

Memorandum

To: Chairman and Commissioners

Date: September 1, 2004

From: Diane C. Eidam

BOOK ITEM 4.9
INFORMATION

Potential for GARVEE Bond Project Candidates

Issue:

To what extent should the Commission authorize the issuance of GARVEE bonds in 2004-05, and for which projects?

Recommendation:

Receive comments on candidate projects and the appropriateness of bond financing from the Department and regional agencies.

Background:

Under State and Federal law, the Commission may select projects from the STIP and SHOPP to be funded from the proceeds of Federal Grant Anticipation (GARVEE) bonds, secured by future transportation apportionments. The Commission approved the first issuance of GARVEE bonds in January 2004 for \$658 million for eight projects from the 2002 STIP.

In adopting the 2004 STIP in August, the Commission approved the following schedule for the selection and designation of projects for funding from the proceeds of a second GARVEE bond issuance:

| | |
|---|----------------------|
| Adopt 2004 STIP, with GARVEE match reservation. | August 5, 2004 |
| Receive comments on candidate projects and appropriateness of bond financing, direct preparation of STIP amendment. | September 15, 2004 |
| Notice and hearing on proposed STIP amendment for GARVEE bonding. | December 8-9, 2004 |
| Adopt STIP amendment, approve pledge of future receipts, request Treasurer to issue bonds. | January 19-20, 2005. |

GARVEE bonds can cover only the Federally-funded portion of a project's cost (generally 88.5%). This requires that the entire non-Federal portion of project cost (including costs of issuance and interest) be provided up front on a pay-as-you-go basis. The 2004 STIP adoption set aside a \$65 million reserve to provide the match for GARVEE bonding, without designating any specific projects for bonding. If all the non-Federal match were provided through the STIP, staff estimates that this \$65 million would provide sufficient match for about \$368 million in bond proceeds, thus funding about \$433 million in project costs. Additional bonding might be possible if other sources are made available for a project's non-Federal match.

The amount that will actually be available this year for GARVEE match and other STIP funding remains in doubt. The 2004 STIP was based on the 2004 STIP fund estimate (adopted December 2003), which assumed revenues from the scheduled annual Proposition 42 transfer. In the 2004-05 State Budget, the Proposition 42 transfer was suspended and, instead, the STIP was assigned state revenues from Indian gaming compacts, which are in turn dependent on the defeat of both Propositions 68 and 70 on the November 2004 ballot.

The Commission's decision on the appropriate level of GARVEE bonding this year must consider several factors and tradeoffs. The first is the need and opportunity to advance the construction of projects that would otherwise have to wait. This requires an evaluation of both the projects that are ready to go and the availability of current funding and other financing mechanisms. There is a short-term tradeoff between using current resources to provide the match for bonding a major project and using the same resources to fund other projects sooner on a pay-as-you-go basis. There is a longer-term tradeoff between using bond capacity now versus reserving that capacity for later years. The first bond sale was for 11-year term bonds, using about 20% of the long-term bond capacity.

The Commission's STIP guidelines specified that the Commission may select any STIP project for accelerated construction through GARVEE bonding with the agreement of the agency that proposed the project for the STIP. The guidelines further specified that, ***"The Commission will select projects for GARVEE bonding that are major improvements to corridors and gateways for interregional travel and goods movement, especially projects that promote economic development and projects that are too large to be programmed within current county and interregional shares or the SHOPP on a pay-as-you-go basis. The Commission's expectation is that, generally, these will be projects that require bond proceeds exceeding \$25 million. Major improvements include projects that increase capacity, reduce travel time, or provide long-life rehabilitation of key bridges or roadways."***

Candidate Projects:

The 2004 STIP Staff Recommendations included the following list of potential GARVEE candidate projects. Inclusion in the list did not necessarily mean that a project was a high priority for bonding under the Commission's criteria, nor did it necessarily mean that the project would be ready in time to be appropriate for a bond sale this year. Some projects were included on the list because they were nominated either by the Department or by the region. Others were added by Commission staff because they were large and either ready or close being ready for construction.

Potential GARVEE Bonding Candidates
(\$1,000's)

| County/Route | PPNO | Project | STIP | ITIP | RTIP | Ready? |
|-----------------|-------|--|------------------|------------------|------------------|--------|
| Butte-149 | 16W | Rt 70-Rt 99, 4-lane expressway | \$ 64,654 | \$ 58,227 | \$ 6,427 | yes |
| Contra Costa-80 | 261F | WB HOV lanes, Rt 4-Carquinez Bridge | 29,300 | 23,300 | 6,000 | yes |
| Fresno-99 | 1530 | Kingsburg-Selma, 6-In fwy (TCR #90) | 43,500 | 43,500 | 0 | yes |
| Fresno-180 | 90F | Clovis Av-Temperance, new freeway | 36,781 | 0 | 36,781 | yes |
| Kern-14 | 8010 | North of Mojave, expressway upgrade | 45,284 | 18,113 | 27,171 | no |
| Los Angeles-5 | 2808A | Interchanges, Ora Co-Rt 605 (TCR #42) | 129,847 | 0 | 129,847 | no |
| Madera-99 | 5410 | Freeway conversion, Fairmead | 36,460 | 36,460 | 0 | no |
| Merced-99 | 5479 | Freeway conversion, Atwater | 36,112 | 36,112 | 0 | no |
| Merced-99 | 528D | Freeway conversion, Mission Av interch | 51,363 | 30,124 | 21,239 | no |
| Merced-99 | 546D | Freeway conversion, Livingston | 26,800 | 26,800 | 0 | yes |
| Orange-5 | 978T | HOV lanes, Route 91-LA County | 59,551 | 36,209 | 23,342 | no |
| Orange-90 | 4434 | Imperial Hwy grade sep, Orangethorpe | 31,983 | 0 | 31,983 | no |
| San Diego-52 | 260 | Rt 125-Cuyamaca, 4-In fwy (TCR #84) | 68,920 | 0 | 68,920 | no |
| San Diego-905 | 374K | Otay Mesa, 6-In freeway (TCR #86) | 102,756 | 78,890 | 23,866 | no |
| San Joaquin-205 | 7965B | Rt 5-11th St, 6-In freeway (TCR #107) | 66,909 | 39,239 | 27,670 | no |
| Santa Cruz-1 | 542F | Route 1/17 connector | 39,129 | 0 | 39,129 | no |
| Sonoma-101 | 789A | HOV lanes, Route 12-Steele Lane | 49,470 | 12,000 | 37,470 | no |
| Ventura-23 | 1167D | Rt 118-Rt 101, 6-In freeway | 35,916 | 0 | 35,916 | yes |
| Ventura-118 | 1238J | Tapo Canyon-LA Co Line, widen | 40,595 | 0 | 40,595 | yes |
| | | TOTAL | \$995,330 | \$436,974 | \$558,356 | |

Note that the project costs on this list are based on STIP costs only and do not include escalation. The ITIP specifically identified the Butte-149, the Fresno-99, the Madera-99, and the Merced-99 Atwater and Livingston projects as GARVEE candidates for 2004-05. RTIPs specifically identified the Los Angeles-5, the Merced-99 Mission Avenue, the Orange-5, the Orange-90, the San Diego-52, the San Diego-905, the San Joaquin-205, and the Santa Cruz-1/17 projects.

Preliminary Groupings:

A preliminary review of the candidate projects by Commission staff suggests that they can be roughly divided into three groups. The first group of projects are the ones that most clearly satisfy the Commission's selection criterion to provide major improvements to corridors and gateways for interregional travel and goods movement and are either ready to go or will be ready by the first quarter of 2005.

Potential GARVEE Bonding Candidates, Group 1
(\$1,000's)

| County/Route | PPNO | Project | STIP | ITIP | RTIP |
|-----------------|-------|---------------------------------------|------------------|------------------|------------------|
| Butte-149 | 16W | Rt 70-Rt 99, 4-lane expressway | \$ 64,654 | \$ 58,227 | \$ 6,427 |
| Contra Costa-80 | 261F | WB HOV lanes, Rt 4-Carquinez Bridge | 29,300 | 23,300 | 6,000 |
| Fresno-99 | 1530 | Kingsburg-Selma, 6-In fwy (TCR #90) | 43,500 | 43,500 | 0 |
| San Joaquin-205 | 7965B | Rt 5-11th St, 6-In freeway (TCR #107) | 66,909 | 39,239 | 27,670 |
| Sonoma-101 | 789A | HOV lanes, Route 12-Steele Lane | 49,470 | 12,000 | 37,470 |
| | | TOTAL | \$253,833 | \$176,266 | \$ 77,567 |

The second group consists of projects that would also appear to meet Commission's criterion for interregional travel yet have a later delivery date. Depending on delivery status, some of these projects may also be appropriate candidates for bonding.

Potential GARVEE Bonding Candidates, Group 2
(\$1,000's)

| County/Route | PPNO | Project | STIP | ITIP | RTIP |
|---------------|-------|--|------------------|------------------|------------------|
| Kern-14 | 8010 | North of Mojave, expressway upgrade | \$ 45,284 | \$ 18,113 | \$ 27,171 |
| Los Angeles-5 | 2808A | Interchanges, Ora Co-Rt 605 (TCR #42) | 129,847 | 0 | 129,847 |
| Madera-99 | 5410 | Freeway conversion, Fairmead | 36,460 | 36,460 | 0 |
| Merced-99 | 5479 | Freeway conversion, Atwater | 36,112 | 36,112 | 0 |
| Merced-99 | 528D | Freeway conversion, Mission Av interch | 51,363 | 30,124 | 21,239 |
| Merced-99 | 546D | Freeway conversion, Livingston | 26,800 | 26,800 | 0 |
| Orange-5 | 978T | HOV lanes, Route 91-LA County | 59,551 | 36,209 | 23,342 |
| San Diego-905 | 374K | Otay Mesa, 6-In freeway (TCR #86) | 102,756 | 78,890 | 23,866 |
| | | TOTAL | \$488,173 | \$262,708 | \$225,465 |

The third group consists of projects that are more focused on regional needs rather than corridors and gateways for interregional travel. They were included in the potential candidate list because they met the general size criterion and because it was reported that they were ready to go or would soon be ready.

Potential GARVEE Bonding Candidates, Group 3
(\$1,000's)

| County/Route | PPNO | Project | STIP | ITIP | RTIP |
|--------------|-------|--------------------------------------|------------------|-------------|------------------|
| Fresno-180 | 90F | Clovis Av-Temperance, new freeway | 36,781 | 0 | 36,781 |
| Orange-90 | 4434 | Imperial Hwy grade sep, Orangethorpe | 31,983 | 0 | 31,983 |
| San Diego-52 | 260 | Rt 125-Cuyamaca, 4-In fwy (TCR #84) | 68,920 | 0 | 68,920 |
| Santa Cruz-1 | 542F | Route 1/17 connector | 39,129 | 0 | 39,129 |
| Ventura-23 | 1167D | Rt 118-Rt 101, 6-In freeway | 35,916 | 0 | 35,916 |
| Ventura-118 | 1238J | Tapo Canyon-LA Co Line, widen | 40,595 | 0 | 40,595 |
| | | TOTAL | \$253,324 | \$ 0 | \$253,324 |

It now appears that two of the above projects will not be ready to go in time for the next bond issuance, the Orange-90 project and the San Diego-52 project.

Other Issues and Uncertainties:

There are several key funding issues and uncertainties that should be resolved before the Commission takes action to approve additional GARVEE bonding. These include:

- A determination of state revenues available, especially those revenues that depend on the fate of the Indian gaming initiatives on the November ballot.
- A review of cash flow needs for projects approved under the first bond issuance. It may be possible and appropriate to fund portions of the first-bond projects from the second bond and to fund some portion of new projects from the first bond.
- A review of the actual and projected delivery dates for candidate projects. In at least two cases (the projects on Route 5 in Los Angeles and Orange and the Route 99 freeway conversion projects in Merced and Madera), a greater benefit may be realized if projects are delivered together.
- A determination of the actual project costs that may be appropriate for bonding. The costs listed here are programmed amounts that are subject to revision, generally upward. They did not include escalation costs due to project delays. For grandfathered 1996 STIP projects (Butte-149 and Santa Cruz-1/17), they do not include construction and right-of-way support costs.