

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 21, 2011
POSITION: Oppose

BILL NUMBER: AB 1229
AUTHOR: M. Feuer

BILL SUMMARY: Transportation: Finance: Federal Highway Grant Notes

This bill would allow Federal Highway Grant Anticipation Revenue Vehicle (GARVEE) bonds to be issued for projects programmed by a regional transportation planning agency (RTPA) using its share of federal regional surface transportation program (RSTP) or congestion mitigation and air quality (CMAQ) funds, and would limit these projects to using no more than 50 percent of the state's statutory bonding capacity for GARVEE bonds. Additionally, this bill would require RTPAs to commit to repaying the state for debt service if that agency's share of RSTP or CMAQ funds is insufficient to repay the GARVEE bonds or a portion of the project's costs are ineligible for federal funding. As part of the repayment, the California Transportation Commission would be authorized to amend the funds necessary for the repayment into the State Transportation Improvement Program (STIP) to be counted against the county share for the county in which the project is located.

FISCAL SUMMARY

There have been two issuances of GARVEE bonds to date: \$658 million in 2004 for STIP projects and \$98 million in 2008 for State Highway Operation and Protection Program projects, with annual debt service of approximately \$84 million for the \$756 million in GARVEE projects. Existing law limits the level of funding that can be committed to GARVEE bond debt service at any time to no more than 15 percent of the total amount of federal transportation funds deposited in the State Highway Account (SHA) for any consecutive 12-month period within the preceding 24 months. This includes both the state and local share of federal funds. Average federal deposits in the SHA for the 24-month period ending December 31, 2010, were \$2.7 billion. Thus, annual GARVEE debt service may not exceed \$405 million.

COMMENTS

The Department of Finance is opposed to this bill because it is premature. The 2005 federal transportation act, the Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users, expired on September 30, 2010, and was temporarily extended until September 30, 2011, by Congress. While a new multi-year reauthorization is expected, the size of the appropriation, the structure of the bill, and the date of enactment are unknown. If a local entity were to use GARVEE bonds to fund RSTP or CMAQ projects, there may not be future RSTP or CMAQ funds to pay the debt service depending on whether or not those programs are included as part of the new federal transportation act.

Additionally, this bill would allow RSTP and CMAQ projects to use up to 50 percent of the state's bonding capacity, which could compete with the state for use of GARVEE bonds. Because approximately 40 percent of the state's federal funds are passed through to locals, Finance notes that it may be appropriate to limit RSTP and CMAQ projects to 40 percent of the state's bonding capacity.

Analyst/Principal Date Program Budget Manager Date
(0751) M. Tollefson Mark Hill

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

M. Feuer

June 21, 2011

AB 1229

ANALYSIS

A. Programmatic Analysis

Current law authorizes the State Treasurer to issue Federal Highway Grant Anticipation Revenue Vehicle (GARVEE) bonds, for which the debt service is repaid from the state's share of federal transportation funds, and authorizes the California Transportation Commission (CTC) to select and designate projects to be funded for accelerated construction from bond proceeds. Current law prohibits the State Treasurer from authorizing the issuance of GARVEE bonds if the annual repayment obligations of all outstanding bonds in any fiscal year would exceed 15 percent of the total amount of federal transportation funds deposited in the State Highway Account (SHA) for any consecutive 12-month period within the preceding 24 months.

Current law defines a GARVEE-eligible project as the federally funded portion of any highway or other transportation project that has been designated by the CTC, and increases the capacity, reduces travel time, or provides long-life rehabilitation of key bridges and roadways in a corridor for interregional travel and goods movement. Eligible projects include toll bridge seismic retrofit projects, projects approved for funding in the Traffic Congestion Relief Program, and projects programmed under the current adopted State Transportation Improvement Program (STIP) or State Highway Operation and Protection Program (SHOPP).

This bill would expand the definition of a GARVEE-eligible project to include projects programmed by a regional transportation planning agency (RTPA) using its share of federal regional surface transportation program (RSTP) or congestion mitigation and air quality (CMAQ) funds, and would limit these projects to using no more than 50 percent of the state's bonding capacity for GARVEE bonds. Additionally, this bill would require RTPAs to commit to repaying the state for debt service if that agency's share of RSTP or CMAQ funds is insufficient to repay the GARVEE bonds or a portion of the project's costs are ineligible for federal funding. As part of the repayment, the CTC would be authorized to amend the funds necessary for the repayment into the STIP to be counted against the county share for the county in which the project is located.

Discussion: GARVEE bonds are tax-exempt debt instrument financing mechanisms that are backed by annual federal appropriations for federal-aid transportation projects. The use of GARVEE financing allows the state to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits significantly sooner than traditional funding mechanisms.

With annual average receipts of federal funds of \$2.7 billion, the state currently has the statutory authority to pay up to \$405 million in annual GARVEE debt service. The state currently pays approximately \$84 million in debt service on its previous GARVEE issuances, just over 20 percent of the available GARVEE bond capacity. Although the state has substantial GARVEE capacity, in recent years additional unplanned funding has been available from bid savings, Proposition 1B bonds, and the American Recovery and Reinvestment Act of 2009 to pay for projects.

The author's office indicates that this bill is intended to provide regional transportation planning agencies with another tool to jump start projects and get people back to work when construction costs are down, unemployment is high, and transportation projects are waiting in line for funding.

In 2010-11, local entities received \$414 million of RSTP funds and \$405 million of CMAQ funds. However, the Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users, expired on September 30, 2010, though it was extended until September 30, 2011. While a new multi-year reauthorization is expected, the structure of the bill and the date of enactment are unknown. If a local entity were to use GARVEE bonds to fund RSTP or CMAQ projects, there may not be future RSTP or

