

State of California
Business, Transportation & Housing Agency
Department of Transportation

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POLICY MATTERS
Annual Analysis by State
Treasurer of GARVEE
Bonding Capacity of Federal
Transportation Funds
Action Item

CTC Meeting: May 9, 2002

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Original Signed By
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Chief Financial Officer
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ANALYSIS OF GRANT ANTICIPATION REVENUE VEHICLE (GARVEE)
BONDING CAPACITY 2002

DISCUSSION

Government Code Section 14553(b), established by Chapter 862, Statutes of 1999 (SB 928), requires that the Commission, in conjunction with the State Treasurer's Office, prepare by April 1 of each year, an annual analysis of the bonding capacity of federal transportation funds deposited in the State Highway Account (SHA). Government Code Section 14553.4 further specifies that the State Treasurer may not authorize the issuance of notes, if the annual repayment obligations of all outstanding notes in any fiscal year exceeds 30 percent of the total amount of federal transportation funds deposited in the SHA, for any consecutive 12-month period within the preceding 24 months.

Consistent with these provisions, the State Treasurer has prepared the third annual report, "Analysis of GARVEE Bonding Capacity 2002". Each of these three reports include several scenarios to assist the Commission in examining the implications of various assumptions and the related potential GARVEE bond structures that may be proposed over the coming year. The sensitivity analyses contained in the reports take into consideration various revenue and interest rate conditions, with final maturities at five, ten, fifteen and twenty years. Additionally, in these scenarios, the portion of federal deposits characterized as local "pass-through revenues" were considered in two different assumptions -- these revenues were either included or excluded from annual deposits for purposes of bonding capacity calculations.

In the 2001 report, the capacity of a GARVEE financing with a five-year maturity ranged from a low of \$2.13 billion to a high of \$2.57 billion. Excluding the pass-through revenues from the 2001 analyses resulted in reduced bonding capacity, from a low of \$1.62 billion to a high of \$1.95 billion. Detail relative to the range of bonding capacity for 2002 will be presented to the Commission by the State Treasurer's Office at the May meeting.

BACKGROUND

Chapter 862, Statutes of 1999 (SB 928) authorizes the State Treasurer to issue Federal Highway GARVEE Bonds and authorizes the Commission to select and designate State Transportation Improvement Program (STIP) projects to be funded for advance construction from bond proceeds.

Chapter 113, Statutes of 2001 (AB 438), attempted to expand the use of GARVEEs beyond the STIP, to include the Toll Bridge Seismic Retrofit Program, Traffic Congestion Relief Program, State Highway Operation and Protection Program (SHOPP), and other highway and transportation projects designated for accelerated construction by the Commission. However, Government Code Section 14553.6 was not amended in the process. This code section requires that all funds allocated to a GARVEE project be counted against the STIP county share. Therefore, the use of GARVEEs is still limited to Regional Improvement Program projects. AB 3026, introduced on March 7, 2002, would provide the necessary technical cleanup language to accomplish the intent of AB 438 allowing for the use of GARVEE financing for Interregional Improvement Program and other eligible projects.

GARVEE Bonds are tax-exempt anticipation notes or other debt instruments eligible under Section 122 of Title 23 of the United States Code, backed by annual federal appropriations for federal-aid transportation projects. This federal code was amended to make bond-related costs of projects eligible for reimbursement, including principal and interest payments, issuance costs, insurance and other costs incidental to financing, such as ongoing agent/trustee fees, arbitrage rebates, and audit costs.

With this revised definition of eligible costs, many States have structured, or are considering, GARVEE financings to fund priority transportation projects. While no projects have been financed in California under this program to date, the 2002 STIP, approved by the Commission on April 4, 2002, includes programming for the I-15 Managed Lanes Project in San Diego County, which is the first project approved for the use of GARVEE financing. It is anticipated that these GARVEE Bonds will be issued in the amount of \$171 million in Fiscal Year 2003/2004, with the first debt service payment due in Fiscal Year 2004/2005, in accordance with STIP programming. The bonds would have a ten-year maturity.

RECOMMENDATION

The Department recommends that the Commission approve the "Analysis of GARVEE Bonding Capacity 2002" prepared by the State Treasurer.