THE BOND BUYER

Florida preps its first Garvee bond deal

By

Shelly Sigo

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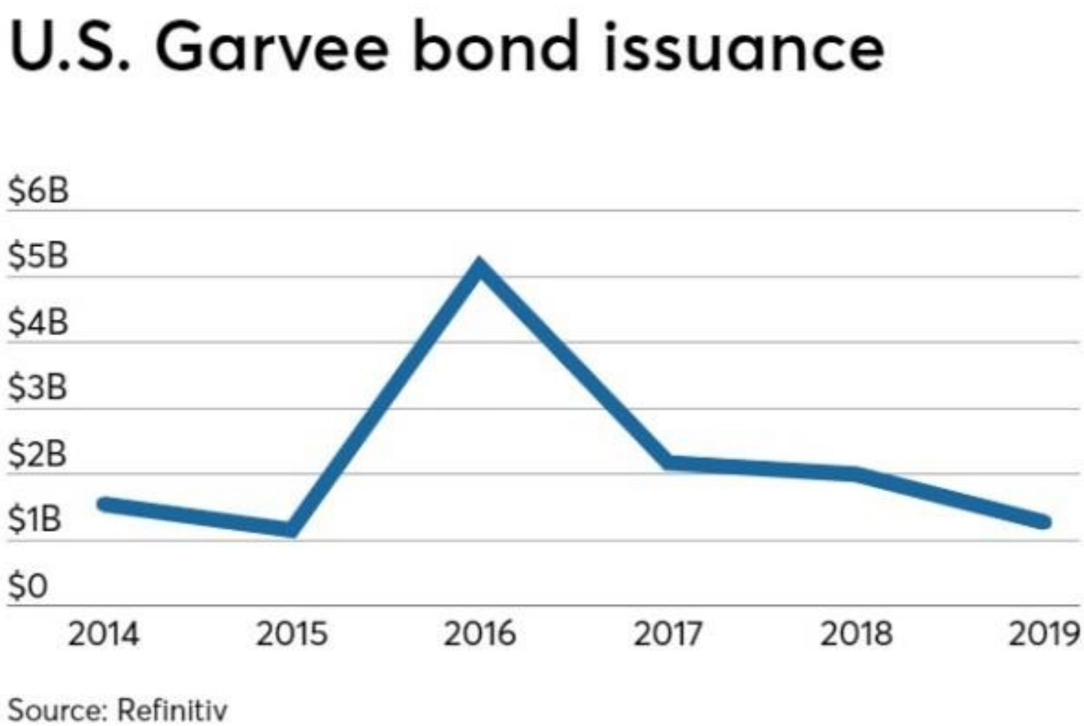
Florida plans to issue $1.3 billion of Garvee bonds over five years to leverage revenues from the Federal Highway Trust Fund.

It will sell the inaugural tranche of grant anticipation revenue vehicle bonds totaling $125.3 million as early as next week in a competitive deal.



“The Florida Garvee offering should receive a strong investor reception since it is a new name with strong credit features from a triple-A state,” said Alan Schankel, managing director and municipal strategist for Janney Montgomery Scott LLC.

Schankel said credit enhancements include an additional bonds test of 5 times, a coverage level that limits the potential to overleverage the income stream.

Bond proceeds will finance a portion of projects eligible for federal-aid highway funds in Duval, Volusia, and Orange counties.

The fixed-rate bonds are expected to be structured with serial maturities between 2020 and 2031 and with level debt service. The debt is not subject to redemption prior to maturity, according to the preliminary official statement.

The bonds are rated AA by S&P Global Ratings, A-plus by Fitch Ratings, and A1 by Moody's Investors Service. All have stable outlooks.

Schankel said risks underpinning the Florida deal are typical of most Garvee bond programs. Those include appropriation risk at both the state level and federal level. Debt service payments are subject to annual appropriation by the Florida Legislature.

At the federal level, Schankel said a history of last minute short-term fixes, budget battles, and debt ceiling debates have cast doubt at times on future distributions from the federal Highway Trust Fund. The current authorization expires in 2021.

“A Garvee from Florida should receive stronger investor interest than a Garvee from a weaker state,” he said.

Since at least 2009, Florida’s lawmakers and governors have authorized the issuance of Garvee bonds but such borrowings have not been needed until now, according to Division of Bond Finance Director Ben Watkins.

The Florida Department of Transportation needs the funding for its budget.

“The FDOT has a five-year work program and it has to be balanced,” Watkins said. Funding “outflows for project construction need to equal inflows and this is an additional source of revenue to support that spending on transportation infrastructure.”

The state already has a number of transportation financing programs, including one to purchase right of way, one to finance Florida Turnpike Enterprise projects, a new program that finances public-private partnerships, and bonds issued by the state.

Watkins said the Garvee program is “the last source of funding” available for FDOT.

Florida’s Garvee bond sale plan

Fiscal Year 2020: $125.3 million

Fiscal Year 2021: $400 million

Fiscal Year 2022: $600 million

Fiscal Year 2023: $170 million

Total: $1.29 billion

SOURCE: Preliminary official statement estimates

FDOT’s five-year work program is estimated to cost $50 billion, including $10 billion of anticipated federal-aid highway reimbursements. The program is assessed annually.

In the upcoming deal, the state will issue “indirect” Garvee bonds, Watkins said, which means there is no backstop and no other pledge of revenue securing the debt.

Pledged revenues will consist of a senior lien on all federal highway-aid reimbursements received by the state for eligible projects.

Watkins said Florida’s requirement that debt service must be limited to 10% of annual federal highway reimbursements strengthens the program.

“That means minimum coverage is 10 times,” he said.

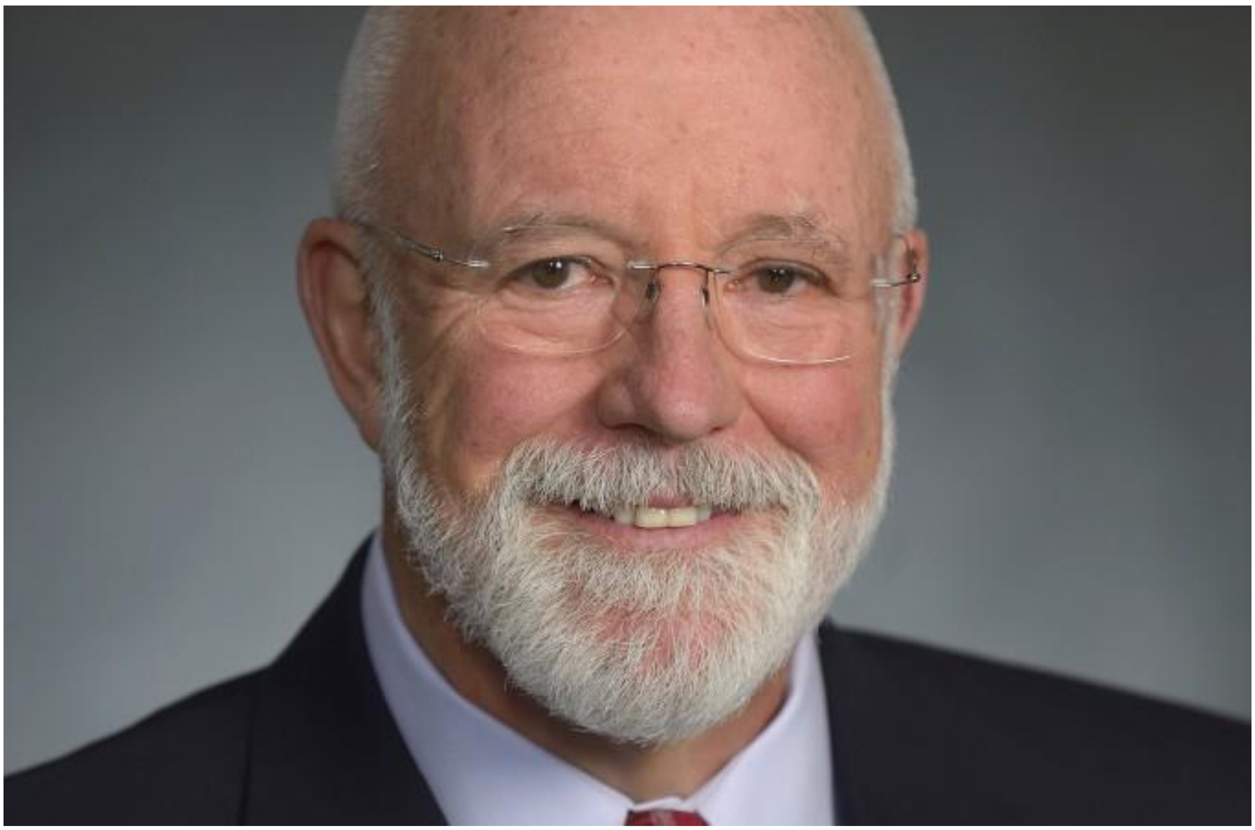
FDOT will apply for reimbursement of funding for qualified federal-aid highway projects after they are completed.

According to S&P, Florida’s share of federal highway funding authority in fiscal 2018 provided maximum annual debt service coverage of about 12.1 times and MADS coverage from actual receipts of 14.1 times occurred as the state made use of obligated funds not used by other states.

“The high coverage provides an ample cushion mitigating the risk of default, should federal transportation revenues decline,” said S&P analyst Joseph Pezzimenti. “The high MADS coverage also partially mitigates our concerns about potentially lower Highway Trust Fund balances in the future due to federal budget pressures.”

Since 2009, Florida has received about $22.6 billion in federal-aid highway apportionments, the third most of any state during that time period, Pezzimenti said.

Fitch said Florida’s “indirect” Garvees adhere to early cash set-aside provisions for interest and principal on a 1/6th and 1/12th basis, respectively.



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“The bonds also benefit from a short tenor and robust leverage limitations on covenants, with an additional bonds test capping current and future debt service at 5 times maximum annual debt service,” said Fitch analyst Sean Su.

Su also said the additional bonds test provides the ability to retain sufficient flexibility at the A-plus rating level even if there’s a decline in federal revenues.

In an analysis of the Highway Trust Fund and the Fixing America's Surface Transportation Act, Fitch said expenditures have exceeded revenues over the past decade.

“The longer-term structural imbalance of the HTF was not addressed by the FAST Act passed in early December 2015, instead relying on general fund and Federal Reserve transfers to keep the program afloat through federal fiscal year 2020,” Su said.

Although continued general and reserve fund transfers have underscored the relative importance of transportation funding within the federal budget, Su said they do not guarantee future commitments.

“The current administration seeks to invest in infrastructure, but funding remains unclear and difficult to predict beyond 2021,” said Su. “However, it is Fitch's view that significant changes are needed either on the expenditure side or on the revenue side, potentially through an increase in the motor fuel tax, additional tax revenues or surcharges at federal and state levels, increased toll usage, expanded user fees, or some other alternative revenue source, to put the program on a sustainable trajectory.”

Nabors Giblin & Nickerson, P.A. is bond counsel for the Garvee sale.

This marks the second consecutive year that Florida will have entered the bond market with a new transportation program as FDOT plans road projects to serve the third-most-populous state.. As of July 1, 2018, Florida had 21.3 million residents, according to the U.S. Census Bureau.

In 2018, the Florida Department of Transportation Financing Corp. sold its inaugural bond issue: a $170.1 million deal as the first of three tranches to finance a $500 million P3 project to convert two existing lanes on Interstates 95 and 595 in Broward County into express lanes.

According to the Federal Highway Administration, 26 states have issued Garvee bonds. Most of the deals were sold without a backstop.

Ohio was one of the first states to take advantage of the Federal Garvee Program introduced by the 1995 National Highway System Act, the FHA’s website says.

Louisiana also sold its first Garvee bonds in April, a $185 million of standalone deal as the first tranche of a $650 million financing plan. Although the program was authorized in 2002, state officials began planning to use the financing last year to fund several large targeted projects, some of which had been on the state’s books for nearly 30 years.