# Overview of Program Structure of Governor's Transportation Initiative

Transportation Subcommittee of House Appropriations
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## Background

- On December 9, 2010 the Governor announced the initial details of his Transportation Initiative for the 2011 Session, which was expanded upon last Friday
- Some of the elements are reflected in the budget, others will be included in separate pieces of legislation to be introduced this Session
- Secretaries Brown and Connaughton will be presenting to the full committee this afternoon to provide additional details on the Governor's proposals both in terms of the transportation project-specifics and debt perspectives
- In advance of that presentation, Chairman May asked that I provide you some background information on the programs included in the proposal

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## Overview of Proposal

- Acceleration of Capital Projects Revenue Bonds (HB 3202) to take advantage of low interest rates and construction costs
  - ✓Does not increase the overall authorization of debt
- Authorize the issuance of $1.2 billion of GARVEEs
  - ✓These are not considered state debt because they are repaid with federal highway reimbursements
- Create a Virginia Transportation Infrastructure Bank to provide state support to assist PPTA projects and provide grants for local projects
  - ✓Budget includes dedication of $150 million GF and $250 million of revenues identified in VDOT audit to this fund
- Also included in budget is proposal for $50.0 million of VDOT NGF revenues to recapitalize the existing Transportation Partnership Opportunity Fund
  - ✓Created and initially capitalized in 2005; additional GF support provided for specific-projects in 2007/2008
  - ✓Now fully subscribed

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## Overview of Proposal

- Utilize available toll credits to free up state funds for non federally-eligible projects
  - ✓ Doesn't result in additional federal funding, simply provides flexibility to use funds to meet most critical needs
- Expand existing VDOT Revenue Sharing Program
- Establish a Passenger Rail Capital and Operating Fund
- Adopt constitutional amendment to protect Commonwealth Transportation Funds from diversion to general fund
- Authorize use of up to 2% of general fund growth for transportation if revenue growth exceeds of 5%
- Amend language that dedicates 2/3 of general fund surplus revenues to transportation to ensure that 2/3 of all surpluses after required Rainy Day Fund payments are directed to transportation

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# HB 3202 Bonds

- Chapter 896 of the 2007 Acts of Assembly (HB 3202) authorized the Commonwealth Transportation Board to issue up to $3 billion in Capital Project Revenue Bonds;
  - ✓ The authorization was subsequently increased to $3.18 billion in 2008.
  - ✓ Provisions of the bill authorized the issuance of $300 million of bonds each year, with language allowing any unused prior year issuance authority to be carried forward
- No bonds were issued in FY 2008 or FY 2009 against the already authorized debt
- The first issuance of $492 million of these bonds was sold in May of 2010
- Because the unused amounts carried-forward, in the current biennium there is authority to issue an additional $1.008 billion in HB 3202 bonds
  - ✓ This includes $408 million in carry forward authority as well as $300 million additional in each year, FY 2011 and FY 2012
- The Debt Capacity Model updated this December assumes the issuance of $493 million in bonds in FY 2011 and $500 million in bonds in FY 2012
  - ✓ These amounts are allowed absent any legislative change
  - ✓ The amounts are built into the state's assumed debt issuance schedule and fit within both the state's overall debt capacity and existing CTB authorization authority

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# HB 3202 Bonds

- Debt service for CPR bonds is provided for by the revenues of the Priority Transportation Fund (PTF) which are generated from:
  - ✓ 1/3 of the taxes collected on all insurance premiums;
  - ✓ The $20.0 million of additional annual motor fuels tax assumed from the switch to collections at the rack;
  - ✓ PTF interest earnings;
  - ✓ Any Commonwealth Transportation Fund surpluses
- In order to meet projected project schedule needs, the Governor's proposal would provide for the issuance of an additional $207 million in HB 3202 bonds in this biennium
- The Governor reports that proceeds from the sale of these bonds will be used to accelerate road, rail and transit projects currently in the Six-Year Improvement Program that have not been fully funded or were dropped from the SYIP due to recent budget cuts

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# Federal Revenue Anticipation Notes (FRANs)

- Federal Highway Revenue Anticipation Notes, or FRANs, are a federally created innovative financing tool otherwise known as indirect GARVEEs
- The VTA of 2000 authorized the CTB to issue $800 million of FRANs
- The original issuance cap was raised by the 2002 General Assembly and allowed for an outstanding principal limit of $1.2 billion
- Virginia issued three series of FRANs totaling $1,148,320,000 as follows:
  - ✓ Series 2000 - $375,000,000
  - ✓ Series 2002 - $523,320,000
  - ✓ Series 2005 - $250,000,000
- Virginia's FRANs were issued as 10-year notes, thus the first series will be paid off this year
- As of June 30, 2010, there was $395,460,000 in outstanding FRAN debt
  - ✓ The final traunche which will be paid off in 2016 as outlined on the following page



# FRAN Debt Service Pay-Off Schedule

| Fiscal Year | FRAN Debt Service Requirements |
|---|---|
| 2001 | 15,093,935 |
| 2002 | 45,328,996 |
| 2003 | 102,965,957 |
| 2004 | 121,493,581 |
| 2005 | 120,586,600 |
| 2006 | 144,393,690 |
| 2007 | 152,275,052 |
| 2008 | 152,296,812 |
| 2009 | 152,297,928 |
| 2010 | 152,303,120 |
| 2011 | 112,005,441 |
| 2012 | 98,584,053 |
| 2013 | 48,423,063 |
| 2014 | 31,715,775 |
| 2015 | 31,717,220 |
| 2016 | 7,925,392 |

## How Did Virginia Use FRANs?

- The original authorization for $800 million in FRANs authorized in the Virginia Transportation Act of 2000 was attached to an extensive list of projects, with specific amounts attached to each project
  - ✓ The FRAN amounts and other PTF revenues were enough only to fund small portions of the projects
  - ✓ A JLARC review in 2001 indicated that the total project costs exceeded $19 billion, far in excess of additional funding provided
- The FRAN authorization was increased in FY 2003 to backfill the $317 million transferred from transportation to the general fund to help balance the budget
  - ✓ These FRANs were issued to fill the hole created in VDOT's Six Year Improvement Program caused by the diversion of the ½ cent general sales and use tax in FY 2003 and were never attached to particular projects
- As a result, it was difficult for Members and the public to see what was accomplished with the FRANs as they generally augmented only a small portion of projects sprinkled throughout the VDOT Six Year Program

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## GARVEEs

- Direct Grant Anticipation Revenue Vehicles, or GARVEEs, are bonds backed by future federal highway reimbursements for individually approved federally-authorized projects
  - ✓ Like FRANs, they are not state debt and do not require a pledge of the full faith and credit of the Commonwealth
  - ✓ Under Direct GARVEES, reimbursements from the federal government cover the financing and interest costs of the debt
- How do direct GARVEEs work?
  - ✓ VDOT would apply to the Federal Highway Administration to use direct GARVEEs to finance a specific project
  - ✓ If authorized, the CTB would then issue bonds for a project or group of projects
  - ✓ VDOT then would bill FHWA for its portion (generally 80%) of the debt service including interest twice a year until the debt is retired
  - ✓ The reimbursement is subtracted from VDOT's annual federal highway funds

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# GARVEEs

- Under federal law, direct GARVEEs have flexible maturities; the Governor's proposal establishes a maximum maturity of 20 years, with a target of 12 to 15 years
- Direct GARVEEs differ from FRANs as follows:
  - ✓ First, reimbursements for direct GARVEEs cover interest and other financing costs, not just project construction costs
  - ✓ Second, the more structured debt service/reimbursement linkage means VDOT knows the future impact on its planning and programming of other federal revenues
  - ✓ Third, the direct tie between the project and the debt leads to greater accountability and transparency – you know where GARVEEs have been used
- Legislation would limit total outstanding FRANs AND GARVEEs to $ 1.2 billion
- The Administration reports that they would combine direct GARVEEs with toll credits and/or private funding and thus construct major infrastructure projects without spending a single state dollar

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# Virginia Transportation Infrastructure Bank

- House Bill 1500 includes $150 million general fund and $250 million NGF in FY 2012 to provide initial capitalization for a newly created Virginia Transportation Infrastructure Bank (VTIB)
  - ✓ The general fund portion comes primarily from the FY 2010 year-end surplus and other FY 2010 unencumbered balances
  - ✓ The NGF portion represents existing VDOT revenues identified during the audit conducted this fall
- The Fund would be used to provide loans to private entities and local governments and also would authorize up to 20% of the funds to be used for grants to local governments
- The intent of the fund is to help offer low interest rate loans, and provide grants to localities and transportation and transit authorities
- Why does VDOT say they need a separate fund?
  - ✓ The federal program – TIFIA – which has been used to help finance large PPTA projects is oversubscribed and major project proposals submitted by Virginia have been denied

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# Transportation Partnership Opportunity Fund

- Chapter 847 of the 2005 Acts of Assembly created the Transportation Partnership Opportunity Fund (TPOF) to encourage the development of transportation projects through the design-build provisions and pursuant to the Public-Private Transportation Act of 1995
- The TPOF may also be used to provide monies to address the transportation aspects of economic development opportunities
- Funding for the TPOF was initially provided in 2005 and in the 2006/2007 Sessions further funds were provided to the Fund for specific projects
  - ✓ Vast majority TPOF revenues have been assigned
- The amendments proposed in HB 1500 provide $50.0 million from the VDOT nongeneral funds to recapitalize the fund

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# Federal Toll Credits

- The initiative also envisions the use of $456.0 million in federal toll credits to provide additional flexibility and fund non-federally eligible projects
- What are toll credits?
- For a portion of every dollar invested in capital and maintenance work on a toll road maintained by VDOT (even those not owned by VDOT), Virginia is awarded a credit
- These credits can then be used in place of the traditional 20% state match required on federal projects
  - ✓ Under the federal highway program, Virginia typically is required to pay 20% of the costs of a federal project with state dollars
  - ✓ Toll credits allow the Commonwealth to use federal funds to cover this 20%, thereby freeing the state revenues for other purposes
  - ✓ These credits do not increase the total amount of federal funds available to Virginia, but provide more flexibility in the use of our state funds
  - ✓ Essentially, by combining the toll credits with the bond revenues, the Commonwealth can complete major congestion-reducing projects without investing a single state dollar

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# Proposed Changes to the Revenue Sharing Program

- VDOT's Revenue Sharing Program provides matching funds for localities for highway improvements within their jurisdiction
- Current Code language (§33.1-23.05) limits state project level contribution to $1 million per project and limits the total program size to $50 million per year
  - ✓ Prior to the passage of HB 3202 the cap was $15.0 million
  - ✓ Additional funding has been provided through the HB 3202 bonds
- The *Code* also includes an enumeration to govern which projects should receive priority under the program, as follows:
  - ✓ First, for projects administered either directly or through a contract by the locality,
  - ✓ Next for projects in which the county contributes more funding than the state, and
  - ✓ Next for projects currently in the Six-Year Improvement Program that will be accelerated by participation in the revenue sharing program
- The Administration's proposal would eliminate:
  - ✓ The per project limit of $1.0 million
  - ✓ The $50 million annual programmatic limit
  - ✓ Any prioritization language

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# Passenger Rail Capital and Operating Fund

- Under section 209 of the Federal Passenger Rail Investment and Improvement Act (PRIA), states must assume responsibility for capital and operational funding of all "regional" trains not part of long-haul corridors
- Virginia has 2 trains from Newport News to Washington and 2 from Richmond to Washington each day as well as the two new intercity regional passenger trains – Lynchburg and Richmond to the northeast corridor – with planned extensions to Norfolk which it will have to fund going forward
- Currently, the primary dedicated funding for rail – the Rail Enhancement Fund - supports freight rail improvements and is being fully utilized
- The Governor's proposal would create an Intercity Passenger Rail Capital and Operating Fund to support capital and operating expenses associated with intercity passenger rail
  - ✓ No new funding source is proposed for this fund
  - ✓ However, existing language in Title 33.1 authorizes the CTB to transfer up to 10% of TTF funds to particular rail projects if it determines they would reduce congestion

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