



Federal Transportation Grant Anticipation Revenue Notes (“GARVEEs”), Series 2011A

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Definition and Authorization to Issue GARVEEs

□ GARVEEs – Grant Anticipation Revenue Vehicles Bonds/Notes

Secured by the Commonwealth's future federal highway reimbursements on specified federal-aid projects.

□ Chapter 830 and 868 of the Acts of Assembly of 2011 authorized the issuance of \$1.2 billion of GARVEEs.

- Amended the existing authorization for Federal Reimbursement Anticipation Notes (FRANs) to enable the CTB to issue GARVEEs.
- Did not increase the existing authorization – the Commonwealth may have no more than \$1.2 billion of GARVEEs and FRANs outstanding at any given time.
- It will permit the use of the original FRANs \$1.2 billion revolving debt authorization provided by the Virginia Transportation Act (VTA) of 2000 to issue direct GARVEEs.
- The CTB has issued three series of FRANs (\$1.1 billion), of which \$176.5 million is currently outstanding and will be paid off by FY 2016.
- Prohibits additional issuance of FRANs.

GARVEE and FRAN Authorization

GARVEEs & FRANs Bond Authorization Summary Projected at Time of Sale

(in millions)

| | | |
|-------------------------|----|-------|
| Authorized | \$ | 1,200 |
| Less: FRANs Outstanding | | 176 |
| Planned GARVEEs | | 350 |
| Available Authorization | \$ | 674 |

Governor's 2011 Transportation Plan Chapters 830 and 868

- Included in the Governor's plan for the 2011 General Assembly Session was the conversion of the FRANs program to a direct GARVEE program.**
- FRANs are indirect GARVEEs – not related to specific federal projects.**
- The benefits of the direct GARVEEs are:**
 - **Sold to finance a specific federal-aid project.**
 - **Federal revenues related to the approved debt-finance project provides for the repayment of principal and financing costs.**
 - **Use federal funds over the life of the bonds versus duration of project.**
- The legislation provides the ability to sell \$1.1 billion of GARVEEs over the next three years.**
- Proceeds will be used to support major projects as planned in the Six-Year Improvement Program.**
- This first sale will provide funding to support VDOT's public subsidy for the Downtown Tunnel /Midtown Tunnel / Martin Luther King Expressway Project.**

Debt Service for the GARVEE Bonds

- ❑ The Virginia GARVEE bonds are secured first by project specific federal reimbursements and then by,
 - Legally available revenues from the TTF.
 - Other such funds designated by the General Assembly for such purposes.

- ❑ Actual federal reimbursements for FFY 2010 were \$947 million.

- ❑ The estimated average annual debt service for this GARVEE issue is \$30.5 million.

- ❑ Debt service represents approximately 3% of forecasted federal revenues.

Rating Agency Outlook

- ❑ **Moody's** – affirmed AAA rating for both the U.S. and Virginia, but assigned a negative outlook. Issued the following warning in an August Special Comment on GARVEEs:

“Beyond the short-term risk posed by the expiration of the federal gas tax, long-term risks to the outlook for GARVEEs include ongoing authorized spending levels in excess of dedicated tax revenues and the political unwillingness to raise the gas tax.”

- ❑ **Standard & Poor's** – Downgraded the U.S. credit rating to AA+, but affirmed Virginia's AAA. Issued the following warning in an August research report on GARVEEs:

“S&P ratings on bonds backed by direct federal payments for GARVEEs are not directly affected by our recent downgrade of the U.S. However, we believe there are several potential risks, that, if realized alone or in combination, might cause us to reevaluate the ratings on some or all our GARVEE bonds.”

- ❑ **Fitch** – affirmed the AAA rating for both the U.S. and Virginia and assigned a stable outlook, but revised the outlook on all stand alone GARVEEs to negative in a March research report.

“In Fitch's view, what was once a formula-driven program funded on a multiyear basis is now morphing into a program where future policy is less certain, funding levels are less predictable, and the program is more dependent on frequent action...”

The Market for GARVEE Transactions

| Issuer | Idaho Housing and Finance Association | Distict of Columbia | Arizona Transportation Board |
|-----------------------------------|---|------------------------|-----------------------------------|
| Underlying Ratings (M/S/F) | Aa2/NR/A+ | Aa2/AA/NR | Aa2/AA/AA |
| Pricing Date | 7/13/2011 | 2/2/2011 | 1/12/2011 |
| Security | Stand Alone | Stand Alone | Fed Funds and Certain State Funds |
| Series | 2011A | 2011 | 2011A |
| Par (in millions) | \$72.93 | \$82.61 | \$158.59 |
| Structure | Serial Bonds 2012-2026 and Term Bonds in 2029 | Serial Bonds 2011-2025 | Serial Bonds 2016-2026 |
| Final Maturity (years) | 18 | 15 | 11 |
| All-in-Rate | 4.61% | 3.90% | 4.19% |



Commonwealth Transportation Board: Federal Transportation Grant Anticipation Notes, Series 2011A

Summary Terms of Offering*

| | |
|-------------------------------|--|
| Issuer | Commonwealth Transportation Board |
| Project | Downtown/Midtown Tunnel/MLK Expressway |
| Anticipated Ratings | Double-A Category |
| Pricing Date | TBD |
| Security | The Series 2011A bonds are payable from and secured by revenues (i) first, from Project specific reimbursements, (ii) legally available revenues from the TTF, and (iii) from other such funds designated by the General Assembly for such purposes. |
| Par (in millions) | \$350.0 |
| Structure | Serial Bonds 2012- 2026 |
| Final Maturity (years) | 15 |

* Preliminary and subject to change

Road Map to Virginia's Inaugural GARVEE Issue

Finalize MOA with FHWA (November)

Treasury Board Approval (December)

Rating Agency Meetings (January)

Pricing and Sale (February)

Planned Closing (February)