

**J00A04**  
**Debt Service Requirements**  
**Maryland Department of Transportation**

**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.

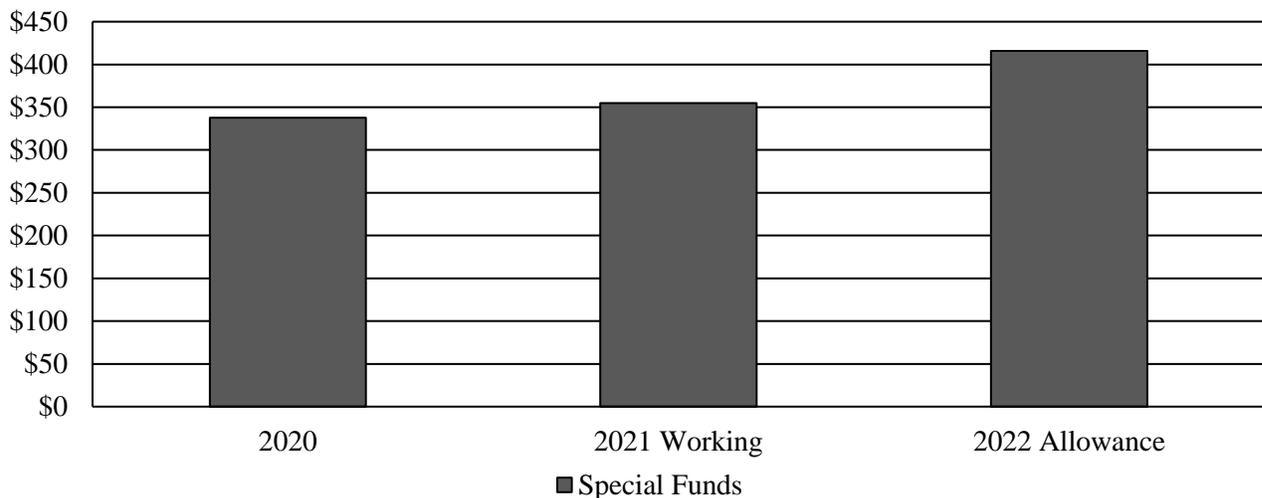
**Nontraditional Debt**

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.

***Operating Budget Summary***

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**Budget Increases by \$61.1 Million or 17.2% to \$415.9 Million in Fiscal 2021**  
**(\$ in Millions)**



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

## **Fiscal 2021 Overview of Agency Spending**

The fiscal 2021 allowance for debt service on CTB debt increases \$61.1 million (17.2%) over the current year working appropriation. This appropriation provides for debt service on currently outstanding debt plus expected issuances in fiscal 2021.

### **Debt Service Coverage Ratios Remain Above Minimum Requirements**

State law, bond covenants, and agency debt practices limit CTB issuances with three criteria – a debt outstanding limit and two debt service coverage tests. The debt outstanding limit is set in statute at \$4.5 billion. Within this limit, statute further requires the General Assembly to establish in the budget for each fiscal year the maximum outstanding aggregate amount of these bonds at the end of the fiscal year. The statutory CTB limit is periodically increased to reflect revenue growth, which increases the capacity of the TTF to support additional debt. The CTB debt limit was last increased during 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 debt service 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 a minimum coverage of 2.5 times maximum future debt service.

The net income coverage test is the ratio of all the prior year’s income (excluding federal capital contributions, bond proceeds, and third-party reimbursements) minus prior year operating expenses, debt service payments, and deductions for nontransportation agencies to maximum future debt service. The net income coverage test is typically the limiting coverage ratio.

The pledged taxes coverage test is the ratio of prior year net revenues from vehicle excise, motor fuel, rental car sales, and corporate income taxes (excluding refunds and all statutory deductions) to maximum future debt service. If either of these coverage ratios fall below the 2.0 times level, the department is prohibited under its bond covenants from issuing additional debt until the ratios are once again at or above the minimum 2.0 times level.

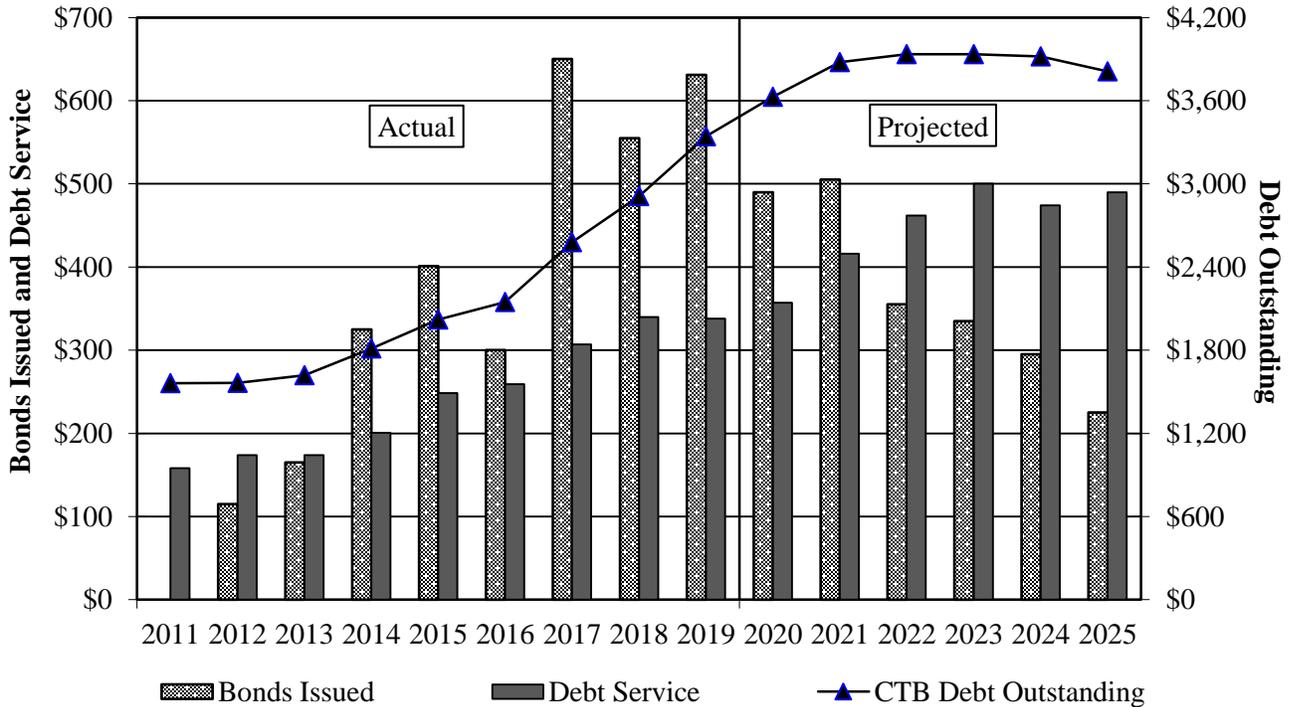
Projected CTB issuances in fiscal 2020 will increase the total amount of debt outstanding to over \$3.6 billion, and the debt service coverage ratios in fiscal 2020 are estimated at 4.6 times for pledged taxes and 2.6 times for the net income test. In fiscal 2021, the level of debt outstanding is projected to increase to nearly \$3.9 billion, but the pledged taxes coverage ratio is projected to improve to 4.8 times, and the net income ratio increases to 2.7 times. These ratios vary slightly throughout the forecast ending at 4.9 times for pledged taxes and 2.6 times for net income in fiscal 2025, the final year of the current forecast.

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 future debt service ratios set forth in bond resolutions for the entire six-year forecast period.

## Consolidated Transportation Bond Debt Trends

**Exhibit 1** shows annual new CTB issuances, debt service, and net debt outstanding from fiscal 2011 to 2025. Increased debt issuances following the 2013 motor fuel tax increase peaked in fiscal 2017 with the issuance of \$650 million. With debt service coverage ratios approaching minimum acceptable levels, projected debt issuances decline from fiscal 2020 through 2025. With debt service structured to pay interest for the first two years of each issuance, it continues to increase through most of the forecast period, peaking at \$500 million in fiscal 2023 with slightly lower levels projected for the final two years of the forecast.

**Exhibit 1**  
**Bond Issuances, Debt Service, and Debt Outstanding**  
 Fiscal 2011-2025  
 (\$ in Millions)



CTB: Consolidated Transportation Bond

Source: Maryland Department of Transportation; Department of Legislative Services

## Nontraditional Debt

In addition to CTBs, the department uses nontraditional debt. Nontraditional debt is any debt other than 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; federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans; and debt issued by MEDCO, MDTA, or any other third party on behalf of MDOT.

**Exhibit 2** shows that the department currently has 13 nontraditional debt issuances outstanding and 2 pending debt issuances. Combined, these issuances are projected to have \$1,435.9 million in unpaid principal at the end of fiscal 2021. **Appendix 3** shows debt service and debt outstanding by fiscal year for current nontraditional debt.

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**Exhibit 2**  
**Nontraditional Debt Outstanding and Debt Service**  
(\$ in Thousands)

<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/21)</u>	<u>Fiscal 2021 Debt Service Payment <sup>2</sup></u>	<u>Purpose</u>
<b>Certificates of Participation</b>			
2010-2025	\$6,160	\$1,698	Expand Pier B and a de-icing facility at the Baltimore-Washington International Thurgood Marshall Airport (BWI Marshall Airport).
2010-2025	5,230	1,165	Construction of a parking garage at the Maryland Area Regional Commuter Amtrak station near BWI Marshall Airport.
2016-2024	6,510	2,326	Refunding of 2006 Certificates of Participation (COP) used for construction of a paper shed at South Locust Point.
2019-2034	21,135	2,057	Acquisition of 25 forty-foot and 15 sixty-foot clean diesel buses for parking shuttle services at BWI Marshall Airport.
<b>Subtotal</b>	<b>\$39,035</b>	<b>\$7,246</b>	
<b>Maryland Transportation Authority Revenue Bonds</b>			
2002-2032	\$73,430	\$8,941	Construction of a consolidated rental car facility at BWI Marshall Airport. Bonds backed by customer facility charge of \$3.25 per vehicle rental per day.
2012-2027	88,020	18,172	Construction of the Elm Road parking garage near BWI Marshall Airport, roadway improvements, enhanced pedestrian access, and upgrading of utility plants. Bonds backed by parking fees.

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<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/21)</u>	<u>Fiscal 2021 Debt Service Payment <sup>2</sup></u>	<u>Purpose</u>
2012-2032	33,005	3,886	Passenger Facility Charge revenue bonds to construct the B/C concourse connector.
2012-2027/32	87,325	10,141	Passenger Facility Charge to complete Runway Safety Area and Pavement Management Program improvements.
2014-2034	30,045	2,955	Passenger Facility Charge revenue bonds to construct the D/E concourse connector.
2019-2039	105,085	8,471	Passenger Facility Charge revenue bonds for various improvements at BWI Marshall Airport including modifications to concourses A/B, restroom improvements, Federal Inspection Hall reconfiguration, and concourse D HVAC replacement.
<b><i>Subtotal</i></b>	<b><i>\$416,910</i></b>	<b><i>\$52,567</i></b>	
<b>Maryland Economic Development Corporation Debt</b>			
2002-2022 <sup>1</sup>	\$2,675	\$2,793	Construction of a new Maryland Department of Transportation headquarters building.
2012-2030	104,875	13,724	Construction of a new 11-gate concourse A and reconstruction of a portion of concourse B at BWI Marshall Airport.
2016-2050 <sup>2</sup>	313,035	0	Private activity bonds for construction of the Purple Line Light Rail Transit project.
<b><i>Subtotal</i></b>	<b><i>\$420,585</i></b>	<b><i>\$16,517</i></b>	
<b>Total – Issued Debt</b>	<b>\$876,530</b>	<b>\$76,329</b>	
<b>Pending Debt</b>			
2020-TBD <sup>2</sup>	\$209,390	\$0	Federal Transportation Infrastructure Finance and Innovation Act loan for construction of the Purple Line Light Rail Transit project.
2020-TBD	350,000	TBD	Concourse A/B Connector and Baggage Handling System at BWI Marshall Airport.

HVAC: heating, ventilation, and air conditioning  
TBD: to be decided

<sup>1</sup> State tax-supported debt.

<sup>2</sup> Excludes debt service paid from capitalized interest.

Source: Maryland Department of Transportation; Department of Legislative Services

The General Assembly began placing limits on COPs in fiscal 2002 and then all of the MDOT 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 to the amount already issued plus any additional nontraditional debt proposed by MDOT in its January nontraditional debt report. If MDOT finds that circumstances warrant additional issuances, it must report to the budget committees on the proposed additional debt and allow 45 days for the committees to review and comment on the proposal. **It is recommended that the General Assembly continue the policy of limiting total nontraditional debt outstanding and that the amount of debt outstanding at the end of fiscal 2021 be limited to \$1,226.5 million for nontraditional debt other than TIFIA debt and that TIFIA debt outstanding be limited to \$925.3 million.**

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 10 fiscal years. **It is recommended that the General Assembly again require that the department report this information on its nontraditional debt when it releases its September and January forecasts.**

### **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. GARVEE bonds were limited in State law to the issuance of \$750 million in support of the Intercounty Connector project. Fiscal 2020 is the final year of debt service on these bonds.

## ***Key Observations***

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### **1. Maryland Aviation Administration Issuing New Type of Revenue Bonds**

The Maryland Aviation Administration (MAA) is planning to issue \$350 million in revenue bonds in fiscal 2020, the proceeds of which will be used to construct a connector between concourses A and B along with a baggage handling system at the Baltimore-Washington International Thurgood Marshall Airport. Repayment of the bonds will be made from MAA operating revenues. MDOT advises that the bonds may need to be issued as taxable since the proceeds will be used for improvements primarily benefiting a single private company. This debt will not be included in the State's debt limits since the revenues to be used for debt service are not derived from a State tax.

MAA revenues that will be used to pay debt service on the new revenue bonds should not be included in the net income totals used to calculate the debt service coverage ratio on CTB debt. To avoid doing so, MDOT lowered the MAA operating revenue shown in the TTF forecast below what is expected to be collected beginning in fiscal 2022. Between fiscal 2022 and 2025, a total of \$144 million is omitted from the TTF forecast for this purpose. This practice skews the evaluation of revenues accruing to the TTF. A better method for dealing with the double count problem would be to report all projected operating revenues generated (as has been the practice up to this forecast) and include an adjustment removing the amount of MAA debt service when calculating net income for the purpose of the debt coverage test.

**MDOT should brief the committees on the planned MAA revenue bond issuance including:**

- **the likely maximum future debt service that will be reached for bonds supporting the A/B connector and baggage handling system;**
- **whether it anticipates the use of this financing structure for future projects; and**
- **how it intends to ensure that the TTF forecast accurately reflects the revenues accruing to the TTF.**

## 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 \$3,877,330,000 as of June 30, 2021.

**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 is based on the outstanding debt as of June 30, 2019, plus projected debt to be issued during fiscal 2020 and 2021 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 2020 through 2030.

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.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Nontraditional debt outstanding and anticipated debt service payments	MDOT	With the September forecast
Nontraditional debt outstanding and anticipated debt service payments	MDOT	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), exclusive of any draws on the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the Purple Line Light Rail Project, may not exceed \$1,226,530,000 as of June 30, 2021. The total aggregate outstanding and unpaid principal balance on the Purple Line TIFIA loan may not exceed \$925,315,170 as of June 30, 2021. Provided, however, that in addition to the limits 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, 2021, and the total amount by which the fiscal 2020 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 2021 for non-TIFIA debt to the total amount that was outstanding from all previous nontraditional debt issuances as of June 30, 2019, plus an anticipated issuance of \$350 million for the concourse A/B connector and baggage handling system at the Baltimore-Washington International Thurgood Marshall Airport. TIFIA debt outstanding for the Purple Line Project is capped at the projected maximum debt outstanding level that will occur during the construction phase of the Purple Line Project. The language allows MDOT to increase the amount of nontraditional debt outstanding in fiscal 2021 by providing notification to the budget committees regarding the reason that the additional debt is required.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Justification for increasing nontraditional debt outstanding	MDOT	45 days prior to publication of a preliminary official statement

**Appendix 1**  
**2019 Joint Chairmen’s Report Responses from Agency**

The 2019 *Joint Chairmen’s Report* (JCR) requested that the Maryland Department of Transportation prepare two debt service-related reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Nontraditional Debt Outstanding and Anticipated Debt Service Payments:*** The 2019 JCR requested two reports on anticipated and actual debt outstanding on, and debt service payments for, nontraditional debt. One report was submitted in September 2019 along with the draft Transportation Trust Fund (TTF) forecast, the other in January 2020 with the final TTF forecast. A listing of nontraditional debt issuances can be found in Exhibit 2 of this analysis.

**Appendix 2**  
**Consolidated Transportation Bonds**  
**Debt Service and Debt Outstanding as of December 31, 2019**

<u>Fiscal Year</u>	<u>Debt Service</u>	<u>Debt Outstanding on June 30</u>
2020	\$356,920,738	\$3,627,190,000
2021	405,815,288	3,372,330,000
2022	434,429,663	3,075,580,000
2023	457,079,963	2,742,270,000
2024	389,780,625	2,459,965,000
2025	376,422,300	2,177,780,000
2026	357,684,038	1,901,110,000
2027	357,956,845	1,611,890,000
2028	347,103,301	1,320,770,000
2029	332,049,964	1,032,120,000
2030	299,253,195	764,385,000
2031	258,901,779	526,730,000
2032	230,042,638	310,700,000
2033	165,528,763	152,785,000
2034	109,626,400	46,185,000
2035	46,877,775	0

Source: Maryland Department of Transportation; Department of Legislative Services

**Appendix 3**  
**Nontraditional Debt**  
**Debt Service and Debt Outstanding as of December 31, 2019**

<u>Fiscal Year</u>	<u>Debt Service</u> <sup>1</sup>	<u>Debt Outstanding on June 30</u>
2020	\$72,696,682	\$926,010,000
2021	76,329,236	876,530,000
2022	75,806,738	825,535,000
2023	89,595,090	774,245,000
2024	188,229,070	622,115,000
2025	85,266,502	565,715,000
2026	86,647,253	505,395,000
2027	107,824,965	420,670,000
2028	66,115,675	374,325,000
2029	69,505,958	322,305,000
2030	67,196,608	270,200,000
2031	46,980,374	235,910,000
2032	46,986,576	199,860,000
2033	33,009,391	175,930,000
2034	24,218,825	159,865,000
2035	19,208,700	148,140,000
2036	19,204,875	135,900,000
2037	19,210,950	123,185,000
2038	19,207,250	109,910,000
2039	19,208,425	96,045,000
2040	10,743,000	90,030,000
2041	10,738,500	83,715,000
2042	10,738,875	77,080,000
2043	10,742,875	70,105,000
2044	10,739,875	62,780,000
2045	10,699,500	55,125,000
2046	10,657,500	47,125,000
2047	10,667,375	38,710,000
2048	10,587,375	29,950,000
2049	10,598,750	20,735,000
2050	10,567,125	11,085,000
2051	11,514,500	0

<sup>1</sup>Excludes debt service paid from capitalized interest.

Source: Maryland Department of Transportation; Department of Legislative Services

**Appendix 4  
Object/Fund Difference Report  
MDOT – Debt Service Requirements**

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
<b>Objects</b>					
13 Fixed Charges	\$ 337,565,751	\$ 354,848,481	\$ 415,915,288	\$ 61,066,807	17.2%
<b>Total Objects</b>	<b>\$ 337,565,751</b>	<b>\$ 354,848,481</b>	<b>\$ 415,915,288</b>	<b>\$ 61,066,807</b>	<b>17.2%</b>
<b>Funds</b>					
03 Special Fund	\$ 337,565,751	\$ 354,848,481	\$ 415,915,288	\$ 61,066,807	17.2%
<b>Total Funds</b>	<b>\$ 337,565,751</b>	<b>\$ 354,848,481</b>	<b>\$ 415,915,288</b>	<b>\$ 61,066,807</b>	<b>17.2%</b>

MDOT: Maryland Department of Transportation

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.