



Search: Forbes.com Quotes Video Web Blogs Advanced Go

INSIDE F Most Pop Top 10 Di Top 5 Co

- U.S. EUROPE ASIA HOME BUSINESS TECH MARKETS ENTREPRENEURS LEADERSHIP PERSONAL FINANCE FORBESLIFE Video Blogs E-mail Newsletters Org Chart Wiki People Tracker Portfolio Tracker Special Reports Widgets CEC

E-Mail | E-Mail Newsletters | RSS

ADVERTISEMENT

Associated Press



States worry over bonds backed by federal money

By TOM BREEN 09.11.08, 12:56 PM ET

Popular Videos

- Ironman COO Salad Days Of Gates And Zuckerberg Surviving Kidnapping YES/Forbes Sportsmoney: NFL Valuations Inside The Forbes 400

Most Popular Stories

- Power In Prison How To Lose An Empire-- Gracefully The Gatekeepers The Business Of Kidnapping Ten Easiest Cars To Bargain For

CHARLESTON, W.VA. - The bankruptcy of the federal highway trust fund halted road work around the country and sparked fears that state governments would be on the hook for billions of dollars in bonds they had planned to pay off with money from Washington.

While Congress works on a quick injection of \$8 billion to the fund, highway planners say that's only a temporary fix and that the whole system of funding road projects is structurally flawed.

"It's just a big mess," summed up Jack Basso, chief operating officer of the American Association of State Highway and Transportation Officials.

One of the things that has states worried is a type of bond called a Grant Anticipation Revenue Vehicle, universally known as a GARVEE.

These bonds became popular at the end of the last decade because they allowed states to start highway projects without having cash on hand and usually without having to raise gas taxes or put the bond question to the voters in a referendum.

But the bonds were issued with the idea that federal highway trust funds would always be there to cover the debt - and the federal

IBM advertisement: IBM can help financial institutions streamline infrastructure operating costs, free up capital to focus on growth. Start streamlining. IBM STOP TALKING START DOING

Make Forbes.com My Home Page

News by E-mail Get stories by E-Mail on

Topics

- AP Business Bond Economy Financial

Become a member FREE

Already a Member Log In

Enter Username

Enter E-Mail

Select Your Title

Receive Special Offers? [checked]

Sign Me Up!

FAQ | Terms, Conditions and Notices |

highway trust depends on gas tax revenues that have fallen dramatically as prices spike at the pump.

GARVEE bonds are issued by states and pledged against anticipated future federal transportation grants - in other words, states promise to pay back debt on the bonds with federal money they expect to receive.

During the past decade, the amount of money tied to GARVEE bond issues has grown from about \$1 billion to roughly \$18 billion, according to Basso. Today, 21 states and the Virgin Islands are using GARVEE bonds to finance projects, according to the Federal Highway Administration.

The federal government, though, has never guaranteed the bonds. Instead, bondholders have purchased them with the assumption that states can rely on annual grants from Washington.

"The whole promise of those bonds is the debt will be paid with federal dollars," said John Horsley, executive director of AASHTO. "When you lose the federal dollars, it puts states that have issued bonds in a terrible bind."

Last week's announcement that the trust fund was broke made some states pull back immediately from planned projects. Arkansas, Oklahoma and Arizona delayed plans to build a combined \$265 million worth of projects.

The Arkansas Highway and Transportation Department announced Monday it will postpone a \$24 million highway project in West Memphis.

The state has issued about \$575 million in GARVEE bonds, agency spokesman Randy Ort said, and its two annual payments on the bonds amount to roughly \$73.5 million a year. State officials do not relish having to find that money elsewhere in the budget.

"In Arkansas, like everywhere else, we are a cash flow agency," Ort said. "We don't sit on huge balances of cash."

Oklahoma officials delayed highway projects worth about \$83 million, and in Arizona six projects worth at least \$158 million have been put on hold.

GARVEE bonds are not the immediate spur to those decisions, which come from concerns about the federal government switching its highway payments from daily to weekly increments, and possibly reducing its share of projects from 80 percent of the cost to 70 percent.

State officials whose next GARVEE payments are months away are also counting on Congress to step in with an infusion of cash before the situation gets worse.

"It's not on the immediate horizon, so there's not a sense of panic," said Doug Nintzel, spokesman for the Department of Transportation in Arizona, where the next GARVEE payment of \$7.2 million isn't due until January.

Also available: [E-Mail Newsletters](#)

Mortgage Rates

Click product name to view rates in your area

PRODUCT	TODAY	LAST WEEK
30 Year Fixed	6.25%	6.25%
15 Year Fixed	5.77%	5.8%
1 Year ARM	6.14%	6.1%
30 Year Fixed Jumbo	7.30%	7.3%
5/1 ARM	5.58%	5.7%
3/1 ARM	6.28%	6.3%

[View more rates >>](#)

Rate data provided by [Bank](#)

Home Equity Loan Rates

Click product name to view rates in your area

ADVERTISEMENTS

"You have Yellow Teeth"

The Secrets Dentists don't want you to know Whitening!
www.best-teeth-whitening.com

The Most \$100K+ Jobs

Search 72,384 Jobs that pay over \$100,000
TheLadders.com.
www.TheLadders.com

Mortgage Rates Drop - Fed at 2%

\$200,000 loan for \$708/month. Free Quotes
Save \$1000s!
Mortgage.RefinanceFrontier.com

Your 2008 Credit Score

A good credit score is 700+. View yours online FREE.
www.CreditReportAmerica.com

College Degree Online

Get Your AA, BA, or BS at Nationally Ranked
100% Online
www.FloridaTechOnline.com

ADVERTISEMENT

Related Business Topics

[Starting A Small Business](#) [Small](#)

In [West Virginia](#), where GARVEE bonds are paying for a \$74 million project on U.S. Rte. 35, the next payment isn't due until March.

"If Congress doesn't take action, the potential is there to delay projects," state DOT spokesman Brent Walker said.

On Wednesday, the Senate approved a bailout of the fund, with the House of Representatives expected to follow suit as early as Thursday.

Even with enough cash to ride out the current storm, though, GARVEE bonds may be a leading reason why the current transportation funding system - which relies on the federal gas tax to replenish the trust fund - needs to be rethought.

"The system isn't just broke, it's broken," said Robert Puentes, a fellow at the Brookings Institution's Metropolitan Policy Program and the co-author of a 2005 study on GARVEE bonds.

As high gas prices drive down the amount of gasoline taxes collected - Americans drove 50 billion fewer miles between November 2007 and June 2008 than during the same period a year before - relying on those taxes to lard the trust fund, and on that trust fund as the revenue source for state bonds, may be untenable.

"The bank is busted and we're going to be living hand to mouth," said Joe Deneault, chairman of West Virginians for Better Transportation, which is advocating long-term solutions to road funding. "That's no way to plan highway projects."

Copyright 2008 Associated Press. All rights reserved. This material may not be published broadcast, rewritten, or redistributed

Your Rating 

Overall Rating 

Reader Comments

Posted by [MontyMoose](#) | 09/11/08 03:49 PM EDT

Folks! This is just a symptom of what is happening all over this country from the top down, There is only one answer and it is impossible. Give up on which party you support give up egos and take a [\[More\]](#)

[Report Abuse](#)

Posted by [tynasue](#) | 09/11/08 02:57 PM EDT

While our state of MI has continued to become more and more mired in debt due to the economic hard times, I see the same hitting every state of the union in some way. I also see many people leaving t [\[More\]](#)

[Report Abuse](#)

- [Content Management Software](#)
- [Email Marketing Software](#)
- [Project Management Software](#)
- [Acc](#)
- [eC](#)
- [Hel](#)

[>> Browse](#)

Trading Center

Brought to you by



ForbesAutos.com

ForbesTraveler.com



Investopedia.com



CEO Book Club

BOOK REVIEW
[The Waiter](#)

Posted by Slingo | 09/11/08 02:44 PM EDT

I think we need congress to get of thier duffs and start doing something. I always tried to remove poeple that were under 85%, we have a congress that has a 9% approval rating. We won't ever change [More]

Report Abuse

Read All Comments (5)

Post A Comment

Have a question? Ask our community of experts here.

More On This Topic

E-Mail Newsletters: Sign Up Now To Stay Informed On A Range Of Topics
Attaché: Customize Forbes.com Now To Track This Author And Industry

Article Controls

E-Mail | E-Mail Newsletters

del.icio.us | Digg It! | My Yahoo! | Share | RSS

Related Sections

Home > News & Analysis

Today On Forbes.com

Now What?

Joshua Zumbun and Brian Wingfield
Markets tank after bailout vote fails in House, throwing plans to shore up financial system into disarray.



- Fed Opens The Spigots
Complete Coverage: The Financial Crisis
Business In The Beltway



House Strikes Down Bailout, Wall Street



Big Banks Hunting, Regional Banks Hurting



CEOs In Crisis



Navigating The Meltdown

News Headlines | More From Forbes.com | Special Reports

Subscriptions >

Subscribe To Newsletters Subscriber Customer Service



BOOK REVIEW
The Waiter Reveals All
Krystle M. Davis
Yes, waiters will sometimes food.





**THE
VISA BUSINESS
NETWORK** BETA
on Facebook

Click to start connecting
with other businesses
(and over 80 million consumers).

VisaBusinessNetwork.com BUSINESS TAKES
VISA

[SITMAP](#) [HELP](#) [CONTACT US](#) [INVESTMENT NEWSLETTERS](#) [FORBES CONFERENCES](#) [FORBES MAGAZINES](#)

[Ad Information](#) [Forbes.com Mobile](#) [RSS](#)  [Reprints/Permissions](#) [Subscriber Services](#)
[Privacy Statement](#) [Terms, Conditions and Notices](#) [About Our Ads](#)
2008 Forbes.com LLC™ All Rights Reserved

Stock quotes are delayed at least 15 minutes for Nasdaq, at least 20 minutes for NYSE/AMEX. U.S. indexes are delayed at least 15 minutes with the exception of Nasdaq, Dow Jones Industrial Average and S&P 500 which are 2 minutes delayed.