

J00A04
Debt Service Requirements
Maryland Department of Transportation

Program Description

Consolidated Transportation Bonds

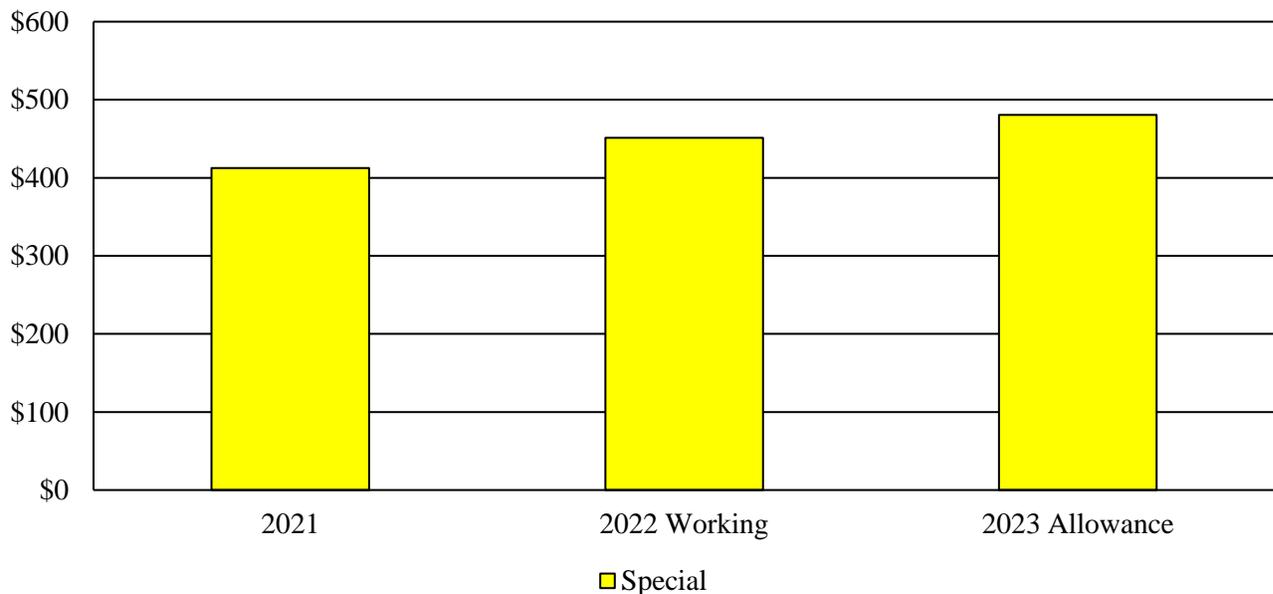
The Maryland Department of Transportation (MDOT) issues 15-year Consolidated Transportation Bonds (CTB), which are tax-supported debt. Bond proceeds are dedicated for construction projects. Revenues from taxes and fees and other funding sources are combined in the Transportation Trust Fund (TTF) to pay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

Operating Budget Summary

Fiscal 2023 Budget Increases \$29.2 Million, or 6.5%, to \$480.5 Million
(\$ in Millions)



Fiscal 2023 Overview of Agency Spending

The fiscal 2023 allowance for debt service on CTB debt increases \$29.2 million (6.5%) over the current year working appropriation. This appropriation provides for debt service on currently outstanding debt – there are no planned issuances in fiscal 2023.

Debt Service Coverage Ratios Remain above Minimum Acceptable Level

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 the 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.

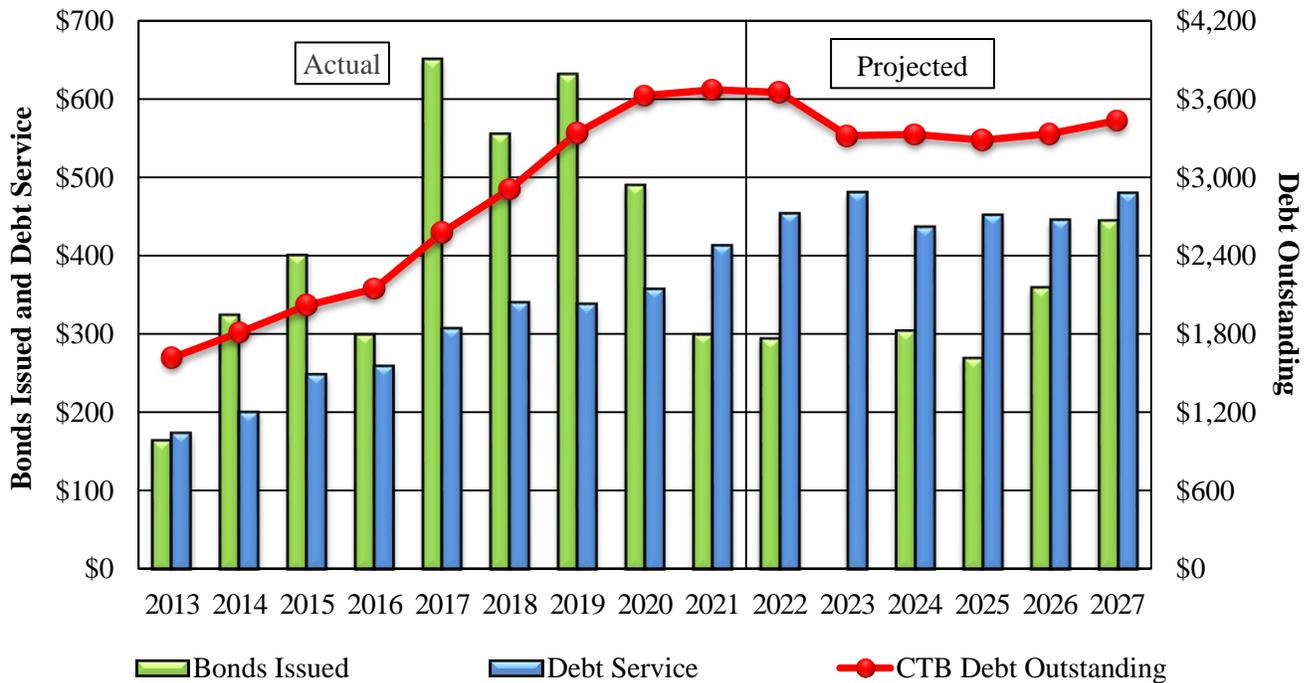
CTB issuances in fiscal 2022 increased the total amount of debt outstanding to almost \$3.7 billion, and the debt service coverage ratios in fiscal 2022 are estimated at 4.7 times for pledged taxes and 3.3 times for the net income test. In fiscal 2023, the level of debt outstanding is projected to decrease to \$3.3 billion, and the net income to debt service ratio is projected to increase to 3.7 times.

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 coverage 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 2013 to 2027. 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. Projected debt issuances beyond fiscal 2023 vary between \$270 million and \$445 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 2013-2027
 (\$ 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. **Exhibit 2** shows that the department currently has 11 nontraditional debt issuances outstanding and 2 pending debt issuances. Combined, these issuances are projected to have \$3,143 million in unpaid principal at the end of fiscal 2023. **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 (06/30/23)</u>	<u>Fiscal 2023 Debt Service Payment</u>	<u>Purpose</u>
Certificates of Participation (COP)			
2010-2025	\$3,225	\$1,690	Expand Pier B and a de-icing facility at the Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport).
2010-2025	3,270	1,168	Construction of a parking garage at the Maryland Area Regional Commuter Amtrak station near BWI Marshall Airport.
2016-2024	2,295	2,404	Refunding of 2006 COP used for construction of a paper shed at South Locust Point.
2019-2034	18,625	2,057	Acquisition of 25 40-foot and 15 60-foot clean diesel buses for parking shuttle services at BWI Marshall Airport.
<i>Subtotal</i>	\$27,415	\$7,319	
Maryland Transportation Authority (MDTA) Revenue Bonds			
2002-2032	\$64,755	\$8,926	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.
2012-2032	28,220	3,841	Passenger Facility Charge revenue bonds to construct the B/C concourse connector.
2012-2027/32	73,350	10,138	Passenger Facility Charge to complete Runway Safety Area and Pavement Management Program improvements.
2014-2034	26,290	2,957	Passenger Facility Charge revenue bonds to construct the D/E concourse connector.
2019-2039	97,295	8,470	Passenger Facility Charge revenue bonds for various improvements at BWI Marshall

J00A04 – MDOT – MDOT Debt Service Requirements

<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/23)</u>	<u>Fiscal 2023 Debt Service Payment</u>	<u>Purpose</u>
			Airport, including modifications to concourses A/B, restroom improvements, Federal Inspection Hall reconfiguration, and concourse D HVAC replacement.
<i>Subtotal</i>	<i>\$289,910</i>	<i>\$34,332</i>	
Maryland Department of Transportation Special Transportation Project Revenue Bonds			
2021-2030	\$219,880	\$2,352	Refunding of 2012 MDTA 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 (MEDCO) Lease Revenue bonds used for construction of a new 11-gate concourse A and reconstruction of a portion of concourse B at BWI Marshall Airport.
2021-2041	190,485	8,612	Concourse A/B Connector and Baggage Handling System at BWI Marshall Airport.
<i>Subtotal</i>	<i>\$410,365</i>	<i>\$10,964</i>	
Total – Issued Debt	\$727,690	\$52,615	
Pending Debt			
2022-TBD	\$1,760,500	TBD	Transportation Infrastructure Finance and Innovation Act federal loan for the Purple Line Transit Project.
2021-TBD	655,000	TBD	MEDCO Private Activity Bonds for the Purple Line Transit Project.
Total – Issued and Pending	\$3,143,190	TBD	

TBD: to be determined

Source: Maryland Department of Transportation; Department of Legislative Services

J00A04 – MDOT – Debt Service Requirements

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 2023 be limited to \$1,382.7 million for nontraditional debt other than the Transportation Infrastructure Finance and Innovation Act (TIFIA) debt, and that the TIFIA debt outstanding be limited to \$1,760.5 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.**

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 \$3,321,205,000 as of June 30, 2023.

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, 2021, plus projected debt to be issued during fiscal 2022 and 2023 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 2022 through 2032.

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 \$1,382,690,000 as of June 30, 2023. The total aggregate outstanding and unpaid principal balance on the Purple Line TIFIA loan may not exceed \$1,760,500,000 as of June 30, 2023. 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, 2023, and the total amount by which the fiscal 2023 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 2023 for non-TIFIA debt to the total amount that was outstanding from all previous nontraditional debt issuances as of December 31, 2021, plus an anticipated issuance of \$655 million of Private Activity Bonds for the Purple Line Project. 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 2023 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
2021 Joint Chairmen’s Report Responses from Agency

The 2021 *Joint Chairmen’s Report* (JCR) requested that MDOT 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 2021 JCR requested two reports on anticipated and actual debt outstanding on and debt service payments for nontraditional debt. One report was submitted in September 2021 along with the draft TTF forecast, and the other was submitted in January 2022 with the final TTF forecast. A listing of nontraditional debt issuances can be found in Exhibit 2 of this analysis.

J00A04 – MDOT – Debt Service Requirements

Appendix 2
Consolidated Transportation Bonds
Debt Service and Debt Outstanding as of December 31, 2021

<u>Fiscal Year</u>	<u>Debt Service</u>	<u>Debt Outstanding on June 30</u>
2022	\$432,314,548	\$3,650,980,000
2023	480,373,269	3,321,205,000
2024	429,819,919	3,025,160,000
2025	433,075,769	2,711,205,000
2026	414,335,444	2,400,770,000
2027	414,612,189	2,075,770,000
2028	403,759,189	1,746,795,000
2029	388,698,539	1,418,080,000
2030	358,138,989	1,105,790,000
2031	317,907,598	821,290,000
2032	289,166,632	556,255,000
2033	224,653,231	347,320,000
2034	168,748,269	187,600,000
2035	106,259,594	85,970,000
2036	59,646,294	28,095,000
2037	28,393,509	0

Source: Maryland Department of Transportation; Department of Legislative Services

Appendix 3
Nontraditional Debt
Debt Service and Debt Outstanding as of December 31, 2021

<u>Fiscal Year</u>	<u>Debt Service</u>	<u>Debt Outstanding on June 30</u>
2022	\$407,673,946	\$753,540,000
2023	52,615,448	727,690,000
2024	79,323,204	673,925,000
2025	76,905,999	621,265,000
2026	75,123,874	569,065,000
2027	77,707,626	512,850,000
2028	77,522,440	455,185,000
2029	77,487,923	395,605,000
2030	77,456,933	334,030,000
2031	77,464,450	270,275,000
2032	48,594,051	233,350,000
2033	34,609,491	208,505,000
2034	25,819,300	191,475,000
2035	20,801,925	178,740,000
2036	20,793,350	165,440,000
2037	20,782,175	151,625,000
2038	20,806,850	137,195,000
2039	20,804,350	122,185,000
2040	12,328,450	115,045,000
2041	12,322,150	107,620,000
2042	12,319,150	99,895,000
2043	12,268,900	91,865,000
2044	12,262,275	83,430,000
2045	12,250,025	74,575,000
2046	12,241,150	65,275,000
2047	12,229,525	55,510,000
2048	12,265,400	45,260,000
2049	12,257,200	34,600,000
2050	12,247,300	23,515,000
2051	12,240,000	11,985,000
2052	12,224,700	0

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 21 Actual</u>	<u>FY 22 Working Appropriation</u>	<u>FY 23 Allowance</u>	<u>FY 22 - FY 23 Amount Change</u>	<u>Percent Change</u>
Objects					
13 Fixed Charges	\$ 412,440,288	\$ 451,329,663	\$ 480,461,159	\$ 29,131,496	6.5%
Total Objects	\$ 412,440,288	\$ 451,329,663	\$ 480,461,159	\$ 29,131,496	6.5%
Funds					
03 Special Fund	\$ 412,440,288	\$ 451,329,663	\$ 480,461,159	\$ 29,131,496	6.5%
Total Funds	\$ 412,440,288	\$ 451,329,663	\$ 480,461,159	\$ 29,131,496	6.5%