

FISCAL FOCUS

State Transportation Borrowing and Debt Service

**Prepared by
William E. Hamilton, Senior Fiscal Analyst**

March 2015



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MARY ANN CLEARY, DIRECTOR

P.O. Box 30014 ■ LANSING, MICHIGAN 48909-7514
PHONE: (517) 373-8080 ■ FAX: (517) 373-5874
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TO: Members of the House of Representatives

For a number of years, the Michigan Department of Transportation has sold bonds by pledging revenue from constitutionally restricted motor fuel and vehicle registration taxes as the source of debt repayment. At the end of FY 2013-14, State Trunkline Fund debt, including federal grant anticipation bonds, totaled \$1,809.6 million. Anticipated debt service on State Trunkline Fund and federal grant anticipation bonds will be \$219.1 million in FY 2014-15.

This Fiscal Focus reviews the constitutional and statutory authority for the Michigan Department of Transportation's bond program, as well as the recent history of bonds issued by the department and related debt service.

William E. Hamilton, Senior Fiscal Analyst, is the author of this report. Kathryn Bateson, Administrative Assistant, prepared the material for publication.

Please do not hesitate to call if you have questions about the information in this report.

A handwritten signature in black ink that reads "Mary Ann Cleary". The signature is written in a cursive, flowing style.

Mary Ann Cleary, Director

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INTRODUCTION AND SUMMARY

For a number of years, the Michigan Department of Transportation has sold bonds by pledging revenue from constitutionally restricted motor fuel and vehicle registration taxes as the source of debt repayment.¹ However, in 2001, outstanding state transportation debt increased significantly with the sale of \$308.2 million in State Trunkline Fund *Build Michigan II* bonds, and the sale of \$400.0 million in federal grant anticipation notes. As a result of these debt issues, outstanding State Trunkline Fund debt, including federal grant anticipation notes, doubled – from \$633.2 million at the end of FY 1999-2000, to \$1,328.1 million at the end of FY 2000-01. As state transportation debt increased, annual debt service also increased.

At the end of FY 2013-14, State Trunkline Fund debt, including federal grant anticipation bonds, totaled \$1,809.6 million. Anticipated debt service on State Trunkline Fund and federal grant anticipation bonds will be \$219.1 million in FY 2014-15.

Although current debt service levels are within limits established in Public Act 51 of 1951, as well as State Transportation Commission policy, debt service obligations reduce the department's ability to support its current road and bridge program. Bonding helped the department "frontload" the road and bridge reconstruction program in the early 2000s, and helped the department reach its pavement performance goal of 90% state trunkline pavement in "good" condition by 2007. However, current resources have not been sufficient to sustain that condition. Anticipated reductions in the state trunkline road and bridge preservation program are due, in part, to debt service claims on State Trunkline Fund revenue, coupled with flat or falling baseline transportation revenues.

This Fiscal Focus reviews the constitutional and statutory authority for the Michigan Department of Transportation's bond program, as well as the recent history of bonds issued by the department and related debt service.

¹ A 1919 amendment to the 1908 Michigan Constitution, Article X, Section 10, authorized the state to borrow "not to exceed 50,000,000 dollars for the improvement of highways and pledge its credit, and issue bonds therefor on such terms as shall be provided by law." All bonds under this authority were sold by 1925. The Eighth Biennial Report of the State Highway Commissioner, 1918-1920, indicated "The passage of the Aldrich Act by the Michigan Legislature in 1919 and the Bond Issue Act at the April election, the same year, provided the means of completing and maintaining Michigan's trunk line system." A 1958 history of the Michigan Highways and the Michigan State Highway Department stated that "The Michigan Legislature, in a special session in 1950, considered the problem [of financing the John Lodge and Edsel Ford expressways in Detroit] and passed Act 22, which authorized the issuance of dedicated gas tax bonds for expressways to be retired out of future gas and weight tax revenues of the state, [Wayne] county and city [of Detroit]."

AUTHORITY FOR TRANSPORTATION BOND PROGRAM

Article IX, Section 9 of Michigan's 1963 Constitution mandates that revenue from specific taxes on motor fuels and vehicle registrations be used exclusively for transportation purposes. The section also states that, "*The legislature may authorize the incurrence of indebtedness and the issuance of obligations pledging the taxes allocated or authorized to be allocated under this section, which obligations shall not be construed to be evidence of state indebtedness under this constitution.*" This language gives constitutional authorization for debt secured by constitutionally-restricted transportation revenue, and indicates that transportation notes and bonds issued under the authority of the section are not general obligations of the state of Michigan.

This constitutional authority is put into effect in statute by 1951 PA 51 (Act 51) which authorizes the State Transportation Commission to issue notes or bonds by pledging as payment constitutionally-restricted transportation revenue. Act 51 also authorizes the State Transportation Commission to issue notes or bonds in anticipation of federal revenue, and authorizes the refunding of previously issued bonds.

Section 18b of Act 51 requires that the State Transportation Commission, prior to issuing notes or bonds, adopt a resolution providing a pledge of payment of the notes or bonds from constitutionally-restricted transportation revenue. Section 18b also requires that the resolution contain a brief statement describing the projects for which the notes or bonds are to be issued, including estimated cost of the projects, or a description of the notes or bonds to be paid or refunded from the proceeds.

Section 18k of Act 51 requires that the State Transportation Commission provide to the House and Senate Appropriations Committees the list of projects for which notes or bonds are to be issued at least 30 days before the notes or bonds are issued. If the State Transportation Commission determines that the projects for which bonds were issued should change, Section 18b(4) requires that the Commission adopt the change by resolution, and that notice of intention to adopt the resolution be given to the House and Senate Appropriations Committees. Although Act 51 includes these notification provisions, the act does not require legislative authorization for the State Transportation Commission to issue notes or bonds, and does not give the appropriations committees or Legislature as a whole authority to approve or reject the proposed project list.

Proceeds from the sale of notes or bonds can be used only for projects included in the note or bond resolution project list. However, the proceeds are not earmarked for any particular project or projects on the list. Some of the projects on the list may be constructed using other state-restricted or federal-aid revenue sources; some may not be constructed at all. Projects on the bond project list simply represent the pool of projects for which the bond proceeds may be used.

State Transportation Commission authorization for note or bond sales is typically a two-step process. The Commission first authorizes the Michigan Department of Transportation to circulate a preliminary official note or bond statement, including the list of projects. In a subsequent

resolution, after the 30-day notification period, the Commission will authorize the department to issue the notes or bonds up to the amount authorized in the resolution. The department will time the actual sale of the debt issue based on anticipated cash flow needs and market conditions.

DEBT LIMITS

Act 51 limits transportation-related debt service to 50% of the previous year's constitutionally-restricted transportation revenue. Or to state this another way, transportation revenue pledged to secure bonds or notes must be at least twice the amount of the related transportation debt service. Current debt service is below these statutory limits. For the fiscal year ending September 30, 2014, available State Trunkline Fund (STF) revenue was 4.7 times the amount needed to cover STF debt service, and available Comprehensive Transportation Fund (CTF) revenue 12.0 times the amount needed to cover CTF debt service. The department estimated that federal aid apportioned to Michigan in FY 2013-14 was 4.89 times greater than the amount needed to support federal grant anticipation bond debt service.²

State Transportation Commission policy is more restrictive than statute; it requires a 4-to-1 revenue to debt service coverage ratio.³

² These STF and CTF debt service coverage ratios are as shown in supplementary schedules in the state of Michigan's Comprehensive Annual Financial Report for the fiscal year ending September 30, 2014. The department also computes and reports debt service coverage ratios as part of the disclosure statements made in connection with issuing bonds.

³ In accordance with State Transportation Commission policy adopted August 26, 1999, the department adopted capital financing guidelines. Those guidelines require that restricted revenue must be at least four times annual debt service. The guidelines also require that bonding be used only for capital projects, infrastructure and equipment, and require the department to make every effort to ensure that the average life of bonds not exceed the average life of the capital-financed projects.

SUMMARY OF RECENT TRANSPORTATION BONDING HISTORY

Outstanding STF debt doubled between September 30, 2000 and September 30, 2001 – from \$633.2 million to \$1.328 billion. Of this increase, \$308.2 million related to the sale in July 2001 of Build Michigan III bonds. At the same time, the department sold \$400.0 million in short-term federal grant anticipation notes (GARVEEs).⁴ Since 2001, the department has offered the following new STF bond and note issues – not including refunding bond issues:

- \$200.0 million GARVEE notes (September 2002)
- \$185.7 million STF bonds (September 2004)
- \$244.5 million STF bonds (July 2006)
- \$485.1 million *Jobs Today* GARVEE bonds (September 2007)
- \$281.9 million *Jobs Today/Economic Stimulus* Build America Bonds (June 2009)
- \$91.0 million STF Bonds (December 2011)
 - \$61.0 million for Blue Water Bridge projects,
 - \$40.0 million STF to match federal aid ⁵

At September 30, 2014 total outstanding STF debt was \$1.810 billion, of which \$725.0 million was related to federal grant anticipation bonds.

The department has indicated that there are several reasons for recent bonding programs. Bonding allows the department to advance projects which could be more costly to build in the future due to construction price inflation. By advancing projects, the economic benefits of improved transportation facilities are realized sooner. In addition, advancing projects serves as a stimulus to the state economy. The recent transportation bond program has taken advantage of historically low interest rates.

Although current debt service is well within statutory limits, there has been concern that future debt service obligations could affect the department's ability to sustain its road and bridge program. Bonding has helped the department "frontload" the road and bridge reconstruction program, and helped the department reach its pavement performance goal of 90% state trunkline pavement in "good" condition by 2007. However, the department has indicated that "existing investment level will not sustain that condition." Anticipated reductions in the state trunkline road and bridge reconstruction program are due, in part, to increased debt service claims on STF revenue, coupled with flat or falling transportation revenues.⁶

⁴ At the time the department issued the GARVEE notes, it anticipated that the state would receive additional federal aid through reauthorization of the federal aid program, the Transportation Equity Act for the 21st Century (TEA-21). Congress did not pass a long-term reauthorization until August 2005 – two years after the anticipated reauthorization. The reauthorized program was titled the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). In 2005, the department issued STF bonds to refinance \$400.0 million in short-term GARVEE notes.

⁵ The breakdown of the 2011 STF bond issue between Blue Water Bridge projects and STF programming total more than the face value of the bond issue. Because of issue premiums, actual bond proceeds totaled \$101.6 million.

⁶ Source: MDOT's five-year (2010-2014) transportation program.

CURRENT DEBT SERVICE AND INTEREST RATES

As STF debt began to increase, debt service also increased – from \$47.2 million in FY 2000-01 to \$187.6 million in FY 2005-06. Over the last three fiscal years (FY 2011-12 through 2013-14) STF debt service averaged \$217.8 million. STF debt service in FY 2014-15 will be \$213.4 million and will range from \$215.7 million in FY 2015-16 to \$162.8 million in FY 2026-27. STF debt service would decline to \$6.4 million starting in FY 2027-28 and through FY 2036-37; all current STF debt is scheduled to be retired by FY 2036-37.⁷

Excluding taxable Build America Bonds issued in 2009, the average interest rate on STF bonds ranges from 4.13% to 5.10%. Of the ten bond series issued by the department since 2000, all but one has an average interest rate of 5.00% or less.⁸

The department, in accordance with State Transportation Commission policy, looks to refund (i.e., refinance) debt when it can achieve a net present value savings of 3% or more.

⁷ This anticipated debt service is based on MDOT debt service schedules updated in 2014. Debt service includes debt service on federal grant anticipation bonds.

⁸ As described more fully in the Summary of Recent Bond Issues on subsequent pages, in 2009 the department issued Build American Bonds. While the nominal interest rate on these taxable bonds, 7.63%, is higher than other STF bonds, the federal government reimburses the department 35% of the annual interest payment made to bondholders.

TRANSPORTATION DEBT AND DEBT SERVICE HISTORY

The tables and charts on the following pages show the history of state transportation debt and debt service from FY 1994-95 through FY 2013-14. The outstanding note and bond amounts through FY 2013-14 are taken from the state's Comprehensive Annual Financial Report. The debt service amounts through FY 2013-14 are based on actual debt service payments as recorded in the state's accounting system. Debt service amounts for FY 2014-15 reflect budgeted amounts based on anticipated debt service schedules.

STATE TRUNKLINE FUND

State Trunkline Fund bonds and notes are used to provide funds for state trunkline road and bridge construction or reconstruction projects. For purposes of the table and chart, STF bonds include bonds issued for Transportation Economic Development Fund (TEDF) projects, the Blue Water Bridge projects, and Critical Bridge Program projects – as well as state trunkline construction projects. The TEDF, Blue Water Bridge, and Critical Bridge Program bonds are considered "STF" because they are secured by STF revenue. The tables and charts also include debt secured by anticipated federal revenue (i.e., "GARVEE" notes and bonds).

**Figure 1
State Trunkline Fund
Outstanding Debt**

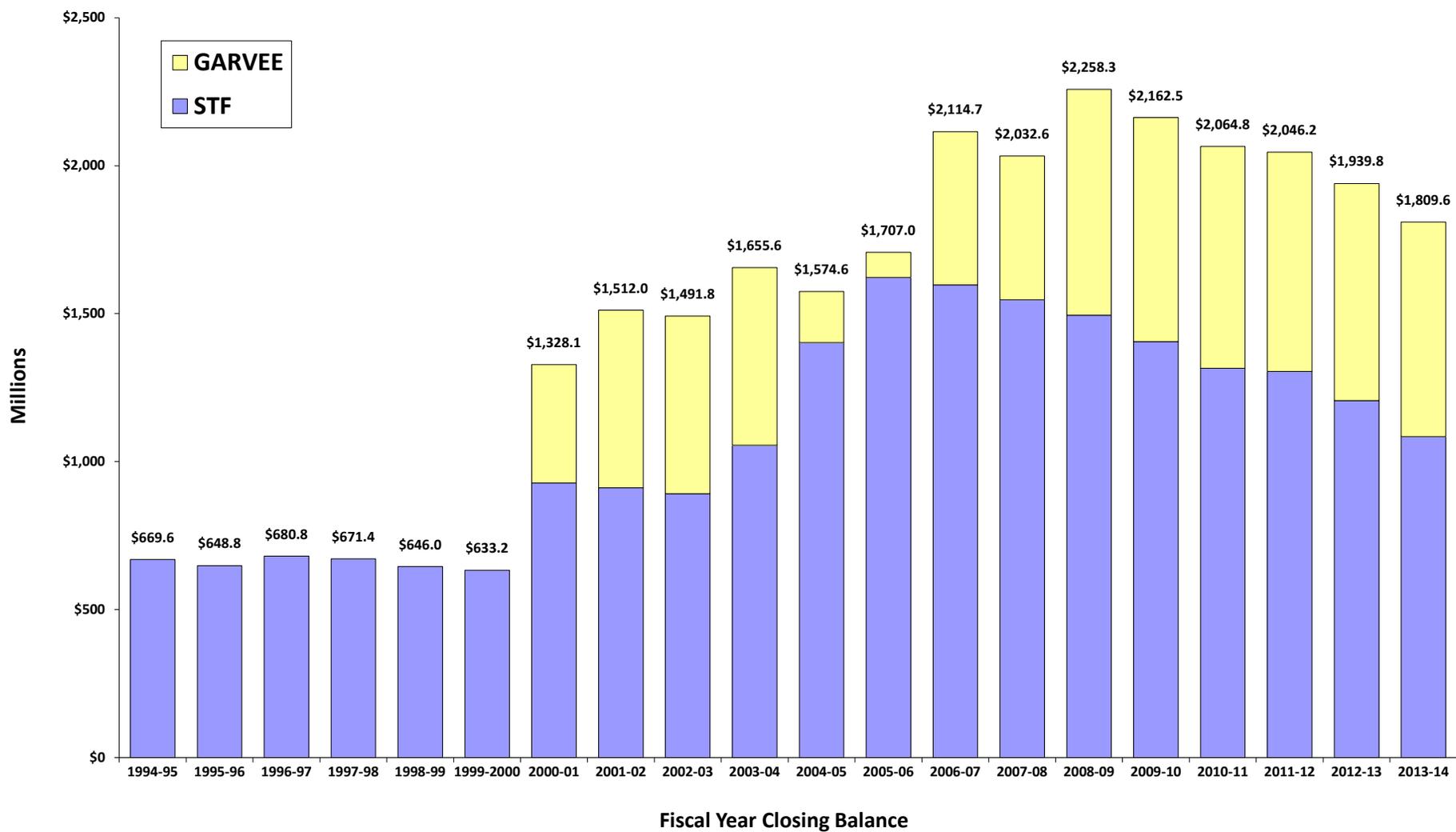
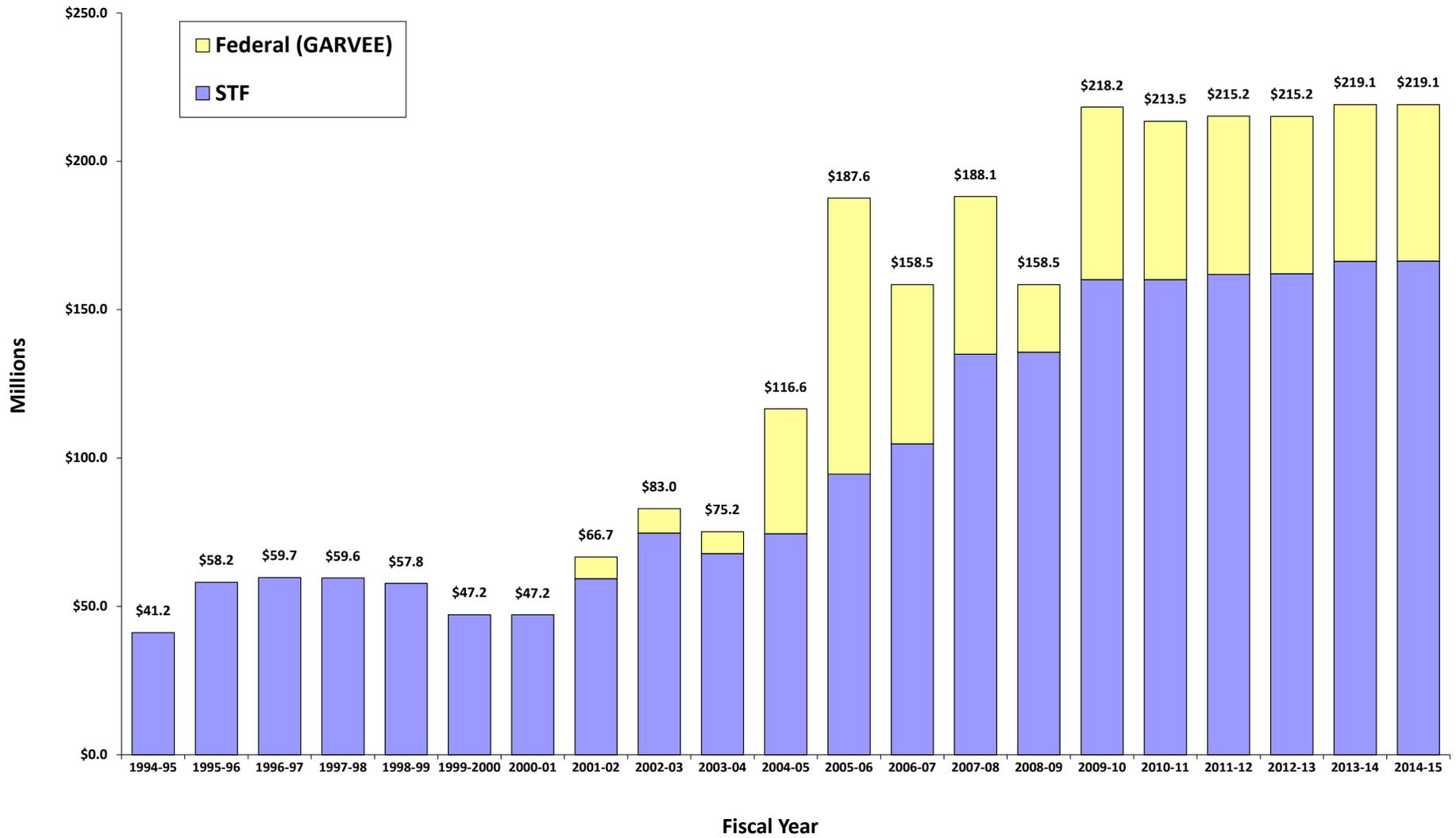


Figure 2
State Trunkline Fund
Debt Service



COMPREHENSIVE TRANSPORTATION FUND

Comprehensive Transportation Fund bonds are used to fund public transportation capital projects, including the purchase of buses for transit agencies, construction of bus transit and intermodal terminals, and rail passenger and rail freight projects. CTF bond proceeds have also been used to support certain airport improvement projects.

**Figure 3
Comprehensive Transportation Fund
Outstanding Debt**

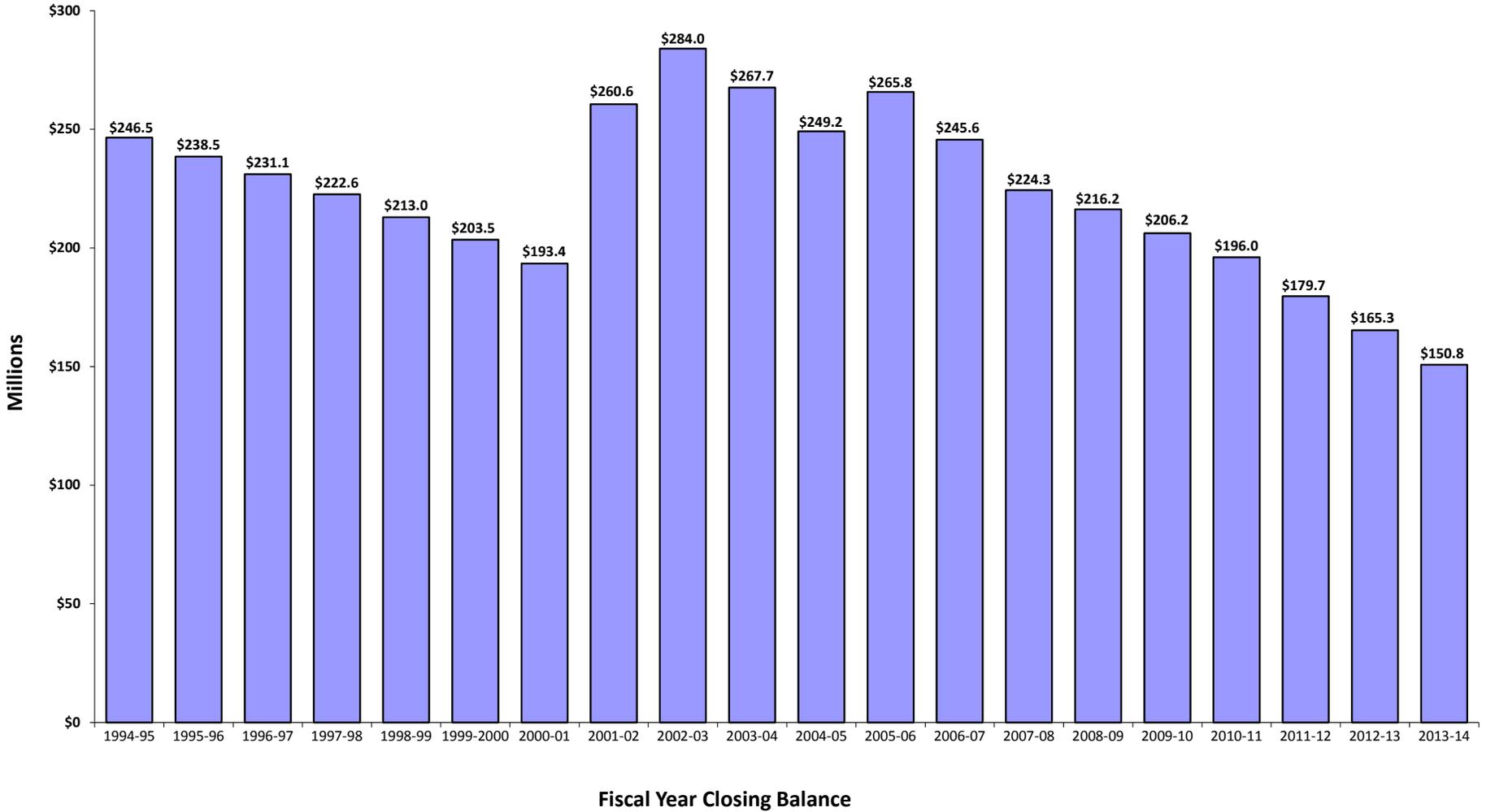
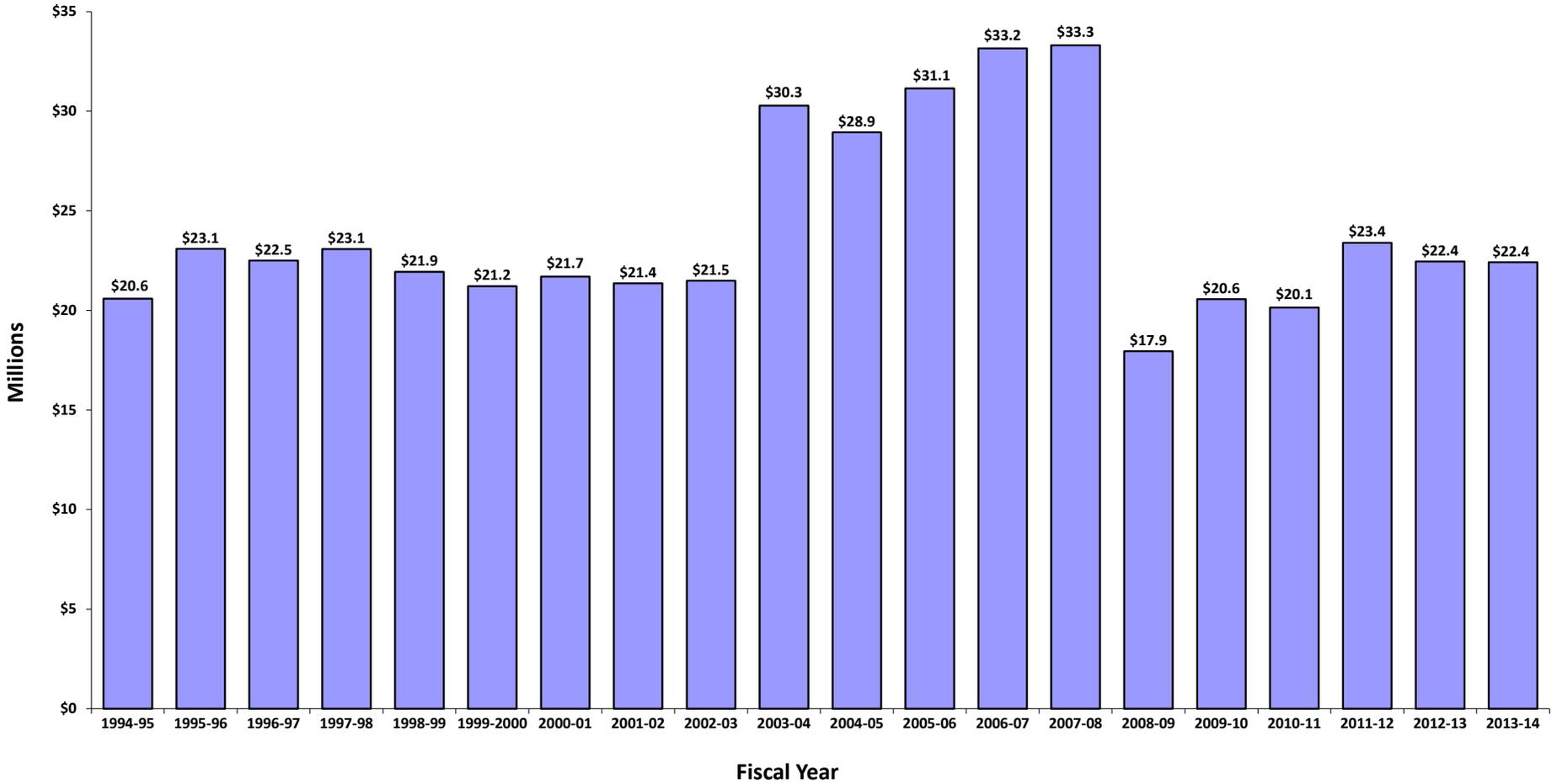


Figure 4
Comprehensive Transportation Fund
Debt Service



TRANSPORTATION BOND PROGRAM: SUMMARY OF RECENT BOND ISSUES

1989 – \$135,779,506 STF Bonds

Used primarily to finance a number of state and local economic development fund (TEDF) projects. Approximately 38% of the funds were used for state trunkline projects – 59% if one includes projects which involved the upgrading of local roads and jurisdictional transfers to the state. Included among the listed projects were the Haggerty Road extension in Oakland County, Davison Freeway reconstruction in Detroit, and upgrading the Capital Loop in Lansing.

In addition to the funds used for TEDF projects, approximately \$30.0 million from the original bond proceeds was used for state trunkline right-of-way projects.

1992 – \$253,618,067 STF *Build Michigan* Bonds

Primarily used to match federal funds for state trunkline projects. In addition, approximately \$30.0 million of the bond proceeds was used for local Critical Bridge projects. The total *Build Michigan* bond issue was \$353.2 million, of which \$253.6 million was "new money". The balance of the bond proceeds was used to refund existing debt. At the same time, the department issued \$37.7 million in CTF obligation bonds.

1994 – \$150,000,000 STF Bonds

Used entirely for state trunkline projects.

1996 – \$55,000,000 STF Bonds

\$35.0 million was used to finance, in part, Blue Water Bridge projects including construction of the second span and rehabilitation of the original span; \$20.0 million was used for the advance purchase of right of way.⁹

1998 – STF and CTF Refunding Bonds

\$377.9 million STF and \$38.6 million CTF to refinance previously issued bonds.

2001 – \$308,200,000 STF *Build Michigan III* Bonds

These bonds, issued in July 2001, were intended to be the first phase of the *Build Michigan III* bond program, a program involving a number of state reconstruction and capacity improvement projects, as well as local economic development projects. The State Transportation Commission had authorized up to \$900.0 million in borrowing under the *Build Michigan III* program. However, no additional bonds were issued under this program.¹⁰

⁹ Under this program, the department purchased right of way in advance of the completion of early preliminary engineering and environmental clearance. The department subsequently discontinued the use of the advance purchase of right of way account. Use of advance purchase of right of way makes the entire project ineligible for federal aid. Cost savings achieved in purchasing right of way prior to final highway alignment are offset by the loss of federal project participation.

¹⁰ Debt service for the *Build Michigan III* bond program was to have come, in part, from an annual \$35.0 million appropriation from the Budget Stabilization Fund (BSF) for a sixteen-year period beginning in FY 2000-01 and ending in FY 2015-16. The \$35.0 million BSF transfer was made for the first two fiscal years, but was suspended in FY 2002-03 because of reduction in GF/GP revenue and the depletion of the BSF. In addition, \$8.0 million per year was to have come from a proposed increase in the diesel motor fuel taxes. The proposed diesel tax increase was not enacted.

2001 – \$400,000,000 GARVEE Notes

These notes, issued in July 2001, were issued to accelerate previously programmed state trunkline projects (*Build Michigan II*). These were considered short-term notes (less than 10-year maturity). The state pledged anticipated revenue from the federal aid highway program to secure repayment of these notes. Additional GARVEE notes were issued in 2002.

2001 – CTF Refunding Bonds

In July 2001, at the same time the department issued the *Build Michigan III* bonds and GARVEE notes, it refinanced \$27.8 million in CTF bonds.

2002 – \$82,310,000 CTF Bonds

On July 19, 2002, the State Transportation Commission authorized the sale of up to \$160.0 million in CTF bonds. Bonds were issued in August 2002 for a number of public transit capital projects, including rail freight track rehabilitation projects, local public transportation bus and facility projects, intermodal terminal projects, and rail passenger projects. The State Transportation Commission-approved bond project list identified \$88.5 million in various CTF projects, plus \$60.0 million for various ASAP airport safety and security projects.¹¹ However, none of the proceeds were used for ASAP projects, and no additional CTF bonds were issued under this authorization. As described further below, the department issued bonds for the ASAP program in 2003 under a separate authorization from the State Transportation Commission. The approved project list was last revised by the State Transportation Commission at its July 29, 2010 meeting.

2002 – \$200,000,000 GARVEE Notes

On September 19, 2002, the department issued an additional \$200.0 million in short-term federal-aid grant anticipation notes intended to accelerate previously programmed state trunkline projects (*Build Michigan II*). This was the second series of notes issued under this program bringing total GARVEE borrowing to \$600.0 million. In 2005 the department converted a large part of the short-term GARVEE notes into longer-term STF bonds (see below). The final payment on the remaining short-term notes, \$32.1 million, was made in FY 2007-08.

2002 – CTF and STF Refunding Bonds

In May 2002, the department sold \$89.6 million in CTF refunding bonds. The total proceeds (including premium) refinanced \$95.6 million in CTF bonds. In August 2002, the department sold \$97.9 million in STF refunding bonds. The total proceeds (including premium) totaled \$104.5 million.

¹¹ ASAP represents the "Airport Safety and Protection" Plan, a bond program funding airport safety and security projects. The bond project list identified \$60.0 million in ASAP bond program funds. Total ASAP project costs, including federal, local, and other state revenue, totaled approximately \$1.1 billion.

Although ASAP debt service is shown as State Aeronautics Fund (SAF) in the transportation appropriations acts, the bonds are guaranteed with CTF revenue; the State Transportation Commission has no constitutional or statutory authority to issue bonds secured with SAF revenue. The SAF revenue for the debt service reimbursement was guaranteed through an earmark of certain Airport Parking Tax revenue made in Public Act 680 of 2002 (House Bill 4454) and Public Act 135 of 2006 (House Bill 5154).

2003 – \$35,020,000 CTF/ASAP Bonds

In April 2003, the State Transportation Commission authorized the sale of up to \$38.0 million in CTF bonds. The approved bond list was identical to the one approved in 2002 – \$88.5 million in various CTF bond projects and \$60.0 million for ASAP airport improvement projects. The department sold \$35.0 million in CTF bonds in July 2003 (\$36.4 million net proceeds). The department identified \$24.0 million from the bond proceeds as related to the ASAP program. The approved project list was last revised by the State Transportation Commission at its July 29, 2010 meeting.

In 2006, the department sold additional CTF bonds under a separate authorization, of which \$36.0 million was identified for the ASAP program. See below for additional description.

2004 – \$185,710,000 STF Bonds

At its October 30, 2003 meeting, the State Transportation Commission approved a preliminary resolution regarding the sale of up to \$480.0 million in new STF bonds. The Commission gave final approval for the issuance of these bonds on July 29, 2004. The bond list identified a total of 125 projects with a total estimated cost of \$633.6 million. In addition to preservation projects, there were three capacity improvement projects on the list: M-24 in Lapeer County, I-96 at 36th Street in Kent County, and M-42 in Wexford County.

In September 2004, the department issued \$185.7 million in bonds (\$201.2 million including premium to issue date) as part of the authorized bond sale. An additional sale under this authorization was made in July 2006.

The State Transportation Commission revised the associated project list at its September 28, 2006 meeting to include certain local projects as part of the \$80.0 million *Local Jobs Today* grant program. The use of STF bond proceeds for local road agency grants was authorized by Public Act 141 of 2006 (House Bill 6003) which amended Act 51 of 1951. The project list related to this bond issue was last amended by the State Transportation Commission at its April 30, 2009 meeting.

2004 – STF Refunding Bonds

In April 2004, the department sold \$103.5 million in STF refunding bonds. The proceeds (including premium) totaled \$113.2 million.

2005 – \$378,250,000 STF Bonds to Refund GARVEE Notes

On June 30, 2005, the State Transportation Commission authorized the department to restructure up to \$400.0 million in short-term GARVEE notes with STF bonds. In August 2005, the department issued \$378.2 million in STF bonds. From the proceeds of this sale, which totaled \$402.1 million including issue premium, \$400.0 million was used to refund GARVEE notes.

2005 – CTF and STF Refunding Bonds

In April 2005, the department issued \$62.2 million in CTF refunding bonds (\$70.0 million total proceeds), and \$223.0 million in STF refunding bonds (\$250.0 million total proceeds).

2006 – \$53,685,000 CTF/ASAP Bonds

On March 30, 2006, the State Transportation Commission authorized the sale of up to \$100.0 million in CTF bonds. As part of this sale, the department identified \$36.0 million as the second and final part of the \$60.0 million ASAP bond program. The first \$24.0 million in ASAP bonding had been authorized in 2003. The actual bond sale was completed in June 2006. The sale proceeds, including issue premium, totaled \$55.0 million. The additional bond proceeds above the \$24.0 million for the ASAP program were used to refund prior CTF issues.

2006 – \$244,525,000 STF Bonds

In July 2006, the department issued \$244.5 million in STF bonds (proceeds totaled \$261.5 million). This represented the second and final part of the \$480.0 million bond issue first authorized in 2004. The project list associated with this bond issue, and the subsequent revisions, are the same as for the original 2004 STF bond issue described above.

2006/2007 – \$485,115,000 *Jobs Today* GARVEE Bonds

On January 26, 2006, the State Transportation Commission approved a preliminary resolution for the sale of up to \$630.0 million in STF bonds or GARVEE bonds as part of the *Jobs Today* program. The related project list totaled \$796.7 million.

The authorization was amended September 28, 2006, to include up to \$192.0 million for a local federal-aid loan program, part of the *Local Jobs Today* program. Under this program, the department loaned money to local road agencies to allow for the construction of local federal-aid projects in 2006 and 2007 which would otherwise have been postponed. The local road agencies were to repay the loans from future federal aid. This financing method is also called "advance construct." All loans to local road agencies under this program were fully repaid in early FY 2010-11 when remaining federal aid became available.

Note that there were two parts of the *Local Jobs Today* program: the local advance-construct loan program using the STF or GARVEE bond proceeds to be issued under this 2006 authorization; and the \$80.0 million local federal-aid grant program authorized under the revised project list for the 2004 STF bonds.

In September 2007, the department sold \$485.1 million in GARVEE bonds under this authorization. The total proceeds from the sale, including premium, totaled \$503.8 million.

Note: At its March 27, 2008 meeting, the State Transportation Commission also approved a preliminary resolution regarding the sale of up to \$150.0 million in new STF or GARVEE bonds. This proposed bond issue was related to Governor Granholm's *Economic Stimulus* program which would advance \$150.0 million projects originally slated from construction in 2009 into the 2008 construction season. As noted below, the department sold grant anticipation bonds under the *Jobs Today/Economic Stimulus* authorizations in 2009.

2009 – \$281,910,000 STF *Jobs Today/Economic Stimulus Build America* Bonds

In June 2009, the department sold \$281.9 million of federal "Build America Bonds." These were a new type of grant anticipation bond; Build America Bonds were authorized under provisions of the American Recovery and Reinvestment Act of 2009. Debt repayment was secured by anticipated revenue from the federal-aid highway program.

Unlike other bonds issued by the department, Build America Bonds are not tax-exempt. As a result, the nominal interest rate on the bonds is higher than other department-issued bonds. However, under provisions of the Build America Bond program, the department will receive an interest rebate from the Internal Revenue Service equal to 35% of the annual interest payment made to bondholders. Of the \$21.5 million in annual scheduled debt service, the anticipated annual IRS rebate amount is \$7.5 million.

The department indicated that \$138.0 million of the bond proceeds related to the *Jobs Today* program, and \$150.0 million was for the *Economic Stimulus* program. After issue discount, the actual proceeds from the bond issue totaled \$280.0 million.

2009 – \$42,335,000 CTF Refunding Bonds

In January 2008, the State Transportation Commission authorized the sale of up to \$70.0 million in CTF refunding bonds. The authorization was amended in August 2008.

In May 2009, the department sold \$42.3 million in CTF bonds. The sale proceeds, including issue premium, totaled \$44.6 million. The proceeds from this issue were used to retire previously issued CTF bonds, reducing total CTF debt service by approximately \$41.0 million over three fiscal years – FY 2008-09 through FY 2010-11. Because of the nature of the refunding, the *appropriation* for debt service during those years was not reduced. According to IRS regulations the CTF debt service savings was instead transferred to a CTF bond proceeds account for subsequent expenditure on public transportation capital projects. This debt service treatment (i.e., the appropriation and subsequent transfer to a CTF Bond proceeds account) was recognized in three fiscal years as follows: FY 2008-09, \$15,377,500; FY 2009-10, \$12,758,400; FY 2010-11, \$13,167,700.

2009 – \$146,190,000 in STF New and Refunding Bonds

In January 2008, the State Transportation Commission authorized the sale of up to \$290.0 million in STF refunding bonds. The authorization was amended March 27, 2008. In November 2009, the department sold \$146.2 million in STF bonds. The sale proceeds, including issue premium, totaled \$155.5 million. The proceeds from this issue were primarily used to retire previously issued STF bonds; \$4.0 million of the proceeds were used to finance state trunkline projects.

2011 – \$18,470,000 in CTF Refunding Bonds

On August 25, 2011, the State Transportation Commission authorized the sale of CTF refunding bonds. In November 2011, the department sold \$18.5 million in CTF bonds. The sale proceeds, including issue premium, totaled \$21.0 million. The proceeds from this issue were used to retire previously issued CTF bonds.

2011 – \$90,980,000 in STF Bonds

On March 31, 2011, the State Transportation Commission authorized the sale of up to \$105.0 million in STF bonds. The authorization was amended October 27, 2011, to increase the authorization to \$145.0 million. In December 2011, the department sold \$91.0 million in STF bonds under this authorization. The sale proceeds, including issue premium, totaled \$101.6 million.

The October 2011 project list associated with this bond issue included 29 trunkline projects with estimated state share of costs totaling \$106.2 million.

The department indicated that \$40.0 million of this would be used to match federal funds for state trunkline projects. The use of \$40.0 million in bond financing to match federal funds had been part

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 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 of the bridge over the Black River. The department anticipates paying debt service related to 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 \$60.0 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 \$285.0 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.

APPENDICES

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

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 Outstanding Debt 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

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 15.

APPENDIX—TABLE 3

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

	Amounts Issued	Outstanding 9/30/2014	Maturities		Average Interest Rate Percentage
			First Year	Last Year	
Comprehensive Transportation Fund Bonds:					
Series 2005 (Refunding)	\$62,180	\$53,750	2009	2023	5.15
Series 2006 (Revenue and Refunding)	53,685	35,015	2007	2031	4.54
Series 2009 (Refunding)	42,335	36,870	2012	2019	4.11
Series 2011 (Refunding)	18,470	16,020	2013	2022	4.35
Series 2013 (Refunding)	10,130	9,105	2014	2023	4.67
Total Comprehensive Transportation Fund Bonds	\$186,800	\$150,760			
State Trunkline Fund Bonds:					
Series 1998 A (Refunding)	\$377,890	\$146,085	2006	2019	5.03
Series 2004 (Refunding)	103,450	82,390	2006	2022	4.13
Series 2004	185,710	-	2008	2014	4.36
Series 2005 (Refunding)	223,020	223,015	2010	2023	5.10
Series 2005 B (Refunding)	378,250	38,510	2010	2015	4.81
Series 2006	244,525	50,250	2008	2017	4.74
Series 2009 (Revenue and Refunding)	146,190	146,190	2018	2027	4.76
Series 2011	90,980	88,825	2014	2037	4.58
Series 2012 (Refunding)	49,305	44,330	2014	2022	4.78
Series 2014 (Refunding)	265,085	265,085	2016	2022	4.36
Total State Trunkline Fund Bonds	\$2,064,405	\$1,084,680			
Federal Grant Anticipation Bonds:					
Series 2007	\$485,115	\$443,055	2009	2027	4.87
Series 2009 B Taxable Build America Bonds	281,910	281,905	2012	2027	7.63
Total Federal Grant Anticipation Bonds	\$767,025	\$724,960			
TOTAL REVENUE DEDICATED BONDED DEBT - TRANSPORTATION RELATED	\$3,018,230	\$1,960,400			

Source: State of Michigan Comprehensive Annual Financial Report, Fiscal Year Ended September 30, 2014.



Mary Ann Cleary, Director
 Kyle I. Jen, Deputy Director
 517.373.8080

Agriculture and Rural Development	William E. Hamilton
Capital Outlay	Benjamin Gielczyk
Community Colleges	Marilyn Peterson
Community Health:	
Medicaid, Physical and Behavioral Health	Kevin Koorstra; Kyle I. Jen
Public Health/Aging/Departmentwide Services	Susan Frey
Corrections	Robin R. Risko
Education (Department)	Samuel Christensen
Environmental Quality	Austin Scott
General Government:	
Attorney General/Civil Rights/State (Department)/	
Technology, Management, and Budget	Perry Zielak
Executive Office/Legislature/Legislative Auditor General/	
Lottery/Michigan Strategic Fund/Treasury	Benjamin Gielczyk
Higher Education	Marilyn Peterson
Human Services (Department)	Viola Bay Wild
Insurance and Financial Services	Paul Holland
Judiciary	Robin R. Risko
Licensing and Regulatory Affairs	Paul Holland
Military and Veterans Affairs	Perry Zielak
Natural Resources	Austin Scott
School Aid	Bethany Wicksall; Samuel Christensen
State Police	Paul Holland
Transportation	William E. Hamilton
Economic/Revenue Forecast; Tax Analysis	Jim Stansell; Adam Desrosiers
Revenue Sharing	Jim Stansell; Ben Gielczyk
Legislative Analysis	Chris Couch
	Edith Best; Joan Hunault; Josh Roesner; Sue Stutzky
Fiscal Oversight, Audit, and Litigation	Mary Ann Cleary
Legislative Transfers	Viola Bay Wild
Retirement	Bethany Wicksall; Kyle I. Jen
Supplementals	Kyle I. Jen
Administrative Assistant	Kathryn Bateson
Budget Assistant /HFA Internet	Tumai Burris
Front Desk Coordinator	Katie Eitniear



P.O. Box 30014 ■ Lansing, MI 48909-7514
(517) 373-8080
www.house.mi.gov/hfa