
January 19, 2022

The Honorable Guy Guzzone
Chairman, Senate Budget and Taxation Committee
3 East Miller Senate Office Building
Annapolis MD 21401

Re: *Letter of Support – Senate Bill 187 – Department of Transportation – Grant Anticipation Revenue Vehicle Bonds*

Dear Chairman Guzzone and Committee Members:

The Maryland Department of Transportation (MDOT) supports Senate Bill 187, which would allow the MDOT to issue additional bonds backed by future federal aid. These bonds are typically referred to as Grant Anticipation Revenue Vehicle (GARVEE) bonds when used for highway projects or grant anticipation notes (GANs) when used for transit projects. These bonds provide an important alternative financing tool to fund critical highway and transit projects.

Bonds backed by future federal aid allow the MDOT to accelerate the delivery of capital projects to deliver projects today rather than delaying projects until sufficient pay-as-you-go funding is available. This financing mechanism also allows the MDOT to better match the timing of funding of a project with those benefitting from the project. Current Maryland law allows for a one-time issuance of GARVEE bonds for up to \$750 million. In 2007 and 2008, the Maryland Transportation Authority issued a total of \$750 million in GARVEE bonds as part of the financing plan for the Intercounty Connector. Those bonds were fully repaid in March 2020.

Senate Bill 187 would establish the \$750 million as a debt outstanding limit, rather than an issuance limit amount, thus allowing the MDOT to issue additional bonds backed by future federal aid to help fund additional capital projects. For comparison purposes, statute sets a debt outstanding limit on the MDOT's Consolidated Transportation Bonds of \$4.5 billion. This allows the MDOT to continue to issue bonds up to this amount as previous bonds are paid off.

Senate Bill 187 would also extend the maturity of GARVEE bonds from 12 to 15 years, which is more common for State debt and reduces the annual cost of debt service. This legislation would also remove the requirement that the Transportation Trust Fund provide a backstop for these bonds, which also allows the required inclusion in the State's Capital Debt Affordability Committee to be removed. This proposed legislation was discussed with the Capital Debt Affordability Committee and the State Treasurer's Office and no issues or concerns were raised.

The federal GARVEE bond program is now more than 20 years old, and 25 states have issued over \$20 billion worth of GARVEE bonds to accelerate the delivery of capital projects. Maturities on these bonds range from 7 to 30 years and the majority are issued without a secondary pledge or backstop.

Although this legislation would allow the MDOT to issue additional bonds backed by future federal aid, it is important to note that certain approvals would still be required prior to each issuance. Projects eligible for financing through this financing mechanism would need to be federal aid eligible, in accordance with federal law, and would need to be included in the MDOT's Consolidated Transportation Program in the prior session or meet certain notification requirements, in accordance with annual budget bill language. In addition, prior to the issuance of bonds, the MDOT is required to provide notice to the Legislative Policy Committee and receive approval for the issuance by the Board of Public Works. These requirements ensure that the legislature maintains an active oversight role in the use of these bonds and the projects funded despite this renewed authorization of the federal aid bond program.

The Infrastructure Investment and Jobs Act of 2021 provides additional funding for transportation through federal fiscal year 2026. Senate Bill 187 provides the MDOT with the ability to put this future federal funding at work today to deliver projects sooner and faster than waiting to utilize the annual federal appropriations. Senate Bill 187 provides an additional tool for the MDOT to finance projects at competitive rates and is an important source of financial flexibility so that the Department can continue to fund critical transportation infrastructure needs across the state.

For these reasons, the Maryland Department of Transportation respectfully requests the Committee grant Senate Bill 187 a favorable report.

Respectfully submitted,

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