

# Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: August 6, 2013

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Information

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Subject: **GARVEE BONDING CAPACITY UPDATE**

## **SUMMARY**

Government Code Section 14553(b) requires the Commission to prepare, in conjunction with the State Treasurer's Office (STO), an annual analysis of California's bonding capacity for issuing Federal Grant Anticipation Revenue (GARVEE) bonds. This year's analysis is being provided to the Commission at this meeting.

This update is being provided to discuss the relationship between GARVEE Bonding capacity and the adopted 2014 Fund Estimate which established the funding level for the quinquennium covered by the 2014 State Transportation Improvement Program (STIP) and updated the funding level for the remaining two-year period of the 2012 State Highway Operation and Protection Program (SHOPP).

## **DISCUSSION**

The 2013 STO analyses demonstrate that based on the 12-month period with the highest deposits (nearly \$4.226 billion), the 15% limitation on GARVEE debt is \$633,883. After taking into account the current maximum annual debt service of the Series 2004A Bonds and Series 2008A Bonds (\$84,295,000 in FY 2013-14), the remaining annual debt service capacity is \$549,588. The Base Case scenario, using a 12-year final maturity and 1.78% interest rate for the issuance, provides the highest bonding capacity of approximately \$5.9 billion.

The STO analysis of GARVEE bonding capacity is calculated as prescribed by statute, however, a review of the federal deposits into the SHA ignores the fact that not all federal funds are available to fund Department-administered projects. Additionally, by looking solely at reimbursements, the analysis assumes federal funding remains at a consistent level. Staff therefore recommends that the Commission take a more programmatic and forward-looking view, and develop a GARVEE capacity based on 15% of the federal funds estimated to be available annually for SHOPP projects in the 2014 Fund Estimate (\$2.3 billion). This level of federal funding, assuming a 12 year maturity and 1.78% interest rate, yields a \$3.698 billion SHOPP GARVEE bond capacity.

<b>GARVEE Capacity (\$ in millions)</b>	Federal Deposits	SB 1507 Limit	Debt Service (1.78% Interest)	12-Year Bond Proceeds
Total GARVEE Capacity	\$4,226	15%	\$634	---
Existing Debt Service	---	---	(\$84)	---
Available Debt Service Capacity	---	---	<b>\$550</b>	<b>\$5,892</b>
<b>Proposed SHOPP Debt Service Level</b>				
Federal Funding for the SHOPP (per 2014 Fund Estimate)	\$2,300	15%	<b>\$345</b>	<b>\$3,698</b>

### **BACKGROUND**

Government Code Section 14553.4 states that the Treasurer may not authorize the issuance of additional bonds if annual debt service on all outstanding GARVEE obligations would exceed 15 percent of the total amount of federal transportation funds deposited into the State Highway Account for any consecutive 12-month period within the preceding 24 months.

The Commission has approved the issuing of GARVEE notes twice, once for STIP projects and once for SHOPP projects. On March 10, 2004, the State issued \$614,850,000 of GARVEE Bonds (Series 2004A Bonds) for STIP projects. The Series 2004A Bonds are structured with serial maturities from 2005 through 2015. On October 16, 2008, the State issued a second set of GARVEE Bonds (Series 2008A Bonds) \$97,635,000 for SHOPP projects. The Series 2008A Bonds are structured with serial maturities from 2009 through 2020.