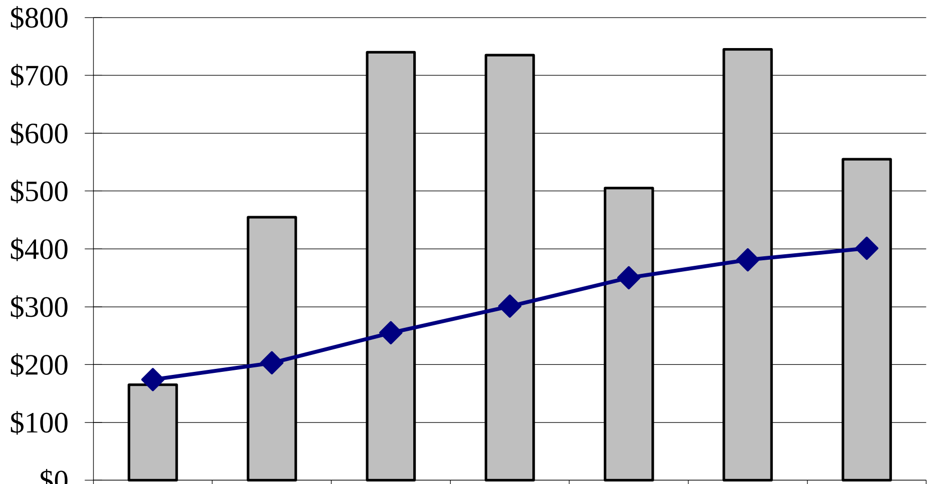
Source: Maryland Department of Transportation

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 issued relatively small amounts of debt because it had higher than expected fund balances, which allowed it to use cash instead of debt to support the capital program. At the 2013 session, debt outstanding was increased to $4.5 billion. In conjunction with the revenues raised at the 2013 session, the department plans to aggressively issue debt in support of its expanded capital program.

CTB Debt Outlook

As **Exhibit 2** shows, new CTB debt issuances totaling $455 million in fiscal 2014 and $740 million in fiscal 2015 are planned. The 2014 to 2019 MDOT forecast includes a significant increase in debt issuances compared to prior six-year forecasts. This naturally leads to increasing levels of debt outstanding and debt service costs. Debt outstanding is projected to more than double between fiscal 2013 and 2019 and debt service almost doubles.

Exhibit 2
Debt Service Payments and Bond Issuances
Fiscal 2013 Actual Data and Fiscal 2014-2019 Estimated Data
($ in Millions)



	2013	2014	2015	2016	2017	2018	2019
Bonds Issued	165	455	740	735	505	745	555
Debt Service	174	203	255	301	350	381	401

Source: Maryland Department of Transportation

The department is planning to issue $3.7 billion in debt from fiscal 2014 to 2019 for the capital program. This is $1.9 billion more than was included in last year's six-year forecast.

In total, debt issuances support over 37% of the six-year special fund capital program. As a result of the debt issuances, debt outstanding will total $4.3 billion by fiscal 2019. Debt service payments will increase from $174 million in fiscal 2013 to $401 million in fiscal 2019, an increase of 130%.

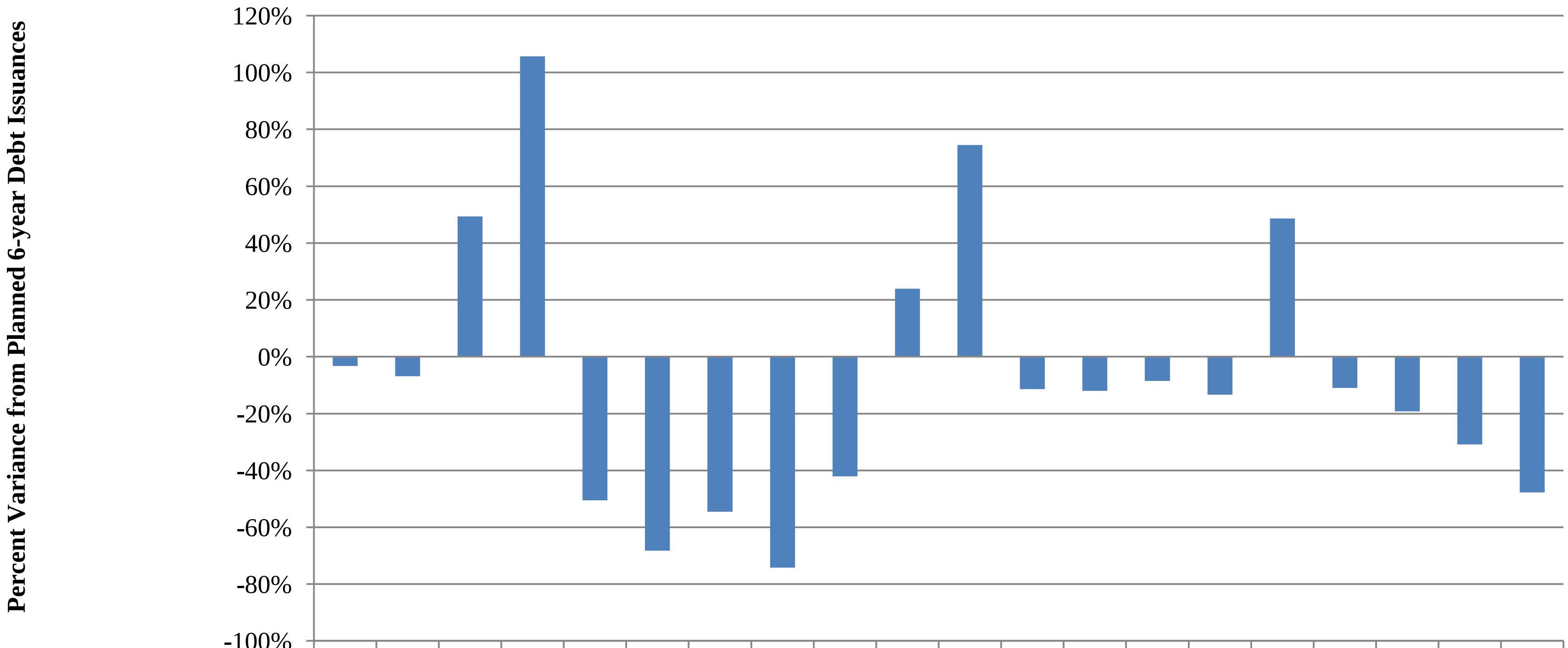
As shown in **Exhibit 3**, however, MDOT does not usually end up issuing as much debt as forecast. Actual debt issued was less than originally projected for 15 out of 20 MDOT forecasts from 1989 to 2008.

Exhibit 3

Variance from Six-year Planned Debt Issuance Level

MDOT Six-year Forecasts: 1989-2008

($ in Millions)



	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Variance from Planned	-3%	-7%	49%	106%	-51%	-68%	-55%	-74%	-42%	24%	75%	-11%	-12%	-9%	-13%	49%	-11%	-19%	-31%	-48%
Six-year Planned Issuances	935	945	415	175	485	520	440	485	475	460	510	1,005	1,040	1,110	1,260	765	1,075	1,185	1,405	1,985
Actual Six-year Issuances	905	880	620	360	240	165	200	125	275	570	890	890	915	1,015	1,092	1,137	957	957	972	1,037

MDOT: Maryland Department of Transportation

Source: Maryland Department of Transportation

Increasing Debt Service Raises Questions of Affordability

One of the criteria adopted by the Capital Debt Affordability Committee to evaluate whether the amount of proposed tax-supported debt may prudently be issued is that debt service should be limited to 8% of revenues supporting debt service. As shown in **Exhibit 4**, debt service on CTBs is projected to exceed 8% of TTF revenues available to pay debt service in all but the current year of the six-year forecast period. This means that transportation debt is using more than its share of the State's debt affordability capacity and raises the fundamental question of whether the projected level of debt is affordable and prudent.

Exhibit 4
CTB Debt Service as a Percent of TTF Revenues Exclusive of Deductions
Fiscal 2014-2019

	2014	2015	2016	2017	2018	2019
Debt Service as % of Revenues	7.55%	8.85%	9.38%	10.05%	10.60%	10.93%

CTB: Consolidated Transportation Bonds
TTF: Transportation Trust Fund

Source: Maryland Department of Transportation, Department of Legislative Services

The department should comment on the increasing reliance of debt contained in the current six-year forecast and how it evaluates the long-term affordability of its debt issuances.

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 5 shows that the department currently has 10 nontraditional debt issuances outstanding with 2 issuances planned, 1 of which is pending the outcome of a lawsuit. Combined, these issuances are projected to have $726.6 million in unpaid principal outstanding at the end of fiscal 2015. The planned issuances are for construction of the D/E Concourse Connector at Baltimore/Washington International (BWI) Thurgood Marshall Airport and the construction of a parking garage at the proposed State Center development. MDTA will issue passenger facility revenue bonds for the D/E Concourse Connector. MEDCO will issue the debt for the State Center garage 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.

Exhibit 5
Nontraditional Debt Outstanding and Debt Service Payments
($ in Thousands)

Year Issued and Maturity	Principal Outstanding (06/30/15)	Fiscal 2015 Debt Service Payment	Purpose
Certificates of Participation			
2010-2025	$13,485	$1,654	Expand Pier B and a de-icing facility at the Baltimore/Washington International (BWI) Thurgood Marshall Airport.
2010-2025	10,230	1,161	Construction of a parking garage at Maryland Area Regional Commuter/Amtrak station near BWI Marshall Airport.
2004-2016	2,500	1,411	Purchase buses for parking garage shuttle operations at BWI Marshall Airport.
2006-2024	17,795	2,303	Construction of a paper shed at South Locust Point.
Subtotal	***$44,010***	***$6,529***	
Maryland Transportation Authority Revenue Bonds			
2012-2027*	$159,860	$19,766	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	93,785	8,985	Construction of consolidated rental car facility at BWI Marshall Airport. Bonds back by customer facility charge of $3.25 per vehicle rental per day.
2012-2032	45,405	4,084	Passenger Facility Charge revenue bonds to construct B/C concourse connector.
2012-2027/32	124,440	10,140	Passenger Facility Charge to complete Runway Safety Area and Pavement Management Program improvements.
Subtotal	***$423,490***	***$42,975***	

Year Issued and Maturity	Principal Outstanding (06/30/15)	Fiscal 2015 Debt Service Payment	Purpose
Maryland Economic Development Corporation Debt			
2002-2022	$16,690	$2,792	Construction of new Maryland Department of Transportation headquarters building.
2012-2030*	167,420	14,762	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Marshall Airport.
Subtotal	***$184,110***	***$17,554***	
Pending TBD	$35,000	$0	Construction of a parking garage at State Center.
Pending TBD	40,000	0	Passenger Facility Charge revenue bonds to construct D/E concourse connector.
Subtotal	***$75,000***	***$0***	
Total	**$726,610**	**$67,058**	

TBD: to be determined

*Refunding occurred in calendar 2012.

Source: Maryland Department of Transportation

The General Assembly began placing limits on COPs in fiscal 2002 and then all of MDOT's 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 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 $726.6 million at the end of fiscal 2015.**

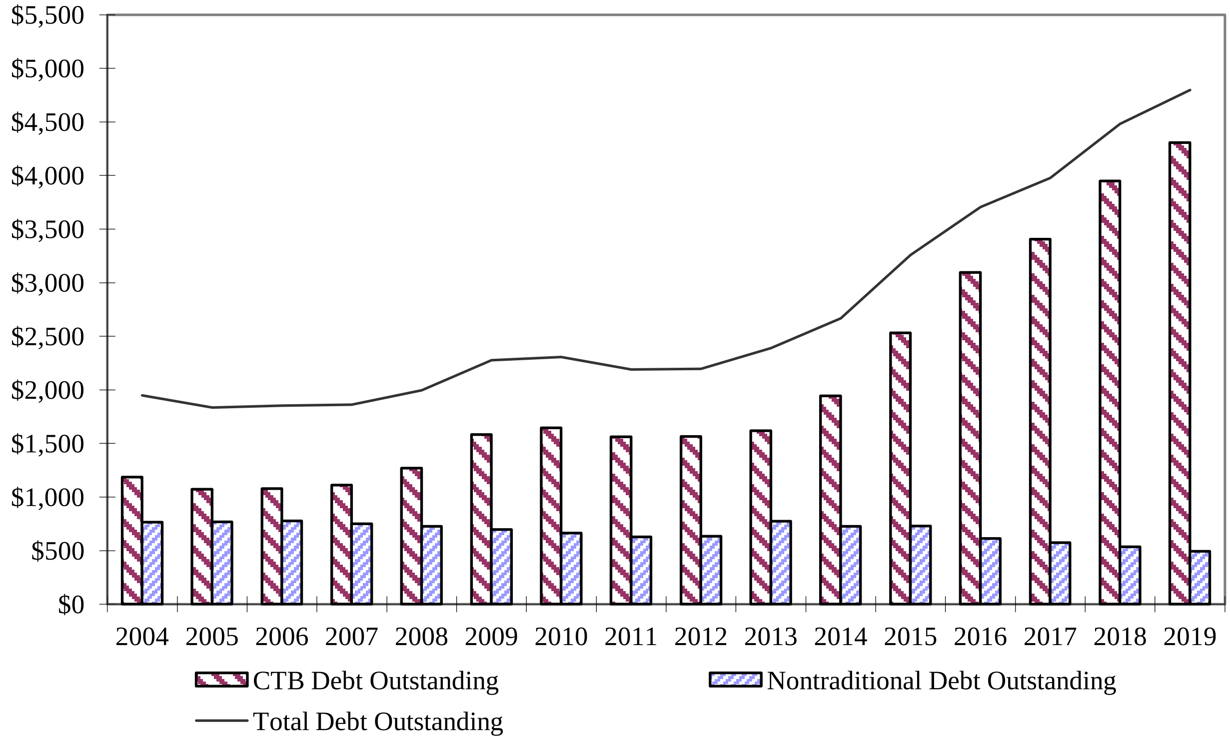
The General Assembly annually requires that MDOT report to the budget committees on nontraditional debt when it releases its September and January forecasts. Specifically, the language requires that MDOT report on the outstanding and proposed issuances, debt service costs, and annual debt outstanding. 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 6 shows that MDOT's total debt outstanding from all sources is expected to increase from $1.9 billion in fiscal 2004 to $4.8 billion in fiscal 2019. Debt outstanding from nontraditional debt is expected to total just over 10% of all debt in fiscal 2019.

Exhibit 6
Total Transportation Debt Outstanding
Fiscal 2004-2019
($ in Millions)



CTB: Consolidated Transportation Bonds

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.

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 may not exceed $2,530,255,000 as of June 30, 2015. 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, the Maryland Department of Transportation 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, 2014, plus projected debt issued during fiscal 2015 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 2014 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 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.

Information Request	Author	Due Date
Nontraditional debt outstanding and anticipated debt service payments	MDOT	With the September forecast 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) may not exceed $726,610,000 as of June 30, 2015. 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, 2015, and the total amount by which the fiscal 2015 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 2015 to the total amount that is projected to be outstanding from all previous nontraditional debt issuances as of June 30, 2014, and all anticipated sales in fiscal 2015. The language allows MDOT to increase the amount of nontraditional debt outstanding in fiscal 2015 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

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2013					
Legislative Appropriation	$0	$191,915	$0	$0	$191,915
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-17,637	0	0	-17,637
Actual Expenditures	**$0**	**$174,278**	**$0**	**$0**	**$174,278**
Fiscal 2014					
Legislative Appropriation	$0	$212,224	$0	$0	$212,224
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$212,224**	**$0**	**$0**	**$212,224**

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

Fiscal 2013 expenditures were $17.6 million less than budgeted due to bond sales being smaller than projected.

Fiscal 2014

The fiscal 2014 working appropriation for debt service remains unchanged from the legislative appropriation.

Object/Fund Difference Report
MDOT – Debt Service Requirements

Object/Fund	FY 13 Actual	FY 14 Working Appropriation	FY 15 Allowance	FY 14 - FY 15 Amount Change	Percent Change
Objects					
13 Fixed Charges	$ 174,277,690	$ 212,223,613	$ 255,369,913	$ 43,146,300	20.3%
Total Objects	**$ 174,277,690**	**$ 212,223,613**	**$ 255,369,913**	**$ 43,146,300**	**20.3%**
Funds					
03 Special Fund	$ 174,277,690	$ 212,223,613	$ 255,369,913	$ 43,146,300	20.3%
Total Funds	**$ 174,277,690**	**$ 212,223,613**	**$ 255,369,913**	**$ 43,146,300**	**20.3%**

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Appendix 2