

# Road Trust Almost Busts

U.S. Highway Trust Fund's uncertain future may mean detours for state finances and transportation infrastructure projects.

BY SEAN WERDLOW

THE U.S. HIGHWAY TRUST FUND (HTF) HAS ONCE AGAIN NARROWLY avoided a head-on collision with insolvency but continues speeding down a road that may ultimately leave state budgets and transportation infrastructure projects in the break-down lane.

The U.S. House of Representatives approved a \$10.8 billion plan in mid-July to keep HTF afloat through May

2015. The U.S. Senate is taking up a similar measure that is expected to pass soon and be signed by President Barack Obama. Without a major cash infusion, HTF will become insolvent in August, according to the Department of Transportation (DOT), which administers the fund.

Insolvency would have far-reaching negative consequences for state governments, which count on HTF to help pay for critical transportation infrastructure projects. Many projects already under way likely would be frozen, eliminating as many as 800,000 jobs, according to some estimates.

The primary source of HTF funding historically has been federal fuel taxes - currently 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel and other fuels. Over the years, however, fuel tax revenues have steadily declined commensurate with the rise in vehicle fuel efficiency and popularity of hybrid and electric vehicles. Motorists are buying less

gasoline and that means lower fuel-tax revenue.

Some say the obvious answer is to raise those taxes, which have not increased since 1993. They point out that, beyond declining revenues, the value of the money collected through fuel-tax levies has diminished over time due to inflation - 18.4 and 24.4 cents are not worth today

what they were 20 years ago. The reality is that higher fuel taxes are not in the cards any time soon given the fragile state of the economy, a Republican-controlled House of Representatives, and the looming mid-term elections.

With HTF on the brink of bankruptcy every year since 2008, Congress has rescued it with a series of last-minute, stop-gap funding schemes and transfers from the U.S. Treasury as lawmakers try to hammer out a permanent solution agreeable to both parties.

## Short-Term Fix, Long-Term Uncertainty

While the latest fix would stabilize HTF into the middle of 2015 with yet another general fund transfer, many state governments remain concerned about an uncertain future beyond that. Big-ticket roadway, bridge and transit projects are planned years in advance with the expectation that HTF money will help pay for them. Some projects may be put on-hold while others that already have begun could face significant funding shortfalls.

That, in turn, may force state governments to make difficult and unpopular choices: Cut budgets for other essential services such as public safety, education or social programs to make up the deficit in transportation projects, raise taxes, or both.

Some states also may scramble to find funds to cover the debt service on a specific type of borrowing for highway and transportation projects. Grant Anticipation Revenue Vehicles (GARVEEs) are debt instruments states use to raise money for approved highway projects when funding is anticipated from federal grants. Simply stated, GARVEEs enable states to borrow money now and repay lenders later with the anticipated HTF grants, allowing states to accelerate construction.

If HTF were to become insolvent or have its funding greatly reduced, states that issued GARVEEs may

not receive federal grants in the amounts they originally anticipated. That will require them to come up with money from other sources to meet debt service obligations and repay borrowers. Failure to do so may affect their credit ratings negatively and drive up the cost of future borrowing.

In June, Moody's Investors Service downgraded the ratings on 26 GARVEEs valued at \$8.5 billion. The downgrades affected 20

stand-alone GARVEEs backed solely by anticipated federal highway aid that do not have additional state-pledged funds to secure the bonds; the remaining six were secured solely by federal transit aid.

In its rationale for the downgrades, Moody's cited "a growing structural imbalance" in HTF, stagnant fuel-tax revenues, uncertainty over the "timing and magnitude" of U.S. general fund support, and a growing risk of payment interruption or reduction.

## Tolls on U.S. Consumers, Economy

The prospect of greatly reduced HTF grants to finance projects across the country also comes at a time when the need for U.S. infrastructure investment is perhaps as great as it ever has been. The American Society of Civil Engineers' (ASCE) most recent quadrennial report card on the state of the nation's infrastructure, issued in March 2013, gave our 4 million miles of roadways a grade of "D," which ASCE defines as "Poor-At Risk."

The ASCE said simply maintaining that D grade will require an annual investment of \$101 billion until 2028; improving it will take \$170 billion annually. Federal, state, and local governments currently spend \$91 billion annually.

The poor quality of U.S. roadways also has a destructive impact on consumers and the national economy. According to the ASCE, roadway conditions are a significant factor in approximately one-third of all U.S. traffic fatalities, which cost the American economy \$230 billion a year. Congested highways cost consumers and the economy \$101 billion annually in wasted time and fuel.

While there is no magic bullet that will solve HTF's financial problems overnight to everyone's satisfaction, it is imperative that the long-term issues affecting it be addressed quickly and forcefully. Temporary measures and unsustainable funding gimmicks serve only to keep HTF on the brink of insolvency and postpone the inevitable, while harming the U.S. economy and threatening municipal finances, jobs, and essential services across the nation.

It is time for elected leaders in Washington to put the pedal to the metal and deliver a long-term secure, reliable, and adequate funding mechanism that will allow HTF to carry out the mission for which it was created. Our nation's prosperity is literally riding on those roadways. *EW*

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