J00A04
Debt Service Requirements
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 05 Actual	FY 06 Working	FY 07 Allowance	FY 06-07 Change	% Change Prior Year
Special Fund	$153,973	$144,147	$123,639	-$20,507	-14.2%
Total Funds	**$153,973**	**$144,147**	**$123,639**	**-$20,507**	**-14.2%**

- The fiscal 2007 allowance decreases by $20.5 million due to the structure of the 2003 Refunding Series, which allowed for substantially higher payments in the first three years and smaller payments thereafter.

- The forecast assumed that the department would issue $105 million in Consolidated Transportation Bonds (CTBs) in fiscal 2006; however, only $100 million was actually issued in January 2006. The forecast assumes that $235 million in bonds will be issued in fiscal 2007. The total amount of CTB debt outstanding is expected to be just under $1.3 billion at the end of fiscal 2007.

- The total amount of non-traditional debt outstanding will total approximately $762 million at the end of fiscal 2007.

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

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Analysis in Brief

Major Trends

Debt Service Payments Decrease but Are Expected to Continue to Rise in the Future: After reaching the highest debt service payment in fiscal 2005 ($170 million), payments decline over the next two years to $124 million in fiscal 2007. In the future, debt service payments are projected to increase as the Maryland Department of Transportation (MDOT) continues to issue large amounts of debt annually. Over the period from fiscal 2006 to 2011, MDOT expects to issue $1.2 billion in new CTBs.

Issues

Changes to Annual Budget Bill Language: Annual budget bill language concerning the total amount of CTB debt outstanding has historically included a provision that allows MDOT to increase the debt outstanding by not more than $15 million. Due to conservative forecasting and the use of multiple built-in contingencies and hedges, MDOT is often able to reduce or eliminate bond sales because the cash is available in the Transportation Trust Fund. **The Department of Legislative Services (DLS) recommends the provision allowing MDOT to increase the total CTB debt outstanding be removed from the annual budget bill language and that a provision be added so that MDOT either uses projected proceeds from bond sale premiums to reduce the size of the bond issuance or applies the proceeds from the premium to debt service for that bond issuance.**

Recommended Actions

		Funds
1.	Add annual budget language limiting the total amount of non-traditional debt outstanding at the end of fiscal 2007.	
2.	Add annual budget language requiring the submission of information concerning non-traditional debt outstanding.	
3.	Add annual language limiting the total amount of Consolidated Transportation Bonds outstanding.	
4.	Reduce the amount of the debt service allowance to reflect proceeds from the bond sale premium.	$ 3,694,390

5. Adopt committee narrative to request an analysis of how to efficiently measure the level of debt issued by or on behalf of the Maryland Department of Transportation.

Total Reductions	**$ 3,694,390**

Updates

MDOT Issues $100 Million Worth of CTB Debt: MDOT recently sold $100 million worth of CTB debt to support its capital program. The Series 2006 bonds were rated AA by Fitch and Standard & Poor's and Aa2 by Moody's. The proceeds from the bond sale premium netted $3.8 million. The use of this premium will be discussed in the recommended actions.

Debt Service Requirements

Maryland Department of Transportation

Budget Analysis

Program Description

Consolidated Transportation Bonds

The Maryland Department of Transportation (MDOT) issues 15-year Consolidated Transportation Bonds (CTBs), 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.

Non-traditional Debt

MDOT also uses non-traditional 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 (COPs), 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.

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, Acts of 1993 altered this policy by authorizing the department to continue to issue bonds on behalf of local jurisdictions but exclude 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 is paid from the local share of transportation revenues. MDOT continues to be responsible for all aspects of administering and issuing debt for the counties' transportation programs.

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 final county bond issuance, the Fourteenth Series, will mature November 15, 2006. Since county debt requires a sinking fund, where the money is deposited in advance of the payment to assure that funds are available, the counties have already made their payments into the sinking fund for the final payment. This payment will be made in November 2006, and the last of the county bonds will then be retired.

Governor's Proposed Budget

The fiscal 2007 allowance for debt service payments is $123.6 million, which decreases $20.5 million (14.2%) below the fiscal 2006 payment. The decrease is largely due to the maturity structure of the 2003 Refunding Series. Specifically, the debt has higher principal maturities in the early years of the issue than in the latter years. The structure is based on the maturity schedules of the bond issues that were refunded: the 1992 Series ($40.5 million called), the 1993 Series ($24.8 million called), Second Refunding 1993 ($154 million called), and the 1994 Series ($46.5 million called). Although the decrease due to the 2003 Refunding Series is actually much larger (total decrease from fiscal 2006 to 2007 is $37.4 million), it is offset by principal payments for the 2004 Refunding Series and the 2004 Series that begin in fiscal 2007 (total principal payments for these two issues in fiscal 2007 is $10.3 million). Because of available funds in the TTF, no bonds were issued in fiscal 2005.

The fiscal 2007 debt service payment includes $9.7 million for anticipated bond issuances in fiscal 2006. The two largest payments will be for refunding bonds issued in fiscal 2003 to refinance earlier debt issuances at the lower interest rates available ($23.9 million) and for the 2004 Series ($22.4 million). The 1996 Series bonds were retired in fiscal 2006 with a $4.1 million debt service payment, so fiscal 2007 does not include any debt service payments for that issuance. The remaining amount of the fiscal 2007 debt service payment is attributable to the timing of amortized payments due on the other previous debt issuances still outstanding.

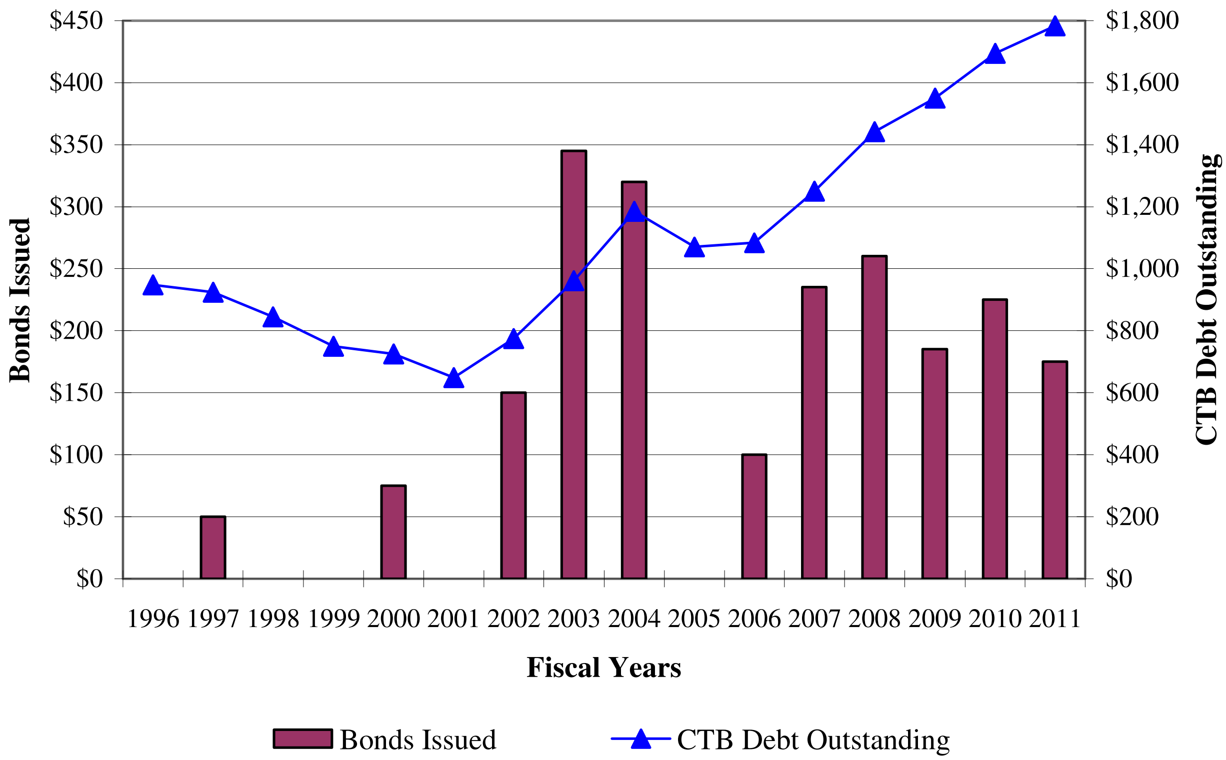
Historical Trends in CTB Debt

Exhibit 1 shows annual new CTB issuances and net debt outstanding from fiscal 1996 through 2011.

Between fiscal 1996 and 2001, the department issued only $125 million in new debt. During this time, 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 CTB debt outstanding decreased from $947 million to $648 million.

The department issued $150 million in debt in fiscal 2002, followed by an unprecedented $345 million in new debt in fiscal 2003 and $320 million in fiscal 2004 to sustain the ongoing capital program. Taking advantage of low interest rates available at the time, the department also issued bonds in fiscal 2003 and 2004 to refund previous bond sales.

Exhibit 1
Bond Sales and Debt Outstanding
Fiscal 1996 – 2005 Actual Data and Fiscal 2006 – 2011 Estimated Data
($ in Millions)



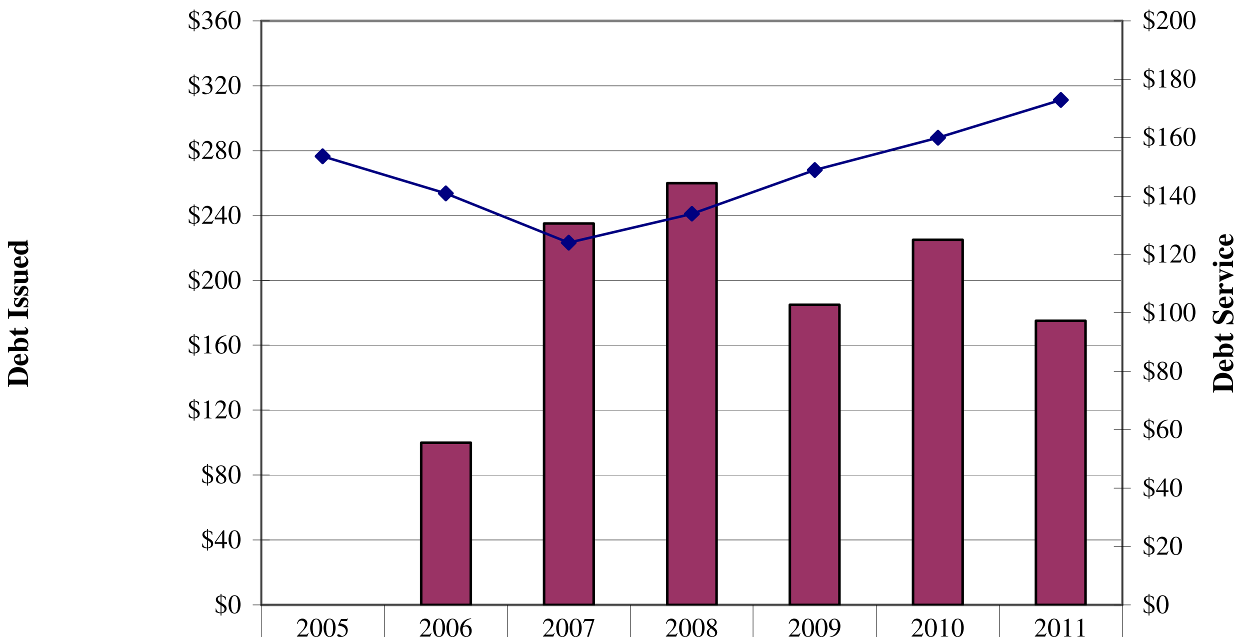
Source: Maryland Department of Transportation, January 2006

The department did not issue any bonds in fiscal 2005, as it was using available cash created by changes in project schedules and higher than expected revenues in the early part of the fiscal year. The estimated sale of bonds for fiscal 2006 was $105 million, but the bond sale was reduced by $5 million because the forecast originally understated corporate income tax revenues by $6.4 million, of which $4.5 million was retained by the TTF. Over the six-year forecast period (fiscal 2006 through 2011), MDOT projects that a total of $1,185 million in new debt will be issued.

Debt Service Outlook

The long-term trend is that MDOT's debt service payments will continue to increase. In fiscal 2001, after years of declining debt outstanding, debt service payments bottomed out at $110 million. Bond issuances in fiscal 2002, 2003, and 2004 began increasing the debt service payments to a peak of $170 million in fiscal 2005 (actual payment was $154 million due to premium MDOT received). Payments will decline in fiscal 2006 and 2007, reaching another low point of $124 million in fiscal 2007 as the result of the reduced Series 2003 refunding payments. Debt service payments are expected to increase from there, as MDOT continues to maintain an aggressive capital program by issuing debt. By fiscal 2011, MDOT projects its annual debt service payment will be $173 million. (See **Exhibit 2**).

Exhibit 2
Debt Service Payments and Bond Issuances
Fiscal 2005 Actual Data and Fiscal 2006 – 2011 Estimated Data
($ in Millions)



	2005	2006	2007	2008	2009	2010	2011
Debt Issued	0	100	235	260	185	225	175
Debt Service	154	141	124	134	149	160	173

Fiscal Years

Source: Maryland Department of Transportation's January 2006 Transportation Trust Fund Forecast

Amount of CTB Debts Outstanding Is within Acceptable Limits

The issuance of CTBs is limited by three criteria: an outstanding debt limit and two coverage tests. The outstanding debt limit is set by statute but is adjusted periodically to reflect the increased revenue potential of the TTF. In 2004, the maximum outstanding debt limit was increased from $1.5 billion to $2.0 billion. At the time, legislation provided that the TTF would receive additional revenues, primarily by raising vehicle registration fees. These additional revenues increased the fund's ability to support debt service payments, which allowed for an increase in the total debt outstanding limit.

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 years net income (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 2006 bond sales are projected to raise the total debt outstanding at the end of the year to $1.1 billion, which is well below the statutory ceiling of $2.0 billion. The bond coverage ratio for fiscal 2006 is estimated to be 6.05 times the maximum debt under the net revenue test and 8.6 times the maximum debt service under the pledged taxes coverage test. The fiscal 2007 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 decrease to 5.5 and the coverage ratio under the pledged taxes will remain at 8.6.

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 & Poor's, the highest rating that a State transportation department 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 annual limits on the total debt outstanding at the end of the current and subsequent fiscal years. Statute 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 add annual budget bill language limiting the level of maximum CTB debt outstanding. It is recommended that the limit be set at $1.245 billion in fiscal 2007.

Non-traditional Debt

In addition to CTBs, the department uses debt referred to as non-traditional debt. Non-traditional debt is any debt instrument that is not 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, and debt issued by MEDCO or MdTA on behalf of MDOT.

Exhibit 3 shows that the department currently has eight non-traditional debt issuances outstanding, and one additional issuance is expected in fiscal 2006. These issuances are projected to have a combined total of $762.2 million in unpaid principal outstanding at the end of fiscal 2007.

Exhibit 3
Non-traditional Debt Outstanding and Debt Service Payments
($ in Thousands)

Year Issued and Maturity	Amount Issued	Principal Outstanding (06/30/07)	FY 2007 Debt Service Payment	Purpose
Certificates of Participation				
1999 – 2025	$42,750	$23,710	$2,328	Expand Pier B and a de-icing facility at the Baltimore/Washington International Thurgood Marshall (BWI) Airport.
2000 – 2025	33,000	18,795	3,627	Construction of a parking garage at Maryland Rail Commuter/Amtrak station near BWI.
2004 – 2016	15,500	12,900	1,726	Purchase buses for parking garage shuttle operations at BWI Airport.
Expected issuance – May 2006	27,185	27,185	n/a	Construction of a paper shed at South Locust Point.
Subtotal	**$118,435**	**$82,590**	**$7,681**	
Maryland Transportation Authority Revenue Bonds				
2002 – 2027	264,075	246,365	20,345	Construction of Elm Road parking garage near BWI, roadway improvements, enhanced pedestrian access, and upgrading of utility plants. Bonds backed by parking fees.

Year Issued and Maturity	Amount Issued	Principal Outstanding (06/30/07)	FY 2007 Debt Service Payment	Purpose
2002 – 2032	117,345	111,665	9,031	Construction of consolidated rental car facility at BWI. Bonds back by customer facility charge of $3.25 per vehicle rental per day.
2003 – 2013	69,700	69,700	2,947	Additional construction at BWI Airport, including roadway improvements, installation of pedestrian skywalks, and work on taxiway parallel to runway. This issue has a floating interest rate structure. Bonds backed by passenger facilities charges.
Subtotal	**$451,120**	**$427,730**	**$32,323**	
Maryland Economic Development Corporation Debt				
2002 – 2022	36,000	30,415	2,899	Construction of new MDOT headquarters building.
2003 – 2030	223,660	216,455	15,118	Construction of a new 11-gate Concourse A and reconstruction of a portion of Concourse B at BWI Airport.
Subtotal	**$259,660**	**$246,870**	**$18,017**	
Funding Method to Be Determined				
Estimated 2007 to TBD	5,000	5,000	n/a	Construction of an aircraft hangar at Martin State Airport.
Subtotal	**$5,000**	**$5,000**	**n/a**	
Total	**$834,215**	**$762,190**	**$58,021**	

Source: Maryland Department of Transportation, January 2006

The General Assembly began placing limits on COPs in fiscal 2002, and then all of MDOT's non-traditional debt in fiscal 2005. The limits placed on non-traditional debt are consistent with the limits placed on CTBs. The General Assembly limited the total amount of non-traditional 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 non-traditional debt outstanding. It is recommended that the limit be $762,190,000 at the end of fiscal 2007.**

The General Assembly also typically requires that MDOT report to the budget committees on the cost of non-traditional 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 non-traditional debt when it releases its September and January forecasts.**

Total Debt Outstanding

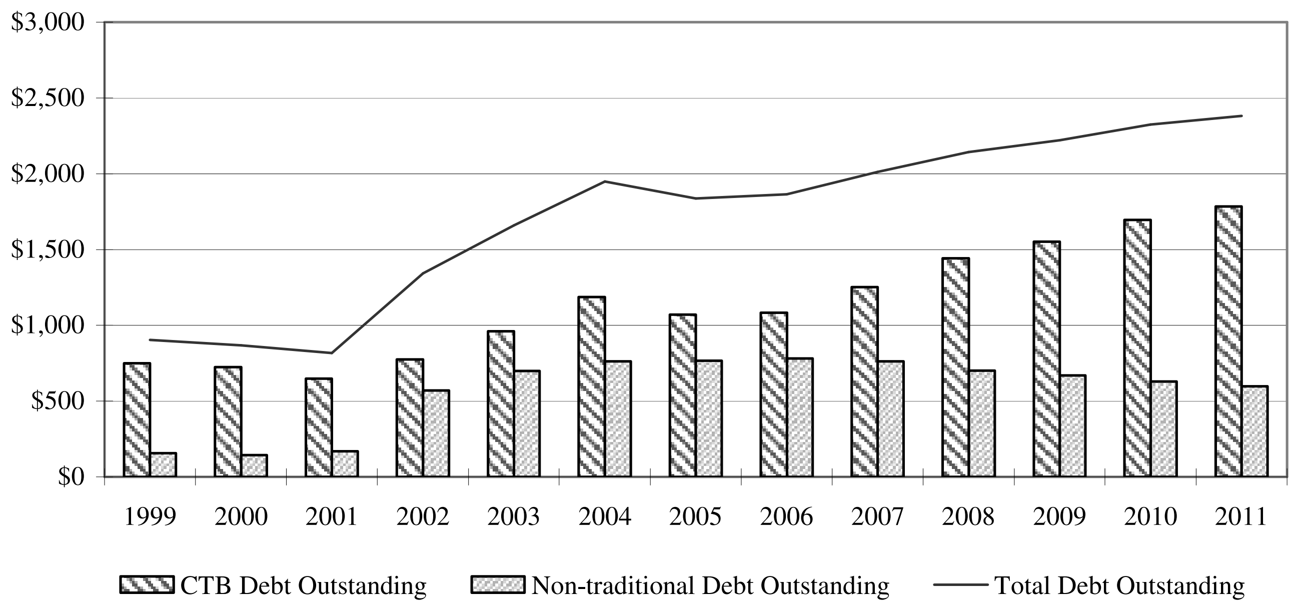
Exhibit 4 shows that MDOT's total debt outstanding from all sources is expected to more than double from $905 million in fiscal 1999 to $2.0 billion in fiscal 2007. Further, the percent of total MDOT debt outstanding comprised by non-traditional debt is projected to increase from 17.2% in fiscal 1999 to 37.9% in fiscal 2007. By the end of fiscal 2011, CTB and non-traditional debt outstanding is estimated to be almost $2.4 billion. The CTB debt 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 – 2005 Actual Data and Fiscal 2006 – 2011 Estimated Data

($ in Millions)



Source: Maryland Department of Transportation, January 2006

Issues

1. Changes to Annual Budget Bill Language

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 outstanding debt plus projected debt. Historically, the language has further stated that MDOT could request the budget committees to increase the level of maximum debt outstanding by up to $15 million during the fiscal year after a review and comment period by the budget committees.

MDOT continues to forecast revenues and expenditures conservatively. As mentioned in the MDOT Overview, some of the hedges and contingencies built into the TTF forecast include:

- ***Revenue Contingency:*** To reduce any adverse effects associated with underattained revenues, the TTF includes a $131 million reserve for changes in revenue sources. This hedge reduces fiscal 2006 through 2011 revenues by roughly $20 million each year.

- ***Understating Corporate Income Tax Receipts from Fiscal 2008 through 2011:*** The Bureau of Revenue Estimates projects that MDOT's share of fiscal 2008 to 2011 corporate income taxes will total $903 million. The TTF forecast expects $872 million in corporate income tax receipts. MDOT advises that the department is concerned that actual revenues may be less than forecast so its TTF forecast includes a $31 million hedge.

- ***Three Operating Budget Contingencies:*** Operating budget contingencies provide for another $199 million in hedges. This includes $124 million in modal contingencies, $71 million in salary-related contingencies, and $4 million in security contingencies.

- ***Steep Decline in Fiscal 2010 and 2011 Federal Capital Funding:*** Federal transportation grant reauthorizations provide for substantial growth in federal revenues through the end of federal fiscal 2009. After the current reauthorization ends, MDOT uses very conservative estimates of federal funds.

- ***Double Debt Pledge Hedge:*** In each bond sale's official statement, the department pledges that both net income and pledged taxes are at least 2 times maximum debt service. To reduce the likelihood that this covenant with bondholders is violated, the department has an administrative policy that the TTF forecast's debt issuance tests provide at least 2.5 times maximum debt service. Additionally, MDOT now requires that the ratios be at least 2.5 times maximum debt service beyond the forecast period. For example, net revenues are 2.6 times maximum debt service in fiscal 2011 so that this ratio is at least 2.5 in fiscal 2012. This policy reduces debt issuances by over $100 million in the forecast period.

Taken together, these hedges reduce programmed spending by over $750 million from fiscal 2006 to 2011. These hedges reduce the likelihood that there will be insufficient funds to meet out-year planned spending. With the exception of the corporate income tax hedge, these policies have been in place for over a decade. They have resulted in MDOT consistently having a closing fund balance that exceeds $100 million. The department has also reduced or cancelled a number of bond sales over the last decade when cash becomes available.

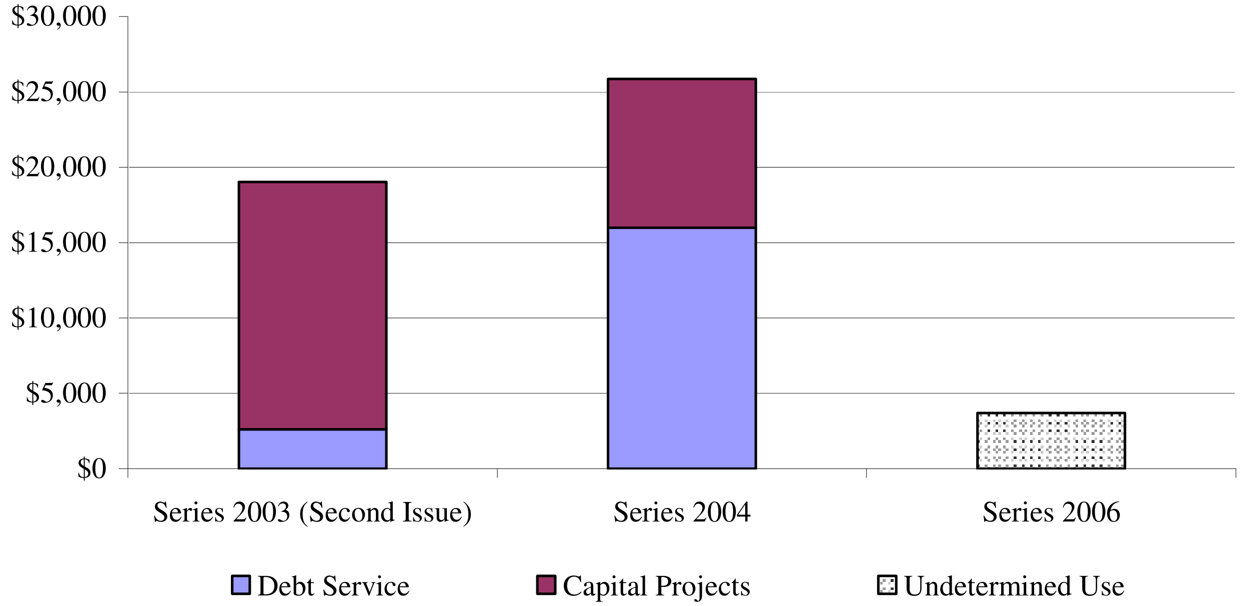
Since bond sales are regularly reduced or cancelled, there has been no need for MDOT to utilize the provision allowing them to raise the debt outstanding limit under the provision that was previously contained in the budget bill language. **The Department of Legislative Services (DLS) recommends that the provision in the annual budget bill language allowing MDOT to increase total debt outstanding by up to $15 million no longer be included. Based on a number of built-in contingencies and hedges, MDOT has historically reduced or eliminated bond sales, making this provision unnecessary.**

Bond Proceeds

As a result of low interest rates, since 2002, MDOT has received proceeds from bond sale premiums. Beginning with the 2003 Second Series bond issuance, the Notice of Sale permits MDOT to reduce the par value of the bonds if there is a significant premium. MDOT reports that it also works with its financial advisor to try to determine the amount of the premium expected and then reduce the amount of the sale accordingly prior to sale. However, in recent years MDOT has refrained from reducing the amount of the bond sale because of the excellent interest rates received. **Exhibit 5** shows how MDOT has allocated the proceeds from bond sale premiums in 2003 and 2004. No bonds were issued in 2005. The most recent sale of Series 2006 bonds netted a premium of $3.8 million that MDOT plans to use for its capital program.

Due to the growing amount of outstanding debt, **DLS recommends that future annual budget bill language on total debt outstanding include a provision that MDOT should reduce the size of the bond sale issuance if proceeds from a bond sale premium are expected, or should apply the proceeds from the premium for debt service for that bond issuance.**

Exhibit 5
Uses of Proceeds from Bond Sale Premiums
Fiscal 2003, 2004, and 2006 Bond Issuances
($ in Thousands)



Note: Graph shows total premium amount minus money used for costs of issuance.

Source: Maryland Department of Transportation

Recommended Actions

1. Add the following language:

The total aggregate outstanding and unpaid principal balance of non-traditional 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), may not exceed $762,190,000 as of June 30, 2007. Provided, however, that in addition to the limit established under this provision, MDOT may increase the aggregate outstanding unpaid and principal balance of non-traditional 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 non-traditional debt that would be outstanding on June 30, 2007, and the total amount by which the fiscal 2008 debt service payment for all non-traditional 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 non-traditional debt outstanding at the end of fiscal 2007 to the total amount that is projected to be outstanding from all previous non-traditional debt issuances as of June 30, 2006, and all anticipated sales in fiscal 2007. The language allows MDOT to increase the amount of non-traditional debt outstanding in fiscal 2007 by providing notification to the budget committees regarding the reason that the additional issuances are required.

Information Request	Author	Due Date
Justification for increasing non-traditional debt outstanding	MDOT	45 days prior to the 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 non-traditional debt outstanding as of June 30 of each year and (2) anticipated debt service payments for each outstanding non-traditional debt issuance from fiscal 2006 through 2017. Non-traditional 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 budget committees are interested in monitoring the use of non-traditional debt by MDOT. The information requested provides the budget committees with additional information on the usage and annual costs of non-traditional debt.

Information Request	**Author**	**Due Date**
Non-traditional debt outstanding and anticipated debt service payments	MDOT	With September forecast With January forecast

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 $1,248,750,000 as of June 30, 2007. Provided, however, that the total amount of debt outstanding will be reduced by any proceeds generated from bond sale premiums. To achieve this reduction, MDOT may either use projected proceeds from bond sale premiums to reduce the size of the bond issuance or apply the proceeds from the premium to debt service for that bond issuance.

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, 2006, plus projected debt issued during fiscal 2007 in support of the transportation capital program.

	Amount Reduction		**Position Reduction**
4. Reduce the amount of the debt service allowance to reflect the proceeds from the bond sale premium.	$ 3,694,390	SF	

5. Adopt the following narrative:

Debt Efficiency Report: The committees request that the Maryland Department of Transportation (MDOT) undertake an analysis of how to efficiently measure the level of debt issued by or on behalf of MDOT. In addition, the department should make recommendations as how best to ensure prudent limits on Consolidated Transportation Bond debt outstanding and non-traditional debt outstanding. The analysis should look at the relationship between cash available for the capital plan and the amount of debt issued and determine if there is a measure to ensure that the department does not over leverage debt issuances compared to cash available. In recent years the level of non-traditional debt issued by MDOT has increased. This report shall be issued to the budget committees by October 27, 2006.

Information Request	**Author**	**Due Date**
Debt efficiency report	MDOT	October 27, 2006

Total Special Fund Reductions **$ 3,694,390**

Updates

1. MDOT Issues $100 Million Worth of CTB Debt

MDOT sold $100 million worth of bonds on January 25, 2006. The 2006 Series bonds will be used to provide funding for capital projects included in the department's 2006 through 2011 *Consolidated Transportation Program*. The bonds are secured by the pledge of the State's motor vehicle fuel tax, corporate income tax, and motor vehicle titling excise tax. Maturities on the bonds will range from February 15, 2009, through February 15, 2021, at a rate set forth in the official statement.

The bond series received an AA rating from Fitch and Standard & Poor's. MDOT's bond issuances have consistently been rated AA, the highest rating that a State entity typically receives. The credit strengths cited by Standard and Poor's that warrant this high rating are:

- continued steady growth of pledged revenue;
- strong net coverage of maximum annual debt service;
- a diverse transportation trust fund revenue stream;
- sound legal provisions; and
- prudent management practices.

The bond series received a rating of Aa2 from Moody's. Like the other two credit rating agencies, Moody's notes the credit strengths of having a diverse stream of tax revenues on a first lien basis, an additional bonds test of two times maximum annual debt service, and strong debt service coverage levels. However, Moody's raised concerns about the negative effect on the TTF of transfers to the State's general fund. It cites the $315 million worth of transfers made in 2003 and 2004 as a concern. It is important to note that efforts have been made to repay this amount. The general fund repaid $50 million in fiscal 2006 and provisions are in place to repay the remaining portion.

There were 11 bidders for the bond sale. The sale netted a premium of $3.8 million. The use of this premium was discussed in the recommended actions.

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
MDOT – Debt Service Requirements
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2005					
Legislative Appropriation	$0	$175,888	$0	$0	$175,888
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-21,915	0	0	-21,915
Actual Expenditures	**$0**	**$153,973**	**$0**	**$0**	**$153,973**
Fiscal 2006					
Legislative Appropriation	$0	$144,147	$0	$0	$144,147
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$144,147**	**$0**	**$0**	**$144,147**

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

Fiscal 2005

Fiscal 2005 MDOT debt service expenditures totaled just under $154 million, which is $21.9 million less than the legislative appropriation. The $21.9 million decrease includes (1) a legislative reduction of $21,911,313; and (2) a $3,648 cancellation. The legislative reduction was made through the Budget Reconciliation and Financing Act of 2005. The fiscal 2005 working appropriation overbudgeted MDOT's debt service payment. Therefore, the legislature reduced the fiscal 2005 MDOT debt service appropriation by $21,911,313. The $3,648 cancellation represents an interest payment that was not necessary because debt was not issued in fiscal 2005. MDOT anticipated a bond sale of $35 million in fiscal 2005, but the bond sale was not necessary and not issued.

Fiscal 2006

To date, no budget amendments have been processed.

Fiscal Summary
MDOT – Debt Service Requirements

Program/Unit	FY05 Actual	FY06 Wrk Approp	FY07 Allowance	Change	FY06 - FY07 % Change
1000 State Debt	$ 153,623,313	$ 143,792,156	$ 123,639,388	-$ 20,152,768	-14.0%
2000 County Debt	349,545	354,577	0	-354,577	-100.0%
Total Expenditures	**$ 153,972,858**	**$ 144,146,733**	**$ 123,639,388**	**-$ 20,507,345**	**-14.2%**
Special Fund	$ 153,972,858	$ 144,146,733	$ 123,639,388	-$ 20,507,345	-14.2%
Total Appropriations	**$ 153,972,858**	**$ 144,146,733**	**$ 123,639,388**	**-$ 20,507,345**	**-14.2%**

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

Appendix 2