

# Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: June 27-28, 2012

Reference No.: 4.13  
Information

  
From: BIMLA G. RHINEHART  
Executive Director

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 Federal Grant Anticipation Revenue (GARVEE) bonds. This year's analysis is being provided to the Commission at this meeting.

This update is being provided to discuss the relationship between GARVEE Bonding capacity and the adopted 2012 Fund Estimate which established the funding level for the quinquennium covered by the 2012 State Transportation Improvement Program (STIP) and the four-year period of the 2012 State Highway Operation and Protection Program (SHOPP).

## DISCUSSION

The 2012 STO analyses demonstrate that based on the 12-month period with the highest deposits (nearly \$3.946 billion), the 15% limitation on GARVEE debt is \$591,857. After taking into account the current maximum annual debt service of the Series 2004A Bonds and Series 2008A Bonds (\$84,296,000 in FY 2012-13), the remaining annual debt service capacity is \$507,561. The Base Case scenario, using a 12-year final maturity and 1.90% interest rate for the issuance, provides the highest bonding capacity of approximately \$5.4 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 the Commission take a more programmatic and forward-looking view, and develop 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 1.90% interest rate, yields a \$1.977 billion SHOPP GARVEE bond capacity.

<b>GARVEE Capacity (\$ in millions)</b>	Federal Deposits	SB 1507 Limit	Debt Service (1.90% Interest)	12-Year Bond Proceeds
Total GARVEE Capacity	\$3,946	15%	\$592	---
Existing Debt Service	---	---	(\$84)	---
Available Debt Service Capacity	---	---	<b>\$508</b>	<b>\$5,401</b>
<b>Proposed SHOPP Debt Service Level</b>				
Federal Funding for the SHOPP (per 2012 Fund Estimate)	\$1,640	15%	\$186	<b>\$1,977</b>

### **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.

# Memorandum

To: CHAIR AND COMMISSIONERS  
CALIFORNIA TRANSPORTATION COMMISSION

CTC Meeting: June 27-28, 2012

Reference No.: 4.13  
Information Item

From: NORMA ORTEGA  
Chief Financial Officer

Prepared by: Steven Keck  
Division Chief  
Budgets

Subject: **ANNUAL ANALYSIS BY STATE TREASURER OF BONDING CAPACITY (GARVEE)  
OF FEDERAL TRANSPORTATION FUNDS**

## **SUMMARY:**

These analyses are provided to the California Transportation Commission (Commission) to assist in its compliance with the provisions of Senate Bill (SB) 928 (Burton) (Chapter 862, Statutes of 1999) requiring the Commission to prepare, in conjunction with the State Treasurer's Office, an annual analysis of California's bonding capacity for issuing Grant Anticipation Revenue Vehicles, or GARVEE bonds and notes. GARVEE bonds are capital market borrowings repaid by federal transportation funds deposited in the State Highway Account.

These analyses demonstrate that a wide range of circumstances, including policy, revenues, and market factors, can affect the existing capacity for future State GARVEE financings. Therefore, the analyses should be used as a tool for understanding the implications of alternative project applications and the related potential GARVEE bond structures that the Commission may be asked to consider over the coming year.

## **BACKGROUND:**

The State's authority for issuance of GARVEE obligations derives both from federal legislation and from the passage of SB 928 in 1999, which established Government Code Sections 14550 through 14555.9. The bill was sponsored by the State Treasurer's Office to ensure California had the necessary state legislative authority to make use of this new financing tool for accelerating high priority transportation projects. SB 928 became effective January 1, 2000, and was further amended by Assembly Bill (AB) 438 (Chapter 113, Statutes of 2001), AB 3026 (Chapter 438, Statutes of 2002), SB 1098 (Chapter 212, Statutes of 2004), and SB 1507 (Chapter 793, Statutes of 2004). This bonding capacity analysis is the twelfth prepared since 2000.

The California Department of Transportation issued the Series 2004A GARVEE bonds in the amount of \$614,850,000 and the Series 2008A GARVEE bonds in the amount of \$97,635,000. As of December 31, 2011, approximately 99 percent of the total bond proceeds had been expended and approximately \$341 million of the total \$710.48 million principal was outstanding.

Attachment

June 27-28, 2012

Attachment  
Bill Lockyer, Treasurer

STATE OF CALIFORNIA

**OFFICE OF THE TREASURER**

P. O. BOX 942809

SACRAMENTO, CA 94209-0001



May 25, 2012

Mr. Dario Frommer  
Chairperson  
California Transportation Commission  
1120 N Street, Room 2221 (MS-52)  
Sacramento, CA 95814

Dear Mr. Frommer:

It is my pleasure to forward for your review and consideration "Analyses of GARVEE Bonding Capacity 2012." This is the twelfth annual capacity analysis prepared in compliance with the provisions of SB 928 (Chapter 862, Statutes of 1999), which was sponsored by the State Treasurer's Office to ensure that California had the necessary state legislative authority to make use of Grant Anticipation Revenue Vehicles, or GARVEE bonds, a financing tool for the acceleration of high priority transportation projects.

Among other things, the California Transportation Commission is required to prepare, in conjunction with the State Treasurer's Office, an annual analysis of California's bonding capacity for issuing GARVEE bonds, which are capital market borrowings repaid by federal transportation funds deposited in the State Highway Account.

Please let me know how this office may be of further assistance as you continue to use GARVEE bonds as a financing tool.

Sincerely,

  
for Blake Fowler  
Director, Public Finance Division

Enclosure

cc: Governor Jerry Brown  
Senator Darrell Steinberg, President Pro Tempore  
Assembly Member John A Pérez, Speaker  
Senator Mark DeSaulnier, Chair, Senate Transportation and Housing Committee  
Assembly Member Bonnie Lowenthal, Chair, Assembly Transportation Committee  
Ana J. Matosantos, Director of Finance  
Members, California Transportation Commission  
Bimla Rhinehart, Executive Director, California Transportation Commission  
Andre Boutros, Chief Deputy Director, California Transportation Commission

**Analyses of  
GARVEE  
Bonding Capacity  
2012**

Analyses for the  
California Transportation Commission  
May 2012

State Treasurer Bill Lockyer



# Table of Contents

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Executive Summary	i
I. Purpose of Analyses	1
II. The 2004 and 2008 GARVEE Financings	1
III. Need for Sensitivity Analyses	2
IV. Information Sources	3
V. Summary of Alternative Assumptions	3
VI. Summary of Results	5
VII. California Transportation Commission Policy	6
VIII. Recent Events	6
IX. Conclusion	7
<i>Attachment A:</i> Federal Deposits into the State Highway Account	
<i>Attachment B:</i> Detailed Assumptions for Sensitivity Analyses	
<i>Attachment C:</i> Detailed Worksheet for Sensitivity Analyses	
<i>Attachment D:</i> Detailed Summary Tables for Sensitivity Analyses	

# Executive Summary

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These analyses are provided to the California Transportation Commission (“Commission”) to assist in its compliance with the provisions of Government Code Sections 14550 through 14555.9 requiring the Commission to prepare, in conjunction with the State Treasurer’s Office (“STO”), an annual analysis of California’s bonding capacity for issuing Grant Anticipation Revenue Vehicles (“GARVEE”) bonds and notes. GARVEE bonds are capital market borrowings which are repaid from federal transportation funds that are deposited into the State Highway Account. The bonding capacity takes into account the current maximum annual debt service of the Series 2004A Bonds and Series 2008A Bonds.

Legislation was enacted to ensure California had the necessary state legislative authority to make use of this financing tool for accelerating high priority transportation projects. The legislation became effective January 1, 2000, and was further amended by AB 438 (Chapter 113, Statutes of 2001), AB 3026 (Chapter 438, Statutes of 2002), SB 1098 (Chapter 212, Statutes of 2004), and SB 1507 (Chapter 793, Statutes of 2004).

The issuance of additional GARVEE bonds is subject to Government Code Section 14553.4, which states that the Treasurer may not authorize the issuance of additional bonds if the 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 in the State Transportation Fund for any consecutive 12-month period within the preceding 24 months. Thus, current and future bonding capacity analyses must take place in the context of this “statutory cap.”

There are other factors which also affect bonding capacity, such as maturity structures, interest rates, and policy decisions. Accordingly, these analyses continue the approach of prior analyses by providing “sensitivity analyses” under different scenarios, with varying assumptions for maturity dates and interest rates. This method should continue to assist the Commission in examining and responding to future applications under the context of alternative scenarios.

On March 10, 2004, the State issued \$614,850,000 of State of California (California Department of Transportation) Federal Highway Grant Anticipation Bonds (“GARVEE Bonds”) Series 2004A (“Series 2004A Bonds”). The Series 2004A Bonds are structured with serial maturities from 2005 through 2015. As of April 1, 2012, there is \$198,845,000 principal amount of Series 2004A Bonds outstanding. On October 16, 2008, the State issued a second series of GARVEE Bonds, the Series 2008A Bonds, in the amount of \$97,635,000. The Series 2008A Bonds are structured with serial maturities from 2009 through 2020 and have an outstanding principal balance of \$73,950,000 as of April 1, 2012. **The maximum annual debt service of the outstanding Series 2004A and Series 2008A Bonds is \$84,296,000 in Fiscal Year 2012-13.**

The Series 2004A and Series 2008A Bonds carry underlying ratings of ‘Aa2’ from Moody’s Investors Service (“Moody’s”), ‘AA’ from Standard & Poor’s (“S&P”), and ‘AA-’ from Fitch Ratings (“Fitch”), which are the ratings for the bonds without consideration of insurance. All outstanding Series 2004A Bonds are insured by FGIC. However, Moody’s and Fitch over time withdrew their ratings for FGIC, and S&P downgraded its rating for FGIC to a level lower than the underlying rating for the GARVEE Bonds. Thus, the GARVEE Bonds continue to carry the underlying ratings shown above.

The analyses for 2012 show a bonding capacity ranging from a low of approximately \$2.83 billion to a high of approximately \$5.40 billion under varying market conditions and amortization periods. The \$2.83 billion bonding capacity level results from a 6-year amortization with an assumed interest rate of 2.10 percent under a Market Sensitivity Case scenario, and the \$5.40 billion bonding capacity level results from a 12-year amortization with an assumed interest rate of 1.90 percent under a Base Case scenario.

The 2012 analyses show that the bonding capacity has increased by approximately 56 percent for a 6-year final maturity amortization period when compared to the same analyses of 2011, and has increased by approximately 61 percent for a 12-year final maturity amortization period when compared to the same analyses of 2011. One factor contributing to the increase in bonding capacity from 2011 is that the municipal market interest rates used in this year's analyses are at historically low levels. For the 2012 analyses, the rates have decreased by 92 basis points from the prior year for the six-year amortization analyses, and by 101 basis points from the prior year for the 12-year amortization analyses. A second factor contributing to the increase in bonding capacity is the fact that the annual federal deposits in the State Highway Account were \$1.08 billion higher than those for the prior year's analyses. Given that this increase in federal deposits is expected to last only a few years, secondary analyses of bonding capacity were conducted based on the assumption that federal receipts were \$2.70 billion, which is the approximate level of deposits prior to 2011 and the level currently expected after 2014. The analyses under these assumptions, of course, show much lower ranges of bonding capacity than is shown when using the actual 2011 federal aid receipts.

These analyses demonstrate that a wide range of circumstances, including policy, revenues, and market factors, can affect the existing capacity for future State GARVEE financings. Therefore, the analyses should be used as a tool for understanding the implications of alternative project applications and the related potential GARVEE bond structures that the Commission may be asked to consider over the coming year.

# I. Purpose of Analyses

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The following analyses are provided to assist the Commission in meeting the requirements of SB 928 (Chapter 862), sponsored by the STO to ensure that California has the necessary state legislative authority to make use of this financing tool for accelerating high priority transportation projects. The analyses relate specifically to those requirements found in Section 14553(b) of the Government Code, which states:

*“Notwithstanding Section 7550.5 of the Government Code, on or before April 1 of each year, the commission, in conjunction with the Treasurer’s office, shall prepare an annual analysis of the bonding capacity of federal transportation funds deposited in the State Highway Account in the State Transportation Fund.”*

The analyses have been performed consistent with the GARVEE bonds bonding capacity guidelines provided in Government Code Section 14553.4, which states:

*“The Treasurer may not authorize the issuance of notes if the annual repayment obligations of all outstanding notes in any fiscal year would exceed 15 percent of the total amount of federal transportation funds deposited in the State Highway Account in the State Transportation Fund for any consecutive 12-month period within the preceding 24 months.”*

The following analyses are intended to measure the capacity of the State Highway Account to support future issuance of GARVEE bonds, given:

1. the historical record of federal deposits to the State Highway Account (we examine only deposits of pledged funds);
2. requirements preceding any issuance of additional bonds under the Master Trust Indenture; and
3. the “statutory cap” on total outstanding GARVEE bonds.

## II. The 2004 and 2008 GARVEE Financings

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The Series 2004A Bonds are secured by a Master Trust Indenture dated February 1, 2004, as amended and supplemented by a First Supplemental Indenture dated February 1, 2004, by and among the Treasurer, the Commission and the California Department of Transportation (“Department”). The Series 2008A Bonds are secured by the Master Trust Indenture dated February 1, 2004, as amended and supplemented by a Second Supplemental Indenture dated October 1, 2008, by and among the Treasurer, the Commission and the Department. The Series 2004A and Series 2008A Bonds and all future bonds and obligations issued under the Master Trust Indenture are secured solely by the Trust Estate, as defined in the Master Trust Indenture, which consists solely of federal transportation funds. The primary source of federal transportation funds is the amount appropriated to the State by the federal government pursuant to Federal Aid Authorization, pursuant to Title 23 of the U.S. Code authorizing federal funding of state transportation projects.

The Department entered into a Memorandum of Agreement with the Federal Highway Administration (“FHWA”) in anticipation of reimbursement by FHWA for debt service and other bond-related costs associated with the federal-aid projects approved by the FHWA.

The Master Trust Indenture provides for the issuance of additional bonds on parity with the Series 2004A Bonds. Any additional parity bonds or other bonds issued on a basis subordinate to the Series 2004A Bonds must comply with the “statutory cap.”

The \$657,713,000 of Series 2004A bond proceeds were generated to pay a portion of the costs of acquisition of right-of-way and/or construction costs for eight federal-aid State Transportation Improvement Program (“STIP”) projects approved by the Commission. As of December 31, 2011, approximately 99.5 percent of these bond proceeds were expended for these projects.

The \$98,000,000 of Series 2008A bonds proceeds were generated to pay for the construction of two federal-aid State Highway Operation and Protection Program (“SHOPP”) projects approved by the Commission: Placer County – Interstate 80 Pavement Rehabilitation and Nevada and Sierra Counties – Interstate 80 Pavement Rehabilitation. As of December 31, 2011, approximately 95 percent of these bond proceeds were expended for these projects. Both projects have been completed.

Combined, approximately 99 percent of the proceeds of the Series 2004A Bonds and the Series 2008A Bonds were expended as of December 31, 2011. The Commission and the Department continue to monitor each project’s progress to ensure the expedient use of bond proceeds.

### **III. Need for Sensitivity Analyses**

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There are multiple factors that will influence the State’s future capacity to issue GARVEE bonds. These factors include the final maturity, interest rates and the available revenues for the additional bonds test. For this reason, no single bonding capacity analysis is sufficient for purposes of guiding the Commission’s evaluation of the potential for future use of GARVEE bonds. In order to facilitate an informed consideration of future applications with structures and terms not yet known to the Commission, we have performed a series of “sensitivity analyses” under alternative scenarios. The factors that have been varied in these different analyses are identified in the following table.

<b>Primary Factors Affecting Bonding Capacity Sensitivity Analyses</b>
Final Maturity
Assumed Interest Rates

## IV. Information Sources

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### **Pledged Revenues:**

In performing these bonding capacity analyses, the STO is using data obtained from the Department regarding deposits into the State Highway Account in the State Transportation Fund from federal transportation funds. The amounts provided by the Department represent federal funds that can be legally pledged under the Master Trust Indenture for payment of the Bonds. The federal transportation funds that are legally available for payment of debt service include those derived from Federal Aid Authorization under Title 23, including apportioned funds (i.e., National Highway System, bridges and the federal surface transportation programs, and amounts available under minimum guarantees) with corresponding Obligation Authority.

Starting with the 2009 bonding capacity report, to be consistent with Section 14553.4 of the Government Code, the total annual federal aid receipts, without exceptions, have been used to calculate the annual GARVEE bonding capacity. This information was provided on a monthly basis for the period of January 2010 through December 2011. See **Attachments A-1 and A-2** for the monthly deposits data and related calculations. The additional bonds test is based on the highest consecutive 12 months of pledged revenue deposits during the prior 24-month period. These historic annual deposits are a known quantity at any given point in time, but are clearly subject to change over time, and must be re-examined at the time of each potential GARVEE bond issuance.

### **Final Maturities:**

The analyses in the report assume additional GARVEE bonds issued in 2012 with final maturities in 2018 and 2024.

### **Interest Rate Assumptions:**

Estimates of potential interest costs under various scenarios were developed by the STO based on the 'AA' index published by Municipal Market Data ("MMD"), a widely used industry benchmark. The interest rate assumptions used for the analyses are based on the weighted average coupon, using a level debt solution for each final maturity (or amortization period), which reflects the structure of the Series 2004A and Series 2008A Bonds.

## V. Summary of Alternative Assumptions

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For the 2012 bonding capacity analyses, we used the MMD 'AA' interest rate scale, which generally corresponds to the underlying ratings of the Series 2004A and Series 2008A Bonds. The two alternative scenarios for market conditions used in these analyses are as follows:

- 1. Base Case:** Based on the March 1, 2012 MMD 'AA' interest rate scale.
- 2. Market Sensitivity Case:** Base Case plus 100 basis points.

Many observers believe that over time interest rates could increase from the current levels. For this reason, and based on the expected short-term maturity structure of the State's current and future

GARVEE obligations, a 100 basis point increase in interest rates is used for the market sensitivity analyses.

Two alternatives for the final maturity of the bonds were analyzed for each case. The table below summarizes the range of assumptions for the sensitivity analyses. The different scenarios for each factor combine for a total of four different analyses.

Factors	Range of Assumptions
Final Maturity	Two scenarios: at 6 and 12 years from date of issuance
Assumed Interest Rates	Two scenarios: one at ‘AA’ MMD market rates on March 1, 2012 and one at 100 basis points above the March 1, 2012 ‘AA’ MMD market rates

See **Attachment B** for the detailed assumptions used in each sensitivity analysis.

It should also be noted that the current analyses, by necessity, require significant simplification as compared to the myriad of structuring nuances that would be involved in actual bond sales. As a result, certain ambiguities or alternative interpretations could lead to somewhat differing results in practice. One example of a simplification, common to all scenarios, is the assumption that all GARVEE bonds within the capacity of a given scenario would be issued in a single year and not staggered over multiple years, as typically would be expected in a bonding program of significant magnitude.

If, instead, such bonds were staggered and this financing structure was assumed to have a fixed “end date” represented by the assumed final maturity used in each scenario, each resulting measure of maximum bonding capacity would have to be adjusted downward. This would be necessary because the GARVEE bonds issued in subsequent years would have a shorter period during which to amortize principal before the fixed end date. This would increase the annual debt service necessary for a given par amount of bonds, causing a reduction in total bonding capacity, assuming a fixed amount of annual revenues for each scenario.

Alternatively, this simplification would not have this constraint on capacity if future financings were assumed to be structured on a “rolling maturity” basis; that is, with each GARVEE bond issued in subsequent years within each scenario having exactly the same underlying terms, such as total years to maturity and interest rate, regardless of the timing of any future bond issuance. This latter simplification would also assume a fixed amount of annual revenues for each scenario.

This discussion is offered as an example, which is by no means exhaustive, of the implications of the necessary simplifications involved in any analysis of bonding capacity given current uncertainty about the actual conditions that will exist at the time of any future issuance of GARVEE bonds or obligations. Therefore, care should be exercised in using these analyses to avoid erroneous interpretations or conclusions.

## VI. Summary of Results

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Due to historically low market interest rates and a \$1.08 billion increase over the prior year in federal aid receipts deposited into the State Highway Account, the current analyses resulted in a significantly higher bonding capacity than last year's results. As of March 1, 2012, the weighted average interest rate for 'AA' rated bonds with a 6-year final maturity was 1.10 percent and with a 12-year final maturity was 1.90 percent. These interest rates represent a decrease of approximately 0.92 and 1.01 percent, respectively, over last year's levels. The increase in federal receipts is due to the fact that during Fiscal Year 2009 and Fiscal Year 2010, the Department accelerated the construction of many federally eligible projects, which resulted in the significant increase of federal receipts for calendar year 2011. The Department further estimates that the federal receipts will be about \$3.8 billion in 2012 and 2013, decreasing to the \$3.2 billion level in 2014 and tapering off toward the \$2.7 billion level thereafter.

The analyses show that a bond issuance with a 6-year maturity corresponds to a bonding capacity ranging from approximately \$2.83 billion (Market Sensitivity Case) to approximately \$2.93 billion (Base Case). These levels represent an increase of approximately \$1.02 billion and \$1.06 billion, respectively, compared to 2011, or an increase of approximately 56 percent for a 6-year maturity compared to last year's levels.

The Commission policy established 12 years as the maximum maturity for GARVEE bonds. If future bond issues are structured with a 12-year amortization period consistent with the current Commission policy and at current interest rate levels, the remaining capacity for issuance of GARVEE bonds would be from approximately \$5.08 billion (Market Sensitivity Case) to approximately \$5.40 billion (Base Case). These levels represent an increase of approximately \$1.92 billion and \$2.05 billion, respectively, compared to 2011, or an increase of approximately 61 percent for a 12-year maturity compared to last year's levels.

Given that the increase in federal deposits into the State Highway Account is expected to last only a few years, additional analyses of bonding capacity were conducted based on the assumption that federal receipts were \$2.70 billion, which is the approximate level of deposits prior to 2011 and currently expected after 2014. To provide specific ranges under this assumption, the 2012 capacity was calculated in two methods:

- 1) **Based on total receipts in 2011 being \$2.70 billion** and assuming that the receipts are allocated each month at the same percentages as the actual 2011 receipts in order to get a new highest consecutive 12-month total within the preceding 24 months. This assumption shows a bonding capacity ranging from \$1.93 billion (6-year amortization, Market Sensitivity Case) to \$3.68 billion (12-year amortization, Base Case).
- 2) **Based on the highest consecutive 12-month total within the preceding 24 months being \$2.70 billion** (under assumption #1, the highest consecutive 12-month total within the preceding 24 months is \$2.87 billion). This assumption shows a bonding capacity ranging from \$1.79 billion (6-year amortization, Market Sensitivity Case) to \$3.41 billion (12-year amortization, Base Case).

Under the current analyses, a longer amortization period would increase the additional bonding capacity. If the Commission policy changes to allow a longer maximum maturity, the bonding capacity would change accordingly.

The following table summarizes key results of our analyses based on the actual federal aid receipts deposited into the State Highway Account in 2011. Detailed worksheets supporting the results can be found in **Attachments C, D-1, and D-2**.

<b>Summary of Results for GARVEE Bonding Capacity Sensitivity Analyses</b>		
<b>Final Maturity Amortization Period</b>	<b>Base Case March 1, 2012 'AA' MMD Scale</b>	<b>Market Sensitivity Case Base Case plus 100 Basis Points</b>
6 years	\$2.93 billion	\$2.83 billion
12 years	\$5.40 billion	\$5.08 billion

## VII. California Transportation Commission Policy

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The Commission adopted a GARVEE policy in December 2003. This policy extends through the next Federal Transportation Reauthorization Act. The current transportation reauthorization act has been extended through June 30, 2012.

The policy, contained in Commission Resolution No. G-03-21, is as follows:

- **Debt Limit.** The Commission limits annual GARVEE debt service to 15 percent of qualifying federal revenues. This limit will be calculated on the basis described in Section 14553.4 of the Government Code (i.e., 15 percent of the total amount of federal transportation funds deposited in the State Highway Account for any consecutive 12-month period within the preceding 24 months). In 2004, SB 1507 amended the statutory cap from a 30 percent limit to a 15 percent limit, which aligned it with the Commission’s policy.
- **Term.** Each bond is structured for debt service payments over a term of no more than 12 years.
- **Project Selection.** The Commission selects projects for accelerated construction through the use of GARVEE bonding. The selection will be made through the programming process for the STIP and the SHOPP. The Commission will select projects that are major improvements to corridors and gateways for interregional travel and goods movement. Major improvements include projects that increase capacity, reduce travel time, or provide long-life rehabilitation of key bridges or roadways.

## VIII. Recent Events

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On March 28, 2012, the Commission approved the 2012 SHOPP, which included no GARVEE projects. The Department does not anticipate any new GARVEE bond issuance in the near future.

## **IX. Conclusion**

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As the above analyses show, the ultimate capacity existing for the State's future GARVEE financings will depend on a wide range of circumstances over time, including market conditions, maturity structures, revenues, and other factors that may be considered by the Commission.

We are hopeful that these analyses will be useful in considering the structuring options that are available for GARVEE financings, in addition to meeting the immediate goal of assisting the Commission in preparing its annual report.

**ATTACHMENT A-1**

**FEDERAL DEPOSITS INTO THE  
STATE HIGHWAY ACCOUNT**

**Cumulative 12-Month  
Federal Deposits into the State Highway Account  
Over 24-Month Period, ending December 31, 2011**

<b>Period Covered</b>	<b>12-Month Total Revenues Deposited</b>	
Jan 10 - Dec 10	<b>\$2,794,221,579.41</b>	<b>Lowest 12-Month Total</b>
Feb 10 - Jan 11	<b>\$2,948,982,603.92</b>	
Mar 10 - Feb 11	<b>\$2,974,406,600.18</b>	
Apr 10 - Mar 11	<b>\$2,998,199,512.85</b>	
May 10 - Apr 11	<b>\$3,011,264,710.86</b>	
Jun 10 - May 11	<b>\$3,279,698,169.63</b>	
Jul 10 - Jun 11	<b>\$3,282,257,586.33</b>	
Aug 10 - Jul 11	<b>\$3,192,470,910.43</b>	
Sep 10 - Aug 11	<b>\$3,511,549,101.59</b>	
Oct 10 - Sep 11	<b>\$3,513,036,381.10</b>	
Nov 10 - Oct 11	<b>\$3,731,968,133.01</b>	
Dec 10 - Nov 11	<b>\$3,945,711,361.27</b>	<b>Highest 12-Month Total</b>
Jan 11 - Dec 11	<b>\$3,873,134,414.60</b>	
	<b>\$3,312,069,312.71</b>	<b>Average 12-Month Total</b>

Source: California Department of Transportation

**ATTACHMENT A - 2**

**FEDERAL DEPOSITS INTO THE  
STATE HIGHWAY ACCOUNT**

Monthly Deposits of Legally Pledged Federal Transportation Fund					
	2007	2008*	2009	2010	2011
Month	Deposit Amount				
<b>January</b>	\$200,261,825.74	\$322,705,809.76	\$248,068,100.96	\$234,302,379.53	\$389,063,404.04
<b>February</b>	\$199,286,324.37	\$142,937,130.88	\$85,502,982.39	\$130,134,373.39	\$155,558,369.65
<b>March</b>	\$105,180,197.20	\$170,752,498.63	\$269,024,485.16	\$213,127,122.15	\$236,920,034.82
<b>April</b>	\$203,669,578.41	\$157,305,518.27	\$159,570,185.02	\$172,566,406.90	\$185,631,604.91
<b>May</b>	\$156,344,503.96	\$279,337,838.81	\$170,883,515.71	\$130,817,619.08	\$399,251,077.85
<b>June</b>	\$206,946,858.95	\$272,181,124.08	\$297,052,028.78	\$300,743,391.19	\$303,302,807.89
<b>July</b>	\$220,097,821.96	\$419,494,465.09	\$327,450,638.69	\$273,125,617.57	\$183,338,941.67
<b>August</b>	\$238,597,568.66	\$290,619,769.21	\$267,037,277.08	\$263,609,660.26	\$582,687,851.42
<b>September</b>	\$303,926,280.03	\$258,453,134.06	\$100,134,952.10	\$314,225,529.17	\$315,712,808.68
<b>October</b>	\$177,987,606.52	\$356,521,583.60	\$328,171,254.52	\$195,447,409.45	\$414,379,161.36
<b>November</b>	\$177,621,960.90	\$114,862,825.70	\$115,307,706.41	\$242,323,185.78	\$456,066,414.04
<b>December</b>	\$155,906,636.34	\$227,795,129.78	\$318,173,222.40	\$323,798,884.94	\$251,221,938.27
<b>TOTAL</b>	\$2,345,827,163.04	\$3,012,966,827.87	\$2,686,376,349.22	\$2,794,221,579.41	\$3,873,134,414.60
<b>Monthly Average</b>	\$195,485,596.92	\$251,080,568.99	\$223,864,695.77	\$232,851,798.28	\$322,761,201.22

Source: California Department of Transportation.

\*Beginning in 2008, the Deposit Amount reflects the total annual federal aid receipts without exception. In prior years, certain categories of Obligation Authority were excluded from the total receipts.

**ATTACHMENT B**

**DETAILED ASSUMPTIONS  
FOR SENSITIVITY ANALYSES**

Summary of Assumptions for GARVEE Bonding Capacity Sensitivity Analyses			
Base Case – Current Market Conditions			
	<b>Factors</b>	Assumptions	<b>Comments</b>
	Final Maturity	6 and 12 years	Analyses run at each final maturity listed at left.
	Interest Rates	1.10% and 1.90%	Rates indicated relate to each respective final maturity above; listed rates represent the weighted average coupon for a bond issue sizing with level annual debt service.
	Annual Revenues	\$3,945,711,361.27	The Treasurer may not authorize the issuance of the bonds if the annual debt service on all outstanding GARVEE obligations would exceed 15 percent of the State’s historical annual deposits in the State Highway Account from federal funding.

Market Sensitivity Case – Alternative Market Conditions			
	<b>Factors</b>	Assumptions	<b>Comments</b>
	Final Maturity	6 and 12 years	Analyses run at each final maturity listed at left.
	Interest Rates	2.10% and 2.90%	Rates indicated relate to each respective final maturity above; listed rates represent the weighted average coupon for a bond issue sizing with level annual debt service.
	Annual Revenues	\$3,945,711,361.27	The Treasurer may not authorize the issuance of the bonds if the annual debt service on all outstanding GARVEE obligations would exceed 15 percent of the State’s historical annual deposits in the State Highway Account from federal funding.

## ATTACHMENT C

### DETAILED WORKSHEET FOR SENSITIVITY ANALYSES

OVERVIEW OF GARVEE BONDING CAPACITY ANALYSES	
<p>The bond test requires that the annual payment obligations of all outstanding notes in any fiscal year do not exceed 15 percent of the total amount of Federal Transportation Funds deposited into the State Highway Account for the highest consecutive 12-month period within the preceding 24 months. The maximum Annual Debt Service on the outstanding Bonds has been subtracted from the highest 12 consecutive months of deposits during the preceding 24 months in order to calculate the remaining Additional Debt Capacity.</p>	
	<b>(Dollars in Thousands)</b>
<b>Base Case</b>	
Maximum Par Amount of Bonding Capacity	\$2,931,718
Interest rate	1.10%
Maximum Assumed Annual Debt Service *	-\$507,561
Term of Bond Issue	<b>6</b>
<b>Market Sensitivity</b>	
Maximum Par Amount of Bonding Capacity	\$2,833,728
Interest rate	2.10%
Maximum Assumed Annual Debt Service *	-\$507,561
Term of Bond Issue	<b>6</b>
<b>Base Case</b>	
Maximum Par Amount of Bonding Capacity	\$5,401,426
Interest rate	1.90%
Maximum Assumed Annual Debt Service *	-\$507,561
Term of Bond Issue	<b>12</b>
<b>Market Sensitivity</b>	
Maximum Par Amount of Bonding Capacity	\$5,083,180
Interest rate	2.90%
Maximum Assumed Annual Debt Service *	-\$507,561
Term of Bond Issue	<b>12</b>
<small>*15% of legally-pledged Federal Transportation Funds deposited into the State Highway Account less maximum annual debt service for the Series 2004A Bonds and Series 2008A Bonds.</small>	
<small>(white / non-shaded)</small>	<small>= Base Case Scenarios based on March 1, 2012 'AA' MMD Scale</small>
<small>(yellow / shaded)</small>	<small>= Market Sensitivity Case Scenarios based on March 1, 2012 'AA' MMD Scale Plus 100 Basis Points</small>

**ATTACHMENT D-1**

**DETAILED SUMMARY TABLES  
FOR SENSITIVITY ANALYSES**

**GARVEE BONDING CAPACITY**

**Base Case**

Highest 12-Month Revenue (\$ in 000's)	\$3,945,711
Debt Service Test (15% of Revenue)	\$591,857
Less: Existing Maximum Annual Series 2004A & 2008A D/S	-\$84,296
Remaining Maximum Annual Debt Service Capacity	\$507,561

(Dollars in Thousands)

	<b>6 Years</b>	<b>12 Years</b>
Assumed Date of Issuance	2012	2012
Assumed Final Maturity	2018	2024
Assumed Interest Rate <sup>(1)</sup>	1.10%	1.90%
<b>Par Capacity</b>	<b>\$2,931,718</b>	<b>\$5,401,426</b>
<b>Annual Debt Service Required</b>	<b>\$507,561</b>	<b>\$507,561</b>

<sup>(1)</sup> The assumed interest rates are based on the March 1, 2012 'AA' MMD bond scale. The rates used are the weighted average coupon for a level debt service bond sizing based upon the final maturity in each scenario.

**ATTACHMENT D-2**

**DETAILED SUMMARY TABLES  
FOR SENSITIVITY ANALYSES**

**GARVEE BONDING CAPACITY**

**Market Sensitivity Case**

Highest 12-Month Revenue (\$ in 000's)	\$3,945,711
Debt Service Test (15% of Revenue)	\$591,857
Less: Existing Maximum Annual Series 2004A & 2008A D/S	-\$84,296
Remaining Maximum Annual Debt Service Capacity	\$507,561

(Dollars in Thousands)

	<b>6 Years</b>	<b>12 Years</b>
Assumed Year of Issuance	2012	2012
Assumed Final Maturity	2018	2024
Assumed Interest Rate <sup>(1)</sup>	2.10%	2.90%
<b>Par Capacity</b>	<b>\$2,833,728</b>	<b>\$5,083,180</b>
<b>Annual Debt Service Required</b>	<b>\$507,561</b>	<b>\$507,561</b>

(1) The assumed interest rates are based on the March 1, 2012 'AA' MMD bond scale (increased by 100 basis points (1%) for market fluctuations). The rates used are the weighted average coupon for a level debt service bond sizing based upon the final maturity in each scenario.