

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues

**1. Local Transportation Capital Grants Skew Debt Service Coverage Tests
(Page 4)**

MDOT should comment on whether the effect providing local aid through capital grants has on the debt service coverage ratio calculations was considered as part of the decision to provide local aid via capital grants, whether it believes bondholders will view this change as an attempt to circumvent debt service coverage requirements established in bond covenants, and whether it has considered revising its debt service coverage calculations to remove capital aid to locals from the net income and pledged taxes amounts used to calculate coverage ratios.

MDOT Response:

MDOT did notice the impact that providing local aid through capital grants versus revenue reallocation had on its debt service coverage calculations. The Department made sure that the TTF Financial Plan was in compliance both ways. The coverage ratios shown are considered to be the technically correct way to present the data.

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues (continued)

2. Debt Service Taking Bigger Bite of the Transportation Revenue Pie (Page 13)

Committee narrative requesting MDOT to work with the Capital Debt Affordability Committee to develop affordability criteria specific to CTB debt is included in the recommended action section of this analysis.

MDOT Response:

MDOT's Consolidated Transportation Bonds (CTBs) currently receive some of the highest ratings assigned to transportation bonds by the three Bond Rating Agencies: AAA by Standard and Poor's; Aa1 by Moody's Investors Service; and AA+ by Fitch Ratings. MDOT bonds receive these ratings because of the debt management criteria and processes already being used:

- Total debt outstanding is limited by statute to \$4.5 billion.
- Annual limits are established in the Budget Bill each year for
 - the maximum amount of bonds outstanding at the end of the fiscal year-end, and
 - the maximum debt service allowed in the fiscal year.
- MDOT manages to two Debt Service Coverage Ratios
 - Pledged Taxes compared to Maximum Annual Debt Service, and
 - Net Operating Income compared to Maximum Annual Debt Service.
 - These ratios are managed to a level that is 25% higher than the level required under bond covenants.
- MDOT manages to a minimum Trust Fund Balance. This target is viewed by the rating agencies as sufficient to allow the Department to react to changes in the economy.

All of these criteria: debt cap limits, coverage ratios, and minimum fund balance, along with the long-term prudent fiscal management of the Department are cited in the ratings reports and accepted in the marketplace as strong affordability criteria.

For these reasons, MDOT does not believe that additional affordability criteria are warranted.

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Operating Budget Recommended Actions (Page 14)

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 \$2,773,900,000 as of June 30, 2017. Further provided that the amount paid for debt service shall be reduced by any proceeds generated from net bond sale premiums, provided that those revenues are recognized by the department and reflected in the Transportation Trust Fund forecast. Further provided that the appropriation for debt service shall be reduced by any proceeds generated from net bond sale premiums. To achieve this reduction, the Maryland Department of Transportation (MDOT) may either use the proceeds from the net premium to reduce the size of the bond issuance and/or apply the proceeds from the net premium to eligible debt service.

MDOT Response:

The Department concurs with the recommended language.

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Operating Budget Recommended Actions (Continued)(Page 14)

2. Add the following language:

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 2016 through 2026.

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.

MDOT Response:

The Department concurs with the recommended language.

MDOT RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions (Continued)(Page 15)

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 MDOT, may not exceed \$609,630,000 as of June 30, 2017. 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 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, 2017, and the total amount by which the fiscal 2017 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.

MDOT Response:

The Department concurs with the recommended language.

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Operating Budget Recommended Actions (Continued)(Page 16)

4. Adopt the following narrative:

Consolidated Transportation Bond Debt Affordability Criteria: The committees are concerned about the increasing share of Transportation Trust Fund (TTF) revenues being consumed by debt service payments on Consolidated Transportation Bond (CTB) debt. By fiscal 2021, the end of the current TTF forecast period, debt service is projected to require almost 11.0% of net TTF revenues. Furthermore, in fiscal 2021, the TTF forecast anticipates that debt service will equal an amount equivalent to over 90.0% of projected bond issuances. Given that CTB debt is part of total State tax-supported debt and total State tax-supported debt is approaching the State's affordability limits, it is desirable that CTB-specific affordability criteria be developed. The committees therefore request that the Maryland Department of Transportation (MDOT) work with the Capital Debt Affordability Committee (CDAC) to develop affordability criteria that may be used to ensure CTB debt remains affordable vis-à-vis TTF resources. MDOT should submit a report to the committees detailing the recommended affordability criteria developed through this effort by December 1, 2016.

MDOT Response:

The Department respectfully does not concur with the narrative. Please see response to issue on page 2.