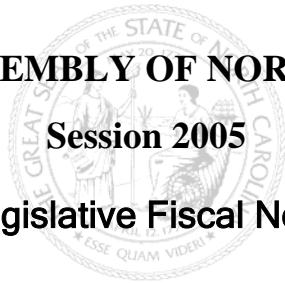


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 254 (Second Edition)

SHORT TITLE: GARVEE Bond Issuance.

SPONSOR(S): Representative Crawford

FISCAL IMPACT (\$ Millions)					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
EXPENDITURES					
Debt Service: *	0	52	104	104	104
Federal Funds:	<u>0</u>	<u>-52</u>	<u>-104</u>	<u>-104</u>	<u>-104</u>
Net Requirements:	0	0	0	0	0
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Transportation, Transportation Improvement Program (TIP)					
EFFECTIVE DATE: February 1, 2006					
* Total interest on \$950 million in debt over the 13-year term of the loans would be roughly \$300 million.					

BILL SUMMARY:

Section 1 of House Bill 254 directs the Secretary of Transportation and the State Treasurer to form a committee to develop a plan for issuance of "GARVEE" bonds. This plan must be submitted to the Transportation Appropriations Subcommittee and the co-chairs of the Joint Legislative Transportation Oversight Committee by December 1, 2005.

Section 2 of HB 254 authorizes DOT to issue GARVEE bonds or other eligible debt financing instruments to finance Federal-aid highway projects. Prior to issuance of the bonds, the State Treasurer must determine the following:

- That the total outstanding principal of the debt does not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.
- That the maximum annual principal and interest of the debt does not exceed 15% of the expected average annual federal revenue for the 7-year period in the most recently adopted Transportation Improvement Program.

Notes issued under the plan shall not constitute a debt or liability of the State, or a pledge of the full faith and credit of the State. The notes must include a statement that the State will not be obligated to pay the principal or interest on the notes except from the federal transportation fund revenues, and that neither the State's full faith and credit nor its taxing authority is pledged for payment of principal or interest.

EFFECTIVE DATE: Section 2 of the act becomes effective February 1, 2006. The remainder of the act is effective when it becomes law.

BACKGROUND: GARVEE bonds are Grant Anticipation Revenue Vehicles, authorized by federal law, that permit states to use anticipated future federal highway funds to finance highway project construction. According to the Federal Highway Administration, candidate projects for GARVEE financing are typically larger projects that have the following characteristics:

- They are large enough to merit borrowing rather than pay-as-you-go grant funding, with the costs of delay outweighing the cost of financing.
- They do not have access to a revenue stream (such as local taxes or tolls) and other forms of repayment (such as state appropriations) are not feasible.
- The sponsors (generally state DOTs) are willing to reserve a portion of future year Federal-aid highway funds to satisfy debt service requirements.

GARVEES must be issued by a state, a political subdivision of a state, or a public authority. A state may elect to pledge their obligations of future Federal-aid funds as the only security backing the federal share of the obligation to investors (non-recourse GARVEES) or to pledge other sources of revenue as a back-stop for the future federal-aid funds (back-stopped GARVEES).

Source: "Bill Summary," Martha Walston, Committee Counsel.

ASSUMPTIONS AND METHODOLOGY: Total debt would be constrained by the amount of federal aid authorized in the prior federal fiscal year, roughly \$950 million for federal fiscal year 2004, the last year for which we have data. Actual federal aid received by the State (commonly referred to as the obligation authority) amounts to less than the federal aid authorized. For example, for federal fiscal year 2004, the obligation authority was \$830 million.

The debt service estimates in this fiscal note are from the State Treasurer and are based on the following assumptions:

- DOT would issue \$475 million of debt in February 2006, and \$475 million of debt in the spring of 2007.
- The interest rate would be 4.5% for each of the bond issues.
- Each bond issue would be paid off over twelve years.
- Although DOT could issue new debt as old debt is retired and as growing federal aid increases the debt ceiling, for the sake of simplicity we assume that no more bonds would be issued after the first two years.

In broad terms, this bill would allow the State to borrow roughly \$950 million. After both bond issues are repaid over a total of thirteen years, the payments on this debt would be about \$1.25 billion. Of this \$1.25 billion in payments, roughly \$300 million would be for interest expenses. These debt service payments would be funded from federal aid available to the State, and would displace the use of this federal aid for other projects or purposes. The chart below shows principal and interest payments according to the debt service model of the State Treasurer.

Debt Service Payments for \$950 Million in GARVEE Bonds *

<u>Fiscal Year</u>	<u>Principle</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 30,715,000	\$ 21,375,000	\$ 52,090,000
2008	62,815,000	41,367,825	104,182,825
2009	65,645,000	38,541,150	104,186,150
2010	68,600,000	35,587,125	104,187,125
2011	71,685,000	32,500,125	104,185,125
2012	74,910,000	29,274,300	104,184,300
2013	78,280,000	25,903,350	104,183,350
2014	81,800,000	22,380,750	104,180,750
2015	85,480,000	18,699,750	104,179,750
2016	89,330,000	14,853,150	104,183,150
2017	93,350,000	10,833,300	104,183,300
2018	97,545,000	6,632,550	104,177,550
2019	49,845,000	2,243,025	52,088,025
Total	\$950,000,000	\$300,191,400	\$ 1,250,191,400

* Assumes two bond issues of \$475 million each in February 2007 and spring 2008, and an interest rate of 4.5%.

SOURCES OF DATA: Office of the State Treasurer, Department of Transportation.

TECHNICAL CONSIDERATIONS: None

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