

Accelerated Transportation Initiative GARVEE Bonds: \$379 Million in Federally-Financed Projects (HB 191)

These are a special type of bonds based on future federal funding that allows construction of major transportation projects sooner than would otherwise be possible. (Called Grant Anticipation Revenue Vehicle or GARVEE bonds.) Eight states have now issued GARVEEs and at least 5 other states are considering them.

- The plan allows the traditional Statewide Transportation Improvement Program (STIP) to continue with almost 90% of the expected federal funding level even though it accelerates several projects that, because of their size, would take years to get funded through the regular STIP process.
- The state would issue what are essentially revenue bonds (Certificates of Participation or COPs) that pledge future federal funds for debt service with repayment subject to annual appropriation by the legislature.
- The Federal Highway Administration has confirmed in writing (2/8/01) that “investment earnings on bond proceeds could be used to meet the non-Federal match”, saving about \$62 million in general funds over the 18 year life of the bonds. The projects can essentially be done without any state-funded support.
- The costs of debt financing are offset by the savings from not having to pay for inflationary increases in project costs in future years.
- Most states have not taken any public vote to issue GARVEEs, preferring instead to use some type of revenue bond approach to preserve their GO debt capacity for other purposes (e.g., school construction).
- Alaska can receive very favorable rates in financial markets without pledging its full faith and credit as it would with a public vote on a GO . Rates on COPs are currently less than 5%, the lowest in many years.
- Many of the projects will reduce future operations and maintenance costs.
- The work will be performed primarily by the highway construction segment of the construction industry.