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Moody's Lowers Garvees as HTF Evaporates

by [Jim Watts](#)

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DALLAS — Moody's Investors Service has lowered its ratings on \$8.5 billion of state and transit agency stand-alone grant anticipation revenue vehicle bonds supported by dwindling revenues from the Highway Trust Fund.

The downgrades, due to a lack of political willingness to shore up funding, were announced late Tuesday as the Senate was preparing to debate a fiscal 2015 budget bill that would freeze highway funding at 2014 levels. The measure would provide \$500 million for a transportation grant program - \$400 million more than the House legislation but far less than the \$1.15 billion requested for next year by President Obama.

Consideration of the S. 2438 appropriations bill is expected to take the rest of the week, according to a notice from the Senate Appropriations Committee, which approved the measure on June 5.

Moody's lowered by one notch a total of 26 Garvee bond issues supported solely by federal transportation aid, including 20 state tranches and six by transit agencies.

The downgrades did not affect Garvee bonds backed by other revenues in addition to the federal transportation grants.

Fifteen of the issues were downgraded to A2 from A1, with four lowered to A1 from Aa3 and seven to A3 from A2. All outlooks were revised to stable.

Alaska Railroad Corp. retained its A3 rating, which is already lower than most transit agencies rated by Moody's.

The downgrades of the stand-alone Garvees are the result of less revenue from the Highway Trust Fund, the rating agency said, as annual expenditures from the fund are billions of dollars more than the dedicated revenues from federal gasoline and diesel taxes.

The HTF's highway account had a cash balance of \$8.1 billion on May 30, the Transportation Department said. Reimbursements to states for ongoing projects are to be delayed or curtailed if the balance drops below \$4 billion, which DOT said will probably occur before the end of July.

Lawmakers have transferred almost \$60 billion to the HTF from the general fund since 2008. But they may be less inclined to keep bolstering it with general funds as the shortfall is projected to be between \$13 billion and \$20 billion a year over the next 10 years, Moody's said.

"The HTF structural imbalance is the result of political unwillingness to provide a sustainable source of long-term funding for federal transportation investments, Moody's said.

Fitch placed all stand-alone highway Garvees in the A category and stand-alone transit Garvees at BBB in 2012 when Congress passed the two-year Moving Ahead for Progress in the 21st Century funding bill. The ratings were reaffirmed in September 2013.

"The only way they will go lower is if the whole federal aid program is eliminated," Fitch analyst Scott Zuchorski said Tuesday.

Standard & Poor's said in a Feb. 3 report that state highway Garvees are protected from federal funding cuts.

"While reauthorization [of MAP-21] risk cannot be completely eliminated, it has been minimized through conservative financial structures inherent in all rated Garvee transactions, which have resulted in the relatively high ratings on these transactions," the report said.

A transportation advocacy campaign being unveiled by the American Road & Transportation Builders Association provides lawmakers with ways to explain transportation investments to their constituents, said ARTBA president Peter Ruane. "We're presenting facts in ways that families can talk about transportation issues around the dinner table so they can understand where their gas tax dollars are going and why," Ruane said.

Lawmakers will face hard decisions this summer, he said, with the Highway Trust Fund facing insolvency and the current highway bill set to expire at the end of fiscal 2014.

"They need to step-up to the plate and do what they all know is the right thing for their state and the nation-fix the Highway Trust Fund," Ruane said. "We're trying to help them."

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