## MPOAC Revenue Study Options

<table>
<thead>
<tr>
<th>Revenue Option</th>
<th>8 yr Total ($millions)</th>
<th>Annual Average ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 Cent Fuel Tax Increase per Year – 5 Years (10 cents) Indexed - State</td>
<td>6,424</td>
<td>803</td>
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<tr>
<td>2 Index All Fuel Taxes not Currently Indexed - Local</td>
<td>918</td>
<td>115</td>
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<tr>
<td>3 1 Cent Municipal Optional Sales Tax- Local</td>
<td>6,637</td>
<td>830</td>
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<td>4 VMT Study</td>
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<tr>
<td>5 5 Cent Local Diesel Tax - Local</td>
<td>576</td>
<td>72</td>
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<tr>
<td>6 Return MVL, Reg., Title increases to STTF (From GR to STTF)</td>
<td>3,301</td>
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<tr>
<td>7 State Sales Tax@ 6% in Lieu of Fuel Taxes, w/ floor - State</td>
<td>1,087</td>
<td>136</td>
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<tr>
<td>8 Toll Rate Making</td>
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<tr>
<td>9 Regional Trans Financing Authority @ $100mill/ yr</td>
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<td>10 Sales Tax on Motor Vehicle Parts &amp; Services (From GR to STTF)</td>
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<td>11 Sales Tax BEV to STTF (From GR to STTF)</td>
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<td>12 County $10 Reg. Fee - Local</td>
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<tr>
<td>13 Alt. Fuel Decal Expansion - State</td>
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<tr>
<td>14 $100 mill in New Toll Projects</td>
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</tr>
</tbody>
</table>
2 Cent Fuel Tax Increase per Year for 5 Years (10 cents) Indexed for Inflation

**Recommendation:** Increase the state motor fuel sales tax by 10 cents: 2 cents per year for 5 years – Indexed.

**Rationale:** Implementation would raise the State Highway Fuels Sales Tax from the current rate of 12.6 cents per gallon by 2 cents per year for each of the next five years for a total 10 cent increase. This tax is currently adjusted annually by the Consumer Price Index (CPI), as is the State Comprehensive Enhanced Transportation System (SCETS) Tax, which is currently at 6.9 cents per gallon. Additional forecast revenues of approximately $183 million in 2013, growing to $1.177 billion in 2020, would be generated for the State Transportation Trust Fund (STTF).

**Discussion:** A significant increase in fuel taxes is necessary to restore transportation funding to a level needed to meet basic transportation funding requirements. This fuel tax increase is needed to offset the continuing decline in fuel tax revenue collections, when measured in relation to the amount of vehicle miles traveled (VMT). This decline is the result of significantly improved motor vehicle fuel efficiencies that have occurred since the existing fuel tax base rates were established in 1991 and expected additional future fuel efficiency improvements due to fleet turnover (scrapping less efficient older vehicles and substituting more efficient new vehicles), additional auto industry technology improvements and pending federal fuel efficiency standards that have been agreed to by the auto industry. With the exception of inflation indexing, the base fuel tax rate was last adjusted in 1991. When measured per VMT, the recommended 10 cents fuel tax increase can be justified solely to restore revenues lost due to improved fuel efficiencies from 1991 through 2020.

While motor fuel sales taxes are indeed a tax, they are also in the general sense a “user fee.” Motorists pay these taxes on the fuel they use while driving on the State’s roads and highways.

Ultimately, Florida and the rest of the nation will likely migrate away from motor fuel taxes as a means for raising transportation revenues to a more precise user fee that is based on VMT. Of the various existing transportation revenue sources, motor fuel sales taxes most closely replicate the VMT user fee concept with the difference being that motor fuel taxes are affected by vehicle fuel efficiency and vehicle miles traveled, while VMT user fees are based solely on the number of vehicle miles traveled. Accordingly, adjusting the fuel sales tax appears to be an equitable interim method to restore revenues to meet transportation funding needs.
In recognition of the challenging economic times and to give motorists an opportunity to adjust to the higher tax rate, it was determined that the 10 cents fuel tax increase should be phased in with increments of two (2) cents per gallon per year over five (5) years.

The State of Florida currently assesses two highway motor fuel taxes, the Highway Fuels Sales Tax (12.6 cents per gallon effective January 1, 2012) and the SCETS Tax (6.9 cents per gallon effective January 1, 2012). The revenues derived from these respective taxes are allocated to FDOT Districts using differing statutory formulas. Both the enactment of the SCETS Tax and the current indexing provisions for both taxes were established in 1991.

Both taxes, which are indexed to inflation (Consumer Price Index – Urban), are adjusted each January 1 in accordance with statutory formula. Thus, annual increases in the tax rates generally offset inflationary cost increases in operating, maintaining and constructing transportation infrastructure and facilities.

However, significant motor vehicle fuel efficiency increases have resulted in corresponding declines in the amount of fuel consumed per VMT and, consequently, in the amount of fuel tax revenues collected per VMT.

While not the sole measure of transportation funding needs, VMT is used as a reliable benchmark. As more vehicle miles are traveled on the State highways, funding needs for maintenance and rehabilitation increase as does the need to build additional lane miles of highway capacity and new roadway alignments to accommodate growing traffic demand.

The average fuel efficiency of vehicles has increased nearly 40% since 1991, from 16.4 miles per gallon (MPG) in 1991 to 22.7 MPG today. Stated another way, in order to drive 10,000 miles, the average motorist today uses 170 fewer gallons of motor fuel (440 gallons) when compared to the average motorist in 1991 (610 gallons), thus the State collects less in fuel taxes.

The current State’s Revenue Estimating Conference (REC) assumes that fuel efficiencies will increase an additional 10% to 24.4 MPG during the current decade. Further, the pending federal fuel efficiency standards, if adopted, could increase fuel efficiencies to nearly 28 MPG by the year 2020, reducing fuel consumption further. By 2020, motor vehicle fuel efficiencies could increase by as much as 70% over the levels that existed in 1991 when the base (non-inflation adjusted) tax rates were established for the Motor Fuels Sales and SCETS taxes. Should these additional fuel efficiency improvements materialize, fuel taxes would need to be increased by 11.5 cents per gallon in order to restore the 1991 VMT funding levels from this transportation revenue source.

The trend towards more fuel efficient vehicles is accelerating. According to the Ward's Auto Fuel-Economy Index, U.S. new light vehicles achieved record fuel-efficiency in March, 2012. Cars and light trucks sold in the month had a combined 24.1 mpg rating, a 1% improvement on the record set in February and a 6% increase over March 2011. Small car sales now account for 20.9% of new light vehicle sales. This recent acceleration in the purchase of more fuel efficient vehicles will likely reduce fuel tax collections from the levels currently projected by the State REC, resulting in less transportation funding at state and local levels.
It is anticipated that Florida and the rest of the nation will ultimately migrate to a transportation revenue collection system that is based in part or entirely on a VMT charge in lieu of assessing fuel taxes. However, this migration will likely require many years and additional technology improvements to ensure reliability, reduce administrative and collection costs and overcome privacy concerns. Thus, the increase in fuel taxes would be considered as an interim, general user-fee tax measure to pay for transportation costs until such time as a more precise VMT user-fee process is implemented.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: Increase state motor fuel sales tax by 10 cents: 2 cents per year for 5 years – inflation indexed

8 Year Total: $6,424 million
Annual Average: $803 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
Index All State & Local Fuel Taxes not Currently Indexed

**Recommendation:** Index State Fuel Excise Taxes for Local Use & Local Option Gas Taxes.

**Rationale:** In addition to the State taxes mentioned above, there are myriad local option taxes levied on a per gallon basis as well as the Constitutional Fuel Tax (2 cents per gallon), County Fuel Tax (1 cent per gallon) and the Municipal Fuel Tax (1 cent per gallon). The Constitutional, County and Municipal taxes are all collected by the State for distribution to local governments. None of these or the local option fuel taxes are indexed to the Consumer Price Index (CPI). This option would index them on the same basis as the State Fuel Sales Tax and the SCETS, providing local governments with the same inflation hedge enjoyed by the State Transportation Trust Fund (STTF), and generate an approximate $115 million annually for investment in transportation infrastructure. Some of these user fees have not been adjusted since the 1940s.

**Discussion:** State motor fuel taxes for State use are currently indexed annually to compensate for increases in the general Consumer Price Index (CPI – All). However, State motor fuel taxes collected for local use and local option fuel taxes are not indexed. Thus, the purchasing power of local fuel tax revenues is reduced over time due to the effects of inflation. Nearly one-third of all counties currently assess the maximum local option tax rates and, therefore, can no longer increase their tax to compensate for inflation-driven higher transportation costs. Indexing the fuel tax revenues that are used by local governments will partially offset expected declines in their real dollar value in future years. (Although future vehicle fuel efficiency increases would continue to reduce local government fuel tax revenue collections, when measured in relation to the amount of vehicle miles traveled (VMT), due to less fuel consumption and fuel taxes collected per vehicle miles traveled.)

**State Fuel Taxes for Local Use –** Fuel excise taxes totaling 4 cents/gallon are distributed to local governments. Two cents of this tax, called the Constitutional Fuel Tax, is levied under s. 9(c)(4) of Article XII of the revised State Constitution of 1968, which also contains its distribution formula. The first call on the proceeds is to meet debt service requirements, if any, on local bond issues backed by the tax proceeds. The balance, called the 20 percent surplus and the 80 percent surplus, is credited to the counties' transportation trust funds. The third cent is the County Fuel Tax. It is levied under s. 206.41, F.S. and distributed by the same formula as the Constitutional Fuel Tax. The fourth cent, the Municipal Fuel Tax, is also levied under s. 206.41, F.S. Revenues from this tax are transferred into the Revenue Sharing Trust Fund.
for Municipalities, joined with other non-transportation revenues, and distributed in accordance with criteria contained in Chapter 218, F.S.

**Local option Tax Rates** – Two local option fuel taxes are authorized under s. 206.41, F.S. These are the “Ninth-Cent Fuel Tax” and the “One Cent to Eleven Cents Local Option Fuel Tax.”

The one penny “Ninth-Cent Fuel Tax,” which is so named because it was in addition to the 8 cents in state fuel taxes in place when adopted in 1972, may be imposed by each county on motor fuel. Counties may impose this tax by extraordinary vote of the board of commissioners, and the proceeds may be shared with cities in whatever proportion agreed upon. Presently, 51 counties have implemented the Ninth-Cent Fuel Tax on gasoline and gasohol. The diesel tax rate is set in statute at 1 cent per gallon for all 67 counties.

The One Cent to Eleven Cents Local Option Fuel Tax, which was originally set at a maximum of six cents per gallon, was later increased to eleven cents. Beginning in 1985, up to six cents could be levied at the option of a county's governing body for a maximum period of 30 years with proceeds required to be shared with municipalities. This tax may be imposed by a majority vote of the board of county commissioners or a countywide referendum initiated by either the county commission or municipalities representing more than 50% of the county's population. In 1993, the Legislature authorized an additional five cents Local Option Fuel Tax for which an extraordinary vote of the county commission or a countywide referendum initiated by the commission is required.

As with the Ninth-Cent Fuel Tax, in 1990 the Legislature chose to equalize the Local Option Fuel Tax on diesel fuel, reaching 6 cents per gallon on January 1, 1993. However, the 1993 five cent increase to the local option tax was applied to motor fuels only and not to diesel fuel.

As of 2011, 20 counties impose the maximum of 12 cents per gallon in local option taxes, 29 counties impose between 7 and 11 cents, 15 counties impose 6 cents and one county (Franklin) imposes 5 cents. The 2011 statewide average local option tax on gasoline and gasohol is 9.6 cents per gallon. However, since the five cent increase was limited only to motor fuels, the tax rate for diesel remains standard in all counties at 7 cents per gallon.

None of the local fuel tax sources are indexed to inflation (Consumer Price Index – Urban). Thus, unlike State motor fuel taxes, the annual inflationary cost increases in operating, maintaining and constructing transportation infrastructure and facilities are not generally offset through annual inflation adjusted tax rates.

Even with the application of an indexing provision, local fuel tax revenue sources will experience significant purchasing power erosion since rates were last adjusted in state law.

Local use fuel tax rates were last increased 19 years ago, in 1993, when the Legislature authorized the additional 1 to 5 cents local option tax on gasoline fuels only. Since 1993, general inflation has increased costs by 58% through February 2012. The purchasing power value of each dollar of local use fuel tax collected has decline to $0.63 in present day dollars.
Local Use Fuel Tax Rates
Lost Purchasing Power Since 1993 Due to Inflation &
Rate Increases Needed to Restore Original Purchasing Power

<table>
<thead>
<tr>
<th>Tax/Fee</th>
<th>Tax Rate In Cents Per Gallon</th>
<th>Years Since Last Rate Increase</th>
<th>Inflation Adjusted Purchasing Power of $1.00 Today</th>
<th>To Restore 1993 Purchasing Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Option Fuel Taxes</td>
<td>12.0</td>
<td></td>
<td>58%</td>
<td>7.9 2.9</td>
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<tr>
<td>State Fuel Excise Taxes for Local Use</td>
<td>4.0</td>
<td></td>
<td>58%</td>
<td>12.7 6.7</td>
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<tr>
<td>Combined</td>
<td>16.0</td>
<td>19</td>
<td>$0.63</td>
<td>58% 20.6 9.6</td>
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</table>

Fuel tax rates for local use were last adjusted in 1993 when an additional 5 cents local option motor fuel tax was authorized. This table displays the inflation adjusted purchasing power of fuel tax collections in present day dollars and the tax rate increases that would be required to restore these taxes to their 1993 purchasing power levels. Inflation and purchasing power are calculated using the February 2012 CPI Index Level of 227.7 & the 1993 CPI Average Annual Level of 144.5.

An increase of approximately 9.6 cents per gallon in local use fuel tax rates would be needed to restore the purchasing power value to 1993 levels.

In addition to lost purchasing power due to the effects of inflation, significant motor vehicle fuel efficiency increases have resulted in significant declines in the amount of fuel consumed per Vehicle Mile Traveled (VMT) and consequently in the amount of local government fuel tax revenues received per VMT.

The average fuel efficiency of vehicles has increased nearly 40% since 1991, from 16.4 miles per gallon (MPG) in 1991 to 22.7 MPG today. Based on current assumptions of the State’s Revenue Estimating Conference (REC), fuel efficiencies will increase an additional 10% to 24.4 MPG during the current decade.

While not the sole measure of transportation funding needs, VMT can be used as a reliable general benchmark. As more vehicle miles are traveled on the State highways, the funding needs for maintenance and rehabilitation increase as do the needs to build additional lane miles of highway capacity and new roadway alignments to accommodate this growing traffic demand.

It is anticipated that Florida and the rest of the nation will ultimately migrate to a transportation revenue collection system that is based in part or entirely on VMT charges in lieu of assessing fuel taxes. However, this migration will likely require many years and additional technology improvements to ensure reliability, reduce administrative and collection costs and overcome privacy concerns.

The indexing of local use fuel taxes should be considered as a minimal interim tax measure in order to partially offset real dollar revenue losses used to pay for transportation costs until such time as a more precise VMT user-fee process is implemented.
MPOAC Revenue Study

Estimated Revenue Yields*

Revenue Option: Index Local Option Fuel Taxes
(9th Cent & 1¢ - 11¢ Local Option Taxes)

8 Year Total: $619 million
Annual Average: $77 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: Index State Fuel Excise Taxes for Local Use
(2¢ Constitutional, 1¢ County & 1¢ Municipal)

8 Year Total: $299 million
Annual Average: $37 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
**1 Cent Municipal Optional Sales Tax**

**Recommendation:** Allow cities and consortiums of cities over 150,000 or the largest municipality in a county to impose up to a one cent local option sales surtax (not to exceed one cent city & charter county tax combined).

**Rationale:** Under current Florida Statute, Charter Counties and those included in a Regional Transportation Authority district may elect to impose a one percent sales tax on items up to $5,000 with revenues being available for transportation uses. This option would extend that flexibility to cities with a population of 150,000 or more but could not be duplicative of any County transportation sales tax. For example, today Miami-Dade County voters approved a one-half percent sales tax. If the City of Miami wanted to put this in place, it would be limited to an additional one-half percent. In counties without a city of a population of 150,000, the option would be available to the largest municipality in that county based on the latest available census. If fully implemented, it could generate approximately $830 million to cities in total.

**Discussion:** An optional municipal sales tax for transportation would give the residents of municipalities the ability to approve tax increases for urban transportation solutions that lack the support of suburban and rural residents who reside in unincorporated areas.

Municipal transportation needs sometimes differ from those of unincorporated county areas. Large municipalities often identify transit options as the most viable solution to growing urban transportation needs, whereas unincorporated suburban and rural areas more frequently identify road and highway improvements as the transportation priority. As a result of these differing perceptions of transportation needs, countywide referendums that propose urban transit solutions face a greater risk of voter opposition than if the referendum were limited to the urban municipalities. For example, in 2011 a one half percent sales tax referendum in Hillsborough County that designated 75% of the proceeds to be used for light rail and other urban transit projects and 25% for road and highway improvements was defeated, while it was supported by a majority of residents within the City of Tampa.
Estimates of revenue generated should be considered as an approximation due to limited available data on the level of sale taxes within each county that is attributable to sales within the municipal boundaries. Sales tax revenues can vary significantly in counties depending upon where a majority of sales taxes are collected. For example, unincorporated Orange County is much higher than Orlando due to sales tax collections at amusement centers, while the City of Tallahassee appears to have a higher per capital sales tax collection rate than the surrounding county. Residents from unincorporated areas would be subject to the tax when making purchases within municipal boundaries. While the assessment of a different sales tax rate within a city and the surrounding county may result in some changes in purchasing behaviors, the impact should not be material due to the small incremental difference.

It is proposed that the sum of this municipal surtax and a charter county surtax would not exceed 1 percent in total. For example, currently Miami-Dade and Jacksonville-Duval Counties assess a ½ percent charter county surtax. Thus, any tax imposed by a city within these counties would be limited to an additional ½ percent. This recommendation also assumes the current limitation of surtaxes of up to $5,000 on purchases would be retained.

Based on the 2010 Census, 69 municipalities would qualify for the local option municipal sales tax surcharge; 11 municipalities with populations in excess of 150,000 and in the largest municipality in 58 counties which do not have a city with a population of 150,000 or more. There are two municipalities with populations greater than 150,000 in both Miami-Dade County (Miami, Hialeah) and Broward County (Ft. Lauderdale, Pembroke Pines). In addition, it is proposed that municipalities within a county could form consortiums to propose jointly a municipal sales tax surcharge either with an existing eligible municipality or if their combined population exceeds the 150,000 threshold.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: One Cent Local Option Municipal Sales Tax

8 Year Total: $6,637 million (maximum)
Annual Average: $830 million (maximum)

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
**Vehicle Miles Traveled Study (VMT)**

**Recommendation:** VMT Study – Develop a “User-Fee Business Plan” to guide the implementation of a mileage based transportation funding mechanism.

**Rationale:** This recommendation is to have the Legislature commission and fund an extensive effort to deal with the systemic issues of fuel taxes becoming less sustainable as a primary surrogate for a transportation user fee. While fuel taxes served as an adequate substitute for a true user fee for decades, significant increases in mandated vehicle fuel efficiency and the introduction of all electric (BEV) and plug-in hybrid vehicles (PIH) is eroding transportation revenues.

It is recognized that there are significant concerns over the concept of charging highway system users based on each mile traveled. These include privacy of citizens, the cost of implementing such a system and institutional issues associated with revenue sharing. This effort is intended to address these issues at a minimum, deploy a demonstration of the concept and develop a business plan and implementation roadmap to move Florida to a VMT-based system.

**Discussion:** Vehicle miles traveled (VMT) charges are considered by many economists to be the fairest and most equitable method of paying for transportation services, since the payment (a charge per vehicle mile traveled) is directly matched to the benefit (miles traveled on the transportation system). Further, the current system of revenue collection for transportation purposes is no longer viable as a stable source of generating revenues commensurate with the cost of providing transportation services and improvements.

As one of the Sunbelt States, Florida has experienced fairly recent and rapid growth in its population and even faster VMT growth, much of which occurred after the original Interstate Highway System network was established. This has placed continuous pressure on Florida’s elected officials to find revenue sources and develop financing strategies to accommodate ever increasing transportation demand levels.

VMT reflects the demand for transportation capacity and, as such, is a reasonable high-level indicator of statewide changes in demand for transportation funding. As VMT increases, the State must either invest more in transportation resources to increase capacity to accommodate this increased demand, implement traffic management techniques or accept the economic and social consequences of degraded transportation services.
Transportation revenues have experienced a significant deterioration in purchasing power and in their ability to meet on-going needs due to motor vehicle efficiency improvements and higher motor fuel prices, which encourage the migration to more efficient, lighter-weight vehicles.

These trends are expected to accelerate in the future with the continued erosion of purchasing power from non-inflation adjusted revenue sources, the adoption of additional motor vehicle efficiency technologies and lighter weight materials, and the greater acceptance of alternative fuel vehicles such as compressed natural gas (CNG) primarily in fleet-ownership; liquid natural gas (LNG) for long haul trucking in lieu of diesel fuel; and, both plug-in hybrids (PHEV) and eventually all electric or battery electric vehicles (BEV) that utilize centrally generated electricity in lieu of motor fuels for all or a portion of their vehicle miles traveled fuel needs.

As stated in a recent report prepared by The Reason Foundation:

“Legislators should become familiar with the emerging “managed lanes network” in Southeast Florida, being developed incrementally by FDOT, MDX and FTE. Details of how this network should be governed and managed are under study, thanks to a Federal Highway Administration grant, under its Value Pricing Program, to FDOT District 6. Such networks offer great potential for congestion relief and region-wide express-bus/bus rapid transit in urban areas, and may be worth considering for Florida’s other large urban areas in coming years. Managed lanes and urban toll expressways should be considered building blocks toward future highway finance based largely on miles traveled, rather than fuel consumed, as the fuel tax declines as a sustainable funding source.”

Deficiencies With Current Transportation Tax Revenue Collection System – As is discussed throughout this report, transportation revenues from Florida’s existing tax and fee collection...
systems are failing to keep pace with increased costs and increased infrastructure needs. Furthermore, current trends point to the acceleration of these trends.

Over 60 percent of State transportation revenues are derived from taxes on motor fuels. However, as vehicles become more efficient, less fuel is consumed and less fuel taxes are collected. The fuel efficiency of Florida’s motor vehicle fleet has increased 28% over the past 2 decades as the result of such things as ongoing advances in vehicle aerodynamics, internal combustion engine technologies, rolling resistance of tires, use of lighter weight materials and the development of hybrid vehicles.

The various motor vehicle-related fees and taxes are not indexed to offset the effects of inflation, thus, the purchasing power of these revenue sources declines over time. Further, since motor vehicle license (MVL) fees are primarily weight-based fees, the trend towards lighter weight vehicles will result in declining revenues from this source unless current schedules are altered.

These trends are expected to accelerate in the future with continued efficiency advances in new vehicles, as today’s older less efficient vehicles are replaced by these more efficient new vehicles and with the expected transition to vehicles that operate on alternative fuels, such as partially electric (plug-in hybrids) all electric (BEVs) and compressed natural gas.

The proposed changes to the federal fuel efficiency standards that would require fleet vehicle efficiencies to average 53.5 MPG on vehicles sold by 2025 could potentially double existing vehicle fuel efficiencies over time, cutting in half the fuel tax revenues collected per vehicle mile traveled.

Equity and Fairness – Florida’s existing transportation tax and fee structure generally follows a “user-benefit” concept in that the most transportation revenues are paid by motorists through taxes on motor fuels or various fees related to the purchase and registration of motor vehicles. While this structure is equitable in the general sense that the costs of transportation are paid for by transportation-related taxes and fees, it is less equitable from the standpoint of each individual user. For example, an individual who drives a highly efficient vehicle will consume less fuel per mile traveled and, accordingly, contribute less in fuel taxes to pay for transportation costs.

While such an outcome may be considered appropriate public policy from the standpoint of encouraging reduced fuel consumption through marginally increasing the cost of fuel for inefficient vehicles, it is not as equitable as is a VMT system from a user-benefit standpoint, where both motorists would pay the same amount for using the State’s roads and highways. These inequities may also have social considerations. While new vehicles generally provide greater fuel efficiencies, many low income individuals by necessity own older vehicles that are less fuel efficient and, thus, more costly to operate.

Existing Florida VMT-Like Revenue Collection Systems (Tolls & Managed Lanes) - Florida currently operates two modes of transportation revenue collection that are in essence VMT pricing systems:
• Toll collection, where the motorist pays for the cost of the roadway based primarily on distance traveled and frequency of usage
• Interstate Highway System managed lanes, such as I-95 in South Florida, where variable per-mile fees are charged based on the level of traffic congestion on “non-tolled” lanes.

Due to Florida’s extensive system of toll facilities and its leadership role in managed lanes Florida motorists have acquired a level of acceptance with mileage-based transportation fees.

Transportation Revenues From Tolls and Managed Lanes – VMT Tolling has proven to be a viable means of generating transportation revenues. The State’s toll agencies currently collect in excess of $1.2 billion annually, an amount that is equivalent to the revenue that would be collected from nearly 13 cents in motor fuel sales taxes. In fact, toll revenues and toll backed revenue bonds have contributed significantly in addressing the State’s transportation infrastructure needs, helping to partially offset the existing deficiencies in the current transportation revenue collection system. Revenues collected from VMT-like tolled and managed lane facilities have grown more rapidly that other state transportation revenue sources.

Toll collections are tied to vehicle miles traveled and toll rates are frequently adjusted in line with increases in inflation. VMT-like tolls have generally out-performed fuel tax collections and vehicle licenses and fees in keeping up with the State’s transportation revenue needs.

In fact, toll revenue collections have exceeded the combined effects of VMT growth and inflation and have played an important role in partially offsetting the inability of fuel taxes and license fees to keep up with growing transportation needs and higher costs.
Based on the State’s experience to date with VMT-like toll revenue collection, it would appear that the migration towards a broader VMT revenue collection system would be warranted, particularly one that is indexed to accommodate inflationary price increases.

According to REC, motor fuel tax collections are projected to significantly underperform the expected growth in future vehicle miles traveled as Florida’s economy recovers and as motorists adjust to higher fuel prices by purchasing more efficient vehicles.

All Electronic Toll Collection (AET) - Florida’s toll agencies have taken a leadership role in converting their facilities from using traditional toll collection methods to AET. As a result of this process, many of the disadvantages of collecting revenue based on a per vehicle mile traveled basis are eliminated. Under AET, toll booths are not used to collect tolls. In lieu of toll booths, the motorist’s system usage and corresponding toll charge data are collected either electronically via transponders or through video photos of vehicle license plates. Revenue is collected from customers via monthly billings, credit card charges or replenished accounts. AET provides the motorist with a travel experience on a tolled facility identical to that on a non-tolled highway.

Many of the public policy, administrative and enforcement issues related to electronic and video collection methods are similar to those issues that the State must address in implementing a more comprehensive VMT revenue collection system statewide. Since these issues have in good part been evaluated, debated and codified into State Statute, this transition from traditional toll collection to AET should in many ways serve as stepping stones towards toward the adoption of a VMT revenue collection system in some broader form. Florida in
many respects may have a head start in developing a statewide VMT revenue collection system and in working through the many public policy considerations that such a system entails.

**Implementation Planning** – An ultimate VMT revenue collection methodology will likely be national in scope and may take many years to implement. However, the transition to VMT charges also will likely be incremental in nature as each State addresses various public policy issues related to privacy concerns, costs of administration and public acceptance. Further, each state will need to develop state specific policies in a number of areas, such as the distribution of funds between State and local governments and transportation agencies; congestion management pricing alternatives; establishing rate structures for various vehicle types and weights and for various transportation systems and facilities; establishing appropriate inflationary cost rate adjustment mechanisms; ensuring efficient administration and overhead processes; revenue collection enforcement measures; and, other considerations.

**Approximate VMT Rates** – The REC projects motorists will travel approximately 200 billion miles on Florida’s highways, roads and streets in fiscal year 2012-13. Therefore, a one cent per mile VMT charge, if assessed on all vehicle miles traveled in the State, would generate $2 billion. State transportation revenue collections from all sources for FY 2012-13 is projected to total $2.78 billion, with revenues for state motor fuel taxes equal to $1.79 billion. Thus, if applied to all vehicle travel, a VMT charge of 1.39 cents per mile would be needed to substitute for all current revenue sources, and a charge of 0.89 cents per mile would be required to offset motor fuel tax collections. A VMT charge of roughly 2 cents per mile would be equal to the sum of all state transportation revenues and all local highway fuel taxes. As with current fuel tax rates, the annual VMT rate would need to be indexed to preserve future purchasing power.

<table>
<thead>
<tr>
<th>Equivalent Per-Mile VMT Rates</th>
<th>Rates Needed In Lieu of Existing Revenue Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012-13</td>
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<tr>
<td>Total Florida VMT (In millions of miles traveled)</td>
<td>200,728</td>
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<tr>
<td>Total Gross Revenue From $0.01 Per Mile VMT Rate ($ Millions)</td>
<td>$2,007.3</td>
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<td>A. Total State Transportation Tax Revenue to STTF - All Sources</td>
<td>$2,780.1</td>
</tr>
<tr>
<td>Equivalent Per-Mile VMT Rate</td>
<td>$0.014</td>
</tr>
<tr>
<td>B. Motor Fuel Taxes Only to STTF</td>
<td>$1,789.1</td>
</tr>
<tr>
<td>Equivalent Per-Mile VMT Rate</td>
<td>$0.009</td>
</tr>
<tr>
<td>C. Total Local Motor Fuel Taxes - estimated*</td>
<td>$1,132.7</td>
</tr>
<tr>
<td>Equivalent Per-Mile VMT Rate</td>
<td>$0.006</td>
</tr>
</tbody>
</table>

* "Total Local Motor Fuel Taxes" includes the four cents Constitutional, County and Municipal fuel taxes assessed by the State and distributed to local governments.

It is recommended that the legislature authorize and appropriate funds in order to study, evaluate and develop a business plan for the implementation of a VMT based transportation
revenue collection system for the State of Florida, overseen by the appropriate State entity and utilizing appropriate professional expertise.

The State’s current VMT-like activities, as well as prospective approaches for statewide implementation, should be evaluated with the objective of developing a business plan to guide in the implementation of mileage based transportation funding mechanism(s) within the State.
5 Cent Local Diesel Tax

**Recommendation:** Increase the local diesel fuel tax by 5 cents per gallon, to be applied equally in all counties consistent with the International Fuel Tax Agreement and to encourage economic development and enhance commercial traffic for the purpose of investments in projects.

**Rationale:** Local option tax rates are fixed in State Law to ensure diesel fuel tax rate consistency among counties for purposes of administering the provisions of the International Fuel Tax Agreement. The local option diesel tax rates are currently 7 cents per gallon, while the statewide average for local option gasoline taxes has risen to 9.6 cents per gallon. There has long been recognition that a higher rate per gallon on diesel fuel is appropriate as the major users of the fuel are heavy trucks. For example, the federal gasoline tax is 18.4 cents per gallon and 24.4 cents for diesel because of the distinction in the demands placed on the highway system by heavy trucks versus light duty vehicles. This option would establish an additional five cent diesel fuel tax in each county, and the revenues would be required to be expended on projects that serve or enhance commercial highway traffic. This dedicated local source of funding could be used to encourage economic development and improve existing commercial operations. It is estimated to generate about $72 million per year to Florida’s counties.

**Discussion:** International Fuel Tax Agreement - Every state in the nation now imposes a fuel use tax via the International Fuel Tax Agreement on heavy vehicles that engage in interstate operations. This agreement is designed to ensure that each state receives taxes based on fuel consumed rather than purchased in the state. Previously, operators of such vehicles were able to buy fuel (often at lower prices) in a neighboring state and use the fuel on Florida's roads. Thus, Florida's roads experienced uncompensated damage, and the state's retail fuel outlets, particularly those in the northern tier, were deprived of sales that otherwise might have occurred. For the provisions of this agreement to be administered efficiently both for the state and for commercial interests, the State’s diesel fuel tax rate needs to be consistent in all counties. Accordingly, the 1990 Legislature equalized all optional taxes on diesel fuel so that interstate truckers, who pay fuel taxes based on miles driven in the state, would be subject to standardized tax rates.

Local option Tax Rates – Two local option fuels taxes are authorized under s. 206.41, F.S. These are the “Ninth-Cent Fuel Tax” and the “One Cent to Eleven Cents Local Option Fuel Tax.” The one penny Ninth-Cent Fuel Tax may be imposed by each county on motor fuel and is so named because it was in addition to the 8 cents in state fuel taxes in place when adopted in 1972.
Counties may impose this tax by extraordinary vote of the board of commissioners, and the proceeds may be shared with cities in whatever proportion agreed upon. Presently, 51 counties have implemented the Ninth-Cent Fuel Tax on gasoline and gasohol. The diesel tax rate is set in statute at 1 cent per gallon for all 67 counties.

The One Cent to Eleven Cents Local Option Fuel Tax, originally set at a maximum of six cents per gallon, was later increased to eleven cents. Beginning in 1985, up to six cents could be levied at the option of a county's governing body for a maximum period of 30 years, with proceeds required to be shared with municipalities. This tax may be imposed by a majority vote of the board of county commissioners or a countywide referendum initiated by either the county commission or municipalities representing more than 50% of the county's population. In 1993, the Legislature authorized an additional five cents Local Option Fuel Tax for which an extraordinary vote of the county commission or a countywide referendum initiated by the commission is required.

As with the Ninth-Cent Fuel Tax, the Legislature chose to equalize the Local Option Fuel Tax on diesel fuel in 1990, reaching 6 cents per gallon on January 1, 1993. However, the 1993 five cent increase to the local option tax was not applied to diesel fuel.

As of 2011, 20 counties impose the maximum of 12 cents per gallon in local option taxes, 29 counties impose between 7 and 11 cents, 15 counties impose 6 cents and one county (Franklin) imposes 5 cents. The 2011 statewide average local option tax on gasoline and gasohol is 9.6 ¢ per gallon. However, since the five cent increase was not limited to motor fuels only, the tax rate for diesel remains standard in all counties at 7 cents per gallon.

Maintenance and Repair Costs Caused by Heavy Trucks — The federally mandated maximum weight for the Interstate Highway System is 80,000 pounds gross vehicle weight. In addition, as of July 1, 2010, trucks weighing up to 88,000 pounds can travel on specific non-interstate routes in Florida. There are a variety of public policy issues and trade-offs that must be considered when establishing maximum truck weights for the State’s roads and highways, such as commercial benefits, air quality and fuel use impacts, transportation safety and roadway costs of maintenance and repair. Certain of these issues point towards the benefits of higher weight standards, while others would argue for lower maximum weights. It is generally accepted that one of the adverse consequences of higher vehicle weight maximums and heavy trucks, in general, is with the cost of roadway maintenance and repair, in particular pavement fatigue and structural fatigue on bridges.

A number of revenue measures are used to align the taxes and fees paid by trucks with the associated costs to maintain and repair highways and bridges. These include substantially higher vehicle registration fees, federal truck tire excise taxes and a six cents higher federal tax rate for diesel fuel. Accordingly, it could be argued that an increase in the local option diesel fuel tax rate is justified to defray the associated maintenance and repair costs incurred by heavy trucks, particularly in light of the 2010 increase in weight limits for certain non-interstate roads.
Projects to Enhance Commercial Traffic – By undertaking transportation improvements that enhance commercial traffic, the recommended 5 cents per gallon increase will provide local governments with a dedicated source of transportation funding that can potentially be used as an additional tool to promote economic development and to improve the business climate for existing commercial interests.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: Five Cent Local Diesel Tax – Dedicated to Projects that Encourage Economic Development and Enhance Commercial Traffic

8 Year Total: $576 million
Annual Average: $72 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
**Return Motor Vehicle License, Initial Vehicle Registration and Titling Fee Increases to the State Transportation Trust Fund**

**Recommendation:** Redirect the 2009 General Revenue Motor Vehicle License Fee, Title Fee and Initial Registration Fee Surcharges from the State General Revenue Fund to the State Transportation Trust Fund.

**Rationale:** This recommendation would redirect the increases in the fees that were enacted in 2009 from the State General Revenue Fund to the State Transportation Trust Fund (STTF). These fees have historically been dedicated to the transportation system as a method to further the concept of user fees supporting the transportation system. After a 20 year hiatus of fee adjustments (30 years for registration fees), they were raised in 2009 with the incremental revenue being used to help solve the general budget crisis due to the economic recession. With increasing pressures on transportation funding sources coupled with growing needs, the Florida Legislature took action in the 2012 session to restore a portion of these traditional STTF funds. While most Title Fees will be remitted to the STTF, yielding about $200 million per year to the STTF beginning in fiscal year 2014, the Motor Vehicle License (MVL) Fee and Surcharge increases along with the Initial Registration Fee increase are recommended to be returned as well. The annual estimated revenue impact to the STTF is $413 million.

**Discussion:** In the past, MVL Fees, Title Fees and Initial Registration Fees were considered to be transportation funding sources. However, the base motor vehicle registration fees had remained unchanged nearly 30 years (since 1983). Likewise, Title Fees and Initial Registration Fees remained static for over 20 years (since 1990 & 1991). These fees and associated surcharges were increased substantially by the 2009 Legislature; however the revenues from these fee increases were distributed primarily to the General Revenue (GR) Fund rather than the STTF. This action was taken to partially offset significant revenue declines from traditional GR tax sources as a result of the serious economic downturn. However, as general economic conditions return to more normal levels, these fee increases and surcharges should be distributed to the STTF to restore a portion of the inflation adjusted purchasing power that has been lost over the last 20 to 30 years. The 2012 legislature began this process by redirecting most of the title fee increases capped at $200 million per year to be used for specific transportation purposes beginning in fiscal year 2013-14

**Title Fees** - The State issues titles or certificates of ownership for each vehicle registered in the state. The title fee prior to 2009 was set at $24, except for “for hire” vehicles, where the title fee was set at $3. An amount equal to $21 of each applicable title fee was distributed to the STTF with the balance
Deposited into the GR Fund. In 2009, all vehicle title fees were increased $46 each to $70 per vehicle and $49 for “for hire” vehicles. In 2012, the legislature amended s. 319.32, F.S. to distribute an additional $47 of each title fee, except for “for hire” vehicles to the STTF. In the first year (fiscal year 2012-13), these proceeds must be returned to the GR Fund. Thereafter, all proceeds in excess of $200 million per year must be returned to GR. The $200 million is allocated as follows: $10 million per year for 30 years to a Seaport Investment Program; $35 million per year for 30 years to the Florida Turnpike Enterprise to fund projects that will create or facilitate access to the existing turnpike system; $10 million will be transferred annually to the Transportation Disadvantaged Trust Fund; $10 million is allocated to the Small County Outreach Program; and, the remainder is to be used “… annually for transportation projects within this state for existing or planned strategic transportation projects which connect major markets within this state or between this state and other states, which focus on job creation, and which increase this state’s viability in the national and global markets.”

MVL Fees – Currently, the State assesses MVL fees (license taxes) at varying rates for automobiles, trucks, motorcycles, trailers and special purpose vehicles. These rates vary from $3.50 for a small private use trailer under 500 lbs. to $1,322 for a heavy truck weighing 72,000 lbs. or more. The rate differentials are generally based on vehicle weight. This methodology is consistent with various studies that have shown that heavy vehicles result in considerably greater outlays for roadway maintenance and rehabilitation than light-weight vehicles. In 2009, s. 320.08, F.S., was amended to increase the annual MVL license taxes by 35%, with the additional revenue deposited into the GR Fund. The increase varied depending on the current flat rate based on the weight of the vehicle.
State of Florida
2009 Vehicle Fee Surcharges
All Fee Increases Dedicated to Highway Safety & General Revenue Funds

<table>
<thead>
<tr>
<th>Fee</th>
<th>Prior Rate</th>
<th>Revised Rate</th>
<th>Rate Increase</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Motor Vehicle License Fees - Automobiles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net weight less than 2500 lbs</td>
<td>$14.50</td>
<td>$19.50</td>
<td>$5.00</td>
<td>34%</td>
</tr>
<tr>
<td>Net weight of 2500 lbs less than 3500 lbs</td>
<td>$22.50</td>
<td>$30.50</td>
<td>$8.00</td>
<td>36%</td>
</tr>
<tr>
<td>3500 pounds or more</td>
<td>$32.50</td>
<td>$44.00</td>
<td>$11.50</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Motor Vehicle License Fees - Trucks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net weight less than 2000 lbs</td>
<td>$14.50</td>
<td>$19.50</td>
<td>$5.00</td>
<td>34%</td>
</tr>
<tr>
<td>Net weight of 2000 lbs less than 3000 lbs</td>
<td>$22.50</td>
<td>$30.50</td>
<td>$8.00</td>
<td>36%</td>
</tr>
<tr>
<td>3000 pounds or more less than 5000 lbs</td>
<td>$32.50</td>
<td>$44.00</td>
<td>$11.50</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Motor Vehicle License Fees - Heavy Trucks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5001 to 5999 lbs</td>
<td>$45.00</td>
<td>$60.75</td>
<td>$15.75</td>
<td>35%</td>
</tr>
<tr>
<td>6000 to 7999 lbs</td>
<td>$65.00</td>
<td>$87.75</td>
<td>$22.75</td>
<td>35%</td>
</tr>
<tr>
<td>8000 to 9999</td>
<td>$76.00</td>
<td>$103.00</td>
<td>$27.00</td>
<td>36%</td>
</tr>
<tr>
<td>10,000 to 14,999 lbs</td>
<td>$87.00</td>
<td>$118.00</td>
<td>$31.00</td>
<td>36%</td>
</tr>
<tr>
<td>15,000 to 19,999 lbs</td>
<td>$131.00</td>
<td>$177.00</td>
<td>$46.00</td>
<td>35%</td>
</tr>
<tr>
<td>20,000 to 26,000 lbs</td>
<td>$186.00</td>
<td>$251.00</td>
<td>$65.00</td>
<td>35%</td>
</tr>
<tr>
<td>44,000 to 54,999 lbs</td>
<td>$572.00</td>
<td>$773.00</td>
<td>$201.00</td>
<td>35%</td>
</tr>
<tr>
<td>72,000 or more</td>
<td>$979.00</td>
<td>$1,322.00</td>
<td>$343.00</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Initial Vehicle Registration Fee</strong></td>
<td>$125.00</td>
<td>$225.00</td>
<td>$100.00</td>
<td>80%</td>
</tr>
<tr>
<td><strong>Title Fee</strong></td>
<td>$24.00</td>
<td>$70.00</td>
<td>$46.00</td>
<td>192%</td>
</tr>
</tbody>
</table>

**MVL Surcharges** - In addition, the State imposes a number of surcharges on top of MVL base fee rates. These consist of a $4 surcharge on all MVL fees under 320.0804, F.S.; a $5.50 surcharge on all MVL fees under 320.08046, F.S.; and, a $10 additional surcharge on commercial vehicles having a gross vehicle weight of 10,000 pounds or more under 320.0801, F.S. Currently, the combined annual surcharges are $19.50 on commercial vehicles having a gross vehicle weight of 10,000 pounds and $9.50 for all other vehicles. Prior to the 2009 legislative changes, these MVL surcharges totaled $8 for commercial vehicles over 10,000 lbs and $3 for all other vehicles, with all funds distributed to the STTF except for $0.58 to GR and $0.42 to the Department of Juvenile Justice. In 2009, MVL surcharges were increased by a combined $11.50 for commercial vehicles over 10,000 lbs and $6.50 for all other vehicles. With the exception of a $0.58 increase (to $1) distributed to the Department of Juvenile Justice, the revenues generated from these surcharge increases were deposited into the GR Fund.

**Initial Application for Motor Vehicle Registration Fee** - The State assesses, with certain exemptions, an additional Initial Vehicle Registration Fee for the registration of each additional vehicle in Florida (s. 320.072, F.S.). This Initial Registration Fee is $225, with $125 distributed to the GR Fund and $100 to the STTF. Prior to 2009, the Initial Registration Fee totaled $100, all of which was distributed to the STTF.

**2009 Vehicle Fee Rate & Surcharge Increases** - With Florida’s economy struggling and state general revenue collections in decline, the 2009 Legislature imposed surcharges and rate increases on
various motor vehicle fees. The additional proceeds were primarily distributed to the General Revenue Fund or the Highway Safety and Operating Trust Fund. These fee and surcharge increases included title fees, MVL fees, initial vehicle registration fees, driver’s license fees and various other administrative and transaction charges.

<table>
<thead>
<tr>
<th></th>
<th>2008-09</th>
<th>2010-11</th>
<th>Diff</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GR</td>
<td>$124.2</td>
<td>$965.5</td>
<td>$841.3</td>
<td>677.4%</td>
</tr>
<tr>
<td>HSOTF</td>
<td>$226.4</td>
<td>$351.8</td>
<td>$125.4</td>
<td>55.4%</td>
</tr>
<tr>
<td>STTF</td>
<td>$701.6</td>
<td>$665.9</td>
<td>$(35.7)</td>
<td>-5.1%</td>
</tr>
<tr>
<td>TDTF</td>
<td>$19.7</td>
<td>$20.1</td>
<td>$0.4</td>
<td>2.0%</td>
</tr>
<tr>
<td>DOETF</td>
<td>$119.2</td>
<td>$121.2</td>
<td>$2.0</td>
<td>1.7%</td>
</tr>
<tr>
<td>Other</td>
<td>$191.5</td>
<td>$82.4</td>
<td>$(109.1)</td>
<td>-57.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$1,382.6</td>
<td>$2,206.9</td>
<td>$824.3</td>
<td>59.6%</td>
</tr>
</tbody>
</table>

Comparing full fiscal years before and after implementation.

Source: Highway Safety Revenue Estimating Conference Funds:
1. GR – General Revenue
2. HSOTF – Highway Safety Operating Trust Fund
3. STTF – State Transportation Trust Fund
4. TDTF – Transportation Disadvantaged Trust Fund
5. DOETF – Department of Education Trust Fund
6. Other Funds – Roll up of all other revenues collected by DHSMV and distributed to funds other than those specifically listed

Total revenue to the General Revenue fund from all 2009 fee increases, including drivers license fees, increased $841.3 million or 677% between fiscal years 2008-09 (prior to rate increases) and 2010-2011 (the first full year after rate increases). Distributions to the State Transportation Trust Fund during this same period of time experienced a ($35.7) million decline or (5.1%).

Historically, with the exception of a portion of MVL Fees that is dedicated to education funding pursuant to the State Constitution and the $1 surcharge shared between General Revenue and the Department of Juvenile Justice, the fees and surcharges assessed on vehicle purchases and registrations have been considered transportation user-fees and have been distributed to the State Transportation Trust Fund for the purpose of maintaining and improving the transportation systems used by these vehicles.

However, due to the severe economic recession and substantial downturn in the Florida’s general revenue collections, coupled with the fact that these fees had not been adjusted for inflation for many years, the fees and surcharges were increased and the additional revenue was dedicated to general government purposes.
Anticipated Impact of Fuel Efficient Vehicle Purchases on MVL Fees – MVL fees are assessed based on vehicle weight. Changes in the mix of motor vehicles, towards lighter-weight vehicles with lower annual MVL fees, will have an added impact on transportation revenue collections. Federal fuel efficiency standards and higher fuels prices are encouraging the development and sale of lighter weight vehicles. In 2009 the private vehicle fleet consisted of 7% light autos ($19.50), 44% medium autos ($30.50), 34% heavy autos ($44.00), and 15% light trucks (trucks and autos have the same weight classifications and fees). MVL revenue collections will likely decline as the mix of vehicles trends towards the lower weight classifications.

Lost Purchasing Power - Prior to the 2009 rate changes, MVL fee base rates were last increased in 1983 and in 1992 when a $2.00 surcharge was added. Since 1983, general inflation costs as measured by the CPI-U have increased by 127% while the 1992 surcharge increased the revenue collected on each vehicle registration by roughly 10%. Thus today’s purchasing power for each MVL fee is less than one-half the level in 1983.

<table>
<thead>
<tr>
<th>Fee</th>
<th>Rate</th>
<th>Unit of Measure</th>
<th>Last STTF Rate Increase</th>
<th>Years Since Last Increase</th>
<th>Original CPI-U</th>
<th>Inflation Adjusted Value of $1.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title Fee</td>
<td>$21.00</td>
<td>one time</td>
<td>1991</td>
<td>21</td>
<td>136.2</td>
<td>$0.60</td>
</tr>
<tr>
<td>Initial Registration Fee</td>
<td>$100.00</td>
<td>one time</td>
<td>1990</td>
<td>22</td>
<td>130.7</td>
<td>$0.57</td>
</tr>
<tr>
<td>MVL Fees</td>
<td>various</td>
<td>annual</td>
<td>1983</td>
<td>29</td>
<td>99.6</td>
<td>$0.44</td>
</tr>
</tbody>
</table>

STTF - State Transportation Trust Fund
Purchasing Power Calculations for Non-Indexed Taxes & Fees Are Calculated Using February 2012 CPI Index of 227.663
The 2010 General Revenue Surcharges imposed on MVL Fees, Initial Registration Fees, Title Fees and Rental Car Surcharges are excluded from this analysis since they did not impact the purchasing power of the respective share of revenues directed to the State Transportation Trust Fund.

The current title fee rate is $70. In 2009, the Florida Legislature increased the title fee $46, a 192% rate increase. The current initial vehicle registration fee rate is $225. This fee was increased in 2009 by $125, a 125% increase. As with MVL fees, the proceeds from these rate increases are deposited in the State’s General Revenue fund.

While the State Transportation Trust Fund share of title fees ($21) has not changed since 1991, inflation has increased by 67%. Its share of the initial registration fee is $100 and represents a 54% increase since 1990. In contrast, the CPI-U inflation index from 1990 through February 2012 has increased 74%.

From the perspective of the fee payer, the inflation adjusted cost of motor vehicle license fees continues to be substantially less than in 1983 when the fee was last increased prior to 2009.
However, both the Initial Vehicle Registration and Title fee increases in 2009 were greater than the inflationary increases since their rates were last adjusted.

In all instances, the State Transportation Trust Fund’s share of fee rate adjustments has not keep up with the rate of inflation or transportation costs. Thus the purchasing power value of these fees in terms of maintaining and improving the State transportation system has declined.

As with motor fuel taxes, vehicle fees are in a general sense a user fee. Vehicles are generally purchased to be used on the State’s roadways and vehicle fees are assessed to pay for a portion of the costs of maintaining and expanding the State’s transportation systems.

Transportation revenues have increased over time in conjunction with the increase in the number of motor vehicles registered and titled in the State. However the State Transportation Trust Fund
share of these fees has not increased. Thus while revenues have increased with the growth in the total number of vehicles registered in the State, the purchasing power of transportation revenue derived from each fee has declined due to the effects of inflation. These circumstances have been a significant factor contributing to the State’s growing transportation funding shortfall and resultant increases in traffic congestion. The combined result is that the State Transportation Trust Fund today receives only 53 cents in purchasing power for each dollar in transportation fees when adjusted for inflation since the base rate for each fee was last increased.

Given the inflation adjusted lost purchasing power of the transportation share of MVL fees over the last three decades and the growing backlog of transportation needs occurring in part due to this circumstance, it would be appropriate public policy to transfer the General Revenue surcharges to the STTF once the current economic crisis has passed.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: Redirect the Remaining 2009 General Revenue Motor Vehicle License Tax, Title Fee, Initial Registration Fee and Surcharges to the State Transportation Trust Fund.

8 Year Total: $3,301 million
Annual Average: $413 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
State Sales Tax@ 6% in Lieu of Both State Fuel Taxes, with a “Floor”

**Recommendation:** Impose a 6% State Sales Tax on Motor Fuels in lieu of both the motor fuel sales tax and State Comprehensive Enhanced Transportation System (SCETS) tax and retain the existing state motor fuels and SCETS tax mechanisms to serve as a floor.

**Rationale:** The State Highway Fuels Sales Tax and the SCETS cents per gallon taxes would be replaced with a simple 6% sales tax on the retail price of motor fuels. Florida Department of Transportation (FDOT) research has shown that Floridians believe that the fuel taxes they pay increase as the cost of motor fuel increases. This option examined the implications of establishing a percentage based State motor fuel tax. The issue with this approach is that retail fuel prices inherently fluctuate, and revenue forecasting would become problematic as would revenue collection. Huge windfalls could occur in times of rapidly rising pump prices, and the STTF could be cash-starved when prices fall. To protect the STTF from dramatic declines, this option requires a “floor” to be established that is based on the current tax along with indexing provisions. Based on the economic forecasts used at the time of the Metropolitan Planning Organization Advisory Council (MPOAC) study, this recommendation could generate an estimated additional $136 million per year, but according to the October 2011 State projections, it wanes as the existing fuel sales tax and SCETS adjust upwards because of future inflation and the associated CPI adjustments that would take place. Actual additional revenue collections would be dependent on the future price of motor fuels and, therefore, highly variable.

**Present Situation:** Presently the State assesses two fuel sales taxes on motor fuels, the Motor Fuel Sales Tax and the SCETS Tax, both of which are adjusted annually based on changes in the Consumer Price Index (CPI-U).

**Motor Fuel Sales Tax** - The State's fuel taxes were substantially restructured in 1983, when a 4 cents per gallon excise tax was replaced by the State’s general sales tax of 5%. The 1983 legislated average price of all motor and special fuel was initially set using $1.148 a gallon as the price of fuel which, at the 5% general sales tax rate, resulted in a fuel tax of 5.7 cents per gallon.
In 1985, the Legislature installed a "floor" beneath this tax thereby preventing it from falling below its initially calculated level of 5.7 cents per gallon, regardless of downward gas price movements.

The 1990 Legislature made several changes to the sales tax, and effective January 1, 1991, it raised the rate of the tax to 6% from 5% in keeping with the increase to the state general sales tax rate and adjusted the “floor” from 5.7 cents per gallon to 6.9 cents per gallon, thereby regaining parity with the state's general sales tax rate.

The Legislature also changed the indexing series from the gasoline component of the CPI to the more comprehensive CPI (all items). Since this index is less volatile, it normally can be forecast more accurately, and it was believed to better reflect the inflationary impacts on FDOT’s overall costs.

While the changes made in the 1990 legislative session were successful in matching the motor fuel sales tax rate to inflationary cost increases, they did not account for potential increases in motor vehicle efficiencies, particularly in the event that fuel prices rose at a fast rate than general inflation and consumers would respond by purchasing more fuel-efficient vehicles. Unfortunately, this is what has occurred beginning in the middle of the last decade. Since 1990, general inflation has increased 78%; however, gasoline and fuel oil prices have risen 216% and 194%, respectively.

![Comparison of Fuel and General Cost Inflation](image)

The higher cost of motor fuels, coupled with technology improvements in vehicle efficiency and federal motor vehicle efficiency standards have combined to increase Florida’s vehicle fleet average fuel efficiency from 16.2 miles per gallon (MPG) in 1990 to 20.7 MPG by 2012, a 28%
increase in fuel efficiency since the index was changed from motor fuel prices to the general CPI. This has resulted in a corresponding reduction in fuel consumption and motor fuel sales taxes per vehicle mile traveled on the State’s roads and highways. Thus, while the 1990 legislative action to index motor fuel taxes was successful in adjusting the tax rate commensurate with transportation cost increases, the volume of fuel consumed has fallen relative to the number of vehicle miles traveled and accordingly, motor fuel tax revenues have not kept up with transportation funding demands.

The current Motor Fuel Sales Tax rate for calendar year 2012 is 12.6 cents per gallon. This is a 5.7 cents per gallon increase over the 1990 base rate of 6.9 cents per gallon, and it reflects the cumulative impact of CPI indexing adjustments since 1991. Since motor fuel prices have increased at a much faster rate than general inflation, the Motor Fuel Sales Tax rate no longer corresponds to the State’s 6% general sales tax rate. The current Motor Fuel Sales Tax rate for calendar year 2012 is equal to a 3.5% sales tax rate, using the October 2011 Revenue Estimating Conference (REC) assumption for the average Florida pump price per gallon of $3.63. An additional tax increase of approximately 9.0 cents per gallon would be needed to restore the Motor Fuel Sales Tax to its original 6% rate on the price of motor fuels.

State Comprehensive Enhanced Transportation System Tax (SCETS) – The 1990 Legislature, in addition to raising the fuel sales tax rate, also levied an additional excise tax, entitled the State Comprehensive Enhanced Transportation System Tax, on all highway fuels, effective January 1, 1991. The SCETS tax differs from the Motor Fuel Sales Tax in that its proceeds must be spent in the FDOT transportation district in which it was collected and, to the extent feasible, in the county from which it was collected. The rate of the tax on gasoline varied by county and was initially set at two-thirds of the total local option fuel tax rate that existed in each county, not to exceed 4 cents per gallon. Thus, the SCETS tax is set at the maximum rate in any county that assesses a local option fuel tax at 6 cents per gallon or more.

Currently, every county is at the maximum SCETS tax rate with the exception of Franklin County, which assesses 5 cents per gallon in local option fuel taxes. For consistency purposes in administering the diesel fuel use tax provisions of the International Fuel Tax Agreement, the SCETS tax on diesel fuel is imposed at the maximum rate in all counties. Like the motor fuel sales tax, the SCETS tax is indexed to the general rate of inflation (CPI, all items). The SCETS tax rate on gasoline is currently 6.9 cents per gallon, with the exception of Franklin County, which is at 5.8 cents per gallon. The diesel rate is 6.9 cents per gallon in all counties.

Similar to the Motor Fuel Sales Tax, revenues derived from the SCETS tax relative to vehicle miles traveled (transportation demand) have declined over time due to greater fuel efficiencies in the State’s vehicle fleet, resulting in fewer gallons of motor fuel purchased per vehicle mile of travel.

It is anticipated that Motor Fuel Sales and SCETS tax revenues relative to vehicle miles traveled will continue to decline as a result of expected continuing high fuel costs, as motorists replace existing vehicles with more fuel efficient models and as further technology improvements and new Federal CAFÉ standards drive additional fuel efficiencies. As a result, the capacity for
Motor Fuel Sales and SCETS tax revenues to adequately fund the demand for future transportation maintenance and improvement needs will continue to erode unless the tax rates are increased or structural changes made to the current transportation taxation system.

Originally the Motor Fuel Sales Tax was enacted to mirror the 6% State general sales tax, and the SCETS tax was assessed over and above this amount to enhance the State’s transportation system. The above recommendation combines the Motor Fuel Sales and SCETS taxes for purposes of assessing the 6% general state sales tax rate against the price of motor fuels. This recommendation would help to offset the reductions in tax revenue collections that have resulted from vehicle fuel efficiency improvements. Shifting from the current CPI adjusted fuel sales tax to a 6% sales tax would increase the current fuel tax rates when fuel prices exceed approximately $3.20 per gallon. It is recommended that the existing CPI adjusted tax mechanisms should be retained in law as a “floor” to protect against declining revenues in the event fuel prices fall below this amount. Surveys have indicated that most consumers already believe motor fuels are already subject to a 6% state sales tax on the price of motor fuels.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: Apply the 6 Percent State Sales Tax In Lieu of Existing State Fuel Sales And SCETS Taxes – Use Existing Tax Rates as a “Floor”

8 Year Total: $1,087 million
Annual Average: $136 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
Toll Rate Making

Recommendation: Create an independent State Toll Rate Setting Commission to study, evaluate and establish toll rates for State-owned toll facilities based upon criteria established by the Governor and Florida Legislature. The Florida Transportation Commission (FTC) could serve at the State Toll Rate Setting Commission in Florida.

Rationale: This recommendation is not a revenue generation action per se, but could result in more market-based toll rates being established for State toll facilities. The research conducted for the revenue study indicates that some toll facilities operated by the State are under priced when compared to those under the management of local expressway authorities, particularly in Florida’s urban areas. This recommendation would legislatively charge the FTC as the independent state toll rate setting body to study, evaluate and establish toll rates for State-owned facilities based on criteria established by the Governor and Florida Legislature. This is a policy recommendation with no estimated revenue forecasts.

Discussion: The State of Florida presently owns and operates the Florida Turnpike system and four additional tolled facilities: Pinellas Parkway, Beachline East, Alligator Alley and Sunshine Skyway Bridge. The tolls on many of these state-owned facilities are significantly lower than the rates established for similar facilities in Florida. As a result, the financial capacity of many of these facilities may be underutilized.

<table>
<thead>
<tr>
<th>Tolling Agency</th>
<th>Number of Facilities</th>
<th>Total Length (CL Miles)</th>
<th>Total Facility Tolls</th>
<th>Average Rate Per Mile</th>
<th>Ave. Years Since Last Toll Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Toll Authorities</td>
<td>11</td>
<td>152.9</td>
<td>$23.55 $21.25</td>
<td>15.4</td>
<td>13.9 c 2.4</td>
</tr>
<tr>
<td>Turnpike Regional Facilities</td>
<td>7</td>
<td>140.0</td>
<td>$13.50 $11.75</td>
<td>9.6</td>
<td>8.4 c 14.6</td>
</tr>
<tr>
<td>Turnpike Mainline</td>
<td>3</td>
<td>320.0</td>
<td>$22.95 $17.90</td>
<td>7.2</td>
<td>5.6 c 18.7</td>
</tr>
<tr>
<td>FDOT Owned Toll Facilities</td>
<td>4</td>
<td>125.6</td>
<td>$5.10 $4.35</td>
<td>4.1</td>
<td>3.5 c 18.5</td>
</tr>
<tr>
<td>TOTALS</td>
<td>25</td>
<td>738.5</td>
<td>$65.10 $55.25</td>
<td>8.8</td>
<td>7.5 c 10.3</td>
</tr>
</tbody>
</table>

Due to restricted toll rate setting policies and the resulting limitation on toll revenues, toll agencies have not developed new projects and capacity expansions as rapidly as needed or as could be accomplished using market-based toll rates. Florida’s toll agency long range transportation plans and studies have identified nearly $30 billion in potential projects that are in various stages of feasibility assessment and development. While not all of these projects will be undertaken once all necessary feasibility studies and applicable federal, state & local planning and public approval processes have been completed, they are nevertheless indicative of the level of participation.
that toll agencies can play in meeting the State’s transportation infrastructure shortfall.

Toll agencies function as business enterprises. While customers have access to non-tolled alternative routes, they choose to pay an added toll in order to save time, reduce travel distance or experience a high level of service. Each time a customer uses a toll road, he/she must decide if the time, fuel, wear & tear and other savings or benefits will be greater than the cost of the toll charged. Similarly, each toll agency determines the appropriate toll rate to charge on its facility for operations and maintenance, to repay sums borrowed to build the facility and to plan for and develop additional capacity and expansion improvements to meet anticipated future needs as its customer base grows. Thus, market-based decisions are being made by customers when choosing to use a tolled road, and market-based decisions are made by toll agencies in setting toll rates in response demand.

Significant variances in toll rates for urban expressways can result within the same urban areas even though these expressways oftentimes serve the same customers. Wide discrepancies between toll rates charged by various toll agencies can be largely attributed to their respective governing structures and decision-making processes for setting toll rates.

Regional toll authority governing boards achieve some degree of independence from immediate political pressures when setting toll rates on facilities under their jurisdiction.

The role of an authority has been defined as follows:

The primary mandate of an authority is "...to develop revenue-producing facilities in an atmosphere insulated from political pressures...It should be structured so as to encourage independence in decision-making from elected officials...and to think in long-range terms not limited by the next election...Authorities operate ... free from political compromise, public pressure, and bureaucratic red tape."

Source: Public Authorities and Public Policy
Over time, the Florida Legislature has developed and codified in statute the current organizational structure for the regional toll authorities. This structure has been designed to strike a balance between the concept of a truly independent authority as described above and one that answers solely to State or locally elected officials. This has been achieved by establishing governing boards for these organizations that include representation from both arenas. Accordingly, as mentioned previously, all regional toll authority governing boards include local elected officials and a representative of the State FDOT as ex-officio voting members.

The governing boards of regional toll authorities are comprised of a mixture of local elected officials, representatives of the community who are appointed by the Governor and the area FDOT District Secretary. Community representatives are usually appointed to 4-year terms on a revolving basis. This structure ensures regional toll authorities remain sensitive to local area acceptance of toll rates and to communicate to the community the long-term benefits that will be derived in terms of new capacity or expressway improvements when toll rate increases are contemplated. These tasks are accomplished while also providing a balance between community representation and the interests of State and local elected officials.

On the other hand, the Florida Department of Transportation and the Florida Turnpike Enterprise do not operate under a semi-independent environment. Rather, they answer directly to the Governor and Florida Legislature. This can result in an influence from immediate political pressures when setting toll rates. It is natural for there to be some degree of public opposition to any toll rate increase, regardless of its justification and merits. When toll rate increases are proposed by a state agency, they in essence become “the Governor’s toll rate increase” or “the Legislature’s toll rate increase.” As a result, toll rates can remain unchanged or toll increases set substantially below market rates for reasons of political expediency, in spite of identified long-term transportation needs or local business market conditions that would dictate otherwise.

Currently, toll rates on many FDOT toll facilities are lower than statewide and national averages, which has resulted in less financing capacity to improve or expand these tolled systems. Consequently, greater capital contributions in the form or departmental grants or State appropriations must be sought when undertaking toll road improvements, and FDOT’s toll facilities contribute less than regional toll authorities towards financing the State’s transportation needs in relative terms.

In 2007, Florida Statutes were amended and directed FDOT to index toll rates on existing toll roads and bridges to the annual Consumer Price Index (CPI) or similar inflation indicators no more frequently than once per year, but no less frequently than once every five years. According to the statutes, the indexing of toll rates must occur on or before June 30, 2012. As a result, FDOT is proposing to adopt a toll rate adjustment policy for all FDOT and Turnpike toll roads and bridges that provides toll increases on July 1, 2012 commensurate with an 11.7% increase in inflation over the past five years, annual inflation adjustments for electronic toll collection and periodic five-year inflation adjustments for cash toll collections. However, even with these toll rate adjustments, many State-owned toll facilities will not be priced at market rates, particularly in Florida’s urban areas. Further, some degree of independence in
establishing and setting toll rates may also be an important consideration in the State’s efforts to expand its managed lanes and major bridge reconstruction programs.

Accordingly, it is recommended that the Governor and Florida legislature consider creating an independent State Toll Rate Setting Commission to study, evaluate and establish toll rates for State-owned toll facilities based upon criteria established by the Governor and Florida Legislature. The FTC is an option to consider for this purpose as its members possess some independence from the political process, similar to that of the regional toll authority board members.
Regional Transportation Financing Authorities

Recommendation: Create and fund Regional Transportation Financing Authorities (RTFA) with incremental new revenue sources.

Rationale: This legislative option would allow the creation of Regional Transportation Financing Authorities (RTFA) with support of $100 million annually of new incremental revenues, if some of the revenue raising options are adopted. RFTAs would serve as regional transportation financing entities and be established with provisions to incur debt outside of the State’s debt service cap and limitations. The RTFA could assist in “buying down” the capital cost of revenue generating projects and the future revenue streams pledged towards paying off bonds and providing other types of loans and credit enhancements to encourage a higher level of transportation funding. These entities would not compete with existing agencies to operate transportation facilities; rather, they would act as financiers for regional transportation investments in projects that are user-fee based or that have a dedicated revenue source for repayment.

Discussion: The purpose of establishing regional transportation financing entities is to provide increased capacity and greater flexibility to state and local agencies to finance necessary transportation infrastructure projects, while also preserving the integrity of the existing state bond policies and practices. Debt financing is frequently the most appropriate mechanism to pay for new highway and transit alignments and significant capacity improvements to highways, bridges and transit facilities. Debt financing is consistent with “user pay – user benefit” principles for projects that provide additional capacity for the benefit of future users or that extend the useful life of existing facilities.

However, the State’s debt policies and management practices, while are entirely appropriate for managing recurring statewide fixed assets needs at the lowest possible cost of capital (interest cost), serve to limit the ability to undertake many necessary transportation infrastructure improvements. Further, with the State’s debt service benchmark target/cap, tax-supported transportation debt issues must compete with other priorities for the State’s limited bonding capacity.

The 2012 Florida Legislature placed a cap on the total level of debt and debt-like issuance that the Florida Department of Transportation (FDOT) may undertake, limiting the future use of debt financing as a method of paying for transportation improvements. This cap is comprehensive and covers bonds issued directly for FDOT projects, FDOT participation in public private partnerships (P3) initiatives through availability payments or other debt-like
arrangements and FDOT’s risk sharing participation agreements with regional transportation authorities.

Establishing RTFAs, funded with non-state tax and revenue sources and outside of the state’s debt policies, will provide greater financial capacity and flexibility to complete large transportation improvements and new facilities and alignments on a more-timely basis, while allowing the State to preserve its existing debt financing practices and policies.

This is a conceptual recommendation, acknowledging the variety of public policy issues that must be considered in its implementation. It is anticipated each RTFA will identify revenue sources during the development process.

Regional Transportation Finance Authority Purpose – The purpose of establishing regional transportation financing entities is to provide increased capacity and greater flexibility to state and local agencies to finance important transportation infrastructure projects, while also preserving the integrity of the existing state bond policies and practices. An RTFA would operate without the State debt service target & cap limitations, credit rating requirements and long-term debt management practices. It is contemplated the RTFAs would be funded from dedicated funding sources that do not fall under the definition of state revenues.

Debt Financing and the Principle of “User Benefit – User Pay” - Many economists believe a public policy of “user benefit – user pay” is the most equitable method for financing public capital outlays and collecting fees for their use. Accordingly, fixed assets that have a long useful life are often financed using debt with maturity terms that are up to or equal in length to the life of the asset. Under this approach, the cost of the asset is spread out over its useful life through monthly debt service payments.

This approach is much like the process of using a mortgage to pay for the cost of building a new house or adding rooms to an existing house. The monthly mortgage payments serve as the “user fee” and are paid over time as the occupant (user) benefits from residing in the house. Most would consider it to be an unreasonable burden to require homeowners to pay the full cost of their home in advance of its use. By this same reasoning, in many instances it can be considered an unreasonable burden to require an existing taxpayer to pay for investments in new transportation facilities and major improvements to existing facilities, when these investments are primarily for the benefit of future transportation users.

Truth in Bonding Statement - Debt financing as a means to pay for infrastructure costs is often viewed unfavorably due to the added interest cost. For example, when proposing to debt-finance capital projects, state agencies are normally required to prepare a Truth in Bonding Statement (s.216.0442, F.S.). This statement requires the state agency to provide information on the amount to be financed, the term of the issue, the expected rate of interest and the sum of interest payments over the life of the debt.

This final requirement – to report the sum of interest payments – can be misleading, since the amount reported does not discount the cost of the future interest payments by an appropriate discount rate to adjust to present day value and when the corresponding savings and benefits
that are expected to be derived from the capital asset that the debt is being used to invest in are not taken into account.

**Benefits of Debt Financing for Transportation Infrastructure** – Debt financing permits a substantially higher level of investment to happen in the near term rather than gradually over time as with traditional “pay go” strategies. This is particularly true during periods of low interest rates. Each $1 of recurring revenue will generate $15 to $18 of bond proceeds for infrastructure investment. The economic benefits of having these infrastructure improvements sooner, rather than later, coupled with the inflation cost savings of building now, rather than waiting, are offsets to the financing costs associated with debt financing.

Debt financing more precisely matches the cost of the project with the users of the project over time. A new facility or additional capacity on an existing facility will have an economic life of many decades. From a strictly equitable basis, it is not appropriate for today’s taxpayers to pay the full cost for improvements that will benefit future users of the facility. Transportation infrastructure is a capital investment, not unlike the purchase of a house, which is a personal capital investment. A homeowner borrows the money to pay for the house (mortgage) and pays for the use of the house each month through mortgage payments for principal and interest. Debt financing transportation capital projects is based on the same principal.

The interest earned on public sector debt is exempt from federal income taxes, and the interest cost to a public agency when using debt financing is relatively low in comparison to private sector debt. This provision is somewhat analogous to the home mortgage example, where the interest cost on the home mortgage is tax deductible.

There are a number of cost savings and economic benefits that are realized when transportation projects are built sooner, using debt financing, rather than at a later time under “pay-as-you-go” financing. In general, the benefits of building transportation sooner are:

- Employment and general economic activity (including tax revenues) derived from higher levels of construction activity
- Construction inflation cost avoidance
- Right-of-way land appreciation cost avoidance
- User savings (general public and commercial) in time, fuel, vehicle wear and insurance costs
- Economic preservation, efficiency and growth in transportation-reliant businesses, such as manufacturing, tourism, distribution, agriculture and on-site service providers.
- Economic development potential arising from reduced commuting times and commercial traffic capacity improvements.

While it can be difficult to quantify the economic values of each specific transportation improvement, many studies have been undertaken using various forms of analysis. These studies reflect the nationwide impacts which would be less at the statewide and local levels, since a portion of the economic activity occurs elsewhere.
A 2007 analysis performed by the Federal Highway Administration (FHWA) indicates that a $1 billion investment in highway expenditures creates approximately 30,000 jobs (person years of employment) and generates in excess of $1 billion in total employment income, taking into account supporting industries and induced employment.

<table>
<thead>
<tr>
<th>Jobs Created and Employment Income</th>
<th>$ One Billion in Highway Expenditures in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>With 7% Right of Way Cost</td>
</tr>
<tr>
<td>Jobs Created:</td>
<td></td>
</tr>
<tr>
<td>Construction Oriented</td>
<td>9,536</td>
</tr>
<tr>
<td>Supporting Industries</td>
<td>4,324</td>
</tr>
<tr>
<td>Induced Employment</td>
<td>13,962</td>
</tr>
<tr>
<td>Total Jobs</td>
<td>27,822</td>
</tr>
<tr>
<td>Employment Income: ($ Millions)</td>
<td></td>
</tr>
<tr>
<td>Construction Oriented</td>
<td>$394.8</td>
</tr>
<tr>
<td>Supporting Industries</td>
<td>$175.1</td>
</tr>
<tr>
<td>Induced Employment</td>
<td>$492.1</td>
</tr>
<tr>
<td>Total Income</td>
<td>$1,062.0</td>
</tr>
</tbody>
</table>

Source: Federal Highway Administration (FHWA) for 2007

FHWA measures jobs created in terms of person years of employment. The 1997 FHWA report also refers to a total of 37,500 jobs supported by the investment of $1 billion in federal highway funds. This number includes a 20% state match of funds and thus measures the impact of $1.25 billion in total highway spending.

According to the FHWA Strategic Plan, dated March 2010, since the inception of the Interstate Highway System, U.S. industries have realized production cost savings averaging 18 cents annually for every dollar invested in the road network. The Strategic Plan further states: “Although the impact of highway investment on productivity has declined coincident with the decline in national productivity growth since the early 1970s, results suggest that highway infrastructure investments more than pay for themselves in terms of industry cost savings.”

One U.S. Department of Transportation (USDOT) study determined that every dollar invested in the nation’s highway system yielded $5.70 in economic benefits from reduced delays, improved safety, reduced vehicle operating costs and other benefits. Another USDOT report found that, for every $1 billion invested in infrastructure improvements, economic activity was stimulated by $2.6 billion. These increases in economic activity and job creation result in higher public sector tax and fee revenues, which partially mitigate the total cost of the transportation investments.

Highway construction is commodity price sensitive and relies heavily on petroleum based products, such as asphalt, and energy intensive diesel fuel that are used in earthmoving equipment, cranes, generators, air compressors, etc. As a result, future construction costs may increase at rates higher than the general inflation rate, should oil prices continue to increase.
Historically, property costs for rights-of-way acquisition have risen at annual rates far in excess of the general rate of inflation or interest costs on debt financing. In the late 1980s, FDOT conducted a survey of land appreciation rates in each FDOT District and found that property cost increases of 12% to 15% were not uncommon. This occurred particularly in urban settings and areas experiencing rapid growth where land appreciation and the potential for business damages were the greatest.

Current Transportation Debt Financing Programs in Florida – Florida currently has in place a number of debt financing programs to pay for transportation needs that are described below. However, the ability to issue additional debt or to participate with private sector entities, local governments and transportation authorities in traditional risk-sharing arrangements will be curtailed due to the limitations of both the State’s debt policies and practices and the recently enacted statutory cap for FDOT debt and debt-like issuances.

Right-of-Way Acquisition and Bridge Construction Bonds – Historically land acquisition costs have been found to increase at a higher rate than general inflation, particularly in urban areas. For example, a 1989 study conducted by Ernst and Young for the Florida Transportation Commission determined that right-of-way costs were increasing at a 13% annual compound rate at that time. These findings served as a catalyst for the creation of the Right-of-Way Acquisition and Bridge Construction bonding program by the Florida Legislature in 1990 as well as various advanced right-of-way acquisition initiatives by FDOT. The Florida Legislature recognized the cost saving advantages of debt financing for right-of-way purchases.

The legislature further recognized the “user benefit – user pay” principle of debt financing for transportation projects in approving the issuance of bonds for bridge construction beginning in 1994. Right-of-way is most often purchased to expand the capacity of an existing roadway or facility or to construct a new facility. Debt financing allows these capacity-related costs to be borne over time by the future users who benefit from the improvements. Similarly, new bridges and replacements or expansions of existing bridges that extend their functional or structural life are appropriately debt financed so that these costs spread out over time for future users to pay rather than being paid in full by today’s users through higher transportation taxes or through the deferral of other transportation needs.

Bonds issued for these purposes are general obligation (full faith and credit) bonds authorized under an amendment to the State Constitution approved by Florida voters in 1988. Through June 30, 2011, $2.2 billion in bonds have been issued with tentative plans to issue an additional $700 million over the next six years.

GARVEE Bonds – Grant Anticipation Revenue Vehicles, better known as GARVEE Bonds, is a federal transportation debt financing program consistent with the user benefit – user pay concept. GARVEE bonds permit the State to issue debt to advance federal-aid transportation projects with debt service payments being made from the State’s apportionments of future year federal-aid highway funds.
Section 215.616, F.S., authorizes the issuance of GARVEE bonds. Annual debt service is capped at 10% of annual Federal highway apportionments and bond terms are limited to 12 years. As stated in the FDOT 2011 Bond Update Report;

“GARVEE bond advantages include: allows multi-year funding of commitments with sources other than Federal grants while preserving access to the Federal-aid which would be applicable to the project over a period of years; maximizes scarce revenues to meet the cash flow needs of transportation infrastructure; allows for the acceleration of needed projects; and enhances positive economic growth with improved highway and intermodal transportation facilities.”

FDOT has tentative plans to issue up to $350 million in GARVEE bonds during the next six years. Unfortunately, similar plans in prior years have not materialized and to date, no bonds have been issued under the GARVEE Statute. Furthermore, since GARVEE bonds fall under the State’s bonding cap for taxable debt, they must compete with other statewide needs during more normal economic times and cannot be issued during periods of economic downturns, when the State’s bond cap has been exceeded.

Public Private Partnership (P3) Initiatives – Florida, like many states has recently looked at undertaking P3 projects, whereby private sector financing is used to supplement public debt. While the private sector financing costs (taxable debt) typically are greater than tax-exempt public debt, these added costs are often determined to be outweighed by the benefits and cost savings that are realized when private sector financing is used to meet critical infrastructure needs. Florida has entered into P3 agreements to construct reversible lanes on I-595 in Broward County and the Port of Miami tunnel project.

Typically, the private sector party agrees to build, operate, maintain and finance a high-cost toll project while the State agrees to make “availability payments” to provide a guaranteed revenue stream to the private sector entity for purposes of securing financing. However, under the State’s debt policy, availability payments are deemed to be tax-supported debt obligations of the State and, accordingly, are included when calculating the State’s debt ceiling. These payments are also included in the calculations for FDOT’s recent enacted debt cap. The State currently reports $1.694 billion in P3 Obligations.

Since P3 availability payments are considered as tax-supported debt, this financing alternative loses many of its inherent benefits as a State financing alternative. They use the State’s limited tax-supported debt bonding capacity rather than supplementing it, when at least a portion of the costs of P3 project could have been financed using revenue bonds that are not included in the State’s tax-supported debt ceiling calculations. These limitations argue for the development of an alternative mechanism whereby P3 projects can be pursued without triggering the State bond ceiling provisions.

“Pay-As-You-Go” Funding – Many transportation capacity improvements are funded using the “pay-as-you-go” method. One reason why this approach is taken is a belief by many that it reflects appropriate conservative fiscal policy, when it would be more appropriate to fund many capacity projects with debt issuance. Pay-as-you-go may not be the most appropriate
financing option in instances where the State is undertaking substantial infrastructure improvements to accommodate future demand growth. This is particularly true during periods when the cost of debt is low relative to anticipated future inflation.

When using “pay-as-you-go,” projects frequently must be constructed incrementally. Since funds are not available to widen an entire congested corridor, individual sections are widened over time as new funding becomes available. This approach delays the time needed to ultimately reduce congestion within the corridor, and it results in additional construction-related traffic delays and business damages as section of the corridors is continuously under construction.

Delaying needed transportation infrastructure until sufficient pay-as-you-go funds become available or utilizing a piece-meal approach in widening congested corridors can result in significant negative consequences for all motorists, greater business damages for the State’s existing commercial enterprises, and restrict future economic growth and development.

State Debt Policies and Practices - The State’s debt policies, while appropriate for purposes of maintaining an on-going fixed asset debt financing program for general government purposes, serve to limit otherwise appropriate uses of debt financing to pay for transportation needs.

The State maintains a designated benchmark debt ratio for proposed and outstanding tax-supported bonds of a 6% target and a 7% cap of pledged annual State revenues. Under this policy, the issuance of new general obligation debt is limited when future debt service payments are projected to exceed 6%, and generally curtailed if they exceed 7%.

Many of the State’s primary revenue sources such as sales taxes and corporate income taxes, are closely correlated to the health of the economy. Thus, the State has supplemented these bond policies by setting aside funding reserves in a “rainy day fund” to help pay for recurring costs in the event an economic downturn results in a significant State revenue loss.

As stated in the State of Florida 2010 Debt Affordability Study, prepared by the Division of Bond Finance:

“Maintaining adequate reserves, developing a structurally balanced budget, and not relying on one-time revenue sources are critical factors the rating agencies will be evaluating when determining the State’s future ratings.”

The State has benefited from the twin policies of fiscal discipline and conservative debt issuance practice, both by lowering its borrowing costs through the ability to annually issue bonds with strong credit ratings and by possessing a greater degree of flexibility to weather severe economic downturns when compared to many other state governments.
The importance of these policies was clearly tested during the severe economic downturn that began in 2008 and continues today. State revenues declined substantially relative to annual debt service payments of outstanding bonds. In fiscal year 2009, annual debt service equaled 7.9% of State revenues, or nearly 1% above the State’s 7% debt ceiling. Nevertheless, the State’s bond credit ratings, while temporarily affected, have remained strong and are among the highest in the nation. Those states that utilized more liberal debt issuance policies, lower reserves or a reliance on debt to pay for recurring operating needs endured greater financial hardship during this economic downturn than did Florida.

Thus, one advantage the debt management and fiscal policies adopted by the State is that they allow Florida to maintain a strong credit rating (AAA/Aa1), thereby, lowering the State’s debt service costs. This is a valuable asset when managing an on-going fixed asset program, which is dependent upon annual bond issuances.

More importantly, the State’s debt policies have ensured that appropriate fiscal discipline is maintained with respect to the State’s budgeting process. They serve to minimizing unsound practices, such as issuing bonds to pay for recurring operating costs or issuing bonds in a
While and demonstrated accordingly, bonds are generally issued for fixed periods of 30 years or less and with level debt service payments that allow additional bonding capacity to be created as State tax revenues grow and as older bond issues mature.

**Limitations of State Debt Policies** – The State’s debt policies and practices have been demonstrated to serve Florida well, both for purposes of long-range financial management and in particular during periods of severe economic downturns. However, they limit the amount of debt financing that may be used for transportation capacity improvements in instances where it may be the most appropriate financing method, when other factors are taken into account, such as cost savings, commercial and economic benefits, accelerated construction schedules and the appropriate matching of transportation costs and use.

While the bond cap is an integral component of the State debt policy for maintaining strong credit ratings, it results in competition among various state programs for limited tax-supported debt financing capacity. Transportation must compete for scarce bonding capacity with other critical State needs. While many studies indicate that debt-financed transportation improvements will “pay for themselves” in terms of economic benefits, it is difficult for these projects to secure a portion of the limited tax-supported debt capacity when competing against other State fixed asset needs, such as education financing. Further, the state’s ability to issue tax-supported bonds for any purpose is limited during periods of time when the general revenues of the State decline and the benchmarks have been breached.

Application of State Bond Practices to Self-Supporting Debt – Self-supporting debt is distinguished from tax-supported debt in that it does not carry a pledge of the full faith and credit of the State of Florida, and its debt service obligations are generally paid from internally-generated revenues or fees. Examples include toll roads and college dormitories.

Self-supporting debt is not included in the calculations of the State’s bond target and cap. However, with few exceptions, most of the State’s other conservative debt practices are applied to self-supporting debt. With respect to self-supporting debt, the State appears to follow the practice of preserving debt capacity for future applications when a more appropriate
public policy may be to use higher levels of debt financing today in order to secure the economic benefits associated with the capital improvement and attendant revenues.

This issue is addressed recently by The Reason Foundation which found:

“FTE’s (the Florida Turnpike Enterprise) toll revenue bonds are issued with a level schedule of debt service payments over 30 years, described by some as “plain vanilla” revenue bonds. Less conservative financing policies sometimes used on toll projects in other states may involve longer terms than 30 years, and may structure the debt service to be lower in the early years, increasing over time as traffic and revenue are projected to increase. The state Division of Bond Finance, when issuing bonds on behalf of LTAs, has followed generally similar conservative policies, though there is no statutory mandate for an economic feasibility test. The Division’s conservative practices (30-year, level debt service revenue bonds via competitive bidding) are not mandated by law, but are a matter of policy. These policies generally reduce risk, though they are not a guarantee against occasional failures. (We note in passing that the bonds issued by the now-bankrupt Santa Rosa Toll Bridge Authority were issued by that authority, not by the state, based on debt service that increased over time, based on traffic and revenue projections that turned out to be overly optimistic).

Local toll authorities in Florida contend that FDOT’s conservative financing policies—while suitable for standard inter-city turnpikes where traffic growth is moderate, and for stand-alone toll bridge projects—are less well-matched to the needs of fast-growing urban expressway systems. For projects where traffic growth is much faster than in the inter-city segment, LTAs argue that debt service that increases over time can be a better fit. By taking advantage of both higher traffic growth and inflation-adjusted toll rates, the LTAs could finance larger projects sooner via a more aggressive approach to project finance. Such policies are potentially higher risk than the plain vanilla state policies, but when such debt is legally the responsibility of the LTA, not the state, then it is not clear that state policy should constrain LTAs from making their own trade-offs about the degree of risk they take on. If the bond market judges that such structured finance is higher risk, it will price that risk into the interest rate on the revenue bonds. LTAs argue that it is appropriate for their locally accountable boards to be able to make such trade-offs.”

**Business Enterprise Characteristics of Revenue Generating Transportation Agencies** – Local Transportation Agencies, such as Transportation, Toll and Transit Authorities, are classified under General Accepted Accounting Principles (GAAP) as business enterprises. In recognition of their business-like characteristics, GAAP requires state and local governments to account for these operations as “business-type activities” – activities similar to those found in the private sector which include services primarily funded through user charges.
The designation of user-fee based government-owned operations as business enterprises is an important distinction for policy makers to consider in that business operations are in many respects dissimilar from governmental operations. For example, businesses borrow money to expand operations for the purpose of increasing revenues and profits. Public enterprises, such as toll agencies operate in a similar fashion, the primary difference being that the public enterprise is not driven by profits but rather by providing revenue-generating services as determined by increases in traffic demand.

According to Generally Accepted Accounting Principles (GAAP Section 80.20.35.b):

*Proprietary Funds are used to account for a government's ongoing organizations and activities that are similar to businesses found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis.*

*Enterprise Funds - used to account for any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds, in the context of the activity's principal revenue sources, if any one of the following criteria is met:*

   a. The activity is financed with debt that is secured solely by pledge of the net revenues from fees and charges of the activity,
   
   b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or
   
   c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

It is appropriate to maintain a long range debt financing program that is measured and takes into consideration the preservation of debt issuing capacity for future needs for general government purposes. However for enterprise purposes, circumstances will arise where it is a more appropriate public policy to maximize available bonding capacity in the near-term, understanding that the facilities that are being constructed will generate and grow revenues over time.

Transportation improvements frequently do not lend themselves to the incremental improvements that can be made under a measured long range debt management approach. Sometimes it is counterproductive to expand highway capacity within a congestion corridor in a piece-meal fashion as this only serves to increase the duration of construction, adding to construction-related traffic delays as well as additional business damages. Initial large debt outlays may be required to complete a facility, such as a tolled highway that is forecast to generate a growing stream of future revenue that can be adjusted to correspond with inflation increases. Under these circumstances, greater flexibility to match costs and future revenues is warranted by using more flexible debt structures and terms.
While many of the State’s debt policies and practices are necessary and desirable for general state financing purposes, they have the effect of restricting otherwise appropriate methods for financing transportation capacity improvements. Accordingly it is recommended that the legislature explore the creation of Regional Transportation Financing Authorities (RTFA).

Regional Transportation Finance Authorities – The recently enacted legislation limiting FDOT’s participation in debt financing and debt-like programs should serve as a catalyst for establishing a transportation financing mechanism which does not impact the State’s debt management policies and practices. It is contemplated that RTFAs would operate independent of the State and would not rely on State tax revenues in any capacity that would limit the State’s tax-supported bonding capacity.

The general purpose of the RTFAs will be to provide financial assistance in various forms to the governmental agencies and public-private ventures within the State to assist their efforts to debt finance appropriate transportation projects, thereby accelerating project schedules, avoiding inflationary and land appreciation cost increases and providing cost savings to motorists and commercial interests as well as related economic benefits.

Potential RTFA Applications – It is contemplated that RTFAs could provide a variety of financial services to state and local transportation agencies, many of which mirror or could take the place of existing State debt financing programs. This would have the advantage of freeing up State tax-supported bonding capacity for other uses. These activities may include:

- Issue GARVEE-like bonds to advance state and local transportation project construction schedules, repaid from future federal, state or local transportation appropriations.
- Provide subordinated or below market rate loans to assist in financing revenue-generating projects with characteristics similar to existing State Infrastructure Bank (SIB) loans.
- Enter into P3 agreements where warranted.
- Provide short-term construction loans to toll agencies to defer long term financing until after project completion.
- Provide a source of funding to advance purchase rights of way where property appreciation is anticipated to be greater than financing costs.
- Issue debt supported with revenue streams from outstanding loan agreements to leverage financing capacity – similar to existing SIB bonds.
- Enter into risk-sharing agreements, where appropriate, to maximize the bonding capabilities of governmental entities.
- Enter into multi-agency financing agreements to develop and pay for significant regional transportation facilities.
- Provide “seed money” for the development of new toll facilities – similar to the existing Toll Facilities Revolving Trust Fund Program.
- Advance purchase right-of-way for new alignments and capacity expansions in existing corridors – similar to the existing Right-of-Way Acquisition and Bridge Construction Trust Fund Program.
The followed graph illustrates the cumulative transportation project financing potential over ten years for two debt financing alternatives, compared to the pay-as-you-go option.

Each approach is capitalized at $100 million per year in recurring non-state revenues. The “Pay Go” approach utilizes FDOT’s cash flow management practices, the “Bonded Projects” approach assumes a combination of debt financing and cash is used directly for project costs and the “Loan Program” approach assumes a revolving loan program, similar to the SIB, where debt proceeds are loaned to and repaid by transportation agencies.

In year one, both debt financing approaches would allow approximately $750 million in new construction starts, compared to approximately $240 million in cash-flowed pay-as-you-go projects.

By year ten, a revolving loan program would finance approximately $3.2 billion in projects compared to $1.4 billion in bond/cash financed projects and $1.1 billion using pay-as-you-go.

It is contemplated that RTFAs would use a variety of approaches based upon the financing requirements of individual projects and the financial needs of the respective transportation agencies and in accordance with established debt management policies and practices.
Sales Tax on Motor Vehicle Parts & Services

Recommendation: Shift Sales Tax on vehicle accessories, parts, repairs and service from the General Revenue Fund to the State Transportation Trust Fund.

Rationale: A number of states dedicate a portion of their motor vehicle-related sales tax collections to transportation funding. This recommendation is to dedicate the revenues collected from the States existing 6% general sales tax on vehicle accessories, parts, repairs and service to the State Transportation Trust Fund (STTF). The General Revenue (GR) Fund currently receives these proceeds and would suffer a loss of revenue. This would, however, provide an additional $666 million of transportation-related revenues to the STTF.

A number of states dedicate a portion of their motor vehicle sales tax collections or impose additional vehicle excise taxes for funding transportation. This recommendation is to dedicate portion of the revenues collected from the State’s existing 6% general sales tax on motor vehicles to be used for transportation rather than for general government purposes. It is understood that this action would be difficult to accomplish under current economic circumstances and State revenue limitations. It should be considered in the event future economic conditions permit this action.

Discussion: The precedent exists in many states that use a portion of motor vehicle sales taxes to fund their transportation programs. A number of states consider sales and other excise taxes on motor vehicles to be a form of user-fee for funding transportation needs. Since general sales taxes are paid on the purchase price of a motor vehicle, there exists a rational nexus between the levy of this tax and its use for transportation purposes.

Currently 10 states dedicate a portion of the state sales tax collections on motor vehicle sales to their transportation funds. These states are: Arizona, California, Indiana, Kansas, Massachusetts, Mississippi, New York, Pennsylvania, Utah and Virginia. In addition 12 states levy additional excise taxes on motor vehicle sales for transportation purposes. These states are: Connecticut, Iowa, Kansas, Maryland, Michigan, Minnesota, Missouri, North Carolina, Nebraska, Oklahoma, South Dakota and Virginia. Furthermore, most states supplement their transportation programs with general revenue funds.
Dedicating a portion of Florida’s motor vehicle sales taxes, sales tax collections on vehicle accessories, parts, repairs and service could be used as an additional source of transportation funding.

Shifting a portion of the sales taxes collected on activities related to the sale and maintenance of motor vehicles would result in a corresponding reduction in general revenue. Accordingly, this recommendation would be difficult to implement during periods of time when the State is experiencing shortfalls in general revenue collections. Nonetheless, this approach would be reasonable and justifiable from the user-benefit concept when more favorable economic conditions return to the State.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: Shift Sales Tax Collections on Vehicle Parts, Repairs, Services and Accessories to the State Transportation Trust Fund

8 Year Total: $5,331 million
Annual Average: $666 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
**Shift Sales Tax on Battery Electric Vehicles to the STTF**

**Recommendation:** Shift the State general use sales tax revenues on electric vehicles from the General Revenue Fund to the State Transportation Trust Fund.

**Rationale:** Battery electric vehicles (BEV) do not use traditional motor fuels and, therefore, users do not contribute to the State Transportation Trust Fund (STTF) fund to compensate for the use of the highway system. This option would establish the precedent that BEV sales taxes would be remitted to the STTF rather than to the General Revenue (GR) Fund before their sales grow to a point that general revenues would be harmed substantially and to ensure that users pay their “fair share.” Sales forecasts vary widely for these newly introduced vehicles, and projections indicate that on average about $9 million per year in revenue could be realized by the STFF under this option.

**Discussion:** This recommendation would ensure that BEVs pay their “fare share” of the cost of maintaining and improving the State’s transportation systems without imposing an additional tax burden on the purchasers of such vehicles. All electric vehicles BEVs do not use motor fuels and, accordingly, do not pay motor fuel taxes. BEVs are defined as those vehicles that operate using 100% electric power. Examples of current BEVs include the Nissan Leaf, Tesla and Fisker. They do not include hybrid vehicles, such as the Chevrolet Volt or Toyota Prius, which are also powered with an internal combustion engine.

Since BEV sales are currently relatively small, the impact to the GR Fund would also be relatively minor. Sales growth is expected to increase incrementally from the current small base, allowing for gradual adjustments in GR collections.

While forecasts on consumer purchase patterns vary wildly, it is currently estimated for the purposes of this study that Florida BEV sales may reach 2,400 in fiscal year 2012-13, growing to 4,500 by fiscal year 2019-2020. Accordingly, the State general sales tax revenues from BEV sales are calculated at $5.2 million for FY 2012-13, growing to $11.2 million in FY 2019-20. Actual BEV sales volumes and the associated general sales tax collections
could vary considerably from these estimates based on fuel prices, customer acceptance, vehicle costs and the rate of battery technology enhancements.

The deposit of sales tax proceeds from the sale of BEVs would be considered a one-time payment for operation on state roads and highways for the life of the vehicle. Shifting the sales tax on BEV sales from GR to the STTF will initially result in a minimal revenue impact. BEV sales should increase gradually over time as battery technologies improve and costs decline: however, the exact rate of change cannot be determined.
$10 County Vehicle Registration Fee

Recommendation: Establish an optional county vehicle registration fee for public transportation at $10 per vehicle, which each county can elect to implement, that is targeted for public transit (operating or capital) and creates a bondable revenue stream.

Rationale: Under this option, counties could elect to institute a $10 annual fee for each vehicle registered in that county with the revenues targeted for public transportation purposes and be a “bondable” revenue stream. The County Vehicle Registration Fee, if adopted by all counties, would generate approximately $155 million per year. Annual fee collections range from $19 million in Miami-Dade County to under $100,000 in a number of the State’s smaller counties.

Discussion: Motor Vehicle License (MVL) Fees are the third largest State transportation funding source, comprising 19% of Florida’s state transportation taxes and fees. While local governments currently may impose local option motor fuel taxes, no similar provision is available for MVL Fees.

Motor Vehicle License Fee rates for private automobiles and light trucks currently range from $19.50 to $44.00 annually. As these fees are assessed according to the vehicle’s weight, rates are considerably higher for heavy trucks.

The 2009 Florida Legislature increased MVL fees by approximately 35%. Prior to this rate increase, MVL fees were last adjusted in 1983. Thus, from an inflation adjusted perspective, the 2009 fee increases reflected only about 1/4th of the general rate of inflation increase of 130%. In all vehicle weight categories, the combined 2009 increase and the assessment of a $10.00 county optional motor vehicle decal fee would continue to result in fee rates that are below the growth in the general rate of inflation since 1983.

The County Vehicle Registration Fee, if adopted by all counties, would generate approximately $143 million per year. This amount would change over time based of the number of vehicles registered. Annual fee collections range from an estimated $18.5 million in Miami-Dade County to under $100,000 in a number of the State’s smaller counties.

It is recommended that this fee be targeted for public transportation purposes within each county, either to assist in covering operating costs or for capital outlays. Further, it is recommended that the fee be drafted in legislation to permit it to remain in place for an extended time period, such as
a minimum of 30 years, thereby allowing it to be used as a debt service pledge on local bond issues.

It is contemplated that adoption of the fee will require an extraordinary vote of the county commission or a countywide referendum initiated by the commission, as is currently required to implement the 1 to 5 cent local option motor fuel tax.

### State of Florida

**Compare Inflation Adjusted Vehicle Fees to 2009 Rate Increases**

Rates Adjusted to Today’s (Feb 2012) Dollars

<table>
<thead>
<tr>
<th>Fee</th>
<th>Prior Rate</th>
<th>Inflation Adjusted Prior Rate</th>
<th>2009 Revised Rate</th>
<th>Inflation Adj. Higher (Lower) Than 2009</th>
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<tbody>
<tr>
<td><strong>Motor Vehicle License Fees - Automobiles</strong></td>
<td></td>
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<tr>
<td>Net weight less than 2500 lbs</td>
<td>$14.50</td>
<td>$33.15</td>
<td>$19.50</td>
<td>$13.65</td>
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<tr>
<td>Net weight of 2500 lbs less than 3500 lbs</td>
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<td>$51.44</td>
<td>$30.50</td>
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<td>3500 pounds or more</td>
<td>$32.50</td>
<td>$74.30</td>
<td>$44.00</td>
<td>$30.30</td>
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<tr>
<td><strong>Motor Vehicle License Fees - Trucks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net weight less than 2000 lbs</td>
<td>$14.50</td>
<td>$33.15</td>
<td>$19.50</td>
<td>$13.65</td>
</tr>
<tr>
<td>Net weight of 2000 lbs less than 3000 lbs</td>
<td>$22.50</td>
<td>$51.44</td>
<td>$30.50</td>
<td>$20.94</td>
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<tr>
<td>3000 pounds or more less than 5000 lbs</td>
<td>$32.50</td>
<td>$74.30</td>
<td>$44.00</td>
<td>$30.30</td>
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<td><strong>Motor Vehicle License Fees - Heavy Trucks</strong></td>
<td></td>
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<tr>
<td>5001 to 5999 lbs</td>
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<td>6000 to 7999 lbs</td>
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<td>15,000 to 19,999 lbs</td>
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<td>20,000 to 26,000 lbs</td>
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<td>72,000 lbs or more</td>
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<td><strong>Initial Vehicle Registration Fee</strong></td>
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<td><strong>Title Fee</strong></td>
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<table>
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<tr>
<th>CPI Inflation Since Last Rate Increase Prior to 1999</th>
<th>Year</th>
<th>CPI Increase</th>
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<tr>
<td>Motor Vehicle License Fees</td>
<td>1983</td>
<td>128.6%</td>
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<tr>
<td>Initial Vehicle Registration Fees</td>
<td>1990</td>
<td>74.2%</td>
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<td>Title Fee</td>
<td>1991</td>
<td>67.2%</td>
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</table>
Revenue Option: Local Option $10 County Vehicle Registration Decal Fee

8 Year Total: $1,242 million (maximum)
Annual Average: $155 million (maximum)

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
**Alternative Fuel Decal Expansion**

**Recommendation:** Expand current alternative fuel decal program to include all vehicles using alternative fuels and/or not propelled via an internal combustion engine (e.g. electric). Pro-rate the fuel decal fee for hybrid electric vehicles.

**Rationale:** This recommendation would expand the existing decal program required for compressed natural gas (CNG) vehicles to all vehicles that use non-traditional motor fuels or are not propelled by internal combustion engines (e.g. battery electric cars). It would also create the requirement for decal payment on pro rata basis for hybrid electric and plug-in hybrid (PHV) vehicles. The rate currently charged for compressed natural gas-powered vehicles is $196.90 per year to account for the fact that no highway use fee is being paid through motor fuel taxes. The wide variance of hybrid vehicle types (mild hybrids, full hybrids, plug-in hybrids) and the rapidly developing technology could create implementation and consumer communication challenges. If implemented, current estimates indicate an expanded decal program could generate up to $40 million annually by 2020.

**Discussion:** Vehicles, such as PHVs and all battery electric (BEV) vehicles use less or no motor fuel and, consequently, contribute less in motor fuel taxes towards the maintenance and improvement of transportation facilities. With future cost reductions and efficiency improvements, the percentage of alternative fuel vehicle purchases could potentially increase significantly, resulting in lower motor fuel tax collections. This recommendation will help to mitigate the potential revenue loss; however, it may be difficult and costly to administer fairly.

Currently, the alternative fuel decal program applies only to motor vehicles using CNG. The rates currently charged for CNG vehicles, $196.90 for 2012, are reasonable when compared to state motor fuels taxes paid based on the average miles traveled per vehicle. These rates are adjusted annually in accordance with statutory formula.

However, the alternative fuel decal is not assessed on all electric vehicles. Further, many hybrid vehicles used substantially less motor fuel than do internal combustion engine vehicles. Thus, hybrids and BEVs do not pay the same share of the costs for maintaining and improving the State’s transportation system as do internal combustion engine vehicles.

Total hybrid sales reached the 2 million mark nationwide by 2009. It is forecast that 1.6 million hybrids will be sold annually in 2016. The growth in BEVs is expected to be significantly slower, with sales of 2,700 in 2010,
growing to 65,000 by 2016. Using proportional estimates, there are currently 160,000 hybrid vehicles and, perhaps, 1,000 all electric vehicles operating in Florida today.

Hybrid vehicles have different motor fuel efficiencies, depending upon vehicle type, hybrid characteristics and usage. Generally, the increase in fuel efficiency of hybrids (over comparable internal combustion vehicles) is approximately 20% for mild hybrids, 30% for full hybrids and 45% for plug-in hybrids. These efficiencies may change over time, particularly with improvements in battery technologies.

PHVs and BEVs use generated electricity as a partial or full fuel source. It can be argued that these vehicles pay various state and local excise taxes on electricity consumption and, thus, should not be required to pay an additional fuel decal fee. However, taxes imposed on electricity consumption are used for other governmental purposes, while fuel taxes are traditionally considered a user-fee to pay for the cost of the transportation system. Therefore, the application of the full decal fee to BEVs and prorated fees for hybrids, based on type, would ensure the operators of these vehicles contribute an appropriate share of the transportation costs.

An expanded alternative fuel decal program would initially generate approximately $11 million, growing to $40 million in fiscal year 2019-2020. These estimates are subject to significant adjustment based upon potential cost and efficiency improvements and customer acceptance of alternative fuel vehicles.
MPOAC Revenue Study
Estimated Revenue Yields*

Revenue Option: Expand Alternative Fuel Decal Program to Electric, Hybrid and Other Vehicles That Use Non-Traditional Fuels.

8 Year Total: $204 million
Annual Average: $26 million

*The MPOAC Revenue Study calculations were prepared using Florida Revenue Estimating Conference (REC) data and assumptions as of October 2011. Subsequent REC estimations may result in changes to the funding levels generated by this option. Accordingly the revenue estimates displayed above should be considered approximate funding levels for the purpose of evaluating additional revenue alternatives.
Invest $100 million of Incremental Revenue in New Toll Projects

**Recommendation:** Increase the levels of State funding invested in the Florida Turnpike Enterprise and Regional Expressway Authorities in order to leverage new toll project revenues and increase total transportation infrastructure financing capacity. Use incremental new revenue.

**Rationale:** Like the Regional Transportation Financing Authority (RTFA) option, this recommendation is a suggested use of incremental revenue raised by implementation of the other options and prescribes an annual investment of $100 million each year in Florida’s Turnpike Enterprise (FTE) and expressway authorities across the State. This investment would leverage new toll project revenues and increase total transportation financing capacity. Each one dollar of recurrent toll revenue will generate 15 to 18 dollars in bond proceeds for infrastructure investment. The economic benefits of having projects implemented sooner rather than later, coupled with the inflation cost savings of building now rather later are offsets to the financing costs associated with issuing debt. The 2012 Legislature has taken an initial step in this direction by allocating $35 million per year for 30 years to the FTE to pay for turnpike system feeder roads and access projects.

**Discussion:** Florida’s tolled highways have expanded rapidly in past decades primarily due to the State’s policy of assisting toll road development and construction through direct appropriations and grants (capital contributions), subordinated loans, financial covenants and guarantees. This has resulted, not only in significant contributions to the State Highway System in terms of building new highways and adding lanes to existing highways, but also in accelerating toll highway projects which in turn has accelerated toll revenue collections and the ability to reinvest these higher toll revenues on yet additional transportation infrastructure projects.

Toll agencies have contributed substantially towards addressing the State’s transportation funding needs. This is apparent when converting annual toll revenue collections into the equivalent number of cents per gallon that motor fuel taxes would need to be increased to generate the same amount of transportation funding. In 10 years toll revenues increased the equivalent of over 5 cents per gallon of fuel tax proceeds from 7.5 cents in 2000 to 12.5 cents by 2010.
In Fiscal Year 2009-2010 toll revenue collections ($1.15 billion) exceeded the State’s Highway Fuels Sales Tax collections ($1.10 billion).

Over the years Florida has developed and implemented a variety of financial guarantees and covenants to maximize the potential bonding capacity of toll agencies for new facilities and capacity expansion. The State has also provided over $3 billion in grants and loans to enhance the financial feasibility of toll projects. This has consisted of approximately $1.3 billion in loans, mainly through a number of loan programs created to encourage the development of toll facilities and $1.7 billion in direct grants (capital contributions).

### Loans & Capital Contributions
**Awarded to Florida Toll Agencies**
Through December 31, 2010

<table>
<thead>
<tr>
<th>Toll Agency Group</th>
<th>Loans &amp; Advances</th>
<th>Capital Contributions</th>
<th>Total Loans &amp; Contributions</th>
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<tbody>
<tr>
<td>Turnpike Enterprise</td>
<td>$403,577,290</td>
<td>$1,296,667,625</td>
<td>$1,700,244,915</td>
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<tr>
<td>Regional Authorities</td>
<td>687,038,372</td>
<td>245,212,805</td>
<td>932,251,177</td>
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<tr>
<td>FDOT Owned Facilities</td>
<td>135,900,000</td>
<td>199,000,000</td>
<td>334,900,000</td>
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<tr>
<td>All Other</td>
<td>58,883,236</td>
<td>0</td>
<td>58,883,236</td>
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<tr>
<td><strong>Totals</strong></td>
<td>$1,285,398,898</td>
<td>$1,740,880,430</td>
<td>$3,026,279,328</td>
</tr>
</tbody>
</table>

**Capital Contributions** consist of direct contributions such as appropriated funds, FDOT programmed funds, grant awards and donations of land, engineering services and other capital assets.

Table includes Federal Aid Highway Funds awarded through FDOT.

As a result of these various initiatives, Florida toll agencies have completed over 100 significant toll facility projects, with an original cost of nearly $14 billion and a present day value of nearly $30 billion.
From 2000 through 2010, toll agencies completed or began construction on 17 major new expressways and extensions, at a cost of nearly $4.5 billion and adding 96 additional centerline miles to the State Highway System, representing 87% of all centerline miles added during this period of time. During this decade toll agencies invested an additional $2.7 million in 12 major lane widening and capacity improvement projects. Toll agencies added 545 lane miles to their facilities, an amount equal to the total number of lanes miles added to the Interstate Highway System. Thus toll agency contributions have doubled the increases in capacity on State’s limited access highways over what could be accomplished otherwise.

Much of the Florida Turnpike System and most expressway authority facilities are located in densely populated urban areas where capacity expansion is more costly primarily due to higher right of way costs and corridor limitations that require more costly engineering and design solutions.
Regional expressway authorities invested heavily during the period from 2000 through 2009 in transportation improvements. These investments resulted in a 185 percent increase in the asset value of their systems and facilities.

Investing in toll facilities creates a “virtuous cycle” of future toll revenues and future transportation investments. The combination of direct grants, subordinated loans and various financial covenants and guarantees have permitted toll agencies to build projects much earlier than would have been possible without this support. This in turn permitted these toll facilities to generate additional toll revenues sooner as well as accelerate their traffic and toll revenue growth profiles. Accordingly the higher traffic volumes on toll highways increased toll revenue collections that in turn are reinvested to fund additional capacity improvements and system expansions.
The value of investing transportation funds on toll facilities in order to build projects more quickly and generate toll revenues sooner can be seen by comparing the growth rates of state transportation and toll revenues demonstrates this effect. In Fiscal Year 2009-2010 toll revenue collections ($1.15 billion) exceeded the State’s Highway Fuels Sales Tax collections ($1.10 billion).

**Tolls Are Growing Faster than State Transportation Revenues**

**Percent Growth from 1999 to 2010**

Future Toll Agency Contributions - A 2010 internet survey of the various plans and feasibility studies of the Florida Turnpike Enterprise and regional expressway authorities indicated 90 potential projects with a combined estimated cost of $30 billion were in various stages of feasibility assessment and development.

**Planned and Potential Future Toll Projects**

90 Projects & $29 Billion Total Project Cost

(In Current $ Millions)

Average Project Size $325 Million
While not all of the projects under development will ultimately be completed, they provide an indication of the potential role of toll agencies in meeting the State’s unfunded transportation needs. Toll agencies can make a substantial contribution towards addressing the current backlog of unfunded transportation needs as well as future needs should the State elect to increase the level of toll road investment.

Toll agency investments result in additional miles of new highways and greater capacity on existing facilities. This in turn increases traffic using toll facilities thereby reducing traffic and the need to add lanes on other State highways, particularly in urban areas where highway construction is very expensive.

However in recent years there has been a drop off in the level of State investment in toll roads. This is due in part to current economic circumstances. It is also the result of an apparent shift in State policy with respect to toll agency investing. As a result, while Florida’s toll agencies will continue to make above average level of contributions to the State Highway System and will generate toll revenues at higher rates than those of transportation taxes and fees, their future contributions will be less than their full potential.

The Florida Legislature addressed this issue to some extent in the 2012 legislative session by authorizing the transfer of $35 million per year for 30 years to the Florida Turnpike Enterprise to pay for the costs of feeder roads and access to the Florida Turnpike System. However recent trends have been to withdraw State financial support and eliminate funding in programs designed to assist regional expressway authorities. The recent policies to reduce financial participation thereby maximizing the financial capabilities of expressway authorities may in the long run result in a greater demand on the State’s limited transportation resources to undertake costly urban highway capacity projects.

Both the Florida Turnpike Enterprise and regional expressway authorities serve important roles in the development of the State’s highway transportation systems. These toll facilities oftentimes serve to reduce congestion on the Interstate Highway System and reduce the level of State investment needed to accommodate urban traffic congestion. Accordingly, in the event future transportation revenues are increased, it is recommended that the levels of State funding invested in the Florida Turnpike Enterprise and Regional Expressway Authorities should be increased as well in order to leverage new project toll revenues and increase total transportation infrastructure financing capacity.