

SB 1266



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

IN REPLY REFER TO:

January xx, 2011

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

SENATE BILL NO. 1266

COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS

The Department of Transportation supports Senate Bill No. 1266 which would add a new part to Section 264, Hawaii Revised Statutes that will provide for the issuance of grant anticipation notes and bonds or "GARVEE Bonds" as provided for by the federal National Highway System Designation Act of 1995.

This bill will enable the Department of Transportation to use of GARVEE Bonds to leverage future federal funds on existing highway projects to expedite delivery, reduce costs, and deliver project benefits earlier to the public. As the program allows for the use of federal funds sooner, it also allows the Department to avoid the use of state funds in advanced construction. Overall, the program will allow the Department to spread payment schedules for large projects, or a number of projects over and above our annual limitation, over a longer time period thereby reducing spikes in the Statewide Transportation Improvement Plan (STIP).

However, the Department does have some concern over the use of the GARVEE Bond program. Use of the GARVEE Bond program will require reductions in federal funding levels in future years of the STIP as a portion of the annual federal funds received must be reserved, prior to expenditure for any other purpose, to pay debt service on the GARVEE Bonds. This mortgaging of the future of the program should be weighed against the typical revenue bond float and its benefits. Because our bond ratings are high, and we are allowed to pay the debt service over 20 to 30 years, it may actually be cheaper than using GARVEE Bonds, which are typically paid within 5 to 10 years, for the typical program spikes.

Risks associated with the use of GARVEE Bonds stem from the fact that the FHWA is not obligated to provide Federal money to pay off GARVEE Bonds. At this time, when no reauthorization is anticipated until after the next presidential election, congress is unwilling to issue continuing resolutions for an entire fiscal year or more, funding levels are not guaranteed or consistent, and the federal highways program was shut down for over a week due to delays in continuing resolution, the state may be in a position to be required to use state funds to repay the GARVEE Bonds. Therefore, consideration of should be given to a backstop for debt service payments should be the federal highway program be discontinued or significantly reduced.

TESTIMONY BY KALBERT K. YOUNG
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON TRANSPORTATION AND INTERNATIONAL
AFFAIRS
SENATE BILL NO. 1266

January 31, 2011

RELATING TO TRANSPORTATION

Senate Bill No. 1266 provides for the issuance of grant anticipation revenue notes and bonds or "GARVEE" bonds, as provided for by the Federal National Highway System Designation Act of 1955 and the Safe, Accountable, Flexible, Efficient Transportation Equity Act.

The Department of Budget and Finance strongly supports this administration measure.

The authorization of GARVEE bonds will provide the Department of Transportation (DOT) with an additional financing tool to improve the transportation infrastructure in the State. If authorized, the DOT would be able to issue GARVEE bonds that will generate up-front funding for highway improvements and will result in the completion of transportation projects earlier than would otherwise be possible. The source of repayment for the GARVEE bonds will be the future annual receipts of federal-aid highway program reimbursements and grants. Should authorization of GARVEE bonds be enacted, a subsequent ratification of a constitutional amendment to Article VII, Section 12, of the

Hawaii State Constitution, to allow the issuance of GARVEE bonds will be required in the 2012 Legislature.

The Department also has technical or housekeeping comments that we will provide to the Committee's staff for consideration.

Thank you for the opportunity to provide our testimony on this bill.