

## CHAPTER 9

### REPORTS IDENTIFYING STATE TRANSPORTATION DEBT

This chapter provides instructions on preparing forms that focus on and provide additional information on State transportation debt activities. These forms are:

*FHWA-541 State Transportation Obligations Issued During Year and Allotment of Proceeds.*—Provides specific details of the sale of State transportation bonds and the use of the bond proceeds.

*FHWA-542 Status of State Transportation Debt.*—Provides information on the par value amount of outstanding State transportation debt.

*FHWA-543 (Optional) State Transportation Sinking Fund and Debt Service Transactions.*—Provides balanced calendar or fiscal year statements of sinking funds, or interest and redemption funds, that are maintained to service State obligations for highways or mass transportation. This form may be used as an alternative to identifying the debt service transactions in separate columns on forms FHWA-531 and FHWA-532.

#### IMPORTANT GENERAL CONSIDERATIONS

These forms supplement the annual State highway finance forms FHWA-531 and FHWA-532, and should be coordinated to cover the same calendar or fiscal year. They provide information on the amount and nature of annual bond financing by the States for highways and mass transit, and on the change in debt during the year. Debt service payments for bond interest, redemption, allied costs, and the associated revenue may be reported on forms FHWA-531 and FHWA-532 (see Chapter 8 for instructions) or on optional form FHWA-543.

In preparing the bond reports, the State should take care to ensure that these reports are in agreement with forms FHWA-531 and FHWA-532. For instance, the income from bond sales reported on form FHWA-531 should agree with the amounts reported on form FHWA-541 as allotments or transfers of net proceeds for highway and mass transit purposes. Debt service payments reported on form FHWA-532 should be consistent with debt service reported on the FHWA-543. A reconciliation should be provided if information between these forms differ.

States that have no transportation debt do not need to submit forms FHWA-541 or FHWA-542. However, the fact that no State obligations for highways or mass transit were issued or are outstanding should be noted on forms FHWA-531 and FHWA-532.

The Chapter 8 instructions for forms FHWA-531 and FHWA-532 indicate that transactions relating to the refunding of obligations should be included and specifically noted. Refunding involves the replacement of one bond issue by another. Outstanding bonds are retired through refunding in one of two ways. In one method, a call notice is issued to immediately redeem the outstanding bonds. In another method, refunding bond proceeds are escrowed and invested to provide sufficient monies to make all remaining interest payments on the outstanding bonds and to retire them at their stated maturities. By either method, a refunded issue is assumed to have been retired during the current time period. Complete details of all refunding transactions should be given on the bond reports.

All obligations issued for a term of two or more years should be reported. Obligations for shorter terms should not be reported unless they are part of a regular bond issue, such as serial bonds for which the maturities begin the first year after issue.

Ordinary outstanding warrants and claims should not be reported as State transportation obligations, but interest on stamped warrants or similar obligations should be recorded as debt service payments on form FHWA-532 or on optional form FHWA-543. When warrants, claims, or other short-term notes are funded, the obligations that replace them should be reported if they have been issued for a term of two or more years.

For zero-coupon or capital appreciation bonds, the par value of the bond reported on forms FHWA-541, FHWA-542 and FHWA-543 should be the amount that the State will pay at maturity to retire the bonds. Zero coupon bonds pay no direct interest. Instead, they provide their return to investors by being sold at a large discount. The interest rate on the bonds is implied by the size of the discount and the term of the bond. Since forms FHWA-532 and FHWA-543 are prepared on a cash basis, rather than on an accrual basis, no interest expenditures are shown for a zero-coupon bond. The full amount of debt service on a zero-coupon bond will

appear as a redemption expenditure. Therefore, the full amount that the State will have to pay to retire the bonds at maturity should be carried on the FHWA-542 report as outstanding transportation debt.

Bonds should be classified according to (1) the purpose of issue (such as highway, mass transit or refunding) and (2) the type of security, as defined below:

- ! *General obligation bonds.*—Although interest and redemption can be paid from specified revenues or State general revenues, these bonds are backed by the full faith and credit of the State. Occasionally, the State issues bonds to finance the construction of toll facilities. When the State guarantees these bonds, they should be included with general obligation issues.
- ! *Limited obligation bonds.*—Also called revenue bonds, these bonds are usually secured only by the revenue from specific taxes and fees. For toll projects, the security may not be restricted to the revenue earned by the project. However, they are still classified as limited obligation bonds unless backed by the full faith and credit of the State.
- ! *Toll revenue bonds.*—These are bonds, generally issued by the separate State commissions or authorities responsible for the facilities, that are secured solely by the earnings of the facilities.
- ! *Reimbursement obligations.*—These are obligations to reimburse local governments for the cost of local roads taken into the State system. Separate identification of these obligations is preferable because of the circumstances under which they are incurred.

Some States have issued bonds to provide funds for multimodal capital projects rather than just for highway projects. Since forms FHWA-531 and FHWA-532 include the financial transactions of State involvement in mass transit, bond transactions for such activities should be included on the bond reports. If specific allocations between highways and mass transit projects have not been made, estimates will suffice. These percentages should then be used to determine the amount of debt service payments to be assigned to highways and the amount to be assigned to mass transit. As subsequent issues are sold, the percentages should be revised to represent the totals assigned to highways and to mass transit, respectively. This approach will require fewer

computations than using a separate percentage for each bond issue.

In multimodal issues with highway and other transportation allocations, the other transportation allocations, i.e., airports, railroad, and marine, should be included in item 9.B. on form FHWA-541.

Airport, railroad, and marine bond issues are usually not considered as highway or mass transit issues and are usually not reported on form FHWA-541. For example, an airport bond that is for the construction of an airport tower and hangers should not be reported on form FHWA-541.

When an airport, railroad, or marine bond issue funds a highway or mass transit project, it should be reported on form FHWA-541. For example, an airport bond may be funding highway and access improvements into the airport and an intermodal linkage to a mass transit system. However, only information for the allocation of proceeds to highways and mass transit should be reported on forms FHWA-531 and FHWA-532.

When annual reports and audits are published by special highway authorities, bond commissions, and so forth, the data are usually in sufficient detail to identify transportation related debt transactions and the amount of outstanding debt. These reports should be included as supplementary debt service information with the other forms that supply debt information.

Any available data supplementary to the bond reports and important to an understanding of the transactions should be forwarded to the FHWA Washington Headquarters with the annual bond forms. For example, copies of bond prospectuses, and official bond statements should be provided with form FHWA-541. Copies of the laws that authorize bonds or otherwise affect the status of State highway debt or debt service, any printed financial reports, special bond studies, reorganization plans, etc., that give additional data on the nature and mechanisms of a State's bonding program and their debt service are of particular importance and should be forwarded to the FHWA Washington Headquarters when available.

## INSTRUCTIONS FOR FORM FHWA-541

Form FHWA-541 is designed to report all bond issues whose proceeds were used, in whole or in part, for highway and mass transit purposes. In general, bond issues sold during the year should be listed separately when issued under separate authorizations and statutory provisions or when carrying different issue dates. The

data shown must cover the same 12-month reporting period as forms FHWA-531 and FHWA-532.

In the instructions below, all items are numbered to correspond to the appropriate items on form FHWA-541.

*Item 1. Statute authorizing issue.*—Record the chapter, section number, and year of the law authorizing the bond issue listed in each column.

*Item 2. Total bonds authorized.*—Record the total amount of bonds authorized under the statute, even when the entire amount has not been sold at the end of the current year.

*Item 3. Total bonds sold to end of current year.*—Record the total cumulative amount of bonds sold to the end of the current year.

*Item 4. Posted interest rate(s)—percent.*—Record the rate or rates of interest printed on the bonds.

*Item 5. Source of funds for debt service.*—Record and identify the source of funds for payment of debt service. Examples of sources of funds for debt service are: motor-fuel taxes, motor-vehicle revenues, State highway fund, general funds, road tolls, Federal funds, etc. If the bond issue is secured by a pledge of full faith and credit of the State, even though debt service may be payable out of specific revenues, the issue should also be identified by the symbol "G.O." for general obligation. When Federal funds are shown as the source of funds for debt service, the agency and amount of funds should be provided in a note.

*Item 6. Nominal date of issue.*—Record the nominal or official date of issue of a bond. This is the date stated on the face of the bond and interest accrues as of that date. If the bond begins to bear interest on other than the nominal issue date, information on when interest accrues should be provided in a note.

*Item 7. Date of sale.*—Record the actual date of sale. If bonds having one nominal date of issue are sold over a period of time, the word "various" should also be entered in item 7.

*Item 8. Proceeds of sales during current year.*—Record in this item the transaction information on each bond sale.

*Item 8.A. Par value.*—Enter the par value of the bond sold. The par value is the principal amount or amount found on the face of the bond. This is the amount that

must be paid to retire the bond at the end of its term or at maturity.

*Item 8.B. Premium (plus) or discount (minus).*—Enter any premiums or discounts involved in the bond sale.

When a bond's posted interest rate is higher than current market rates, the bonds are usually sold at a premium. When the posted interest rate is less than current market rates, the bonds are usually sold at a discount. Zero-coupon bonds are sold at a large discount.

*Item 8.C. Accrued interest.*—Enter the amount of interest accrued in the selling price of a bond between the date of issue and the date of sale.

The amount of accrued interest from the sale of a given amount of bonds should equal the interest on that amount for one day multiplied by the number of days that elapsed between the date when the bonds began to bear interest and the date of sale. Any discrepancies should be explained in a note.

*Item 8.D. Total.*—Enter the net proceeds of the sale of a bond. Net proceeds equal the sum of a bond's par value, premiums or discounts, and accrued interest.

*Item 9. Allotment of proceeds of sales.*—Record in this item the allocation of bond proceeds. The allocation of proceeds reflects the distribution of funds to various purposes and accounts, and is not the actual expenditure of proceeds.

*Item 9.A. Allotments for Highways and mass transit.*—Record in this item the allocation of bond proceeds for highway or mass transit purposes.

*Item 9.A.(1). For construction of State highways.*—Enter the allocation of bond proceeds for State highways.

*Item 9.A.(2). For construction of local roads and streets.*—Enter the allocation of bond proceeds for local roads and streets.

*Item 9.A.(3). For construction of toll facilities.*—Enter the allocation of proceeds for toll facilities.

*Item 9.A.(4). For construction of mass transit facilities.*—Enter the allocation of bond proceeds for mass transit facilities and projects.

*Item 9.A.(5). Other.*—Enter and identify the allocation of bond proceeds for highways and mass transit purposes other than those listed above.

*Item 9.A.(6). For debt service.*—Record in this item all required allocations of bond proceeds for debt service

*Item 9.A.(6).(a). For bond sale and other administrative expenses.*—Enter all allocations of bond proceeds for the administrative costs of issuing the bond. These include commissions and agent fees.

*Item 9.A.(6).(b). For interest.*—Enter all allocations of bond proceeds for interest payments including accrued interest.

*Item 9.A.(6).(c). For redemption.*—Enter all allocations of bond proceeds for redemption payments.

*Item 9.A.(6).(d). For refunding bonds, or funding notes.*—Enter all allocations of bond proceeds for refunding outstanding bonds.

*Item 9.A.(7). Total.*—Enter the sum of allocations in items 9.A.(1) through 9.A.(6). This amount should be carried onto form FHWA-531, item B.10.

*Item 9.B. Allotments for other purposes.*—Enter the allocation of bond proceeds from highway and mass transit bond issues for nonhighway or nonmass transit purposes. The purpose of the allocation must be specified. The construction of airports, marine facilities, or railroad yards are examples of bond proceed allocations that should be reported in this item.

*Item 9.C. Total Allotments.*—Enter the sum of allocations in items 9.A. and 9.B.

This sum will typically equal net bond proceeds from bond sales reported in item 8.D. The allotments of bond proceeds reported might differ from the net proceeds from bond sales if a portion of the proceeds was unallotted in the current year, or if amounts unallotted from prior year bond sales were allocated in the current year.

*Item 10. Amount unallotted at end of year.*—Enter any bond proceeds that remain to be allocated at the end of the year. Allocation of this remainder should be accounted for on form FHWA-541 in subsequent years until the entire amount has been allocated.

Unallocated amounts are proceeds that have not been distributed to a fund or account. These should not be confused with unexpended balances of allocated proceeds. The unexpended balance of allocated proceeds are accounted for in the balances of the funds or accounts that they were distributed to, and appear in the balances

reported on FHWA-531 and FHWA-532, rather than in this item.

## **INSTRUCTIONS FOR FORM FHWA-542**

Form FHWA-542 is designed to be a (par value) record of the status of all State transportation obligations issued, redeemed, and outstanding for the reporting year. Information is recorded on each line for individual issues. A grand total line is provided at the top of the form for a summation of all issues included on the form. The data shown must cover the same calendar or fiscal year reported on forms FHWA-531 and FHWA-532. The amount reported as outstanding

*Column (1) Description of issue.*—Record a description identifying individual bond issues. The listings for bond issues should distinguish among the issues as descriptive identifications on form FHWA-541 described and identified separate bond issues.

Typically, bond issues sold during the year are listed separately when issued under separate authorizations and statutory provisions, or when carrying different issue dates. The State may prefer to group together all bonds issued under one authorization even though issued over a period of years. Separate forms FHWA-542 may be used for different major groups of obligations (for example, trunk highway bonds, secondary road bonds, transportation bonds). Issues for toll facilities should be reported and identified separately. Enter the total for each sheet on the first line and the grand total on the last sheet.

*Column (2) Year of issue.*—Record the year in which the bonds were sold.

*Column (3) Amount outstanding, beginning of year.*—Record the par value amount of bonds outstanding at the end of the prior year. The par value is the principal amount found on the face of the bond. This is the amount that is paid at maturity to retire the bond. Entries in this column should agree with the entries in column (7) on form FHWA-542 for the previous year. This advice applies to the grand total line and the individual bond issue lines. Any differences should be explained in a note.

For zero-coupon or capital appreciation bonds that pay no direct interest, the full amount that the State will have to pay at maturity to retire the bonds should be carried on the FHWA-542 report as outstanding transportation debt.

*Column (4) Amount issued during year.*—Record the par value of all bonds issued during the reporting year. This entry should agree with the corresponding entry in item 8.A. on form FHWA-541.

*Column (5) Current redemption during year (par value).*—Record the par value of all bonds retired during the year, from current revenue, or sinking funds. Exclude from this column bonds that were redeemed from the proceeds of a refunding issue. See the column (6) instructions for redemptions involving refunding bonds. It is not necessary to separately report the redemptions made at different times during the year for the same bond issue.

This item reports the par value of redemptions from current revenue or sinking funds while form FHWA-532 (or optional form FHWA-543) reports the net redemption payment. Therefore, differences in the amounts shown for redemption are likely. Where differences for reasons other than premiums and discounts occur, a reconciliation or note explaining the differences between the redemption amounts reported on the two forms should be supplied.

For example, redemption payment may have been made to an agent on the last day of one reporting year while the actual redemption may have occurred sometime in the first month of the next reporting year. Irregularities, such as failure of bondholders to present bonds for redemption, occur occasionally and will also result in differences between the two report forms.

*Column (6) Refunding redemption during year (par value).*—Record the par value of all bonds retired by the proceeds of refunding issues. Obligations defeased through refunding issues are considered retired.

This item reports the par value of redemptions by refunding, while form FHWA-532 (or optional form FHWA-543) reports the net payment made to redeem these bonds. Therefore, differences in the amounts shown for redemption are likely. Where differences for reasons other than premiums and discounts occur, a reconciliation or note explaining the differences between the redemption amounts reported on the two forms should be supplied.

*Column (7) Amount outstanding, end of year.*—Record the par value amount of bonds outstanding at the end of the current reporting year. Bonds that mature on the first day of a given year are considered to have been outstanding at the end of the prior year, even if

redemption payment was entered on State records as a disbursement during the prior year.

*Column (8) Sinking fund or bond redemption reserves, end of year.*—Record the balances (cash plus the value of investments) in sinking funds or other reserves for retirement of State highway or mass transit debt for the last day of the year. If reserves are not held against individual issues, balances should be entered as a part of the total for the group of issues involved. Disbursements for maturities during the next year should be considered as reserves against the next year's retirements and included in balances. Identify any such entries in a note.

### **INSTRUCTIONS FOR OPTIONAL FORM FHWA-543**

In some States, sinking funds or other reserves for debt service are not under the jurisdiction of the State highway agency, and debt service information must be obtained from the State treasurer, bond commission, transportation finance agency, toll authority, auditor, or comptroller. This form substitutes for reporting debt service transactions and financing on forms FHWA-531 and FHWA-532.

Form FHWA-543 is designed to report balanced statements of sinking funds or debt service funds. These funds are maintained for making interest and redemption payments on State obligations for highways or mass transit. The reported information must cover the same 12-month period reported on forms FHWA-531 and FHWA-532. (Debt transactions of each fund can also be identified by means of separate columns on forms FHWA-531 and FHWA-532.) In some States, there are no separate funds, particularly in connection with serial bond issues, and annual payments for interest and principal are met from current revenues or appropriations. In these cases, entries for the balances in items 1. and 4. on form FHWA-543 should be left blank because current disbursements for debt service will be paid for by the necessary funds from current revenues.

If two or more debt service funds are reported on form FHWA-543, a separate column should be used for each fund. Additional sheets may be used, if necessary.

*Item 1. Balance, beginning of year.*—Enter the sinking fund and debt fund balances available at the beginning of the reporting year. The balances are composed of cash and the value of investments at cost and should agree with item 4. on form FHWA-543 from the previous year. If a sinking fund is partially invested in the bonds that it was created to retire, those bonds should be considered

part of outstanding debt as long as they are held in the sinking fund or until they are canceled.

*Item 2. Income during year.*—Record in this item all sinking fund income from current State revenues.

*Item 2.A.(1). Highway-user revenues.*—Enter revenue from highway-user taxation, i.e., motor-fuel, motor-vehicle, and motor-carrier taxes and fees, in item 2.A.(1). Revenues from these taxes and fees may include specific dedications that are identified and reported on forms FHWA-556 and FHWA-566 and stated in tables MF-106 and MV-106 in *Highway Taxes and Fees, How They Are Collected and Distributed*.

*Item 2.A.(2). Tolls on State roads, bridges, etc.*—Enter toll income allocated for debt service by the State highway agency or by State authorities. Identify the toll facility that provided the funds.

*Item 2.A.(3) Other.*—Enter all other State income used for debt service. The funding source of amounts entered in this item should be identified. Appropriations from State general revenues for debt service on State obligations, sales tax revenues, other State taxes and fees, or Federal funds are all examples of funding sources that should be identified. See table S-106 in *Highway Taxes and Fees, How They Are Collected and Distributed* for guidance.

*Item 2.A.(4). Total.*—Enter the sum of items 2.A.(1) through 2.A.(3).

*Item 2.B. Funds from other governments.*—Record in this item all funds received from other levels of government that are used for debt service.

*Item 2.B.(1). Federal funds.*—Enter any Federal funds used for debt service. The agency and amount should be specified in a note.

*Item 2.B.(2). Local governments.*—Enter any funds from local governments that were used for debt service.

*Item 2.B.(3). Total.*—Enter the sum of items 2.B.(1) through 2.B.(2).

*Item 2.C. Proceeds from the sale of bonds.*—Record in this item all funds derived from bond proceeds. In most cases, this entry will be identical to item 9.A.(6) on form FHWA-541. The instructions for this item are essentially the same as those for similar items on form FHWA-541. Differences may arise because: (1) accrued interest or the premium on bond sales received in one year may not

have been transferred to the debt service fund until a subsequent year, or (2) proceeds of bond sales allotted to construction in the year of sale may have been redirected into the debt service fund in the year for which the form FHWA-543 is prepared. Unless the explanation is obvious, any differences between item 9.A.(6) on form FHWA-541 and item 2.B. on form FHWA-543, should be reconciled in a note.

*Item 2.C.(1). Principal applied to debt service.*—Enter any bond proceeds that were used for debt service. Bond proceeds are reported as either from refunding issues in item 2.C.(1).(a) or new issues in item 2.C.(1).(b). Exceptions may occur where bond proceeds have been allocated to pay interest (otherwise known as capitalized interest) during the construction period of projects financed by revenue bonds.

*Item 2.C.(2). Premium (plus) or discount (minus) on sale.*—Enter any premiums or discounts on the sale of debt service issues.

*Item 2.C.(3). Accrued interest on sales.*—Enter any interest accrued on the sale of debt service issues.

*Item 2.C.(4). Total.*—Enter the sum of items 2.C.(1) through 2.C.(3).

*Item 2.D. Net earnings of sinking fund or investments.*—Enter the amount of net income to the debt service fund from interest and investment transactions. For a simple revolving fund having no investments, this item would include only interest on deposits. For a sinking fund that has investments, the net gain or loss of the investment account transactions should also be included in this item.

*Item 3. Disbursements during year.*—Record in this item all sinking fund disbursements. The information reported in this item should be consistent with the instructions in Chapter 8 for debt service transactions and transfers.

*Item 3.A. Bond administrative and finance charges.*—Enter all bond administrative and finance charges, including the cost of printing, advertising, and legal fees incident to the sale of bonds; service charges paid to fiscal agents; and any other costs of record incidental to debt service.

*Item 3.B. Interest payments.*—Enter the total of interest payments during the year, including accrued interest received on sale of bonds or paid on redemptions in advance of maturity.

*Item 3.C. Redemption payments.*—Record in this item information on redemption payments.

*Item 3.C.(1). Principal.*—Enter the par value of redemption payments.

*Item 3.C.(2). Premium or (discount).*—Enter the amount of the premium or discount.

*Item 3.C.(3). Total.*—Enter the sum of item 3.C.(1), plus premiums or minus discounts in item 3.C.(2), as appropriate. The resulting total is the amount of net redemption payments.

Because form FHWA-542 records redemption of bonds with beginning of year maturities in the year due and form FHWA-543 records them in the year paid, differences in the amounts shown for redemption are likely. Also, irregularities caused by the failure of bondholders to present bonds for redemption will occasionally occur and result in differences between the two reports. Where differences occur, a reconciliation between the redemptions reported on the two forms should be supplied.

The instructions for form FHWA-542 provide that in cases where disbursements in the last month of the year were made for maturities occurring in the next year, the amount of such disbursements should be considered part of the retirement reserve and included in the balance to be reported in column (8) of that form. If this is done, the balance reported in FHWA-542 and the balance reported in item 4. of FHWA-543 will differ. A reconciliation of these two balances should be supplied.

*Item 3.D. Transfers to other funds.*—Record in this item the transfer of any funds out of the sinking fund or dedicated debt service fund. Funds previously accumulated for debt service may be redirected to another purpose. Details of such transactions should be given in items 3.D.(1), through 3.D.(3).

*Item 3.E. Total disbursements.*—Enter the sum of items 3.A. through 3.D.

*Items 4. Balance, end of year.*—Record in this item the sinking fund and debt fund balances available at the end of the reporting year. The balances are composed of cash and the value of investments at cost.

This public report burden for this information collection is estimated to average 5 hours.

STATE TRANSPORTATION OBLIGATIONS ISSUED DURING YEAR AND ALLOTMENT OF PROCEEDS		STATE			
		YEAR ENDING (mm/yy)			
ITEM	TOTAL	DESCRIPTION OF ISSUE			
1. Statute Authorizing Issue					
2. Total Bonds Authorized	0				
3. Total Bonds Sold to End of Year	0				
4. Posted Interest Rate(s) Percent					
5. Source of Funds For Debt Service					
6. Nominal Date of Issue					
7. Date of Sale					
8. Proceeds of Sales During Year:					
A. Par Value	0				
B. Premium (+) or Discount(-)	0				
C. Accrued Interest	0				
D. Total (A To C)	0	0	0	0	0
9. Allotment of Proceeds of Sales:					
A. Allotments For Highways and Mass Transit					
(1). For Construction of State Highways	0				
(2). For Construction of Local Roads/Streets	0				
(3). For Construction of Toll Facilities	0				
(4). For Construction of Mass Transit Facilities	0				
(5). Other (specify)	0				
(6). For Debt Service					
(a) For Bond Sale & Other Admin Costs	0				
(b) For Interest	0				
(c) For Redemption	0				
(d) Refunding Bonds or Notes	0				
(7). Total (1 through 6)					
B. Allotments For Other Purposes					
(1). (specify)					
(2). (specify)					
(3). Total (1 + 2)					
C. Total Allotments (A + B)	0	0	0	0	0
10. Amount Unallotted End of Year	0	0	0	0	0
Notes and Comments:					
THIS INFORMATION FROM THE RECORDS OF					
PREPARED BY					