

J00A04
Debt Service Requirements
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$135,252	\$175,888	\$150,747	-\$25,141	-14.3%
Total Funds	\$135,252	\$175,888	\$150,747	-\$25,141	-14.3%
Adjusted Total	\$135,252	\$175,888	\$150,747	-\$25,141	-14.3%

- Current estimates project that fiscal 2005 debt service requirements will be \$154 million. The \$175.9 million appropriation overstates the debt service requirements.
- The fiscal 2006 allowance totals \$150.7 million. This is \$3.2 million (2.1%) less than currently estimated fiscal 2005 requirements.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

The Maryland Department of Transportation’s Debt Issuance Practices Have Changed Since the Recession in 2001: From fiscal 1995 to 2001, the department sold little debt. The solid Transportation Trust Fund revenue receipts allowed the department to reduce debt issuances, resulting in low debt outstanding at the end of fiscal 2001. Thanks to this low debt, the department was able to grow its capital and send \$314.9 million to the general fund between fiscal 2002 and 2004. The department proposes an aggressive capital program supported by debt through fiscal 2010.

Issues

Fiscal 2005 Working Appropriation Overstates Debt Service Requirements: The fiscal 2005 working appropriation overstates debt service requirements by \$21.9 million. **It is recommended that the General Assembly reduce the fiscal 2005 appropriation by \$21.9 million in budget reconciliation legislation. Insofar as debt service expenditures are included in the Spending Affordability Committee’s (SAC) calculation, this proposed reduction reduces the State’s total SAC eligible expenditures.**

Recommended Actions

- | | <u>Funds</u> |
|---|--------------|
| 1. Reduce debt service appropriation to reflect projected proceeds from bond sale premiums. | \$ 6,600,000 |
| 2. Add language precluding the Department of Transportation from issuing bonds through the Maryland Economic Development Corporation for a proposed Martin State Airport project. | |
| 3. Add annual language limiting the total amount of Consolidated Transportation Bonds outstanding at the end of fiscal 2006. | |
| 4. Add annual language limiting the total amount of nontraditional debt outstanding at the end of fiscal 2006. | |
| 5. Add annual language requiring the submission of information concerning nontraditional debt outstanding. | |

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Total Reductions	\$ 6,600,000
Special Fund Language Reductions	\$21,911,313
Total Recommended Reductions	\$28,511,313

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Budget Analysis

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 typically 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 consolidated transportation bond or a 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 or any other third party on behalf of MDOT.

County Transportation Bonds

The department previously issued county transportation bonds that were considered both State and county debt and counted toward State debt affordability limits. Chapter 539 of the Acts of 1993 altered this policy by authorizing the department to continue to issue bonds on behalf of local jurisdictions but excluding the local debt from counting toward State debt affordability limits. Currently, this debt counts only toward the debt outstanding of the counties. Debt service on the bonds was and will continue to be paid from the local share of transportation revenues. MDOT continues to be responsible for all aspects of administering and issuing debt for the counties.

In November 1993, MDOT refunded nine series of previously issued county debt. There is one remaining series of county debt issues that was not refunded and that will, therefore, continue to count against State debt affordability limits until the debt is retired. The 14th Series bonds final debt service payment will be made in November 2006. The fiscal 2006 allowance includes \$354,577 in county debt service. The fiscal 2007 payment will retire this series.

Governor's Proposed Budget

The fiscal 2006 allowance for debt service payments is \$150.7 million. This figure includes \$150.4 million for debt service payments on CTBs and \$354,577 for the county bond issue. Funding for the fiscal 2006 debt service payment declines by \$25.14 million (over 14%) when compared to

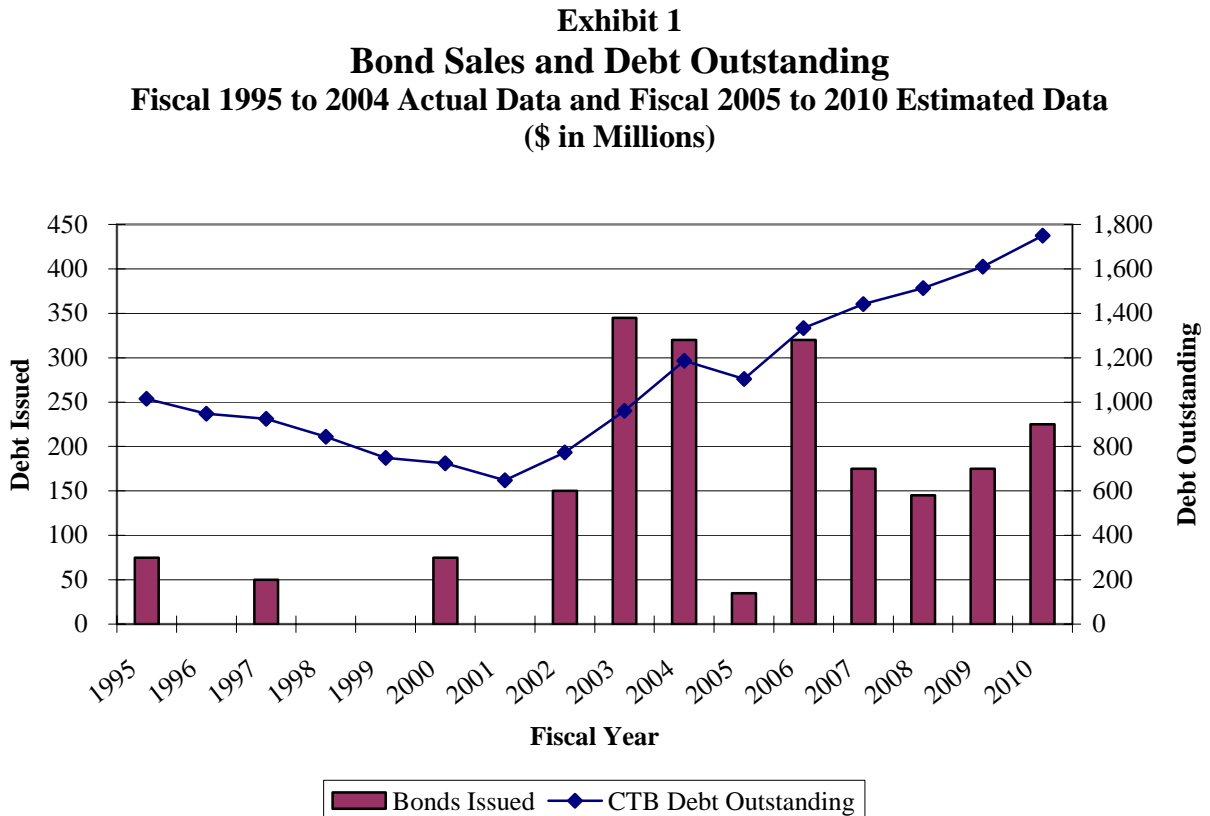
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the fiscal 2005 working appropriation. This is primarily attributable to over budgeting in the fiscal 2005 appropriation, which is discussed as Issue 1 later in the analysis. When comparing the fiscal 2006 allowance with the current estimate for fiscal 2005 (\$154 million), there is a more modest decline of \$3.2 million (2.1%)

The fiscal 2006 debt service payment includes \$9.2 million for anticipated bond issuances in calendar 2005. The department will make the largest payment (\$62.9 million) on refinancing bonds issued in fiscal 2003 to refinance earlier debt issuances at the lower interest rates available in 2003. The 1993 refunding was retired in fiscal 2005 with a \$15.6 million debt service payment, so fiscal 2006 does not include any debt service payments for this issuance. The remaining amount of the fiscal 2006 debt service payment is attributable to the timing of amortized payments due on the seven other previous debt issuances still outstanding.

Historical Trends in CTB Debt

Exhibit 1 shows annual new CTB issuances and net debt outstanding from fiscal 1995 through 2010.



Source: Maryland Department of Transportation, January 2005

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Between fiscal 1995 and 2001, the department issued \$200 million in new debt. During this period, actual revenues typically exceeded projections, which allowed the department to maintain its capital program and reduce debt issuances. This was a period in which the amount of CTBs outstanding declined from \$1,015 million to \$648 million. Declining debt outstanding, coupled with increasing revenues, provided the department with substantial unused capacity at the end of fiscal 2001.

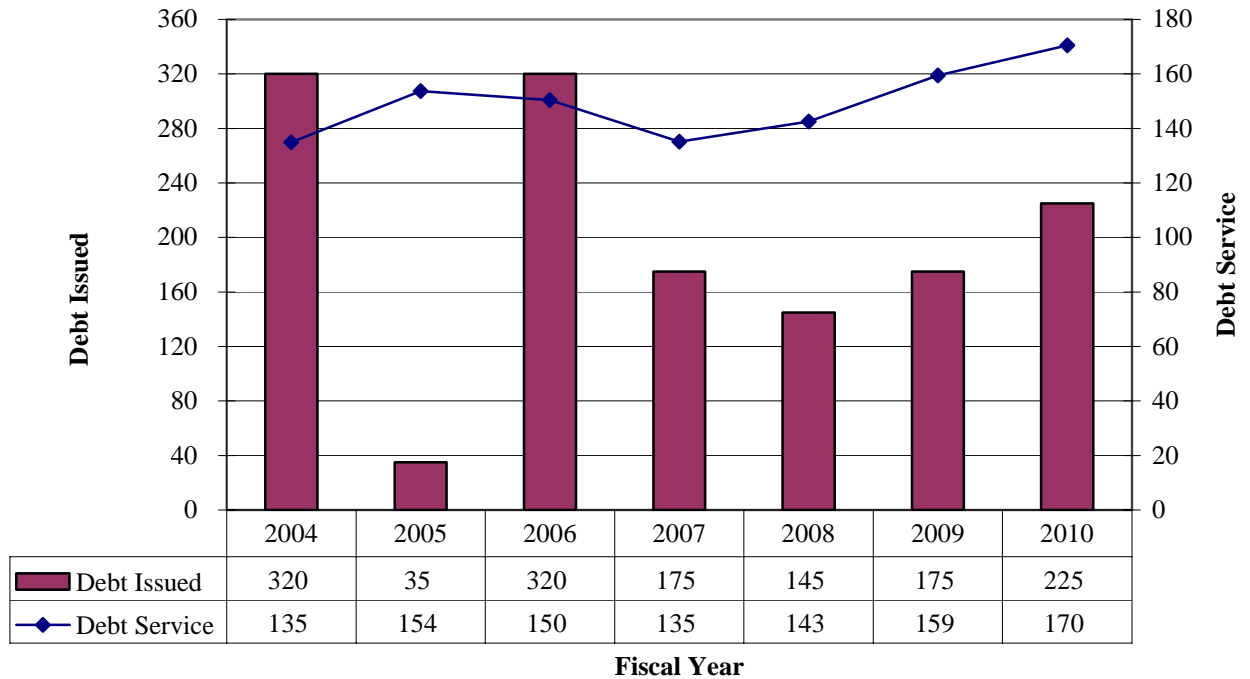
Since fiscal 2002, issuances have increased. From fiscal 2002 to 2004, MDOT issued \$815 million in CTBs. The sale of additional CTBs, coupled with the sale of nontraditional debt (discussed later in the analysis), allowed the department to substantially increase its capital program. For example, the transportation capital program increased from \$1.21 billion in fiscal 2001 to \$1.38 billion in fiscal 2004. This increase was primarily due to additional State special funds, which increased from \$638 million to \$792 million from fiscal 2002 to 2004. Additionally, the department financed another \$710.7 million of capital projects with nontraditional debt in fiscal 2002, 2003, and 2004. This increase occurred in spite of slowing TTF revenue growth and the transfer of \$314.9 million from the TTF to the general fund. The bottom line is that the financial strength of the TTF, which allowed the department to rely on increased debt financing, allowed the department to grow its capital program in spite of the financial condition of the State.

Fiscal 2004 to 2010 CTB Debt Service Outlook

In the six-year planning period from fiscal 2005 to 2010, MDOT plans to continue its policy of issuing large amounts of debt annually. The exception is in fiscal 2005, when the department is working down its unusually large fund balance (\$288 million at the end of fiscal 2004, which is \$188 million over its \$100 million goal) instead of issuing debt.

The long-term trend is that MDOT's debt service expenditures will increase. This is attributable to the recent increase in debt issuances. In fiscal 2001, after years of declining debt outstanding, debt service payments bottomed out at \$110 million. Recent issuances have raised debt service payments to over \$150 million in fiscal 2005 and 2006. In fiscal 2007, there is a decline that is largely attributable to reduced Series 2003 refunding payments. These debt service payments drop \$39 million, from \$62.9 million in fiscal 2006 to \$23.9 million in fiscal 2007. (Interestingly, this issuance refunded the 1993 refunding, which resulted in some early 1990s debt being refunded twice.) As MDOT continues to maintain an aggressive capital program by issuing debt, debt service payments rise. By fiscal 2010, MDOT projects its annual debt service payment will be \$170 million.

Exhibit 2
Debt Service Payments and Bond Issuances
Fiscal 2004 Actual Data and Fiscal 2005 to 2010 Estimated Data
(\$ in Millions)



Note: Debt service estimate for fiscal 2005 is current estimate, which totals \$154 million. The fiscal 2005 appropriation is \$176 million. Issue 1 addresses this discrepancy.

Source: Maryland Department of Transportation’s January 2005 Transportation Trust Fund Forecast

Amount of Consolidated Transportation Bonds Outstanding Is within Prudent Limits

The issuance of CTBs is limited by two criteria: an outstanding debt limit and a two-part coverage test. The outstanding debt limit is set by statute. The outstanding debt limit is adjusted periodically to reflect the increased revenue potential of the TTF. Most recently, the maximum outstanding debt limit was increased from \$1.5 billion to \$2.0 billion in 2004. At the time, legislation provided that the TTF receive additional revenues, primarily by raising vehicle registration fees. These additional revenues increased the fund’s ability to support debt service payments, which allows for an increase in the total debt outstanding limit.

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The bond revenue coverage test, which is established in the department's bond resolutions, mandates that the department's annual net revenues and pledged taxes must each equal at least twice (2.0) the maximum future debt service. The department has adopted an administrative policy establishing a minimum coverage of 2.5. The net revenues coverage test is the ratio of all prior-year net revenues (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior-year operating expenses, to maximum annual future debt service. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, and corporate taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service.

The fiscal 2005 bond sales are projected to raise the total debt outstanding at the end of that year to \$1.1 billion, which is well under the statutory ceiling of \$2.0 billion. The bond coverage ratio for fiscal 2005 is estimated to be 3.7 times the maximum debt service under the net revenue test and 7.5 times the maximum debt service under the pledged taxes coverage test. The fiscal 2006 bond sales are projected to raise the total debt outstanding at the end of that year to \$1.3 billion, while the coverage ratio under the net revenue test will be raised to 5.5 and the coverage ratio under the pledged taxes test will be raised to 8.1.

The department prudently manages its debt through the use of the coverage ratios. Its bond issuances have consistently been rated AA by Moody's, Fitch Ratings, and Standard and Poor's, the highest rating that revenue bonds issues by a State entity typically receives. In addition, the department's policy of maintaining an administrative coverage ratio that is higher than what is required has improved its standing with respect to its debt management.

The General Assembly places limits on the total debt outstanding at the end of the current and subsequent fiscal years. MDOT also limits debt issuance over the six-year forecast period to ensure that transportation debt is managed prudently. Based on current revenue projections, MDOT will be able to manage its CTB debt outstanding within the mandates set by the General Assembly.

Section 3-202 of the Transportation Article requires the General Assembly to adopt annual budget bill language limiting the level of maximum consolidated transportation bond debt outstanding. It is recommended that limit be set at \$1.333 billion in fiscal 2006.

Current Forecast Includes Unused Debt Capacity

MDOT's debt is constrained by three factors: total debt outstanding is limited to \$2 billion and net revenues and pledged taxes must each equal at least 2.5 the maximum future debt service. Throughout the forecast period, all three of these limiting criteria are met. In fiscal 2010, when the debt levels are closest to the criteria, total debt outstanding is estimated to be \$1,749 million, pledged taxes are estimated to be 5.7 times maximum debt service, and net revenues are estimated to be 2.8 times maximum debt service.

The TTF's financial position allows MDOT to sell more debt than is proposed in the forecast. Depending on when debt is issued, MDOT could sell \$200 to \$250 million in additional debt. Even if \$250 million in additional debt were issued, the department would maintain its debt within its

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limits. In fiscal 2010, when levels are closest to the criteria, issuing \$250 million is expected to increase CTB debt outstanding to \$1,995 million. Pledged taxes would be projected to be 5.1 times maximum debt service, and net revenues would be projected to be 2.5 times maximum debt service.

Nontraditional Debt

In addition to CTBs, the department uses debt referred to as nontraditional debt. Nontraditional debt is any debt instrument that is not a consolidated transportation bond or a 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 or any other third party on behalf of MDOT.

Exhibit 3 shows that the department currently has eight nontraditional debt issuances outstanding, and one additional issuance is expected in fiscal 2006. These issuances are projected to have a combined total of \$754.1 million in unpaid principal outstanding at the end of fiscal 2006. The most recent issuance was a \$15.5 million Certificate of Participation (COP) in October 2004 to fund the purchase of 50 new shuttle buses for the Maryland Aviation Administration's Baltimore/Washington International Airport's (BWI) shuttle service. Unlike the COPs previously issued by MDOT, the bus COPs that were issued are supported by TTF revenues and the debt is considered to be tax-supported.

MDOT also anticipates that it will issue \$4.7 million to support constructing a new 20,000 square foot hanger at Martin State Airport. MDOT is considering using MEDCO to issue bonds. The total cost of the project is \$7.65 million. In addition to the bonds, the funding also includes \$2.85 million in federal funds and \$100,000 in special fund cash. MDOT advises that the bonds' debt service would be supported by revenues generated by leasing the hanger to Black and Decker. The Department of Legislative Services has the following concerns about using MEDCO bonds:

- ***MDOT has its own bonding authority, so MEDCO financing is unnecessary:*** The department has its own bonding authority, and CTBs are highly-rated AA bonds. Since the department can issue its own highly rated bonds, it is not necessary to get MEDCO to issue bonds. MDOT could deposit the hanger's revenues into the TTF instead of pledging it for MEDCO bonds;
- ***MEDCO bonds are more expensive:*** The current proposal assumes a thirty-year maturity and capitalized interest. Given the high bond rating of CTBs, it is unlikely that uninsured MEDCO bonds would receive lower interest rates than CTBs. Consequently, the financing proposal is more expensive than traditional financing; and
- ***legislatively imposed efficiencies could provide cash for this project:*** Given the relatively small size of this proposal (\$4.7 million compared to a \$1.8 billion capital program), the department could use cash available after legislative reductions to fund the project.

It is recommended that the General Assembly add budget bill language that precludes MDOT from issuing bonds through MEDCO for Martin State Airport projects.

Exhibit 3
Nontraditional Debt Outstanding and Debt Service Payments
(\$ in Thousands)

<u>Year Issued and Maturity</u>	<u>Amount Issued</u>	<u>Principal Outstanding (06/30/06)</u>	<u>FY 2006 Debt Service Payment</u>	<u>Purpose</u>
<i>Certificates of Participation</i>				
1999 to 2025	\$42,750	\$24,835	\$2,350	Expand Pier B and a de-icing facility at BWI Airport.
2000 to 2025	33,000	21,365	3,535	Construction of parking garage at Maryland Rail Commuter/Amtrak station near BWI.
2004 to 2016	15,500	14,200	1,762	Purchase buses for parking garage shuttle operations at BWI Airport.
Subtotal	\$91,250	\$60,400	\$7,647	
<i>Maryland Transportation Authority Revenue Bonds</i>				
2002 to 2027	264,075	253,875	18,955	Construction of Elm Road parking garage near BWI, roadway improvements, enhanced pedestrian access, and upgrading of utility plants. Bonds backed by parking fees.
2002 to 2033	117,345	113,425	9,037	Construction of central rental car facility at BWI. Bonds back by customer facility charge of \$3.25 per vehicle rental per day.
2003 to 2013	69,700	69,700	2,947	Additional construction at BWI Airport, including roadway improvements, installation of pedestrian skywalks and work in taxiway parallel to runway. This issue has a floating interest rate structure. Bonds backed by Passenger Facilities Charges (PFCs).
Subtotal	\$451,120	\$437,000	\$30,939	
<i>Maryland Economic Development Corporation Debt</i>				
2003 to 2030	223,600	220,135	15,121	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Airport.
2002 to 2022	36,000	31,865	2,898	Construction of new MDOT headquarters building.
2005 to – est.	4,700	4,700	n/a	Martin State Airport.
Subtotal	\$264,300	\$256,700	\$18,019	
TOTAL	\$806,670	\$754,100	\$56,605	

Source: Maryland Department of Transportation, January 2005

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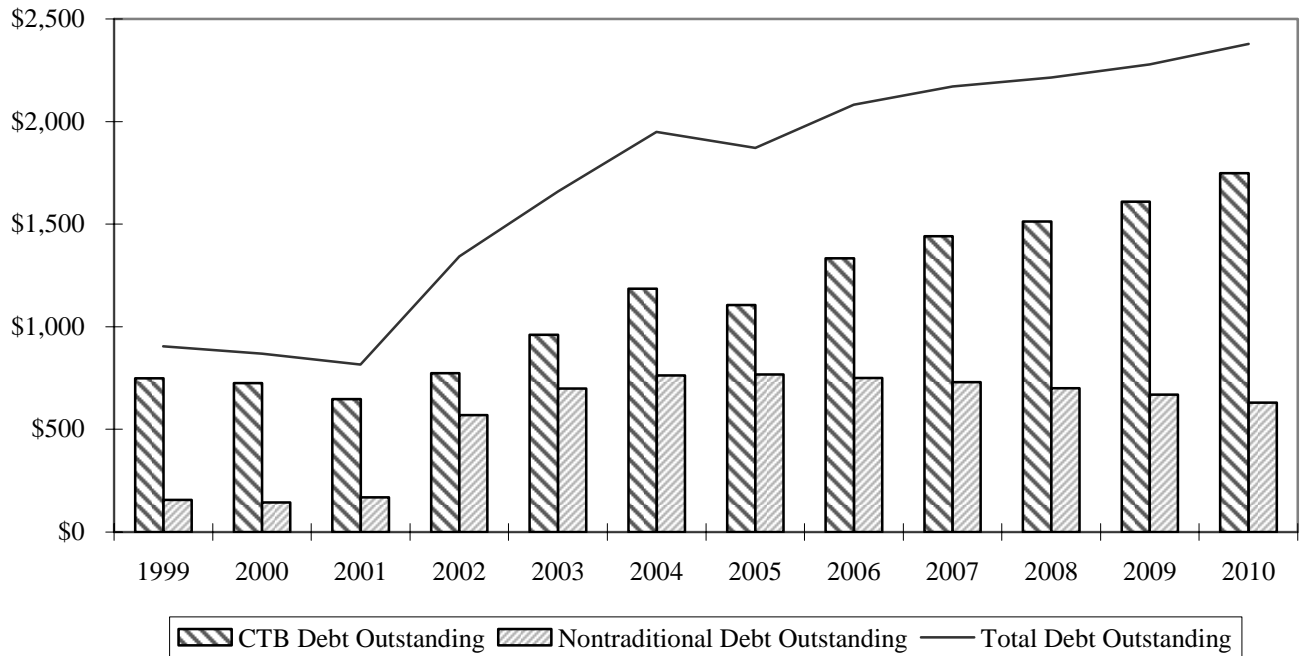
Last session the General Assembly placed limits on MDOT's nontraditional debt. The limits placed on nontraditional debt are consistent with the limits placed on CTBs. The General Assembly limited the total amount of nontraditional debt outstanding to the amount proposed by the department during the legislative session. If the agency finds that circumstances warrant additional issuances, the department must report to the budget committees on any proposed debt and provide the committees with 45 days to review and comment on the proposal. **It is recommended that the General Assembly continue its policy to limit total nontraditional debt outstanding. It is recommended that the limit be \$754,100,000 at the end of fiscal 2006.**

The General Assembly also required that MDOT report to the budget committees on the cost of 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 on the costs of nontraditional debt when it releases its September and January forecasts.**

Total Debt Outstanding

Exhibit 4 shows that MDOT's total debt outstanding from all sources (excluding Grant Anticipation Revenue Vehicles or GARVEE bonds discussed in the MDOT Overview Analysis) is expected to more than double from \$904.5 million in fiscal 1999 to \$2.1 billion in fiscal 2006. Further, the percent of total MDOT debt outstanding comprised by nontraditional debt is projected to increase from 17.1% in fiscal 1999 to 36% in fiscal 2006. As discussed earlier, the out-year trends are driven by continued high levels of CTB issuances. By the end of fiscal 2010, CTB and nontraditional debt outstanding is estimated to be almost \$2.4 billion. This is within statutory limits and coverage limits that the department aspires to maintain. The department's proposed plan also leaves some capacity to issue additional debt.

Exhibit 4
Growth in the Maryland Department of Transportation’s Total Debt
Fiscal 1999 to 2004 Actual Data and Fiscal 2005 to 2010 Estimated Data
(\$ in Millions)



Source: Maryland Department of Transportation, January 2005

Issues

1. Fiscal 2005 Working Appropriation Overstates Debt Service Requirements

In the 2004 legislative session, the General Assembly appropriated \$175.9 million to support MDOT's debt service requirements. At the time, the appropriation was consistent with projected debt service requirements. These requirements were based on such factors as the department's forecasted capital needs, projected revenue attainment, and expected bond market conditions. Changes in these factors can affect debt service needs.

Since the 2004 session, the revenue overattainment and continued low interest rates reduced MDOT's fiscal 2005 debt service requirements. **Exhibit 5** shows that debt service requirements have been reduced by \$21.9 million. Specifically, the reduced debt service requirements are attributable to the following:

- ***Deposits into a sinking fund reduced debt service requirements by \$16.03 million:*** The 2004 bond sale generated a premium. The CTBs generated a premium because the market rate for the department's debt, as measured by the True Interest Cost (TIC), was 4.02%, while the coupon rate of the bonds was 5.00%. This discrepancy generated the \$26.2 million bond sale premium, \$16 million of which MDOT put in a sinking fund to be applied to debt service payments. This reduces the amount needed to be appropriated in fiscal 2005 correspondingly. The department also received \$31,625 in accrued interest on the bond sale, which is also in a sinking fund;
- ***Debt service payments assumed in the legislative appropriation for the 2004 series is \$5.57 million less than projected:*** Instead of issuing three 2004 series, whose debt service is \$21.57 million, the department issued one series with \$16 million in debt service, resulting in fiscal 2005 savings totaling \$5.57 million. MDOT was able to reduce debt issuance because TTF receipts exceeded projections, thus driving up the TTF's fiscal 2004 fund balance to \$288 million (compared to a goal of \$100 million). MDOT responded by reducing funds generated through bond sales, which reduced debt service payments; and
- ***The 2004 refunding series resulted in reducing fiscal 2005 debt service by \$309,688:*** In 2004, part of the 1996 series and 1999 series bond sales were refunded. The 1996 series debt service was reduced by \$1.55 million and 1999 series debt service was reduced by \$2.56 million. These reductions are offset by the 2004 series refunding debt service savings totaling almost \$3.80 million, resulting in \$309,688 of net savings.

Since the fiscal 2005 working appropriation has overbudgeted MDOT's debt service payments, it is recommended that the General Assembly reduce MDOT's fiscal 2005 debt service appropriation by \$21,911,313. To implement this recommendation the department should amend budget reconciliation legislation to reduce overbudgeted debt service appropriations. Insofar as debt service expenditures are included in the Spending Affordability

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Committee's (SAC) calculation, this reduction reduces the State's total SAC eligible expenditures.

Exhibit 5
Fiscal 2005 Appropriation
Legislative Appropriation Compared to Current Estimate
(\$ in Thousands)

<u>Series</u>	<u>Fiscal 2005 Appropriation</u>	<u>January 2005 Estimate</u>	<u>Difference</u>
Refunding Series 1993	\$15,552	\$15,552	\$0
Series 1996	4,825	3,275	-1,550
Refunding Series 1998	14,962	14,962	0
Series 1999	8,206	5,651	-2,555
Series 2002	11,123	11,123	0
Series 2003 - First	7,673	7,673	0
Refunding Series 2003	83,512	83,512	0
Series 2003 - Second	8,112	8,112	0
Series 2004 - First	7,980	0	-7,980
Series 2004 - Second	7,590	0	-7,590
Series 2004 - Third	6,000	0	-6,000
Refunding Series 2004	0	3,795	3,795
Accrued Interest Deposited into Sinking Fund	<u>0</u>	<u>-32</u>	<u>-32</u>
Subtotal - State CTBs	175,535	153,623	-21,911
County Transportation Bonds	<u>353</u>	<u>353</u>	<u>0</u>
Total Expenditures	\$175,888	\$153,977	-\$21,911

Source: Maryland Department of Transportation, January 2005

Operating Budget Recommended Actions

	<u>Amount Reduction</u>
1. Reduce debt service appropriation to reflect projected proceeds from bond sale premiums. The Maryland Department of Transportation (MDOT) advises that it plans to issue \$35 million in bonds in fiscal 2005 and \$320 million in bonds (two bond sales totaling \$160 million each) in fiscal 2006. MDOT also advises that it expects interest rates to be 4.4% in fiscal 2005 and 4.8% in fiscal 2006. The coupon rate (or interest rate offered) on recent bond sales have generally been at least 5%. If this trend continues, MDOT can expect a \$1.7 million bond sale premium in fiscal 2005 and \$4.9 million in bond sale premiums (\$2.45 million for each \$160 million bond sale) in fiscal 2006. This \$6.6 million could be applied to support the fiscal 2006 debt service needs. Applying the bond sale premium to debt service implements a recommendation from the December 2003 Spending Affordability Committee report in which the committee recommended that the State begin estimating sale premiums when preparing its General Obligation bond debt service requirements. This action applies this practice to MDOT's debt service requirements. It is recommended that the projected bond sale revenues be applied to debt service and the Governor's allowance be reduced accordingly.	\$ 6,600,000 SF
2. Add the following language: <u>Provided that the Department of Transportation may not issue bonds through the Maryland Economic Development Corporation to construct a new hanger at Martin State Airport.</u>	
Explanation: The Maryland Department of Transportation (MDOT) advises it is considering a proposal that the Maryland Economic Development Corporation (MEDCO) issue \$4.7 in bonds to support improvements at Martin State Airport. Issuing MEDCO bonds raises the following concerns:	

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- ***MDOT has its own bonding authority, so MEDCO financing is unnecessary:*** The department has its own bonding authority and CTBs are highly-rated AA bonds. Since the department can issue its own highly-rated bonds, it is not necessary to get MEDCO to issue bonds. Furthermore, MDOT could deposit the hanger's revenues into the TTF instead of pledging it for MEDCO bonds;
- ***MEDCO bonds are more expensive:*** The current proposal assumes a thirty-year maturity and capitalized interest. Given the high bond rating of CTBs, it is unlikely that uninsured MEDCO bonds would receive lower interest rates than CTBs. Consequently, the financing proposal is more expensive than traditional financing; and
- ***legislatively imposed efficiencies could provide cash for this project:*** Given the relatively small size of this proposal (\$4.7 million compared to a \$1.8 billion capital program), the department could use cash available after legislative reductions to fund the project.

The language precludes MDOT from issuing bonds through MEDCO.

3. 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 shall not exceed \$1,333,475,000 as of June 30, 2006. Provided, however, that in addition to the limits established under this provision, the department may increase its debt outstanding by not more than \$15,000,000 so long as (1) notice stating the specific reason for the additional debt requirement is provided to the budget committees; and (2) the budget committees shall have 45 days to review and comment on the proposal before publication of a preliminary official statement that includes the debt.

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 will be based on outstanding debt as of June 30, 2005, plus projected debt issued during fiscal 2006 in support of the transportation capital program. The language further provides that the Maryland Department of Transportation (MDOT) may request the budget committees to increase the level of maximum debt outstanding by \$15 million during the fiscal year upon the provision of notification to the budget committees of the specific reason why the additional debt is required.

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Information Request	Author	Due Date
Justification for an increase of up to \$15 million in debt outstanding	MDOT	45 days prior to the publication of a preliminary official statement

4. 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 GARVEE bond issued by the Maryland Department of Transportation (MDOT), may not exceed \$754,100,000 as of June 30, 2006. Provided, however, that in addition to the limit 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 Committee on Appropriations 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, 2006, and the total amount by which the fiscal 2007 debt service payment for all nontraditional debt would increase following the additional issuance; and
- (2) the Senate Budget and Taxation Committee and the House Committee on Appropriations 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 Committee on Appropriations may hold a public hearing to discuss the proposed increase and must 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 2006 to the total amount that is projected to be outstanding from all previous nontraditional debt issuances including all anticipated sales in fiscal 2005. The language allows MDOT to increase the amount of nontraditional debt outstanding in fiscal 2006 by providing notification to the budget committees regarding the reason that the additional issuances are required.

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

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5. Add the following language:

The Maryland Department of Transportation (MDOT) shall submit with its annual September and January financial forecasts information on (1) anticipated nontraditional debt outstanding as of June 30 of each year and (2) anticipated debt service payments for each outstanding nontraditional debt issuance from fiscal 2005 through fiscal 2016. Nontraditional debt outstanding is defined as any debt instrument that is not a consolidated transportation bond or a GARVEE 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 budget committees are 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 September forecast With January forecast
Total Special Fund Reductions		\$ 6,600,000
Special Fund Language Reductions		\$21,911,313
Total Recommended Reductions		\$28,511,313

Current and Prior Year Budgets

**Current and Prior Year Budgets
Debt Service Requirements
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$0	\$143,579	\$0	\$0	\$143,579
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	-8,327	0	0	-8,327
Actual Expenditures	\$0	\$135,252	\$0	\$0	\$135,252
Fiscal 2005					
Legislative Appropriation	\$0	\$175,888	\$0	\$0	\$175,888
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$175,888	\$0	\$0	\$175,888

Note: Numbers may not sum to total due to rounding.

Fiscal 2004

MDOT reverted approximately \$8.3 million from the fiscal 2004 special fund appropriation for debt service on consolidated transportation bonds. The debt repayment schedule, on which the fiscal 2004 debt service appropriation was based, did not assume any savings that might accrue from the issuance of refunding bonds. In February 2003 (fiscal 2003), MDOT issued the 2003 Refunding Series, which reduced the fiscal 2004 debt service payment by \$4.8 million. The 2004 Refunding

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Series, which was issued in May 2004 (fiscal 2004), further reduced the fiscal 2004 debt service payment by \$3.3 million. Finally, MDOT applied \$200,000 in accrued interest to the 2004 debt service payment.

Fiscal 2005

To date, no budget amendments have been processed.

**Fiscal Summary
MDOT Debt Service Requirements**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
1000 State Debt	\$ 134,910,077	\$ 175,534,625	\$ 150,392,156	-\$ 25,142,469	-14.3%
2000 County Debt	341,956	353,194	354,577	1,383	0.4%
Total Expenditures	\$ 135,252,033	\$ 175,887,819	\$ 150,746,733	-\$ 25,141,086	-14.3%
Special Fund	\$ 135,252,033	\$ 175,887,819	\$ 150,746,733	-\$ 25,141,086	-14.3%
Total Appropriations	\$ 135,252,033	\$ 175,887,819	\$ 150,746,733	-\$ 25,141,086	-14.3%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.