

## **STATE FINANCE COMMITTEE**

April 25, 2012  
Office of the State Treasurer  
Legislative Building, Room 230  
Olympia, WA  
11:00 AM

### **AGENDA**

1. Minutes – September 29, 2011
2. Bond Sale Results Briefing
3. Resolution 1125
4. Guidelines For Use of Federal Highway Grant Anticipation Revenue Bonds

State Finance Committee Meeting Minutes  
Olympia, Washington  
September 29, 2011  
11:45 am

The State Finance Committee met in a special meeting after notice duly given to the public.

Present: James L. McIntire, State Treasurer, Chair  
Christine O. Gregoire, Governor

Also Present: Ellen Evans, Office of the State Treasurer  
Svein Braseth, Office of the State Treasurer  
Trish Nightingale, Assistant Attorney General  
Bill Tonkin, Foster Pepper PLLC  
Rob Shelley, Seattle Northwest Securities  
Wolfgang Opitz, Office of the State Treasurer  
Chris McGann, Office of the State Treasurer  
Sue Melvin, Office of the State Treasurer  
Pam Johnson, Office of the State Treasurer  
Kate O'Looney, Office of the State Treasurer  
Johnna Skyles Craig, Assistant Attorney General  
Sandi Triggs, Office of Financial Management  
Katherine Chapman-See, Office of the Lieutenant Governor  
David Dye, Washington State Department of Transportation  
Amy Arnis, Washington State Department of Transportation  
Jeff Caldwell, Washington State Department of Transportation  
David Munnecke, House of Representatives Transportation Commission

Chair McIntire called the meeting to order at 11:45 am on September 29, 2011.

**Item 1: Approval of the Minutes**

Treasurer James McIntire introduced the motion to approve the minutes from the September 7, 2011 State Finance Committee Meeting. The motion was moved by Governor Christine Gregoire, seconded by Chair McIntire, and approved unanimously.

**Item 2: Resolution 1117**

Treasurer McIntire asked Ellen Evans to introduce Resolution 1117. Ms. Evans explained that Resolution 1117 would authorize the issuance of bonds of the state for the purpose of providing funds to pay and reimburse state expenditures for eligible toll facilities identified in Chapter 498, Laws of 2009, as amended by Chapter 377, Laws of 2011 (RCW 47.10.879-.888 – the “Bond

Act”); providing for certain terms and covenants of the bonds; providing for certain other provisions safeguarding the payment of principal of and interest on the bonds; and authorizing and directing the sale of the bonds in one or more sales. The resolution was moved by Governor Gregoire, seconded by Chair McIntire, and adopted unanimously.

Treasurer McIntire adjourned the meeting at 11:49 am.

STATE FINANCE COMMITTEE  
STATE OF WASHINGTON

By \_\_\_\_\_  
James L. McIntire  
State Treasurer and Chairman

By \_\_\_\_\_  
Christine O. Gregoire  
Governor and Member

ATTEST:

\_\_\_\_\_  
Ellen Evans, Deputy State Treasurer  
and Secretary



State of Washington  
STATE FINANCE COMMITTEE

JAMES L. McINTIRE, *Chairman*  
State Treasurer

CHRISTINE O. GREGOIRE  
Governor

BRAD OWEN  
Lieutenant Governor

April 25, 2012

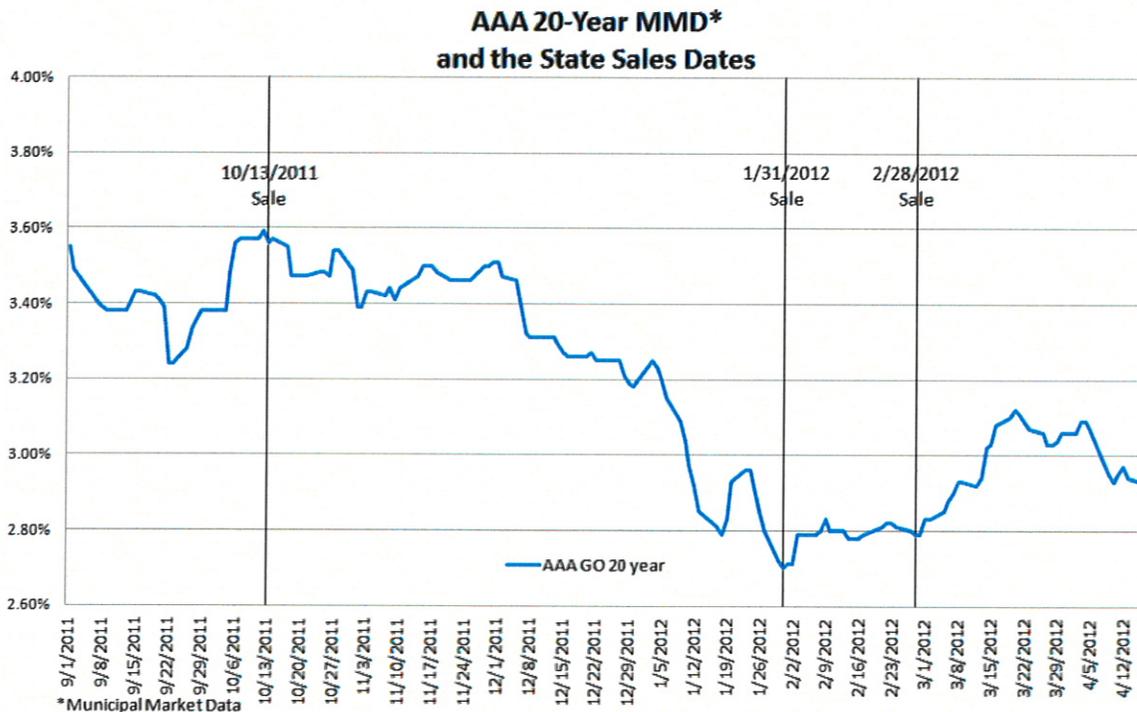
MEMORANDUM

TO: The Honorable James L. McIntire  
The Honorable Christine O. Gregoire  
The Honorable Brad Owen

FROM: Ellen Evans  
Deputy State Treasurer / Secretary

RE: **Report on Bond Sales:** October 13, 2011, January 31, 2012, and February 28, 2012

Since the last State Finance Committee meeting on September 29, 2011, the State Finance Committee, acting by and through the State Treasurer, issued bonds on October 13, 2011, January 31, 2012, and February 28, 2012. The purpose of the bonds and the results of the sales are summarized below.



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- **October 13, 2011 Bond Sale**

On October 13, 2011, the State Finance Committee acting by and through the State Treasurer awarded the sale of the following series:

- \$518,775,000 State of Washington Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program - Toll Revenue), Series 2012C,
- \$461,380,000 State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2012A, and
- \$42,330,000 State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2012B.

The Series 2012C Bonds, the state's first "triple pledge bonds" first payable from toll revenues, then backed by motor vehicle fuel taxes and the full faith and credit pledge of the state, were issued to provide funds for a portion of costs of the SR 520 Floating Bridge and Eastside Project. The Series R-2012A and R-2012B Bonds were sold to refinance outstanding Various Purpose and Motor Vehicle Fuel General Obligation Bonds, respectively, to take advantage of lower interest rates.

The bonds were sold on a negotiated basis with J.P. Morgan and Citigroup as managing underwriters. The True Interest Cost (TIC) for Series 2012C, Series R-2012A, and Series R-2012B, were 4.311010%, 2.511400%, and 3.302481% respectively.

The Net Present Value (NPV) savings for Series R-2012A and Series R-2012B were \$48,667,309 and \$2,941,936, respectively, for a total savings of \$51,609,245. The present value savings percentages for Series R-2012A and Series R-2012B were 10.5% and 7.0%, respectively.

The following summarizes the final pricing and maturity amounts for each:

Series	Maturity	Coupon	Final Pricing		Maturity Amounts
			Yield	Price	
2012C	6/1/2017	5.000%	1.950%	116.059	10,835,000
2012C	6/1/2018	5.000%	2.200%	117.071	11,375,000
2012C	6/1/2019	5.000%	2.500%	117.170	11,945,000
2012C	6/1/2020	5.000%	2.740%	117.179	12,540,000
2012C	6/1/2021	5.000%	2.860%	117.824	13,165,000
2012C	6/1/2022	5.000%	3.040%	116.186	13,825,000
2012C	6/1/2023	5.000%	3.190%	114.841	14,515,000
2012C	6/1/2024	5.000%	3.350%	113.427	15,240,000
2012C	6/1/2025	5.000%	3.490%	112.207	16,005,000
2012C	6/1/2026	5.250%	3.490%	114.228	16,805,000
2012C	6/1/2027	5.250%	3.590%	113.356	17,685,000
2012C	6/1/2028	5.000%	3.790%	109.644	18,615,000
2012C	6/1/2029	5.000%	3.870%	108.973	19,545,000
2012C	6/1/2030	5.000%	3.940%	108.389	20,525,000
2012C	6/1/2031	5.000%	4.000%	107.892	21,550,000
2012C	6/1/2032	5.000%	4.040%	107.562	22,625,000
2012C	6/1/2033	5.000%	4.070%	107.315	23,760,000
2012C	6/1/2034	5.000%	4.200%	106.254	24,945,000
2012C	6/1/2035	5.000%	4.200%	106.254	26,195,000
2012C	6/1/2036	5.000%	4.200%	106.254	27,505,000
2012C	6/1/2037	5.000%	4.200%	106.254	28,880,000
2012C	6/1/2038	5.000%	4.200%	106.254	30,325,000
2012C	6/1/2039	5.000%	4.200%	106.254	31,840,000
2012C	6/1/2040	5.000%	4.200%	106.254	33,430,000
2012C	6/1/2041	5.000%	4.200%	106.254	35,100,000
					<u>518,775,000</u>

Series	Maturity	Coupon	Final Pricing		Maturity Amounts
			Yield	Price	
R-2012A	1/1/2012	1.500%	0.160%	100.193	5,085,000
R-2012A	7/1/2012	2.000%	0.220%	101.145	26,870,000
R-2012A	7/1/2013	4.000%	0.600%	105.554	33,720,000
R-2012A	7/1/2014	5.000%	0.920%	110.633	43,150,000
R-2012A	7/1/2015	5.000%	1.290%	113.164	45,425,000
R-2012A	7/1/2016	3.000%	1.650%	106.010	25,435,000
R-2012A	7/1/2016	5.000%	1.650%	114.916	22,110,000
R-2012A	7/1/2017	5.000%	1.950%	116.224	49,960,000
R-2012A	7/1/2018	5.000%	2.200%	117.217	52,645,000
R-2012A	7/1/2019	5.000%	2.500%	117.294	36,685,000
R-2012A	7/1/2020	5.000%	2.740%	117.286	18,620,000
R-2012A	7/1/2021	5.000%	2.860%	117.922	19,575,000
R-2012A	7/1/2022	5.000%	3.040%	116.274	33,395,000
R-2012A	7/1/2023	5.000%	3.190%	114.921	23,740,000
R-2012A	7/1/2024	5.000%	3.350%	113.498	24,965,000
					<u>461,380,000</u>

Series	Maturity	Coupon	Final Pricing		Maturity Amounts
			Yield	Price	
R-2012B	1/1/2012	1.500%	0.200%	100.187	645,000
R-2012B	7/1/2014	2.000%	0.920%	102.814	965,000
R-2012B	7/1/2015	3.000%	1.290%	106.067	1,005,000
R-2012B	7/1/2016	3.000%	1.650%	106.010	1,050,000
R-2012B	7/1/2017	4.000%	1.950%	110.904	1,095,000
R-2012B	7/1/2018	4.000%	2.200%	111.068	1,150,000
R-2012B	7/1/2019	4.000%	2.500%	110.376	1,205,000
R-2012B	7/1/2020	4.000%	2.740%	109.636	1,265,000
R-2012B	7/1/2021	4.000%	2.860%	109.546	1,315,000
R-2012B	7/1/2022	5.000%	3.040%	116.274	10,820,000
R-2012B	7/1/2023	5.000%	3.190%	114.921	11,390,000
R-2012B	7/1/2024	5.000%	3.350%	113.498	10,425,000
					<u>42,330,000</u>

- **January 31, 2012 Bond Sale**

On January 31, 2012, the State Finance Committee acting by and through the State Treasurer awarded the sale of \$733,705,000 State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2012C. The bonds were sold to refinance outstanding Various Purpose General Obligation Bonds to take advantage of lower interest rates.

Also, on January 31, 2012, the State Finance Committee acting by and through the State Treasurer awarded the sale of \$271,055,000 State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2012D. The bonds were sold to refinance outstanding Motor Vehicle Fuel Tax General Obligation Bonds to take advantage of lower interest rates.

The Net Present Value (NPV) savings for Series R-2012C and Series R-2012D are \$114,686,266 and \$40,492,402 respectively, for a total savings of \$155,178,668. The present value savings percentages for Series R-2012C and Series R-2012D were 15.6% and 15%, respectively.

The bonds were sold on a competitive basis and the sale on each Series was awarded to the bidder with the lowest True Interest Cost (TIC). The following bids were received on each series:

Series R-2012C	Bidder	TIC*	Results
	Bank of America Merrill Lynch	2.6226477%	Low Bidder
	Citigroup Global Markets Inc.	2.6506577%	
	Barclays Capital, Inc.	2.6574648%	
	Wells Fargo Bank	2.6654296%	
	J.P. Morgan Securities LLC	2.6701274%	
	Goldman, Sachs & Co.	2.6898078%	
	Morgan Stanley & Co	2.6957725%	
	Jefferies & Company	2.7433136%	
	RBC Capital Markets	2.7510011%	

Series R-2012D	Bidder	TIC*	Results
	Wells Fargo Bank	2.5700066%	Low Bidder
	Citigroup Global Markets	2.5716963%	
	Goldman, Sachs & Co	2.5723381%	
	J.P. Morgan Securities LLC	2.5835183%	
	Bank of America Merrill Lynch	2.5915099%	
	Barclays Capital, Inc	2.6032795%	
	RBC Capital Markets	2.6484310%	
	Morgan Stanley & Co Inc.	2.6521406%	

\*True Interest Cost (TIC).

- February 28, 2012 Bond Sale**

On February 28, 2012, the State Finance Committee acting by and through the State Treasurer awarded the sale of \$362,560,000 State of Washington Various Purpose General Obligation Bonds, Series 2012D. The bonds were issued to provide funds to pay and reimburse state expenditures for various capital projects throughout the state.

Also, on February 28, 2012, the State Finance Committee acting by and through the State Treasurer awarded the sale of \$201,065,000 State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2012E. The bonds were issued to provide funds to pay and reimburse state expenditures for various transportation projects throughout the state.

The following bids were received on each series. The sale on each Series was awarded to the bidder with the lowest True Interest Cost (TIC).

Series 2012D	Bidder	TIC*	Results
	Citigroup Global Markets	3.3514084%	Low Bidder
	Wells Fargo Bank	3.3600070%	
	J.P. Morgan Securities	3.3603267%	
	Bank of America Merrill Lynch	3.3725620%	
	RBC Capital Markets	3.3998623%	
	Barclays Capital	3.4569366%	
	Goldman, Sachs & Co	3.4719529%	
	Morgan Stanley	3.4983412%	
	Jefferies & Company	3.5375044%	

Series 2012E	Bidder	TIC*	Results
	Bank of America Merrill Lynch	3.5223948%	Low Bidder
	J.P. Morgan Securities	3.5755718%	
	Wells Fargo Bank	3.5990069%	
	Citigroup Global Markets	3.6702569%	
	Goldman, Sachs & Co.	3.6850151%	
	Barclays Capital	3.6878062%	
	RBC Capital Markets	3.7438334%	
	Morgan Stanley	3.8032314%	

- **Counsel and Advisors.**

Bond Counsel:

William Tonkin, Foster Pepper PLLC

Financial Advisors:

Jenny Poreé, Montague DeRose and Associates LLC

Rob Shelley, Seattle-Northwest Securities Corporation



State of Washington  
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April 25, 2012

MEMORANDUM

TO: The Honorable James L. McIntire  
The Honorable Christine O. Gregoire  
The Honorable Brad Owen

FROM: Ellen Evans  
Deputy State Treasurer

RE: **Proposed Resolution No. 1125** to authorize issuance of federal highway grant anticipation revenue bonds

Proposed Resolution No. 1125 authorizes the issuance of federal highway grant anticipation revenue bonds of the state for the purpose of providing funds to pay and reimburse state expenditures for state transportation facilities, including eligible toll facilities identified in the bond act; providing for certain terms and covenants of the bonds; providing for certain other provisions safeguarding the payment of principal of and interest on the bonds; and authorizing and directing the sale of the bonds in one or more sales.

- **Background.** During the 2009 regular legislative session, the Legislature authorized tolling on the State Route 520 Corridor, and authorized bonds to finance construction of corridor projects.

**Toll Facilities Act.** Under Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 498, Laws of 2009, Section 15; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011 (RCW 47.56.805-.876) (the "Toll Facilities Act"), the Legislature has designated the SR 520 Corridor as an "Eligible Toll Facility" and has authorized the imposition of tolls on the floating bridge portion of the SR 520 Corridor.

**Bond Act.** Under Chapter 498, Laws of 2009; and Chapter 377, Laws of 2011, (the "Bond Act"), the Legislature has authorized the issuance by the State Finance Committee (the "Committee") of certain bonds, to provide funds necessary for the location, design, right-of-way, and construction of the SR 520 Corridor program;

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**Type of Bonds Authorized.** The Bond Act authorized the State Finance Committee to issue, at the request of WSDOT, \$1.95 billion of general obligation bonds of the state, to which the state's full faith and credit are pledged and are first payable from toll revenue and motor vehicle fuel taxes ("Triple Pledge Bonds"). The Bond Act also authorized the Committee to issue the authorized bonds as toll revenue bonds, which are payable solely from and secured solely by toll revenue rather than as general obligation bonds to which the state's full faith and credit are pledged.

Under the Bond Act, the Legislature has defined "toll revenue" to include, among other things, any gifts, grants, or other funds received for the benefit of transportation facilities in the State, including eligible toll facilities. As authorized by the Bond Act, Proposed Resolution No. 1025 pledges this particular component of toll revenue (described below as "Pledged Federal Aid") to pay and secure any Bonds, including the Series 2012F Bonds, to be sold and issued under that resolution.

- **Summary of Pledge**

The Series 2012F Bonds are limited obligations of the state payable from and secured solely by the Pledged Federal Aid, which is all funds received by the state pursuant to its Obligation Authority under the Federal-Aid Highway Program ("FAHP") administered by the Federal Highway Administration ("FHWA"). Pledged Federal Aid includes FAHP Funds received as Direct GARVEE Reimbursements and as Reimbursements. Direct GARVEE Reimbursements mean FHWA Funds received by the state pursuant to a Memorandum of Understanding providing for federal reimbursement of Annual Debt Service and related costs. Reimbursements means all FAHP Funds received by the state from FHWA which represent federal reimbursement for projects or portions of projects not financed with Bond proceeds and which reimbursements are on deposit in the Motor Vehicle Fund or the GARVEE Bond Debt Service Subaccount. The state, acting through the Washington State Department of Transportation ("WSDOT"), entered into a Memorandum of Understanding with FHWA that provides for the reimbursement to the state by FHWA for the debt service and costs incurred for the Series 2012F Bonds as provided in Section 122 of Chapter 1 of Title 23, United States Code ("Title 23"). **The Series 2012F Bonds are not general obligations of the state to which the state's full faith and credit or taxing power is pledged and no state excise taxes on motor vehicle and special fuels are pledged to secure the Series 2012F Bonds.**

- **Summary of Bond Covenants**

**Enforcement of Federal Aid Agreement.** Proposed Resolution No. 1125 provides that, so long as any of the Bonds are Outstanding under the Resolution, it will take all reasonable action to enforce the Federal Aid Agreements to the extent permitted by law, and will not consent to any modification of the Federal Aid Agreement which would materially impair the security created for the Holders of the Bonds.

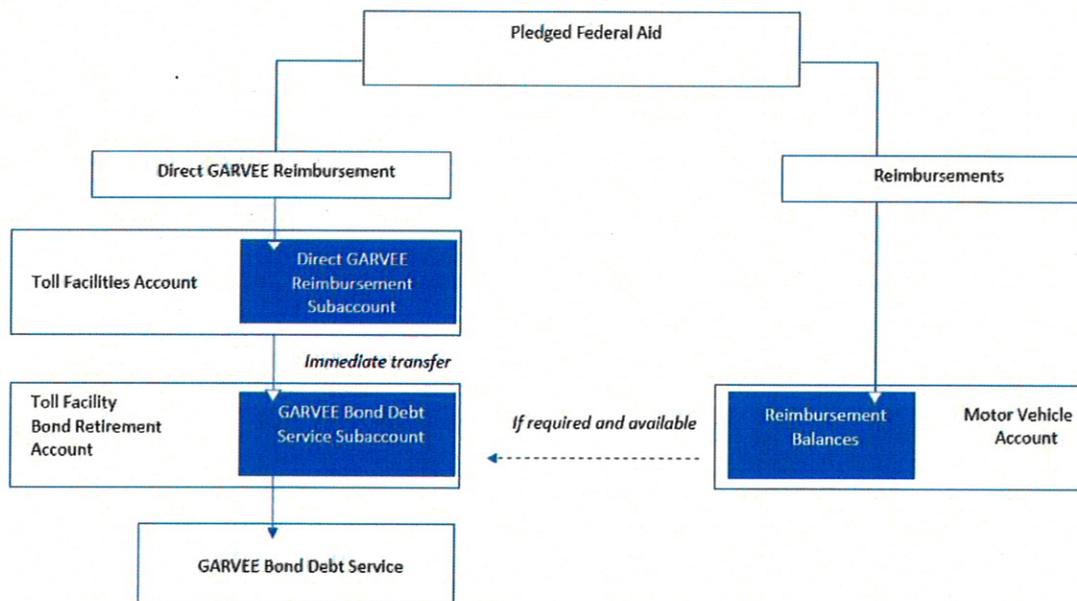
**Obligation of Pledged Federal Aid.** Proposed Resolution No. 1125 provides that the first obligation submitted by WSDOT to FHWA for FAHP Funds will be for the purpose of

paying debt service and other debt-related costs coming due on Outstanding Bonds in that Federal Fiscal Year.

Proposed Resolution No. 1125 provides that WSDOT will obligate sufficient FAHP Funds for scheduled payment of debt service and other debt-related costs on Outstanding Bonds in that Federal Fiscal Year, including, if necessary, by de-obligating FAHP Funds from other federal aid highway projects and re-obligating those FAHP Funds for the payment of debt service and other debt-related costs on Outstanding Bonds.

**Payment of Pledged Federal Aid.** Proposed Resolution No. 1125 provides WSDOT will bill FHWA for Direct GARVEE Reimbursements at least seven days prior to each Bond Payment Date.

If and to the extent the entire amount of Direct GARVEE Reimbursements required for debt service due on a Bond Payment Date is not paid to WSDOT, WSDOT shall transfer any available Reimbursements from the Motor Vehicle Fund in the amount required to meet the deficiency and request the Treasurer to use and apply such Reimbursements for the payment in full of principal and interest due on the Bonds on the next Bond Payment Date.



- Summary of Additional Bonds Test.** Proposed Resolution No. 1125 provides in the case of the issuance of any Additional Bonds, there shall be on file with the State Treasurer a certificate of the WSDOT Representative demonstrating that the amount of Obligation Authority during one of the most recently completed two prior Federal Fiscal Year is equal to at least three and one half times of the Maximum Annual Debt Service in the current or any future Federal Fiscal Year on all Outstanding Bonds and on the Additional Bonds proposed

to be issued excluding, in the case of Refunding Bonds, the debt service on the Bonds to be refunded.

- **Delegation of the Bond Sale.** Proposed Resolution No. 1125 authorizes the State Treasurer to establish the method of sale of bonds and adopt bond sale resolutions.
- **Description of the first GARVEE bonds for the SR 520 Corridor Program.** The first GARVEE bonds for SR 520 Corridor Program, the Series 2012F (GARVEE) Bonds, are “toll revenue” bonds under the Bond Act that are payable solely from Pledged Federal Aid and are not secured by toll receipts, motor vehicle fuel taxes or the state’s full faith and credit. The Series 2012F Bonds are expected to provide around \$500,000,000 in net proceeds and to be sold in May 2012.

### **Counsel and Advisors**

Bond Counsel:	William Tonkin, Foster Pepper PLLC
Disclosure Counsel:	Nancy Neraas, Foster Pepper PLLC
Financial Advisors:	Robert Shelley, Seattle-Northwest Securities Corporation Jenny Poreé, Montague DeRose and Associates LLC



State of Washington  
STATE FINANCE COMMITTEE

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April 25, 2012

MEMORANDUM

TO: The Honorable James L. McIntire  
The Honorable Christine O. Gregoire  
The Honorable Brad Owen

FROM: Ellen Evans  
Deputy State Treasurer

RE: Proposed "Guidelines for Use of Federal Highway Grant Anticipation Revenue Bonds"

The proposed "Guidelines for Use of Federal Highway Grant Anticipation Revenue Bonds" provides policy guidance regarding use of Federal Highway Grant Anticipation Revenue Bonds (GARVEE) to finance the state's transportation infrastructure.

- **Background.** Resolution No. 1125 provides for the issuance of GARVEE bonds for the purpose of providing funds to pay and reimburse state expenditures for state transportation facilities, including eligible toll facilities identified in Chapter 498, Laws of 2009, as amended by Chapter 377, Laws of 2011 (RCW 47.10.879-.888 – the "Bond Act").

To date, the SR 520 Corridor Program is the only program of projects for which the Legislature has authorized issuance of GARVEE bonds.

- **Summary of Policy Guidelines.** The proposed policy highlights certain restrictions on the issuance of additional GARVEE bonds specified in Resolution No. 1125. It includes further restrictions on future issuance to maintain an appropriate balance between leveraging federal funds and using these funds for ongoing expenditures.
- **Summary of Additional Restrictions included in the Policy Guidelines**

**Additional Bonds Test.** Resolution No. 1125 restricts the issuance of additional GARVEE bonds such that the amount of Obligation Authority during one of the two prior Federal Fiscal Years is equal to at least three and one half times the Maximum Annual Debt Service

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in the current and any future Federal Fiscal Year on all outstanding bonds and any such proposed additional bonds.

In order to ensure that federal funds remain available to support the state's ongoing preservation and improvement program, the proposed policy provides a more restrictive additional bonds test by increasing this ratio to three and three quarters times the Maximum Annual Debt Service in the current and any future Federal Fiscal Year on all outstanding bonds and any such proposed additional bonds. The intent is to limit the issuance of GARVEE bonds to restrict the percentage of federal funds in any federal fiscal year expected to be allocated to the payment of debt service.

***Maximum Term.*** The maximum term of the GARVEE bonds will not exceed twelve years.

***Capitalized Interest.*** Whenever possible, finance plans relying on GARVEE bonds will minimize the use of capitalized interest.

***GARVEE Capacity Estimates.*** So as to provide policy makers and the public with information about the use of GARVEE financing, the annual Debt Affordability Study prepared by the Office of the State Treasurer will provide yearly estimates of GARVEE bond capacity.

### **Counsel and Advisors**

Bond Counsel:	William Tonkin, Foster Pepper PLLC
Disclosure Counsel:	Nancy Neraas, Foster Pepper PLLC
Financial Advisors:	Robert Shelley, Seattle-Northwest Securities Corporation Jenny Poreé, Montague DeRose and Associates LLC

GUIDELINES FOR USE OF FEDERAL HIGHWAY GRANT ANTICIPATION REVENUE  
BONDS

STATE FINANCE COMMITTEE

(ADOPTED APRIL 25, 2012)

This provides policy guidance regarding use of Federal Highway Grant Anticipation Revenue Bonds (GARVEE) to finance the state's transportation infrastructure. As designated in the Master Bond Resolution (Resolution No. 1125) approved by the State Finance Committee, GARVEE bonds are limited obligations of the state payable from and secured solely by pledged federal aid. They are not secured by state motor vehicle fuel tax revenues, nor are they general obligations of the state.

When GARVEE bonds are used to finance projects, careful consideration must be given to:

- the state's ongoing ability to preserve and improve the state's transportation infrastructure; and
- the effect of GARVEE financings on the state's overall ability to afford debt.

Resolution No. 1125 provides for the issuance of GARVEE bonds for the purpose of funding the SR520 Corridor Program. To date, this is the only program of projects for which the Legislature has authorized issuance of GARVEE bonds. This policy highlights certain restrictions on the issuance of additional GARVEE bonds specified in Resolution No. 1125 and further restricts future issuance to maintain an appropriate balance between leveraging federal funds and using these funds for ongoing expenditures.

Direct GARVEES. Resolution No. 1125 provides for "Direct" GARVEE bonds that pledge Federal-Aid Highway Program (FAHP) funds received by the state from the Federal Highway Administration (FHWA) that are designated for project specific debt service under a Memorandum of Understanding between the Washington State Department of Transportation (WSDOT) and FHWA. It does not support the payment of debt service on bonds which are solely backed by a pledge of FAHP funds the state receives from FHWA for the reimbursement of project expenditures (i.e. "Indirect" GARVEEs).

Priority given to the payment of debt service on GARVEE bonds. In Resolution No. 1125 the State Finance Committee pledges to prioritize the payment of debt service on GARVEE bonds as follows:

If WSDOT receives a full-year of obligation authority, the first obligation in the federal fiscal year will be for funds sufficient to pay debt service in that federal fiscal year. If partial obligation authority is provided by FHWA, either because of continuing resolutions or extensions, WSDOT will obligate an amount proportionate to the amount of obligation authority received by the state. In any event, if a sufficient amount of obligation authority is not available before a debt service payment is due WSDOT will obligate the necessary amount of funds, which may require the department to de-obligate FAHP funds from other federal aid highway projects and re-obligate those FAHP funds for the payment of debt service on GARVEE bonds.

Reimbursement Balances to provide liquidity. Resolution No. 1125 notes that in the unlikely event that Direct GARVEE reimbursements are not available on a timely basis to pay debt service on GARVEE bonds, other available federal funds received by the state from FHWA and deposited into the Motor Vehicle Account will be transferred to the GARVEE bond debt service subaccount.

WSDOT will treat the monthly balances in the Motor Vehicle Account as funds derived from accumulated FAHP Reimbursements that are available for use to pay debt service on GARVEE bonds in the event direct reimbursement for debt service on GARVEE bonds is not timely received from FHWA.

Additional Bonds Test. Resolution No. 1125 restricts the issuance of additional GARVEE bonds such that the amount of Obligation Authority during one of the two prior Federal Fiscal Years is equal to at least three and one half times the Maximum Annual Debt Service in the current and any future Federal Fiscal Year on all outstanding bonds and any such proposed additional bonds.

In order to ensure that federal funds remain available to support the state's ongoing preservation and improvement program, this policy provides a more restrictive additional bonds test by increasing this ratio to three and three quarters times the Maximum Annual Debt Service in the current and any future Federal Fiscal Year on all outstanding bonds and any such proposed additional bonds. The intent is to limit the issuance of GARVEE bonds to restrict the percentage of federal funds in any federal fiscal year expected to be allocated to the payment of debt service.

Maximum Term. The maximum term of the GARVEE bonds will not exceed twelve years.

Capitalized Interest. Whenever possible, finance plans relying on GARVEE bonds will minimize the use of capitalized interest.

GARVEE Capacity Estimates. So as to provide policy makers and the public with information about the use of GARVEE financing, the annual Debt Affordability Study prepared by the Office of the State Treasurer will provide yearly estimates of GARVEE bond capacity.