

GUIDELINES FOR USE OF FEDERAL HIGHWAY GRANT ANTICIPATION REVENUE  
BONDS

STATE FINANCE COMMITTEE

(ADOPTED APRIL 25, 2012)

This provides policy guidance regarding use of Federal Highway Grant Anticipation Revenue Bonds (GARVEE) to finance the state's transportation infrastructure. As designated in the Master Bond Resolution (Resolution No. 1125) approved by the State Finance Committee, GARVEE bonds are limited obligations of the state payable from and secured solely by pledged federal aid. They are not secured by state motor vehicle fuel tax revenues, nor are they general obligations of the state.

When GARVEE bonds are used to finance projects, careful consideration must be given to:

- the state's ongoing ability to preserve and improve the state's transportation infrastructure; and
- the effect of GARVEE financings on the state's overall ability to afford debt.

Resolution No. 1125 provides for the issuance of GARVEE bonds for the purpose of funding the SR520 Corridor Program. To date, this is the only program of projects for which the Legislature has authorized issuance of GARVEE bonds. This policy highlights certain restrictions on the issuance of additional GARVEE bonds specified in Resolution No. 1125 and further restricts future issuance to maintain an appropriate balance between leveraging federal funds and using these funds for ongoing expenditures.

Direct GARVEES. Resolution No. 1125 provides for "Direct" GARVEE bonds that pledge Federal-Aid Highway Program (FAHP) funds received by the state from the Federal Highway Administration (FHWA) that are designated for project specific debt service under a Memorandum of Understanding between the Washington State Department of Transportation (WSDOT) and FHWA. It does not support the payment of debt service on bonds which are solely backed by a pledge of FAHP funds the state receives from FHWA for the reimbursement of project expenditures (i.e. "Indirect" GARVEEs).

Priority given to the payment of debt service on GARVEE bonds. In Resolution No. 1125 the State Finance Committee pledges to prioritize the payment of debt service on GARVEE bonds as follows:

If WSDOT receives a full-year of obligation authority, the first obligation in the federal fiscal year will be for funds sufficient to pay debt service in that federal fiscal year. If partial obligation authority is provided by FHWA, either because of continuing resolutions or extensions, WSDOT will obligate an amount proportionate to the amount of obligation authority received by the state. In any event, if a sufficient amount of obligation authority is not available before a debt service payment is due WSDOT will obligate the necessary amount of funds, which may require the department to de-obligate FAHP funds from other federal aid highway projects and re-obligate those FAHP funds for the payment of debt service on GARVEE bonds.

Reimbursement Balances to provide liquidity. Resolution No. 1125 notes that in the unlikely event that Direct GARVEE reimbursements are not available on a timely basis to pay debt service on GARVEE bonds, other available federal funds received by the state from FHWA and deposited into the Motor Vehicle Account will be transferred to the GARVEE bond debt service subaccount.

WSDOT will treat the monthly balances in the Motor Vehicle Account as funds derived from accumulated FAHP Reimbursements that are available for use to pay debt service on GARVEE bonds in the event direct reimbursement for debt service on GARVEE bonds is not timely received from FHWA.

Additional Bonds Test. Resolution No. 1125 restricts the issuance of additional GARVEE bonds such that the amount of Obligation Authority during one of the two prior Federal Fiscal Years is equal to at least three and one half times the Maximum Annual Debt Service in the current and any future Federal Fiscal Year on all outstanding bonds and any such proposed additional bonds.

In order to ensure that federal funds remain available to support the state's ongoing preservation and improvement program, this policy provides a more restrictive additional bonds test by increasing this ratio to three and three quarters times the Maximum Annual Debt Service in the current and any future Federal Fiscal Year on all outstanding bonds and any such proposed additional bonds. The intent is to limit the issuance of GARVEE bonds to restrict the percentage of federal funds in any federal fiscal year expected to be allocated to the payment of debt service.

Maximum Term. The maximum term of the GARVEE bonds will not exceed twelve years.

Capitalized Interest. Whenever possible, finance plans relying on GARVEE bonds will minimize the use of capitalized interest.

GARVEE Capacity Estimates. So as to provide policy makers and the public with information about the use of GARVEE financing, the annual Debt Affordability Study prepared by the office of the State Treasurer will provide yearly estimates of GARVEE bond capacity.