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Federal Funding Confusion Leads Moody's to Cut Highway Bonds.

Feb 18 (Reuters) - Uncertainty about the future of federal transportation funding has cast a shadow over many U.S. states' highway and transit agencies, and Moody's Investors Service on Tuesday downgraded the ratings of 16 municipal bond issues tied to U.S. road money.

Known as "GARVEES" for Grant Anticipation Revenue Vehicles, the bonds are repaid through federal transportation grants. The rating agency said it had decided to cut the scores of those GARVEES that rely solely on federal monies and lack cash-funded debt reserves or other structural protections against possible interruption to the flow of federal money.

"The downgrades reflect changes in federal liquidity management which increase the risk of interruption of timely payments of federal transportation aid due to states and transit entities," Moody's said in a statement. "These include the government's recurring episodes of threatened debt ceiling expirations, government shutdowns, and the threat of depletion of the highway trust fund balance later this year due to the fund's persistent structural imbalance."

The major funding bill for the nation's roads and bridges, commonly called the Highway Bill, is set to expire at the end of September.

While the Senate public works committee is aiming to finish drafting a new version by April, governors and mayors are worried the legislative process will drag out and tie up money for much-needed repairs.

The current authorization took three years to work its way through Congress before it was passed in 2012, and states had to rely on temporary funding measures that left them unable to commit to major projects.

Meanwhile, the federal account used for transportation, which is funded by a tax of 18.4 cents per gallon charged motorists at the pump, will likely go broke next year.

Moody's cut most of the ratings to A1 from Aa3. Those GARVEES were issued by agencies in California, Georgia, Idaho, Kentucky, Maine, Michigan, Montana, New Hampshire, North Carolina, Oklahoma, Rhode Island, Washington, West Virginia and Washington, D.C.

It also cut the ratings of GARVEES issued by Michigan as well as agencies in New Jersey to A2 from A1.

The agency did not say how much debt was affected.

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