



CENTER FOR INNOVATIVE FINANCE SUPPORT

QUICK FACTS

- GARVEEs are debt-financing instruments repaid with future Federal-aid funds.
- As of December 2016, 25 States and 3 territories have issued over \$20.4 billion in GARVEEs.
- Projects financed with GARVEE proceeds must follow all Federal-aid requirements.

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PROJECT FINANCE

Grant Anticipation Revenue Vehicles

Grant Anticipation Revenue Vehicles (GARVEEs) enable States to pay debt service and other bond-related expenses with future Federal-aid highway funds. The law authorizing GARVEEs, however, makes it clear that a debt-financing instrument's eligibility for reimbursement with future Federal-aid highway funding does not constitute a commitment, guarantee, or other obligation by the United States, nor does it create any right of a third party (such as an investor) against the Federal Government for payment.

HOW DO THEY WORK?

A GARVEE is a debt-financing instrument authorized to receive Federal reimbursement of debt service and related financing costs under Section 122 of Title 23, U.S. Code. GARVEEs can be issued by a State, a political subdivision of a State, or a public authority. States can receive Federal-aid reimbursements for a wide array of debt-related costs incurred in connection with an eligible debt-financing instrument, such as a bond, note, certificate, mortgage, or lease. Reimbursable debt-related costs include interest payments, retirement of principal, and any other cost incidental to the sale of an eligible debt instrument.

In general, projects funded with the proceeds of a GARVEE debt instrument are subject to the same requirements as other Federal-aid projects with the exception of the reimbursement process. Instead of reimbursing construction costs as they are incurred, the reimbursement of GARVEE project costs occurs when debt service is due. For a GARVEE, a State may request partial conversion of advance construction project(s) to coincide with debt-service payments, allowing for effective use of obligation authority.

It is important to note that, in order to issue GARVEEs, States or the issuing entity must have the appropriate State authorizations related to debt issuance. States have the flexibility to tailor GARVEE financings to accommodate State fiscal and legal conditions.

WHAT ARE THE BENEFITS?

The GARVEE financing mechanism generates up-front capital for major highway projects at generally tax-exempt rates and enables a State to construct a project earlier than if using traditional pay-as-you-go grant resources. With projects in place sooner, costs are lower due to inflation savings, and the public realizes safety and economic benefits. By paying with future Federal-aid funds, the cost of the facility is spread over its useful life, rather than just during the construction period. GARVEEs can expand access to capital markets as a supplement to general obligation or revenue bonds.



Maryland's Intercounty Connector uses GARVEE bonds.

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HOW IS IT USED?

Candidates for GARVEE financing are typically large projects (or programs of projects) that have the following characteristics:

- The costs of delay outweigh the costs of financing.
- Other borrowing approaches may not be feasible or are limited in capacity.
- The project does not have access to a revenue stream, and other forms of repayment are not feasible.
- The sponsors are willing to reserve a portion of future year Federal-aid highway funds to satisfy debt-service requirements.
- States are finding GARVEEs to be an attractive financing mechanism to bridge funding gaps and to accelerate construction of major corridor projects.

POTENTIAL ADVANTAGES

- Accelerate selected projects and increase number of projects that can be built with existing revenue.
- Borrow at relatively low interest rates (tax-exempt rates apply).
- Provide mechanism for claiming interest and issuance costs as Federal-aid eligible costs.
- Provide economic and fiscal stimulus as proceeds are expended.
- Enable potential economies of scale in construction.
- Mitigate inflation risk in construction and right-of-way costs.

POTENTIAL LIMITATIONS

- Reduce financial, programmatic, and political flexibility for those years in which debt service consumes a portion of the annual transportation program.
- May cause economic and fiscal drag as debt service is repaid.
- May lead to capacity constraints with respect to availability of contractors, consultants, construction materials, and labor and public agencies.
- May lead to induced inflation as GARVEE proceeds “goose” market.

CONSIDERATIONS

- Oversight and reporting responsibilities required for life of GARVEE instrument and for a reasonable period thereafter.
- Recordkeeping and accounting requirements are also expanded; procedures must be documented, especially where they differ from regular Federal-aid process (e.g., claiming of reimbursement for debt service, not construction).

GARVEEs DEFINED

GARVEEs are secured by specific Federal-aid apportionment categories, and proceeds are used to pay for a specific Federal-aid–eligible project (or projects). A **GARVEE** requires FHWA Division Office approval of the project authorization and election to receive project reimbursements based on the debt-service schedule. The FHWA Division Office and the State should be able to identify eligible Federal-aid activities funded by the **GARVEE** proceeds.

When **GARVEE** debt is backed by other State or local revenues (e.g., State fuel tax or toll revenues), in addition to future Federal-aid apportionments, it is known as a backstopped **GARVEE**. In this case, the State can issue debt at lower interest costs by reducing the risk from the uncertainty of the timing of Federal-aid highway funding.

Some States, political subdivisions, or public authorities have issued debt and securitized the debt with reimbursements of Federal-aid received for costs incurred for the general program of Federally eligible projects. These reimbursements—once received—are State funds. In many instances, such debt issuances have been referred to as indirect **GARVEEs**; however, such bonds are not **GARVEEs** but rather State revenue-backed bonds. These bonds do not require FHWA Division Office approval of the financed projects, and FHWA Division oversight and monitoring throughout the debt repayment process are not required.



OFFICE OF INNOVATIVE PROGRAM DELIVERY

PROGRAM AREAS OF THE CENTER FOR INNOVATIVE FINANCE SUPPORT

The Center for Innovative Finance Support provides a one-stop source for expertise, guidance, research, decision tools, and publications on program delivery innovations. Our Web page, workshops, and other resources help transportation professionals deliver innovation.

PUBLIC-PRIVATE PARTNERSHIPS

The Center for Innovative Finance Support's P3 program focuses on the potential of design–build–operate–finance–maintain (DBFOM) concessions funded through tolls or availability payments to reduce project cost, improve quality outcomes, and provide additional financing options.

ALTERNATIVE PROJECT DELIVERY

The Center for Innovative Finance Support's Alternative Project Delivery Program provides information on contractual arrangements that allow for greater private participation in infrastructure development by transferring risk and responsibility from public project sponsors to private sector engineers, contractors, and investors.

PROJECT FINANCE

The Center for Innovative Finance Support's project finance program focuses on alternative financing, including state infrastructure banks (SIBs), grant anticipation revenue vehicles (GARVEEs), and Build America Bonds (BABs).

TOLLING AND PRICING

The Center for Innovative Finance Support's Federal tolling and pricing program focuses on the use of tolling and other road user charges as a revenue source to fund highway improvements and the use of variably priced tolls as a tool to manage congestion.

VALUE CAPTURE

The Center for Innovative Finance Support's Value Capture Strategies explores strategies for tapping into the added value the transportation improvements bring to nearby properties as a means to provide new funding for surface transportation improvements.



U.S. Department of Transportation
Federal Highway Administration