

J00A04
Debt Service Requirements
Maryland Department of Transportation

Program Description

Consolidated Transportation Bonds

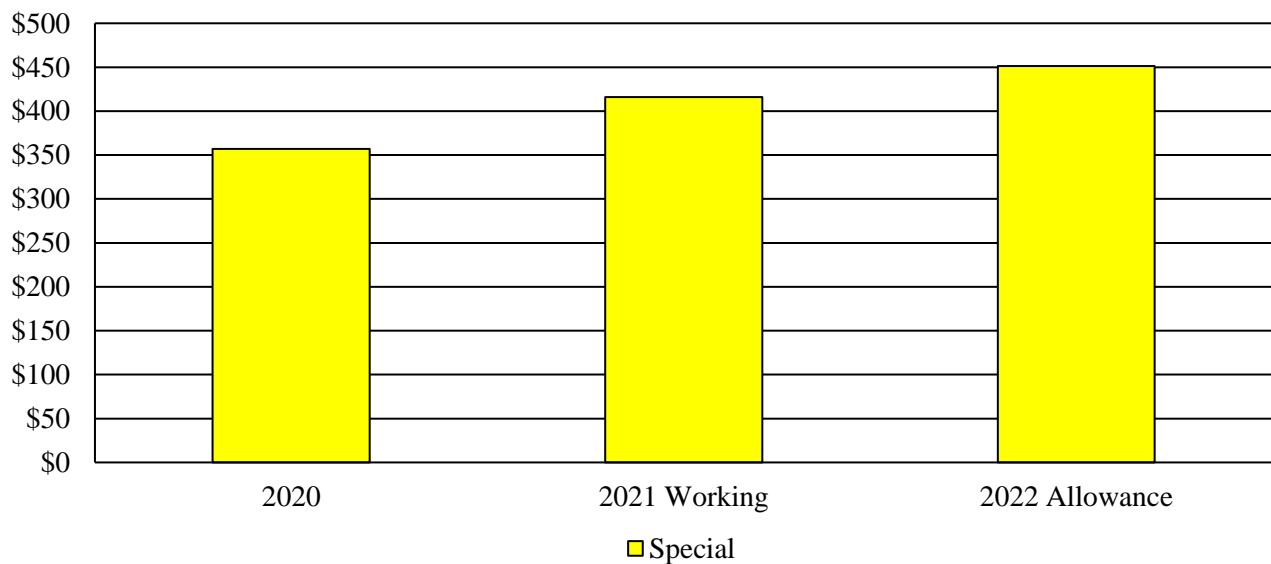
The Maryland Department of Transportation (MDOT) issues 15-year Consolidated Transportation Bonds (CTB), which are tax-supported debt. Bond proceeds are dedicated for construction projects. Revenues from taxes and fees and other funding sources are combined in the Transportation Trust Fund (TTF) to pay 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

Fiscal 2022 Budget Increases \$35.4 Million, or 8.5%, to \$451.3 Million
(\$ in Millions)



Fiscal 2022 Overview of Agency Spending

The fiscal 2022 allowance for debt service on CTB debt increases \$35.4 million (8.5%) over the current year working appropriation. This appropriation provides for debt service on currently outstanding debt plus expected issuances in fiscal 2022.

Debt Service Coverage Ratios Remain Above Minimum Requirements but Fall below Administrative Target

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.

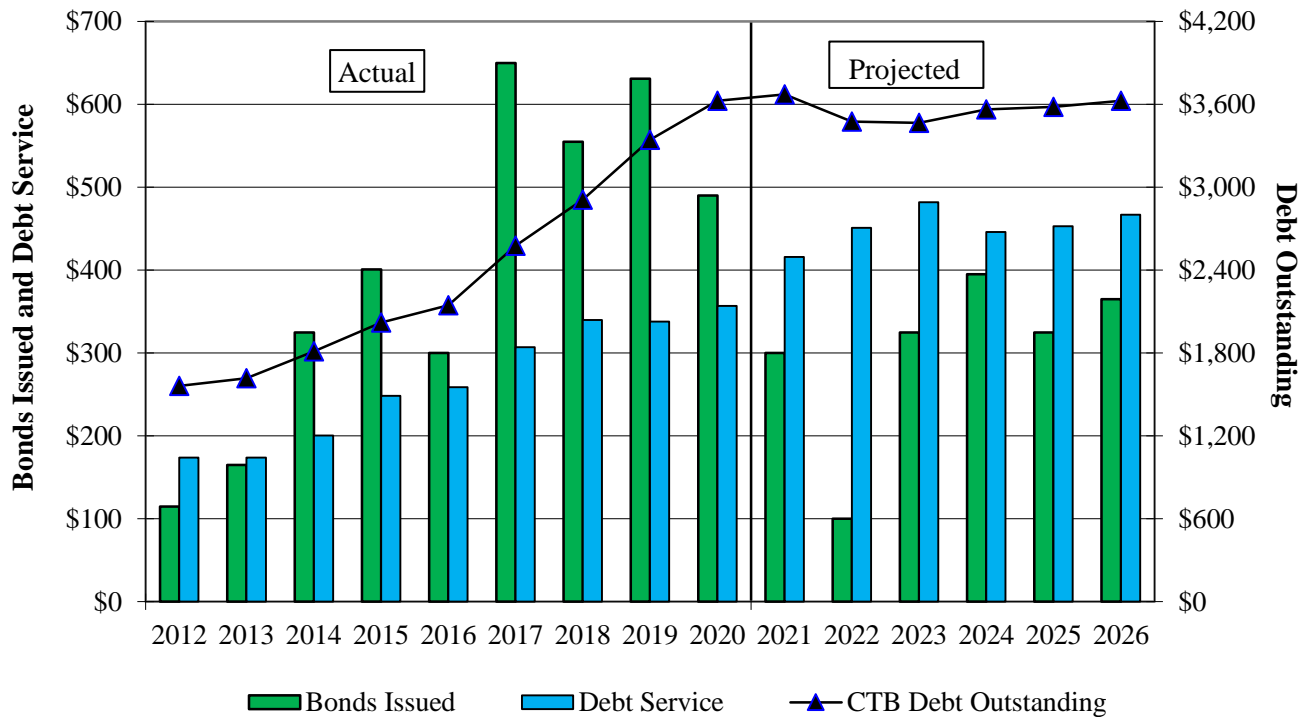
Projected CTB issuances in fiscal 2021 will increase the total amount of debt outstanding to over \$3.6 billion, and the debt service coverage ratios in fiscal 2021 are estimated at 4.5 times for pledged taxes and 2.9 times for the net income test. In fiscal 2022, the level of debt outstanding is projected to decrease to under \$3.5 billion, but the net income to debt service ratio is projected to fall to 2.2 times. This ratio is below the MDOT administrative minimum target, and the ratio is expected to again remain below the administrative target in fiscal 2023.

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 2012 to 2026. Increased debt issuances following the 2013 motor fuel tax increase peaked in fiscal 2017 with the issuance of \$650 million. The increase in debt service resulting from the high level of debt issuance led to a downward trend in issuances as debt service coverage ratios approached minimum acceptable levels. The reduction in revenues resulting from the COVID-19 pandemic accelerated this trend with the net income to debt service ratio projected to fall below the 2.5 times administrative target adopted by MDOT, despite the issuance of \$100 million planned for fiscal 2022 being the lowest level of issuances since fiscal 2011. Projected debt issuances beyond fiscal 2022 vary between \$325 million and \$395 million. **Appendix 2** shows debt service and debt outstanding by fiscal year for current CTB debt.

Exhibit 1
Bond Issuances, Debt Service, and Debt Outstanding
 Fiscal 2012-2026
 (\$ 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 \$1,171 million in unpaid principal at the end of fiscal 2022. **Appendix 3** shows debt service and debt outstanding by fiscal year for current nontraditional debt.

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

<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/22)</u>	<u>Fiscal 2022 Debt Service Payment ²</u>	<u>Purpose</u>
Certificates of Participation (COP)			
2010-2025	\$4,720	\$1,692	Expand Pier B and a de-icing facility at the Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport).
2010-2025	4,270	1,167	Construction of a parking garage at the Maryland Area Regional Commuter Amtrak station near BWI Marshall Airport.
2016-2024	4,475	2,361	Refunding of 2006 COP used for construction of a paper shed at South Locust Point.
2019-2034	19,910	2,059	Acquisition of 25 40-foot and 15 60-foot clean diesel buses for parking shuttle services at BWI Marshall Airport.
Subtotal	\$33,375	\$7,279	
Maryland Transportation Authority Revenue Bonds			
2002-2032	\$69,230	\$8,932	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 ¹	0	0	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 (06/30/22)</u>	<u>Fiscal 2022 Debt Service Payment</u> ²	<u>Purpose</u>
2012-2032	30,660	3,864	Passenger Facility Charge revenue bonds to construct the B/C concourse connector.
2012-2027/32	80,410	10,140	Passenger Facility Charge to complete Runway Safety Area and Pavement Management Program improvements.
2014-2034	28,215	2,953	Passenger Facility Charge revenue bonds to construct the D/E concourse connector.
2019-2039	101,285	8,470	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.
<i>Subtotal</i>	<i>\$309,800</i>	<i>\$34,359</i>	
Maryland Economic Development Corporation Debt			
2002-2022 ²	\$0	\$2,795	Construction of a new Maryland Department of Transportation headquarters building.
2012-2030 ¹	0	0	Construction of a new 11-gate concourse A and reconstruction of a portion of concourse B at BWI Marshall Airport.
2016-2050 ³	313,035	0	Private activity bonds for construction of the Purple Line Light Rail Transit project.
<i>Subtotal</i>	<i>\$313,035</i>	<i>\$2,795</i>	
Total – Issued Debt	\$656,210	\$44,433	
Pending Debt			
2021-TBD	\$215,000	TBD	Refunding of 2012 Maryland Transportation Authority Parking Revenue Bonds used for the construction of the Elm Road parking garage and associated improvements near BWI Marshall Airport and refunding of Maryland Economic Development Corporation Lease Revenue bonds use for construction of a new 11-gate concourse A and reconstruction of a portion of concourse B at BWI Marshall Airport.

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<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/22)</u>	<u>Fiscal 2022 Debt Service Payment</u> ²	<u>Purpose</u>
2021-TBD	300,000	TBD	Concourse A/B Connector and Baggage Handling System at BWI Marshall Airport.
Total – Issued and Pending	\$1,171,210	TBD	

TBD: to be determined

¹ These bonds are scheduled for refunding during fiscal 2021. If the refunding does not occur, debt outstanding at the end of fiscal 2022 would total \$169,325,000 and debt service payments totaling \$31,373,000 would be paid in fiscal 2022.

² State tax-supported debt.

³ 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 2022 be limited to \$1,171.2 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.**

Key Observations

1. MDOT Seeks Authority to Issue GARVEE Debt

MDOT has submitted departmental legislation (SB 259) which would expand its authority to issue GARVEE bonds, which would be repaid from future federal aid. The bill would allow MDOT to issue such debt as long as the aggregate outstanding and unpaid principal amount of the debt did not exceed \$750 million as of June 30 of any year. GARVEEs have only been used once in Maryland – MDTA issued a total of \$750 million in 2007 and 2008 to help pay for construction of the Intercounty Connector. Current law limits the maturity of GARVEE debt to 12 years and defines any debt issued for a transportation project and repaid from federal aid as tax supported debt, which requires that GARVEE debt be included in the State’s tax supported debt limitations. As introduced, SB 259 does not modify these provisions.

Projects for which GARVEE debt would be issued must be eligible for federal funding and would have to (1) be included in a CTP that had been reviewed by the General Assembly or (2) have been submitted to the budget committees for review and comment pursuant to annual budget bill language regarding new capital projects. Additionally, Transportation Article Section 3-602, which would apply to GARVEEs, requires MDOT to report proposed debt issuances to the Legislative Policy Committee for review and comment at least 45 days prior to issuance.

MDOT indicates that it currently has no specific project(s) identified for which it would issue GARVEE debt but is seeking the authority to issue GARVEEs to provide an additional avenue for addressing capital funding needs.

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 \$3,475,580,000 as of June 30, 2022.

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, 2020, plus projected debt to be issued during fiscal 2021 and 2022 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 2021 through 2031.

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.

Information Request	Author	Due Date
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 \$1,171,210,000 as of June 30, 2022. The total aggregate outstanding and unpaid principal balance on the Purple Line TIFIA loan may not exceed \$925,315,170 as of June 30, 2022. 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, 2022, and the total amount by which the fiscal 2022 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 2022 for non-TIFIA debt to the total amount that was outstanding from all previous nontraditional debt issuances as of June 30, 2020, plus an anticipated issuance of \$215 million in refunding bonds and \$300 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 2022 by providing notification to the budget committees regarding the reason that the additional debt is required.

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

Appendix 1
2020 Joint Chairmen’s Report Responses from Agency

The 2020 *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 2020 JCR requested two reports on anticipated and actual debt outstanding on, and debt service payments for, nontraditional debt. One report was submitted in September 2020 along with the draft Transportation Trust Fund (TTF) forecast, and the other was submitted in January 2021 with the final TTF forecast. A listing of nontraditional debt issuances can be found in Exhibit 2 of this analysis.

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Appendix 2
Consolidated Transportation Bonds
Debt Service and Debt Outstanding as of December 31, 2020

<u>Fiscal Year</u>	<u>Debt Service</u>	<u>Debt Outstanding on June 30</u>
2021	\$412,440,288	\$3,672,330,000
2022	449,429,663	3,375,580,000
2023	472,079,963	3,042,270,000
2024	421,160,625	2,743,165,000
2025	407,800,800	2,443,320,000
2026	389,061,913	2,148,085,000
2027	389,337,595	1,839,345,000
2028	378,483,051	1,527,705,000
2029	363,427,464	1,217,485,000
2030	330,629,570	927,075,000
2031	290,280,279	665,580,000
2032	261,423,513	424,485,000
2033	196,909,263	240,220,000
2034	141,005,650	105,920,000
2035	78,256,525	30,615,000
2036	31,380,375	0

Source: Maryland Department of Transportation; Department of Legislative Services

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Appendix 3
Nontraditional Debt
Debt Service and Debt Outstanding as of December 31, 2020

<u>Fiscal Year</u>	<u>Debt Service</u> ¹	<u>Debt Outstanding on June 30</u>
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

¹ 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 20 Actual</u>	<u>FY 21 Working Appropriation</u>	<u>FY 22 Allowance</u>	<u>FY 21 - FY 22 Amount Change</u>	<u>Percent Change</u>
Objects					
13 Fixed Charges	\$ 356,920,738	\$ 415,915,288	\$ 451,329,663	\$ 35,414,375	8.5%
Total Objects	\$ 356,920,738	\$ 415,915,288	\$ 451,329,663	\$ 35,414,375	8.5%
Funds					
03 Special Fund	\$ 356,920,738	\$ 415,915,288	\$ 451,329,663	\$ 35,414,375	8.5%
Total Funds	\$ 356,920,738	\$ 415,915,288	\$ 451,329,663	\$ 35,414,375	8.5%

MDOT: Maryland Department of Transportation

Note: The fiscal 2021 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or cost-of-living adjustments.