SB 75

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 75 (Chairman, Budget and Taxation Committee)
(By Request – Departmental – Transportation)

Budget and Taxation

Transportation Infrastructure Financing Policy - Limitations on GARVEE Bonds

---

This departmental bill modifies the limitations on the use of Grant Anticipation Revenue Vehicle (GARVEE) bonds issued by the Maryland Department of Transportation (MDOT) and the Maryland Transportation Authority (MdTA). Specifically, the bill increases the maximum percentage, from 13% to 20%, of the State's average annual federal highway aid authorization that may be used for annual debt service on the bonds.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: Potential significant increase in nonbudgeted bond revenues and expenditures. Under one set of assumptions, GARVEE bond issuances could increase by $345 million from FY 2006 to 2010.

Local Effect: The bill would not directly affect local government operations or finances.

Small Business Effect: MDOT and MdTA have determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services (DLS) concurs with this assessment.

Analysis

Current Law: Pursuant to the Budget Reconciliation and Financing Act of 2004 (Chapter 430), MDOT and MdTA may pledge federal aid to repay bonds as long as the annual payments of principal and interest on the bonds do not exceed 13% of the State's average annual federal highway aid authorization. The date of maturity may not exceed 15 years from the date of issuance.

Background: A GARVEE is a debt financing instrument authorized under federal law to receive federal reimbursement of debt service and related financing costs. GARVEE bonds are considered special limited obligations; two of the three rating agencies consider these bonds as tax-supported. Future federal highway aid dollars are the primary security and source of debt service payments for these bonds.

In Maryland, GARVEE bonds issued by State transportation agencies will not be secured by the full faith and credit of the State, nor with any other State revenues, including the Transportation Trust Fund (TTF). GARVEE bonds are currently not counted as part of the State's capital debt affordability. MDOT is required to report the proposed issuance of GARVEEs to the Legislative Policy Committee for review and comment 45 days before each issuance.

Under current law, annual payments of principal and interest on the bonds cannot exceed 13% of the State's average annual federal highway aid authorization. In order to finance the InterCounty Connector (ICC), however, MDOT proposes to raise this percentage to 20%. MDOT is projecting actual expenses for the ICC of $2.4 billion. The current financing plan assumes a GARVEE bond issuance of $1 billion, MdTA toll-backed debt (revenue bonds) of $1.2 billion, and a cash contribution of $200 million ($150 million in TTF PAYGO funds and $50 million in federal PAYGO funds).

Since the expiration of the transportation reauthorization in September 2003, Congress has been unable to reach agreement on a new authorization. The fifth extension of funding ends in May 2005, but it is not clear if the new authorization will be completed by that date, nor what the funding level will be. MDOT projects that Maryland will receive $530 million per year in federal highway aid on average from the new reauthorization, which is $100 million higher than the State's average receipt of $430 million per year during the Transportation Equity Act for the 21st Century (TEA-21) period. MDOT's projection, however, does not appear to reflect the obligational authority limitations imposed by Congress annually on such aid. Under TEA-21, Maryland generally received an obligational authority of 87%, which meant that Maryland could only obligate 87% of the amount it received in contract authority under

TEA-21. This means that, even if the State received an average amount of $530 million in contract authority, the State could expend only about $461 million per year.

MdTA advises that GARVEE bonds are a critical component of the ICC financing plan; without the increase in the cap, other sources of funding must be identified.

State Fiscal Effect: By increasing the percentage of the federal highway aid authorization that could be used for debt service on GARVEEs, the bill could result in a significant increase in GARVEE issuances. Accordingly, nonbudgeted bond revenues and expenditures could increase significantly between fiscal 2006 and 2010 pursuant to anticipated GARVEE issuances by MdTA to finance the ICC.

MDOT's stated plan is to issue $1 billion in GARVEE bonds ($400 million in fiscal 2006, $400 million in fiscal 2008, and $200 million in fiscal 2010). Under current law, assuming a AAA bond rating and insurance, and based on the projected federal highway aid authorization of $530 million annually, DLS estimates that total GARVEE bond sales would be limited to $635 million ($250 million in fiscal 2006, $225 million in fiscal 2008, and $160 million in fiscal 2010). Under the bill, GARVEE bond sales could total $980 million ($400 million in both fiscal 2006 and 2008 and $180 million in fiscal 2010). Under these assumptions, the bill could result in an increase in total GARVEE bond issuances of approximately $345 million over the five-year period. **Appendix 1** shows the estimated annual and cumulative debt service under current law and under the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Transportation, Maryland Transportation Authority, Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2005
ncs/ljm

Analysis by: Lesley G. Cook

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix 1
Comparison of Estimated Debt Service Under Current Law and Under SB 75

Annual and Cumulative Estimated Debt Service Under Current Law (13%)

	2006 Issuance	2008 Issuance	2010 Issuance	Total
FY 2006	$12,225,000			$12,225,000
FY 2007	12,225,000			12,225,000
FY 2008	26,440,000	$12,060,000		38,500,000
FY 2009	26,439,887	12,060,000		38,499,887
FY 2010	26,435,788	24,475,000	$9,360,000	60,270,788
FY 2011	26,436,236	24,474,556	9,360,000	60,270,792
FY 2012	26,439,276	24,473,468	17,915,000	68,827,744
FY 2013	26,437,952	24,474,860	17,914,533	68,827,344
FY 2014	26,435,551	24,476,588	17,914,815	68,826,954
FY 2015	26,440,119	24,476,508	17,914,093	68,830,719
FY 2016	26,439,209	24,472,476	17,915,610	68,827,295
FY 2017	26,435,867	24,472,348	17,917,320	68,825,535
FY 2018	26,437,891	24,473,444	17,917,175	68,828,510
FY 2019	26,437,592	24,473,084	17,913,128	68,823,803
FY 2020	26,437,525	24,473,588	17,913,130	68,824,243
FY 2021		24,472,008	17,914,550	42,386,558
FY 2022		24,480,396	17,914,755	42,395,151
FY 2023			17,916,113	17,916,113
FY 2024			17,925,698	17,925,698
Principal	**$250,000,000**	**$225,000,000**	**$160,000,000**	**$635,000,000**
Interest	**$118,142,889**	**$117,288,324**	**$91,625,918**	**$327,057,131**
Total P&I	**$368,142,889**	**$342,288,324**	**$251,625,918**	**$962,057,131**

Note: Under current law, the maximum annual debt service could total an estimated $68,900,000.

Annual and Cumulative Estimated Debt Service Under SB 75 (20%)

	2006 Issuance	2008 Issuance	2010 Issuance	Total
FY 2006	$19,560,000			$19,560,000
FY 2007	19,560,000			19,560,000
FY 2008	42,300,000	$21,440,000		63,740,000
FY 2009	42,303,014	21,440,000		63,743,014
FY 2010	42,301,505	43,510,000	$10,530,000	96,341,505
FY 2011	42,303,027	43,512,048	10,530,000	96,345,075
FY 2012	42,299,646	43,510,580	20,155,000	105,965,226
FY 2013	42,298,674	43,512,380	20,156,938	105,967,991
FY 2014	42,301,931	43,508,696	20,155,823	105,966,449
FY 2015	42,300,994	43,511,044	20,154,900	105,966,938
FY 2016	42,302,686	43,510,136	20,157,123	105,969,944
FY 2017	42,298,338	43,511,952	20,155,150	105,965,440
FY 2018	42,299,527	43,511,936	20,156,935	105,968,398
FY 2019	42,302,098	43,510,532	20,154,845	105,967,475
FY 2020	42,296,893	43,507,916	20,156,540	105,961,349
FY 2021		43,508,996	20,154,095	63,663,091
FY 2022		43,503,144	20,154,878	63,658,022
FY 2023			20,155,670	20,155,670
FY 2024			20,143,255	20,143,255
Principal	**$400,000,000**	**$400,000,000**	**$180,000,000**	**$980,000,000**
Interest	**$189,028,329**	**$208,509,360**	**$103,071,150**	**$500,608,839**
Total P&I	**$589,028,329**	**$608,509,360**	**$283,071,150**	**$1,480,608,839**

Note: Under SB 75, the maximum annual debt service could total an estimated $106,000,000.