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Fitch: Most U.S. State Gas Tax Bonds To Remain Stable Amid Changing Fuel Landscape

Fitch Ratings-New York-08 June 2023: Ratings and Outlooks for most U.S. state transportation bonds backed by gas tax revenues will remain intact even as vehicle fuel efficiency improves and electric and hybrid vehicles' share of the market expands, according to Fitch Ratings in a new report.

"Improvements in fuel efficiency and the transition to electric vehicles threatens to accelerate weakening revenue growth prospects for state gas taxes over the long term," said Director Tammy Gamerman. "However, many state transportation bonds contain features that mitigate these concerns and enable the bonds to be highly rated."

Fitch currently rates 29 unique securities in 17 states that are fully or partially supported by state motor fuel taxes. Among these, 14 are rated 'AA+' while three Missouri securities have Fitch's highest rating of 'AAA'.

Amid flattening gas tax growth in many states and the prospects for outright declines as hybrid and electric vehicles (EVs) grab more of a foothold, most state gas tax bonds are likely to maintain credit rating stability. That said, securities with more dependence on fuel taxes and looser additional leverage requirements are more likely to see negative rating pressure over the medium term, particularly in states with weaker economic growth.

Motor fuel taxes are a key source of transportation funding, and regardless of a state's exposure to rating actions on transportation bonds, all states will need to explore alternative sources to address unmet long-term infrastructure liabilities.

"The Road Ahead for State Gas Taxes and Transportation Bonds" is available at www.fitchratings.com.

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