SB 1011

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 1011 (Senator DeGrange, *et al.*)
Budget and Taxation Appropriations

Department of Transportation - Consolidated Transportation Bonds - Issuance Procedures

This bill identifies a public, competitive sale as the preferred method of issuance of the Maryland Department of Transportation's (MDOT) consolidated transportation bonds and authorizes MDOT to issue consolidated transportation bonds at a private, negotiated sale if the Secretary of Transportation determines (1) extraordinary credit market conditions exist that warrant the use of this method rather than a public, competitive sale; and (2) the terms and conditions, including price, interest rates, and payment dates, that can be achieved by a private negotiated sale are more advantageous to the State. The bill requires the resolution authorizing the issuance of consolidated transportation bonds to specify whether the bonds are to be sold at a public or private sale. The bill eliminates a requirement that bond issuances be advertised at least once in a newspaper of general circulation in Baltimore City.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures decrease by $2,000 in FY 2010 and $2,100 in FY 2014 due to reduced advertising requirements. To the extent the bill enables MDOT to realize more advantageous bond issuance terms, TTF revenues increase.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	-	-	-	-	-
SF Expenditure	($2,000)	($2,000)	($2,000)	($2,100)	($2,100)
Net Effect	$2,000	$2,000	$2,000	$2,100	$2,100

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: MDOT may issue consolidated transportation bonds on behalf of the State to finance the cost of any one or more or combination of transportation facilities. The aggregate outstanding and unpaid principal balance of these bonds and bonds of prior issues may not exceed at any one time the sum of $2.6 billion. Also, the maximum outstanding and unpaid principal balance of consolidated transportation bonds and bonds of prior issues as of June 30 for the next fiscal year must be established each year by the General Assembly in the State budget, subject to the $2.6 billion limit.

A resolution authorizing the issuance of consolidated transportation bonds must describe the transportation facilities proposed to be financed by the sale of bonds; state the estimated cost of financing these facilities; and determine and specify other information about the forms, terms, conditions, issuance, sale, and delivery of the bonds.

Each issue of consolidated transportation bonds must be approved before sale by the Board of Public Works.

Background: The recent credit crisis and lack of liquidity in the capital market during the fall of 2008 created a sluggish competitive bond market. If MDOT had needed to issue bonds in the public competitive bond market last fall, it is possible that very few or possibly no bids would have been received. If this had occurred, MDOT would have been required to reduce near term capital expenditures and/or accept bids with significantly higher interest rates than exist under standard market conditions. Therefore, being restricted to public competitive sales may preclude MDOT from accessing the debt financing it requires to maintain its capital program.

Public competitive bond sales are bid upon by institutional investors who rely on electronic delivery of the notice of sale and advertisement in journals circulated among banks and investment bankers. Therefore, MDOT advises the requirement to advertise public competitive consolidated transportation bond sales in a Baltimore City paper is an antiquated approach.

State Fiscal Effect: MDOT implements one or two public competitive consolidated transportation bond issuances annually, based on estimated short-term cash flow needs. MDOT spends an estimated $1,000 on advertising in a Baltimore City newspaper for each issuance. Assuming MDOT implements two public competitive bond issuances annually, TTF expenditures decrease by $2,000 in fiscal 2010 due to decreased advertising costs. Future year expenditure estimates assume two issuances annually and are adjusted for inflation.

Additional Information

Prior Introductions: None.

Cross File: HB 1425 (Delegates Gaines and Levy) - Appropriations.

Information Source(s): Department of Legislative Services

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