Fitch: US Federal Gas Tax Holiday Would Accelerate HTF Shortfall Timeline

Fitch Ratings-San Francisco/Austin/New York-29 June 2022: President Biden's proposal to suspend the federal gas and diesel fuel taxes of 18.3 and 24.4 cents per gallon, respectively, through the end of September would likely move up the timeline for the Highway Trust Fund's (HTF) expected shortfall, Fitch Ratings says. Infrastructure Investment and Jobs Act (IIJA) funds would cover lost revenues in the short term, but the proposed gas tax holiday underscores the lack of stable revenues for the HTF, which is a key source of ongoing federal funding for transportation infrastructure. The proposal is meant to provide consumers relief from high gas prices, but faces significant political opposition in Congress.

Continued reliable and sufficient HTF funding underpins the ratings on standalone Grant Anticipation Revenue Vehicles (GARVEE) bonds, which are backed by future federal receipts from the HTF. HTF expenditures have outpaced revenues for decades, leaving it dependent on general fund transfers to remain solvent. HTF revenues come primarily from federal gas taxes, which have not been raised since 1993. A gas tax increase to address HTF deficits seems increasingly unlikely given high energy prices and expectations for slowing economic growth. Greater vehicle fuel efficiency has contributed to declining gas tax revenues, which also saw a material reduction at the height of the 2020 pandemic. The gas tax revenue recovery has been further hampered by reduced commuting due to work-from-home arrangements.

The latest Congressional Budget Office projections as of May 2022 indicate that HTF revenues will not meet the fund's obligations by the federal FYE 2027. The HTF is expected to have a huge positive net balance in 2022 given the $118 billion in committed funding from the IIJA (effectively a transfer from the general fund), which could help offset a temporary fuel tax holiday in the short term. Nevertheless, the suspension could bring forward the projected HTF shortfall given the magnitude of its deficit, unless funds were made available to offset the revenue reduction. HTF spending outpaced revenues by approximately 20% in 2021.

Fitch's rating case stress assumes a 37% average annual reduction in HTF outlays starting in fiscal 2028 in order to align with projected incoming gas tax revenues. The credit profile of outstanding GARVEEs reflects the assumption of the ongoing levy of the federal gas tax to cover obligations.

Biden has asked Congress to allocate other revenues to the HTF to compensate for the temporary loss of revenue, which the White House estimates to be $10 billion. A short-term fuel tax holiday is not viewed as a structural change to the underlying drivers of the GARVEE ratings, as long as the government continues to support transfers to the HTF. The GARVEE program would have a different risk profile if the fuel tax is paused for a longer period and the primary revenues backing GARVEE bond payments shift to other federal government revenue sources, which could affect standalone GARVEE bond ratings.

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