



STATE OF VERMONT
OFFICE OF THE STATE TREASURER

Statement by State Treasurer Jeb Spaulding Regarding the Use of GARVEE Bonds to Meet Vermont's Transportation Funding Needs

March 17, 2004

Funding for critical transportation projects, for both new construction and maintenance, is becoming an urgent conversation here in the State House. Despite sincere commitment and worthy efforts by this administration and legislature, most observers believe our existing transportation infrastructure is increasingly falling into disrepair. Recent documentation of this situation was included in the February 17, 2004, *Investment Analysis of Vermont's Highway System* by the Agency of Transportation, which indicated that a budget increase of more than \$90 million per year is required to stay even with current bridge and paving conditions. The Agency's 2004 annual report states, "Commitments to other infrastructure needs have limited the resources available for paving. Even with careful management, Vermont's highways will likely get rougher in the near future."

One reason for the predicament we are in is our attempt to fund critical large construction projects exclusively on a cash basis through annual federal and state appropriations. This strategy will make it impossible to keep up with necessary maintenance of roads and bridges... unless we significantly raise the gas tax or some other revenue source, something I have not heard suggested recently. Continuing delay of repairs and maintenance will certainly cost Vermont taxpayers dearly in the long run, due to the fact that prolonged degradation becomes more and more expensive to repair as time goes on. New construction projects we have already committed to will cost us more, due to inflation of construction costs over the many extra years while waiting for funds to become available.

Asking the Legislature to include \$5 million for transportation projects within the FY 05 Capital Bill at the Capital Debt Affordability Advisory Committee recommended level of \$41 million for new general obligation debt is tantamount to cutting funding for traditional capital needs from \$39 million to \$36 million - and that after several years of level capital funding at the \$39 million dollar level. This approach, while positive in that it leverages additional federal transportation funds, puts heavy pressure on the traditional capital infrastructure program and may not be politically palatable.

Of the options available to address this situation, I believe a carefully crafted, and conservative, GARVEE bonding program to fund a number of the major outstanding projects is the best choice, or at least part of the solution for the situation we are now in. GARVEE bonds utilize a pledge of future federal transportation funds to pay the debt service for a bonding program today, in order to accelerate project delivery. This would allow us to finish up a number of critical construction projects in a timely fashion and to reallocate existing funds for repair and maintenance of roads and bridges. This is not a strategy to fund some big new highway projects. It is a strategy to allow us to actually construct a handful of critical projects we have already committed to and spent significant funds on, without siphoning off the money we need for statewide maintenance of roads and bridges.

Naturally, there are many issues to be considered on this topic. My office has prepared a report that explains how GARVEE bonds work, includes simulations of various scenarios for a \$100 million GARVEE program, and highlights some of the issues that need to be carefully considered before final adoption of a GARVEE program in Vermont. For example, agreement on what high priority projects would be funded through GARVEE bonds, and on a realistic construction schedule for when the projects would be ready to go, will be necessary to craft a specific proposal. It would not be prudent to borrow the money if the construction is not ready to go or if the money will be used for other than critical need projects.

I would not support the use of GARVEE bonds if I thought they would pose a threat to our favorable credit rating. I am confident that a carefully crafted transportation GARVEE program would not threaten our current favorable ratings, assuming no negative developments in other areas considered important by the major credit rating agencies, such as budgetary discipline, funded stabilization reserves, a diversified economy, conservative overall debt management, and acceptable financial reporting. Yes, GARVEE debt will likely to be added to our total debt statement by the rating agencies, but, no, no state has ever been downgraded due to use of a GARVEE program.

To craft a concrete GARVEE proposal, I have suggested that we utilize a variation of the process used to consider the potential purchase of the hydro dams on the Connecticut River. We should create a working group with the right mix of parties at the table, aided by expert financial advice, all committed, with an open mind, to crafting the best possible proposal for Vermont. The right mix of parties should include, at a minimum, the Secretary of Administration, the Secretary of Transportation, the State Treasurer, the Chairs of the Transportation Committees, and, perhaps, the Governor's appointee to the Capital Debt Affordability Advisory Committee. The expert financial advice would be from an investment banking firm and the State's Financial Advisor.

Though the specifics of a proposal would be developed by the proposed working group, I suspect a multi-year, two or three-phase GARVEE bonding program totaling \$75-100 million would be appropriate. We could likely service this debt using just a portion of the expected incremental increase in federal transportation appropriations from Washington. That would not disturb the current flow of funds in any negative fashion. Most likely, Vermont would pledge no State credit support for the GARVEE bonds and would rely only on the federal transportation funds as support, as Rhode Island recently did very successfully. This would be helpful in discussing Vermont's debt profile with the rating agencies.

I am very pleased that the governor has decided to support the creation of the working group, though he would like to also include for consideration other potential financing methodologies, in addition to GARVEE bonds. I am hopeful that legislative transportation leaders feel the GARVEE approach is meritorious of serious consideration as well, and look forward to working with them and the administration to craft appropriate language creating the working group.

Although some would have liked to develop a specific proposal for consideration in this legislative session and this construction season, that may be overly ambitious. I agree with the Governor's suggestion that we should do our homework this summer and fall in order to be ready with a specific proposal in time for the calendar year 2005 construction season. The bottom line is that if we are to make headway on the need to improve and take care of our transportation infrastructure, something that is absolutely critical to our economic future, we need to be creative, careful, and cooperative. I stand ready to work with all parties on this very important task.