

# Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: August 10, 2011

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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 GARVEE bonds. This year's analysis was provided to the Commission at the May 2011 meeting.

This update is being provided in anticipation of the adoption of the 2012 Fund Estimate which will establish the funding level over the next five-year period for the State Transportation Improvement Program (STIP) and the State Highway Operation and Protection Program (SHOPP).

## **DISCUSSION**

The 2011 STO analyses demonstrate that based on the 12-month period with the highest deposits of federal reimbursements into the State Highway Account (SHA) (nearly \$2.8 billion), the 15% limitation on GARVEE debt is \$419 million. After taking into account the current maximum annual debt service of the Series 2004A Bonds and Series 2008A Bonds (\$84 million in FY 2012-13), the remaining annual debt service capacity is \$335 million. The Base Case scenario, using a 12-year final maturity and 2.91% interest rate for the issuance, provides the highest bonding capacity of approximately \$3.35 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 SHOPP projects. Additionally, by looking solely at reimbursements, the analysis assumes federal funding remains at a consistent level. Staff therefore recommends that, in developing GARVEE, the Commission take a more programmatic and forward-looking view. Specifically, staff recommends a GARVEE capacity based on 15% of the federal funds estimated to be available annually in the 2012 Fund Estimate (\$1.64 billion). This level of federal funding, assuming a 12 year maturity and 2.91% interest rate, yields a \$1.968 billion SHOPP GARVEE bond capacity.

| <b>GARVEE Capacity<br/>(\$ in millions)</b>               | Federal<br>Deposits | SB 1507<br>Limit | Debt Service<br>(2.91% Interest) | 12-Year Bond<br>Proceeds |
|---|---------------------|------------------|----------------------------------|--------------------------|
| Total GARVEE Capacity                                     | \$2,794             | 15%              | \$419                            | ---                      |
| Existing Debt Service                                     | ---                 | ---              | (\$84)                           | ---                      |
| Available Debt Service Capacity                           | ---                 | ---              | <b>\$335</b>                     | <b>\$3,352</b>           |
| <b>Proposed SHOPP Debt Service Level</b>                  |                     |                  |                                  |                          |
| Federal Funding for the SHOPP<br>(per 2012 Fund Estimate) | \$1,640             | 15%              | \$197                            | <b>\$1,968</b>           |

Proposed legislation (AB 1229) would expand the list of projects eligible for GARVEE bonds to include regional projects proposed by a Regional Transportation Planning Agency (RTPA), and authorize the RTPAs to use their share of federal regional surface transportation program (RSTP) funds and congestion mitigation and air quality (CMAQ) funds, to pay the debt service on regional GARVEEs.

### **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.

Caltrans estimates that in the 2010-11, California received \$395.2 million of RSTP funds and \$423.5 million of CMAQ funds. In the 2011-12, Caltrans estimates that RSTP and CMAQ funds will be \$395.2 million and \$431.1 million, respectively. Presently, the Commission allocates the RSTP and CMAQ funds as a lump sum but under the proposal a higher level of scrutiny would be required for the GARVEE-funded regional projects.

AB 1229, if enacted, would authorize the Commission to require RTPAs to commit to repaying the state for GARVEE debt service if an RTPA's share of RSTP and CMAQ is insufficient to repay the note or if a portion of the project costs is ineligible for federal funding.