

J00A04
Debt Service Requirements
Maryland Department of Transportation

Program Description

Consolidated Transportation Bonds

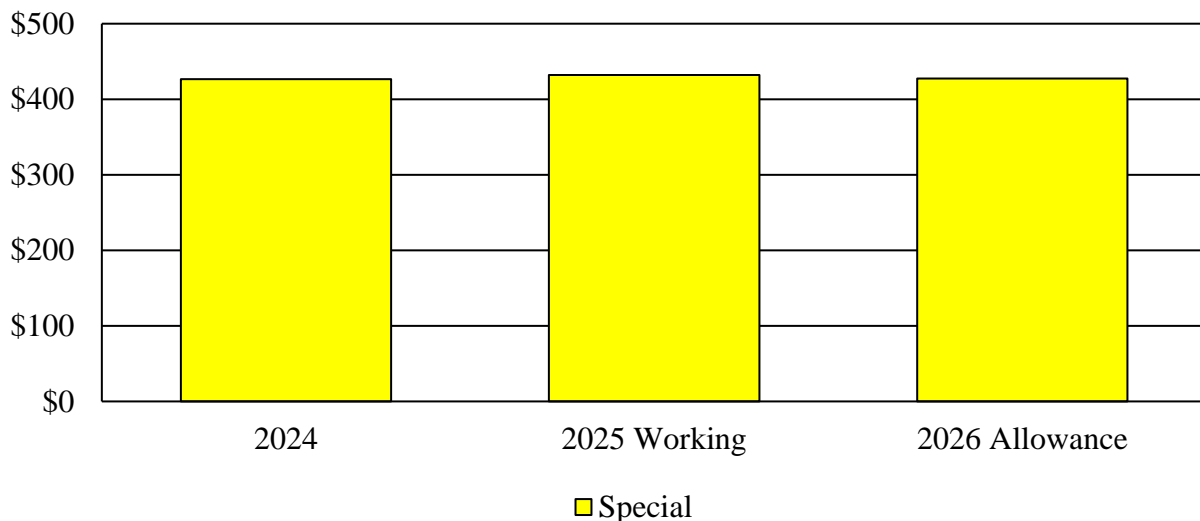
The Maryland Department of Transportation (MDOT) issues 15-year Consolidated Transportation Bonds (CTB), which are tax-supported debts. Bond proceeds are dedicated for construction projects. Revenues from taxes and fees and other funding sources are combined in the Transportation Trust Fund (TTF) to 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; 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 2026 Budget Decreases \$4.7 Million, or 1.1%, to \$427.5 Million
(\$ in Millions)



Note: Governor’s Fiscal 2026 Budget Books; Department of Legislative Services.

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Fiscal 2026 Overview of Agency Spending

The fiscal 2026 allowance for debt service on CTB debt decreases by \$4.7 million (1.1%) from the current year working appropriation. The allowance provides for debt service on current outstanding debt and the planned bond issuance of \$230 million in fiscal 2025 and \$245 million in fiscal 2026.

Debt Service Coverage Ratios Remain Above Minimum Acceptable Level for Every Year of Forecast

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. The Budget Reconciliation and Financing Act (BRFA) of 2025 contains a provision to increase the statutory limit to \$5.0 billion. 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, sales tax on rental cars and electricity used to charge electric vehicles, transportation network company fees, 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.

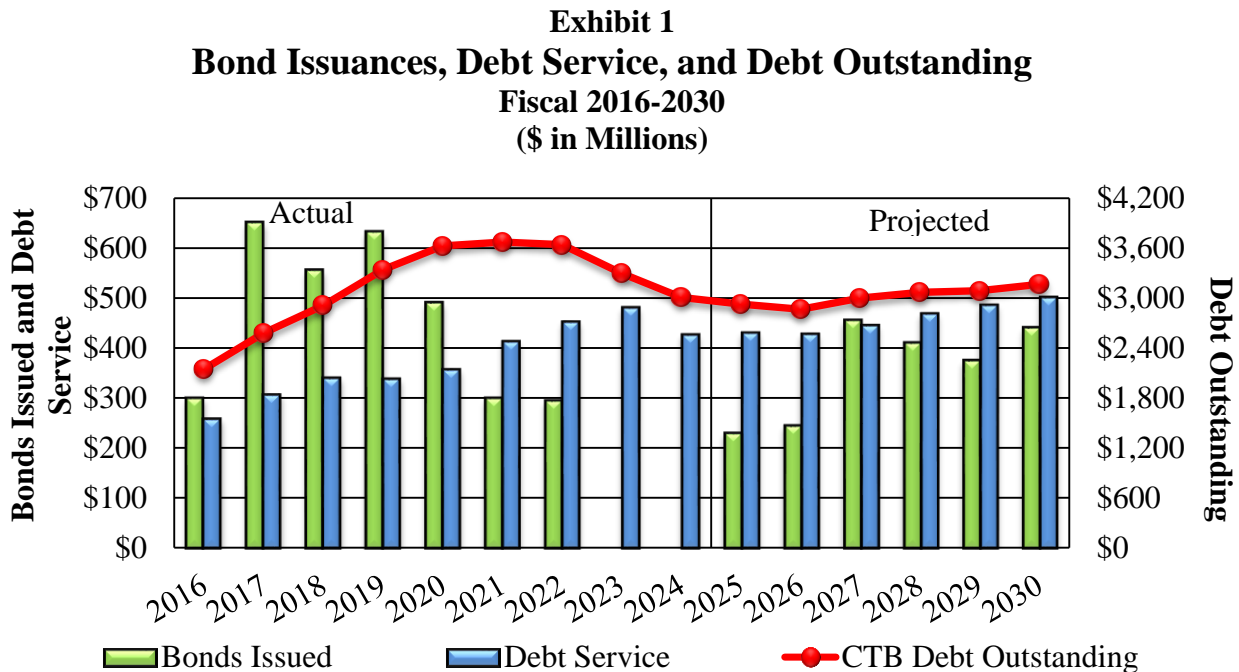
With no CTB issuances in fiscal 2023 or 2024, the total amount of debt outstanding declines to \$2.9 billion by the end of fiscal 2025, and the debt service coverage ratios in fiscal 2025 are estimated at 6.7 times for pledged taxes and 3.6 times for the net income test. In fiscal 2026, more principal will be retired than issued. Consequently, the level of debt outstanding is projected to further decrease to just under \$2.9 billion in fiscal 2026, while the net income to debt service

ratio is projected to decrease to 3.1 times due to the combination of higher debt service and higher operating expenses.

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. These projections, however, assume that new revenues proposed in the BRFA of 2025 totaling \$470 million in fiscal 2026 and \$420 million every year thereafter are approved. If no new revenues were approved, the net income debt service ratio would fall below the 2.5 times administrative minimum in fiscal 2029 and be at the 2.0 times minimum level allowed under the bond covenants assuming bond issuances remained the same and were not increased to maintain the level of capital spending shown in the forecast which relies on the new revenue to sustain.

Consolidated Transportation Bond Debt Trends

Exhibit 1 shows annual new CTB issuances, debt service, and net debt outstanding from fiscal 2016 to 2030. 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. No CTB debt was issued in fiscal 2023 or 2024. Projected debt issuances for fiscal 2025 through 2030 total nearly \$2.2 billion. **Appendix 2** shows debt service and debt outstanding by fiscal year for current CTB debt.



CTB: Consolidated Transportation Bond

Source: Maryland Department of Transportation; Department of Legislative Services

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.

The State has used GARVEEs once in the past. Chapters 471 and 472 of 2005 authorized the use of GARVEE bonds for the Intercounty Connector (ICC) project, and \$750 million was issued in two tranches in fiscal 2007 and 2009 with 12-year maturities (the maximum then allowed by statute). The last debt service payment for the ICC GARVEEs was made in fiscal 2020, and no further issuances have occurred. The Transportation Article currently allows the use of GARVEEs with maturities of up to 15 years for a specified list of transportation projects and stipulates that GARVEE debt outstanding may not exceed \$1 billion at the end of any fiscal year. Payment of debt service for GARVEEs may not be supported directly or indirectly by State tax revenues pledged to meet debt service on CTB debt.

The BRFA of 2025 as introduced includes a provision to add major rehabilitation of the existing light rail system as a GARVEE-eligible use and the 2025 *Consolidated Transportation Program* (CTP) moved a project to modernize the light rail system in Baltimore from the development and evaluation program to the construction program, with \$248.7 million of the \$814.1 million in planned expenditures provided from GARVEE bonds. The CTP indicates that, absent the authorization of GARVEEs for this project, the \$1.4 billion project cannot proceed. MDOT indicates that it would issue \$275 million in GARVEEs in fiscal 2027 with an additional issuance in fiscal 2031 to provide an additional \$394.3 million in funding for the project. Debt service on the fiscal 2027 tranche would start in fiscal 2027 at an estimated level of \$27 million annually. The fiscal 2031 bonds would require annual debt service payments of approximately \$35 million. The use of GARVEE debt increases the size of the capital program immediately at the expense of future federal funding, which otherwise would be available to support the capital program as federal pay-as-you-go. Repayment of these GARVEEs would come from federal formula funding for transit and/or from federal funds received by the State Highway Administration that are eligible to be flexed to transit uses.

Nontraditional Debt

In addition to CTBs, MDOT uses nontraditional debt. Nontraditional debt is any debt other than a CTB or GARVEE bond. Most nontraditional debt issuances are direct debt of the department – either revenue debt or debt issued by a conduit agency on behalf of the department. Debt issued by a concessionaire as part of a public-private partnership and repaid through availability payments (AP) is debt of the concessionaire; however, since the funds used to repay that debt are payments made by the department, it is included in this analysis as indirect

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nontraditional debt. **Exhibit 2** shows that the department has nine direct nontraditional debt issuances that will be outstanding at the end of the fiscal year and one pending issuance. There are two indirect AP issuances outstanding. The issued and pending direct nontraditional debt is projected to have \$820.4 million in unpaid principal at the end of the fiscal year, and the AP indirect debt is projected to have unpaid principal of just over \$2.4 billion.

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

<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/26)</u>	<u>Fiscal 2026 Debt Service Payment</u>	<u>Purpose</u>
MDOT – Direct Debt			
Certificates of Participation			
2010-2025	\$0	\$1,165	Construction of a parking garage at the Maryland Area Regional Commuter Amtrak station near BWI Marshall Airport.
2019-2034	14,365	2,060	Acquisition of 25 40-foot and 15 60-foot clean diesel buses for parking shuttle services at BWI Marshall Airport.
<i>Subtotal</i>	<i>\$14,365</i>	<i>\$3,225</i>	
MDTA Revenue Bonds			
2002-2032	\$49,490	\$8,891	Construction of a consolidated rental car facility at BWI Marshall Airport. Bonds backed by customer facility charge of \$5.75 per vehicle rental per day.
2012-2032	20,150	3,837	Passenger Facility Charge revenue bonds to construct the B/C concourse connector.
2012-2027	7,765	7,968	Passenger Facility Charge revenue bonds to complete Runway Safety Area and Pavement Management Program improvements.
2014-2034	20,045	2,955	Passenger Facility Charge revenue bonds to construct the D/E concourse connector.

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<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/26)</u>	<u>Fiscal 2026 Debt Service Payment</u>	<u>Purpose</u>
2019-2039	84,090	8,466	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>\$181,540</i>	<i>\$32,117</i>	
MDOT Special Transportation Project Revenue Bonds			
2021-2030	\$139,275	\$29,000	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 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.
2021-2051	190,485	8,612	Concourse A/B connector and baggage handling system at BWI Marshall Airport.
2024-2054	219,755	11,373	Concourse A/B connector and baggage handling system at BWI Marshall Airport.
<i>Subtotal</i>	<i>\$549,515</i>	<i>\$48,984</i>	
Total Issued – Direct	\$745,420	\$84,327	
Pending – Direct			
2025-TBD	\$75,000	TBD	Maryland Transit Administration Fare System.
Total Issued and Pending – Direct	\$820,420	TBD	

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<u>Year Issued and Maturity</u>	<u>Principal Outstanding (06/30/26)</u>	<u>Fiscal 2026 Debt Service Payment</u>	<u>Purpose</u>
Public-private Partnership Availability Payment – Indirect Debt			
Purple Line Transit Partners LLC Debt			
2022-2055	\$643,455	\$33,272	Private activity bonds for construction of the Purple Line Light Rail Transit project.
2022-2054	1,782,673*	0	Federal Transportation Infrastructure Finance and Innovation Act loan for construction of the Purple Line Light Rail Transit project.
Total Issued – Indirect	\$2,426,128	\$33,272	

BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport
 LLC: limited liability corporation
 MDOT: Maryland Department of Transportation
 MDTA: Maryland Transportation Authority
 TBD: to be determined

*Amount outstanding is preliminary and will vary on actual loan disbursements by fiscal year.

Source: Maryland Department of Transportation; Department of Legislative Services

Operating Budget Recommended Actions

1. Add the following language:

Consolidated Transportation Bonds (CTB) 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 \$2,863,795,000 as of June 30, 2026. The total aggregate outstanding and unpaid principal balance of nontraditional debt, defined as any debt instrument that is not a CTB or a Grant Anticipation Revenue Vehicle bond issued by the Maryland Department of Transportation (MDOT), exclusive of debt for the Purple Line Light Rail Project, may not exceed \$820,420,000 as of June 30, 2026. The total aggregate outstanding and unpaid principal balance on debt for the Purple Line may not exceed \$2,506,171,000 as of June 30, 2026. Provided, however, that in addition to the limits established under this provision, MDOT may increase the aggregate outstanding unpaid and principal balance of CTB debt or 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 CTB debt or nontraditional debt that would be outstanding on June 30, 2026, and the total amount by which the fiscal 2026 debt service payment for all CTB debt or 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: Section 3-202 of the Transportation Article requires the General Assembly to establish the maximum debt outstanding for CTBs each year in the budget bill. The level is based on the outstanding debt as of June 30, 2024, plus projected debt to be issued during fiscal 2025 and 2026 in support of the transportation capital program. For nontraditional debt, this language limits the amount of debt outstanding at the end of fiscal 2026, exclusive of debt issued for the Purple Line Light Rail Transit project, to the total amount that was outstanding from all previous nontraditional debt issuances as of December 31, 2024, plus anticipated issuances of \$75 million for a new fare collection system for the Maryland Transit Administration. 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 CTB debt or nontraditional debt outstanding in fiscal 2026 by providing

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notification to the budget committees regarding the reason that the additional debt is required.

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

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 2025 through 2035.

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 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 With the January forecast

Appendix 1
2024 Joint Chairmen’s Report Responses from Agency

The 2024 *Joint Chairmen’s Report* (JCR) requested that MDOT prepare two debt-related reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Nontraditional Debt Outstanding and Debt Service Payments:*** The 2024 JCR requested two reports on anticipated and actual debt outstanding and debt service payments for nontraditional debt. One report was submitted in September 2024 along with the draft TTF forecast, and the other was submitted in January 2025 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, 2024

<u>Fiscal Year</u>	<u>Debt Service</u>	<u>Debt Outstanding on June 30</u>
2025	\$429,706,489	\$2,695,050,000
2026	410,970,439	2,388,795,000
2027	411,242,639	2,067,485,000
2028	400,387,939	1,741,750,000
2029	385,328,489	1,416,015,000
2030	355,635,664	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
Object/Fund Difference Report
Maryland Department of Transportation – Debt Service Requirements

<u>Object/Fund</u>	<u>FY 24</u> <u>Actual</u>	<u>FY 25</u> <u>Working</u> <u>Appropriation</u>	<u>FY 26</u> <u>Allowance</u>	<u>FY 25 - FY 26</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Objects					
13 Fixed Charges	\$ 426,453,639	\$ 432,150,500	\$ 427,476,439	-\$ 4,674,061	-1.1%
Total Objects	\$ 426,453,639	\$ 432,150,500	\$ 427,476,439	-\$ 4,674,061	-1.1%
Funds					
03 Special Fund	\$ 426,453,639	\$ 432,150,500	\$ 427,476,439	-\$ 4,674,061	-1.1%
Total Funds	\$ 426,453,639	\$ 432,150,500	\$ 427,476,439	-\$ 4,674,061	-1.1%