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Bond Buyer
By Jim Watts

July Cutoff Ahead for Federal Highway Funds
DALLAS — The Transportation Department may have to begin rationing state highway grants in July as the Highway Trust Fund is expected to dip below the critical $4 billion mark by summer, a top DOT official told members of a subcommittee of the House Transportation and Infrastructure Committee on Wednesday.

Peter Rogoff, DOT's acting undersecretary for policy, said during a hearing of the subcommittee on highways and transit that the HTF's separate transit account would drop to $1 billion sometime in August. When the highway and transit accounts reach their low-level thresholds, Rogoff said, federal reimbursements for surface transportation projects may be reduced by 10% to 20%. Larger agencies with the capacity to absorb more severe reductions may not receive any reimbursements until the fund is stabilized.

"Absent action by Congress to replenish the [Highway] Trust Fund, USDOT will be required to implement cash management measures to preserve a positive balance in the trust fund and head off insolvency," Rogoff said. "If the trust fund were to become insolvent, hundreds of thousands of jobs across the nation could be at risk and our ability to address the many road, rail, and transit needs in every state will be severely impeded."

The delay in reimbursements may leave some highway projects uncompleted, Rogoff said, as "state highway departments realize they have to float the federal government for weeks or months" until the HTF is sufficiently healthy to permit 100% reimbursement again.

That would create "an untenable impact to transportation construction activity this summer," Rogoff said.

The highway account of the HTF contained $8.3 billion at the end of February, according to the DOT's website, with $3.3 billion remaining in the transit account.

The federal gasoline tax of 18.4 cents is expected to generate some $39 billion for the HTF in fiscal 2014, but expenditures for highway and transit projects will total $54 billion.

"Our underlying policies supporting our infrastructure investment programs require a system overhaul," Rogoff said.

The current two-year funding bill, Moving Ahead For Progress in the 21st Century, expires on Sept. 30, the end of fiscal 2014.

President Obama will provide Congress with details of his proposed four-year, $302 billion reauthorization of MAP-21 in April, Rogoff said. His proposed surface transportation infrastructure program would be funded in part with $150 billion from a reform of the corporate tax code, Rogoff said. The plan allocates $63 billion of the one-time tax revenues to propping up the HTF and $87 billion for the increased spending levels in the President's plan.

House Ways and Means Committee chairman Dave Camp, R-Mich. would redirect $126.5 billion to the HTF over eight years, also using revenues from corporate tax reform.

But Rep. Peter DeFazio, D-Ore., a member of the subcommittee, said he was skeptical about the viability of the separate transportation-related budget and tax reforms proposed by Obama and Camp.
"It's not going to happen," DeFazio said of the budget and tax reform plans.

Tying the gasoline tax to DOT's highway construction cost index would generate $150 billion over 10 years, which he said would be enough to support $100 billion of 10-year bonds to bolster the sagging HTF.

"I proposed that last year and it got shot down," DeFazio said.

An increase in the federal gasoline tax of 1.4 cents to 1.7 cents per gallon would generate sufficient revenues each year for transportation maintenance programs, he said.

"I wouldn't even notice that at the pump," DeFazio said.

The Obama administration is "open minded to any alternative" to the President's proposed funding method, Rogoff said.

His four-year transportation proposal provides a total of $199 billion for highway projects, a 22% increase over current spending.

Transit projects are allocated $72 billion over four years, including a total of $11 billion for new construction and $3.5 billion a year to reduce the backlog of deferred maintenance needs.

The proposal would fund the Transportation Infrastructure and Innovation Act loan program at $1 billion a year, the same as in fiscal 2014.

DOT's Funding for the Transportation Investment Generating Economic Recovery grant program would be expanded to $5 billion over four years in the President's proposal, and a new $4 billion competitive loan program, Fixing and Accelerating Surface Transportation, would be created.