

MEMORANDUM



DATE: March 7, 2017
TO: House Appropriations Subcommittee on Transportation
FROM: William E. Hamilton
RE: Update of HFA Paper on Transportation Bonds and Debt Service

As described in the March 2015 House Fiscal Agency publication, “State transportation borrowing and debt service,” the State Transportation Commission, has constitutional and statutory authority to issue bonds by pledging constitutionally restricted transportation revenue – from motor fuel taxes and vehicle registration taxes. The Commission also has the authority to issue bonds by pledging anticipated revenue from the federal-aid surface transportation program – sometimes described as “grant anticipation bonds.” The Commission also has the authority to sell bonds to “refund” or refinance previously issued bonds.

In practice, the State Transportation Commission authorizes the Michigan Department of Transportation (MDOT) to sell bonds – for specific purposes and within set dollar limits. The department then consults with municipal finance advisors on the best ways to structure and time bond sales. The department also uses advisors to determine when previously issued bonds are callable and whether bonds can be refunded at lower interest rates.

The department’s State Trunkline Fund (STF) bonded debt more than doubled between 2000 and 2001 – from \$633 million to \$1.3 billion. This was part of what was described at the time the *Build Michigan III* program. STF debt, including debt issued in anticipation of federal aid revenue, was over \$2.0 billion for six years – from 2007 through 2012. This generally coincides with the period when the department was able to reach and sustain the “90% good” pavement performance goal.

The department has used bonding for several reasons. By borrowing, the department could accelerate the construction of new or improved transportation facilities rather than waiting five, ten, or fifteen years in the future. As a result, the motoring public had access to those new and improved facilities sooner rather than later. Bonding helps the department financially manage a multi-year capital construction program. It also helped ensure that the department was able match all available federal aid. Finally, for most of the last 15 years interest rates have been historically low and thus the cost of borrowing has been relatively low.

As shown on the attached spreadsheet, outstanding STF debt peaked in 2009 at \$2,258 million. At the end of the 2016 fiscal year was \$1,463 million – the lowest in 15 years.

The department last issued new-money bonds in 2011. Since then the department has refunded previously issued bonds in order to capture lower interest rates and achieve present value savings. State Transportation Commission policy is to refund bonds when the department can achieve a net present value saving of 3% or more. The department last refunded bonds in July 2016 – in what may have been the largest bond sale in MDOT history – when the department sold \$607.1 million in federal grant anticipation refunding bonds. This sale resulted in significant interest savings and reduced debt service payments. All savings achieved from refunding STF and federal grant anticipation bonds are redirected to the state road and bridge capital construction program.

of the FY 2010-11 budget agreement with the Legislature. However, the actual sale was not made until December 2011, during the 2011-12 fiscal year. The project list included 29 trunkline projects with estimated state share of costs totaling \$106.2 million.

Of the 29 projects on the project list, two were related to the certain phases of the Blue Water Bridge Plaza project. Specifically, \$1.7 million was for the replacement of the Welcome Center near on I-94/I-69 near the Blue Water Bridge, and \$61.0 million was related to the reconstruction and widening of I-94/I-69, related interchange, and replacement the bridge over the Black River. The department anticipates paying debt service related these Blue Water Bridge projects from Blue Water Bridge toll revenue. However, all the bonds in this debt issued were guaranteed with a pledge of STF revenue; the State Transportation Commission has no constitutional or statutory authority to issue bonds secured with toll revenue.

2012 – \$49,305,000 in STF Refunding Bonds

On May 17, 2012, the State Transportation Commission authorized the sale of up to \$60 million in STF refunding bonds. In July 2012, the department sold \$49.3 million in STF bonds. The sale proceeds, including issue premium, totaled \$58.0 million. The proceeds from this issue were used to retire previously issued STF bonds.

2013 - \$10,130,000 in CTF Refunding Bonds

On June 27, 2013, the State Transportation Commission authorized the sale of CTF refunding bonds. In August 2013, the department sold \$10.1 million in CTF bonds. The sale proceeds, including issue premium, totaled \$11.0 million. The proceeds from this issue were used to retire previously issued CTF bonds.

2014 - \$265,083,000 in STF Refunding Bonds

On March 20, 2014, the State Transportation Commission authorized the sale of up to \$285 million in STF refunding bonds. In August 2014, the department sold \$265.1 million in STF bonds. The sale proceeds, including issue premium, totaled \$304.4 million. The proceeds from this issue were used to retire previously issued STF bonds.

2015 - \$29,380,000 in CTF Refunding Bonds

On July 14, 2015, the department sold \$29.3 million (face value) in CTF bonds. The sale proceeds, including issue premium, totaled \$34.5 million. The proceeds from this issue were used to retire previously issued CTF bonds.

2015 - \$54,055,000 in STF Refunding Bonds

On October 15, 2015, the department sold \$54.1 million (face value) in STF bonds. The sale proceeds, including issue premium, totaled \$66.8 million. The proceeds from this issue were used to retire previously issued STF bonds.

2016 - \$607,110,000 in GARVEE Refunding Bonds

On July 14, 2016, the department sold \$607.1 million (face value) in federal grant anticipation bonds. The sale proceeds, including issue premium, totaled \$749.7 million. The proceeds from this issue were used to retire previously issued federal grant anticipation bonds.

APPENDIX—TABLE 1

State Trunkline Fund Outstanding Debt

	<u>STF</u>	<u>Federal</u>	<u>Total</u>
1994-95	\$669,583,000		\$669,583,000
1995-96	648,798,000		648,798,000
1996-97	680,778,000		680,778,000
1997-98	671,432,000		671,432,000
1998-99	645,990,000		645,990,000
1999-2000	633,219,000		633,219,000
2000-01	928,052,000	\$400,000,000	1,328,052,000
2001-02	911,967,000	600,000,000	1,511,967,000
2002-03	891,770,000	600,000,000	1,491,770,000
2003-04	1,055,645,000	600,000,000	1,655,645,000
2004-05	1,402,600,000	172,000,000	1,574,600,000
2005-06	1,623,000,000	84,000,000	1,707,000,000
2006-07	1,597,572,000	517,115,000	2,114,687,000
2007-08	1,547,445,000	485,115,000	2,032,560,000
2008-09	1,494,733,700	763,520,000	2,258,253,700
2009-10	1,405,961,000	756,495,000	2,162,456,000
2010-11	1,315,660,000	749,155,000	2,064,815,000
2011-12	1,304,700,000	741,455,000	2,046,155,000
2012-13	1,206,365,000	733,410,000	1,939,775,000
2013-14	1,084,680,000	724,960,000	1,809,640,000
2014-15	973,285,000	716,305,000	1,689,590,000
2015-16	846,500,000	616,600,000	1,463,100,000

Source: Outstanding debt from Michigan Department of Transportation annual financial statements; Debt service figures from department accounting records accessed through the state MAIN accounting system.

This table supports the STF Debt Service graph on page 14.

APPENDIX—TABLE 2

State Trunkline Fund Debt Service

	<u>STF</u>	<u>Federal</u>	<u>Total</u>
1994-95	\$41,208,728		\$41,208,728
1995-96	58,185,515		58,185,515
1996-97	59,737,132		59,737,132
1997-98	59,577,357		59,577,357
1998-99	57,750,999		57,750,999
1999-2000	47,209,099		47,209,099
2000-01	47,200,259		47,200,259
2001-02	59,361,635	\$7,331,174	66,692,809
2002-03	74,774,663	8,188,877	82,963,540
2003-04	67,811,662	7,373,848	75,185,510
2004-05	74,523,958	42,101,793	116,625,751
2005-06	94,608,773	92,970,510	187,579,283
2006-07	104,799,642	53,666,746	158,466,388
2007-08	135,022,745	53,109,380	188,132,125
2008-09	135,674,762	22,783,230	158,457,992
2009-10	160,113,550	58,122,345	218,235,895
2010-11	160,148,680	53,355,406	213,504,086
2011-12	161,867,880	53,366,043	215,233,923
2012-13	162,095,381	53,062,744	215,158,124
2013-14	166,329,159	52,780,917	219,110,076
2014-15	166,402,500	52,708,100	219,110,600
2015-16	162,764,388	41,825,992	204,590,380
2016-17	162,279,131	50,743,742	213,022,873
2017-18	161,290,198	44,787,592	206,077,790

Source: Outstanding debt from Michigan Department of Transportation annual financial statements; Debt service figures from department accounting records.

This table supports the STF Debt Service graph on page 15.

APPENDIX—TABLE 3

Revenue Dedicated Bonded Debt Michigan Department of Transportation Bonds Issued and Outstanding (In Thousands)

	Amounts Issued	Outstanding 9/30/2016	Maturities		Average Interest Rate Percentage
			First Year	Last Year	
<u>Comprehensive Transportation Fund Bonds:</u>					
Series 2005 (Refunding)	\$62,180	\$44,415	2009	2023	5.15
Series 2006 (Revenue and Refunding)	53,685	0	2007	2016	4.54
Series 2009 (Refunding)	42,335	23,150	2012	2019	4.11
Series 2011 (Refunding)	18,470	12,540	2013	2022	4.35
Series 2013 (Refunding)	10,130	5,515	2014	2023	4.67
Series 2015 (Refunding)	29,380	29,380	2017	2031	4.79
Total Comprehensive Transportation Fund Bonds	\$216,180	\$115,000			
<u>State Trunkline Fund Bonds:</u>					
Series 1998 A (Refunding)	\$377,890	\$94,395	2006	2019	5.03
Series 2004 (Refunding)	103,450	64,820	2006	2022	4.13
Series 2005 (Refunding)	223,020	126,005	2010	2022	5.10
Series 2006	244,525	17,595	2008	2017	4.74
Series 2009 (Revenue and Refunding)	146,190	146,190	2018	2027	4.76
Series 2011	90,980	84,315	2014	2037	4.58
Series 2012 (Refunding)	49,305	33,695	2014	2022	4.78
Series 2014 (Refunding)	265,085	225,400	2016	2022	4.36
Series 2015 (Refunding)	54,055	54,055	2023	2023	3.50
Total State Trunkline Fund Bonds	\$1,554,500	\$846,470			
<u>Federal Grant Anticipation Bonds:</u>					
Series 2007	\$485,115	\$9,515	2009	2017	4.87
Series 2009 B Taxable Build America Bonds	281,910	0	2012	2016	7.63
Series 2016 (Refunding)	607,110	607,110	2018	2027	4.90
Total Grant Anticipation Bonds:	\$1,374,135	\$616,625			
TOTAL REVENUE DEDICATED BONDED DEBT - TRANSPORTATION RELATED	<u>\$3,144,815</u>	<u>\$1,578,095</u>			

Source: State of Michigan Comprehensive Annual Financial Report, Fiscal Year Ended September 30, 2016.