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## Two Reports Detail Highway Trust Fund Problems, Alternatives

by [Lynn Hume](#)

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WASHINGTON — The gas tax would need to be raised to 31 cents from the current 18.3 cents per gallon in 2015 and increased thereafter in order for the Highway Trust Fund to keep up with projected transportation funding needs, without new revenue sources, Fitch Ratings said in a report released Monday.

The Fitch report, "Federal Highway Trust Fund Running on Fumes," also said that it is unlikely Congress will be able to agree on a long-term funding solution for transportation before the current two-year law, Moving Ahead for Progress in the 21st Century (MAP-21), expires on Sept. 30.

The Joint Committee on Taxation also released a report detailing the history of the HTF, its projected shortfalls, and alternative methods for funding transportation projects, including tax-exempt bonds.

The JCT report cites Congressional Budget Office estimates showing the highway account will only have \$2 billion in it at the start of fiscal 2015 on Oct. 1 and the transit account will have only \$1 billion. Transportation Department officials have said they will have to curtail reimbursements from the fund for highway projects when the cash balance in the highway account falls below \$4 billion.

The JCT also said that a total of \$9.85 billion of tax-exempt qualified highway or surface freight transfer facility bonds have been either issued or allocated for 18 transportation projects. President Obama has sent proposed transportation funding legislation to Congress that would increase the authorized amount of those bonds to \$19 billion from \$15 billion.

The two reports were issued before the Senate Finance Committee holds a hearing on highway and transit funding on Tuesday and the Senate Commerce, Science and Transportation Committee holds a hearing on the reauthorization of highway and transit funding on Wednesday.

In its report, Fitch said: "It is apparent additional revenue source(s) are needed just to maintain current transportation funding levels. Multiple potential revenue sources have been proposed and are currently being debated; however, it is unclear whether any of the potential solutions have garnered sufficient political support to provide a long-term funding solution."

The proposals include increasing the gas tax, implementing a vehicle miles traveled (VMT) fee system, and President Obama's proposal to allow tolling on interstates. "None of these proposals appear to have engendered the political support to create meaningful change by Sept. 30, Fitch said.

"Complicating matters under the current funding mechanics for the HTF regarding the federal gas tax is the significant increase in CAFE [corporate average fuel economy] requirements from current model year standards between 23 and 38 miles per gallon (mpg) depending on vehicle class to an average of 54.5 mpg across all cars and light trucks by 2025," Fitch said.

The rating agency estimates the standards will lead to an estimated 13% reduction of HTF receipts of gas tax revenues from passenger cars from today's levels by 2032, requiring even larger general fund subsidies to maintain the status quo.

Fitch said it believes current Garvee bonds "retain investment-grade characteristics largely because states have elected not to leverage federal funds to a critical degree." The rating agency said its ongoing discussions with state transportation officials "indicate that the flexibility states retain from their locally generated taxes and fees, though unpledged, would most likely be used to cover liquidity issues with respect to Garvee payments as a result of a disruption in federal funding."

Fitch currently rates stand-alone Garvee bonds, backed by HTF reimbursements, at A-plus and stand-alone transit Garvee bonds BBB, saying the current level of uncertainty

about the HTF "is not consistent with ratings in the AA category."

The Fitch report details how states have stepped up and found new ways to address transportation funding needs, such as instituting a dedicated sales tax for transportation projects and raising state transportation taxes. The JCT report also examines transportation funding alternatives, including public-private partnerships and tax-exempt, tax-credit, and direct-pay bonds.

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