J00A04 – MDOT – Debt Service

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues

1. Changes to Annual Budget Bill Language

(A) 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. (Pages 13-14)

MDOT Response: MDOT concurs with this recommendation. Due to favorable revenues and stringent fiscal management, the Department has not needed to increase its issuance of Consolidated Transportation Bonds beyond what the legislature has authorized.

(B) Bond Proceeds - 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. (Page 14)

MDOT Response: MDOT concurs with the DLS recommendation. In the future, the Department would like the flexibility to use bond sale premiums for capital projects, particularly when the size of the premium is small or when the interest rate is favorable.

MDOT RESPONSE TO DLS ANALYSIS

Recommended Actions

1. Add the following language (Page 22)

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 GARVEE 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.

MDOT Response: MDOT concurs with this annual language.

MDOT RESPONSE TO DLS ANALYSIS

Recommended Actions, continued

2. Add the following language (Pages 22-23)

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 outstanding is defined as any debt instrument that is not a Consolidated Transportation Bond or a Grant Anticipated Revenue Vehicles 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: MDOT concurs with this language.

3. Add the following language (Page 23)

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.

MDOT Response: MDOT concurs with this language.

4.	**Reduce the amount of the debt service allowance to reflect the proceeds from the bond sale premium. (Page 17)**	**$3,694,390**

MDOT Response: MDOT concurs with this reduction.

MDOT RESPONSE TO DLS ANALYSIS

Recommended Actions

4. Adopt the following narrative (Page 24)

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. MDOT has agreed to this language. This report shall be issued to the committees by October 27, 2006.

MDOT Response: MDOT concurs with this narrative.