

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

Senate Bill 88 (Chair, Budget and Taxation Committee)(By Request -
 Departmental - Transportation)

Budget and Taxation

Appropriations

**Department of Transportation - Special Bonds and Borrowing - Revenue-Backed
 Bonds**

This departmental bill authorizes the Maryland Department of Transportation (MDOT), by resolution of the Secretary of Transportation, to (1) borrow funds to finance the costs of transportation facilities; (2) evidence the borrowing by the issuance and sale of revenue-backed bonds; and (3) pledge and use a dedicated revenue source, including revenue attributable to the transportation facilities being financed, for the payment of the principal of and interest on specified revenue-backed bonds. The bill prohibits specified revenue-backed bond payments to be made directly or indirectly with State tax revenues. The bill authorizes any trust agreement between MDOT and a corporate trustee to pledge or assign revenue from a dedicated revenue source, including revenue attributable to the transportation facilities being financed.

Fiscal Summary

State Effect: Potential decrease in Transportation Trust Fund (TTF) expenditures to the extent that MDOT no longer has to pay an issuer’s fee for revenue-backed bond sales. MDOT gains increased flexibility to issue revenue-backed debt to support public-private partnerships (P3s) for the construction of transportation facilities.

Local Effect: None.

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

Analysis

Current Law: A “transportation facility” includes any one or more or a combination of specified airport, highway, port, railroad, and transit facilities.

MDOT is authorized to issue debt backed by specified tax revenues to finance the cost of transportation facilities. These consolidated transportation bonds (CTBs) are considered State debt and are paid solely by TTF revenues. The aggregate principal amount of CTB debt is capped by law at \$4.5 billion, and is also subject to two self-imposed coverage limits: 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. In addition, statute requires each annual budget to establish a cap on CTB debt for the fiscal year, which may not exceed the overall statutory cap.

MDOT may also issue nontraditional debt, including certificates of participation, revenue-backed debt, and Grant Anticipation Revenue Vehicles (GARVEEs). GARVEEs were subject to a one-time statutory cap of \$750.0 million, which was exhausted to fund the InterCounty Connector. Other nontraditional debt, including revenue-backed debt, is not subject to statutory caps.

Background: MDOT is not authorized to issue its own revenue-backed debt, but it often uses either the Maryland Transportation Authority (MDTA) or the Maryland Economic Development Corporation (MEDCO) as conduit issuers for its revenue-backed debt. Since fiscal 2005, revenue-backed debt issued through these conduits, as well as other nontraditional debt issued by MDOT, has been subject to annual caps established in the budget bill. For fiscal 2014, the cap on outstanding principal was set at \$724.7 million, which equaled the aggregate outstanding principal on 11 debt issuances and one pending issuance (which ultimately was not issued following an adverse court ruling). The fiscal 2014 budgetary cap for CTB debt was set at \$2.3 billion following the enactment of Chapter 429 of 2013, which increased the motor fuel tax, thereby increasing transportation revenues.

Chapter 5 of 2013 establishes a State policy on the use of P3s and expressly authorizes specified State agencies to enter into P3s, including MDOT and MDTA. With the enactment of Chapter 5, MDOT anticipates increased use of P3s for transportation infrastructure projects. Following the new procedures established by Chapter 5, the Board of Public Works has already approved a P3 plan for the construction of the Purple Line light rail in the Washington metropolitan region. With the anticipated increase in P3 activity, MDOT seeks greater flexibility to issue revenue-backed debt, which is often a component of P3 financing plans.

State Fiscal Effect: TTF expenditures may decrease to the extent that MDOT no longer has to pay an issuer's fee to MEDCO. MDTA does not charge an issuer's fee when it acts as a conduit issuer of revenue-backed debt on behalf of MDOT, but MEDCO's fees tend to be approximately \$50,000 for each issuance, plus an additional \$25,000 annually to monitor debt outstanding. MDOT has used both MDTA and MEDCO as conduit issuers, with MEDCO issuing two of the seven most recent revenue-backed bond sales.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 8, 2014
ns/lgc

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Department of Transportation – Special Bonds and Borrowing-
Revenue-Backed Bonds

BILL NUMBER: LR0018.MDOT#14

PREPARED BY: Department of Transportation

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL
BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS