MEETING FLORIDA'S TRANSPORTATION INVESTMENT NEEDS

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Florida TaxWatch

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Chairman of the Board of Trustees

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Dear Fellow Taxpayer,

Florida's transportation network has long been a focus of Florida TaxWatch, and for good reason. The state's transportation infrastructure is a vital piece of each resident's daily life, and is one of the first things that visitors to the state experience. A vibrant and growing economy in our state is also very dependent on a high-quality transportation system.

But is Florida prepared to meet the increasing transportation demands that the state's rapid growth will bring with it? Is our current transportation funding system sufficient to meet those future challenges?

Twenty-five years ago, Florida TaxWatch research examined these questions and that research played a role in directing more funding to transportation. It is time to address these questions again.

In the spirit of continuing the improvement of the system, this report revisits the overall condition and adequacy of the network and identifies issues that need to be addressed. The report also highlights the myriad of benefits that investments in Florida's transportation infrastructure can bring.

I hope that this report can be a useful reference for taxpayers and policymakers alike when discussing the future of Florida's transportation system.

Sincerely,

Dominic M. Calabro

Dominic M. Calabro
President & CEO

Executive Summary

Florida continues to grow and is now the nation's third largest state. After a slowdown during the Great Recession, Florida is on the rise again, and the state will add more than four million new residents by 2030. This growth and the economic expansion that will come with it will further strain Florida's already over-burdened transportation system, as Florida will be moving more people and goods through its network of highways, railways, seaports, airports and space ports. Meeting these challenges will require investment in the transportation infrastructure to keep our economy flowing, maintain Floridians' quality of life and safety, and continue to make the state an attractive tourist destination.

- Transportation funding provides a myriad of benefits. An improved system to save motorist time and money by reducing congestion, gas consumption and wear and tear on vehicles, as well as improving safety. Increased transportation spending itself creates jobs and has a large return on investment, as much as $5.60 for each dollar spent.
- Over the next 25 years, the state is facing a $161 billion shortfall between projected revenues and estimated transportation needs.
- The per capita spending on roads by Florida's state and local governments ranks 41st among the 50 states.
- Florida has not had a major state transportation funding increase since 1990 and the gas tax is proving to be an inadequate source to meet the state's future transportation challenges.
- Improving fuel efficiency could further reduce state gas tax collections by $3.3 billion below current estimates by 2025.
- Other states are addressing their transportation needs – 24 states have increased funding since 2012.

It is clear that Florida's current transportation funding system is inadequate to create and maintain a high-quality system. Florida needs to begin seriously planning for its transportation funding future now.

Introduction

Transportation is a crucial component in the daily lives and livelihoods of Floridians. The quality of a transportation system can either greatly enhance or impair quality of life. For businesses, it facilitates a more efficient, reliable, and safe exchange of goods and services. Transportation is the platform that links our commerce exchanges and promotes our economic competitiveness both in-state and inter-state.

More than 3.5 million full-time jobs in Florida in key industries like tourism, retail sales, agriculture, and manufacturing directly rely on the state's transportation network. These jobs produce $120 billion in wages and the workers contribute an estimated $22 billion in taxes.[1]

Overall, the need for a robust Florida transportation infrastructure is critical, but is Florida currently providing a high-quality transportation system, and more importantly, is the state poised to make the improvements needed in the future?

Funding Florida's Transportation System

State Funding

The FY2015-16 budget appropriates approximately $10 billion for transportation.[2] Florida's transportation investment comes from a variety of sources; it includes federal, state, and local money generated from a number of different taxes. Although there are a number of sources of funding, the state gas tax accounts for the majority (57 percent) of state transportation revenue.

The average driver in Florida contributes just $334.81 a year in federal, state, and local taxes and fees to fund the state's roadways, bridges, transit systems, airports, seaports, and railways.[3] This amount is less than $30 a month and includes all federal, state, and local fuel taxes, as well as all state motor vehicle fees.[4] (See appendix for more information on Florida's transportation funding sources.)

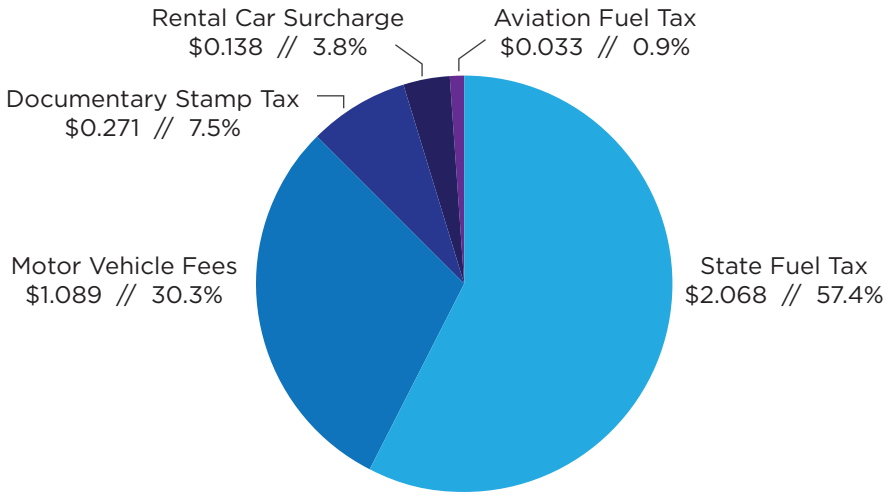
Florida's state and local governments spend less on transportation than the average state. Florida's state and local governments spend $551 per capita on transportation and only $421 per capita on roads. This ranks Florida 41st among the 50 states.[5]

Florida's last major transportation funding package was passed in 1990, and there has been no change in the transportation portion of the base motor vehicle registration fees since 1983.[6] In 1990, spurred by a broad-based transportation coalition and armed with Florida TaxWatch research, the Legislature passed a $6 billion, five-year funding package.

1 American Road and Transportation Builders Association, 2015 U.S. Transportation Construction Industry Profile, Florida Transportation Facts.
2 The Taxpayer's Pocket Guide to Florida's FY2015-16 State Budget.
3 Florida Transportation Commission, The Fuel Tax: An Unsustainable Transportation Revenue Source (presentation).
4 Florida Transportation Commission, The Fuel Tax: An Unsustainable Transportation Revenue Source (presentation).
5 Florida TaxWatch calculations, using U.S. Census Bureau data. FY 2013.
6 Florida Department of Transportation, Office of Comptroller, "Florida's Transportation Tax Sources: A Primer, January 2015.

State Transportation Revenue – $3.6 Billion Total

$ billions // FY2015-16



Source: Florida TaxWatch, using results from the Transportation Revenue Estimating Conference, July 31, 2015.

The funding was statutorily tied to improved Florida Department of Transportation (FDOT) performance and productivity measures developed by Florida TaxWatch, the Florida Council of 100, and the Transportation Commission. Since the increased funding was enacted, the improvement in the condition of Florida's roads has been remarkable.

Since then, the Legislature has, without raising taxes or fees, directed some additional dollars to transportation over the years, but much of those funds have been offset. In 2005, with documentary stamp tax collections swelled by the housing bubble, the Legislature passed a growth management bill that directed $541 million in doc stamp revenue to transportation. While the doc stamp tax had been a sizable, reliable revenue source for many years, the housing bubble burst in 2008, and collections fell drastically. Now the State Transportation Trust Fund (STTF) gets 24.18 percent of collections after some required distributions.[7] The amount the STTF receives has fallen considerably, to an estimated $271.3 million in FY2015-16.[8]

During the 2015 Special Session, the Legislature passed SB 2514 to change the distribution of proceeds from the state's $225 New Wheels Fee[9] to redirect the 41.2 percent that previously was deposited into the General Revenue Fund to the STTF. The STTF now receives $206 million from this fee, increasing transportation revenues by $99 million annually.[10] However, the implementation of Amendment 1—that directed 33

7 Deposits to the Land Acquisition Trust Fund, administration costs of the Department of Revenue and a General Revenue Service charge are distributed first, then the STTF's share (24.18 percent) is applied to the remainder. These distributions take up $902 million (39 percent) of documentary stamp tax collection in FY 2015-2016.

8 Florida Office of Economic and Demographic Research, results of the Documentary Stamp Tax Revenue Estimating Conference, July 2015.

9 The fee applies to the initial registration of automobiles, light truck, motorhomes and truck campers.

10 Florida House of Representatives, staff analysis of SB 2514-A, June 24, 2015.

percent of all documentary stamp tax revenue be deposited in the Land Acquisition Trust Fund for environmental purpose—reduced revenue going to to the STTF by $99 million. This made the impact to the STTF a net of zero. The bill also created the Florida Shared-Use Nonmotorized Trail (SunTrail) network, for which FDOT is required to annually allocate $25 million.[11]

Federal Aid

In addition to the money collected from state and local taxes and fees, Florida receives approximately $2 billion from the federal government,[12] as part of regular disbursements to the 50 states, the District of Columbia, and the U.S. Territories from the federal gas tax and excise taxes on tires, trucks, buses, trailers, and heavy vehicle use. The money is dispersed by formula and, historically, those formulas have not been kind to Florida. As a result, Florida's receives only about 26 percent of its funding for its work program from the federal government, one of the lowest percentages in the nation.[13]

Since the federal government often adds general funds into the trust funds, states usually get back more than they contribute, although Florida has been a donor state (receiving less than it contributed) in some years. In 2014, Florida contributed $1.739 billion in federal transportation taxes into the Federal Highway Trust Fund (FHTF) and received $1.874 billion back in federal aid. This is a return of $1.08 per dollar contributed, the 36th highest return in the nation; and 2014 was actually a relatively good year for Florida. In the aggregate, the state's return over the history (since 1956) of the FHTF is $1.03.

Since 2006, Florida total return has been $1.14, the nation's 4th lowest amount. This is less than all the other largest states except Texas; California brings home $1.26, New York $1.40, Illinois $1.24, and Pennsylvania $1.38. Although Florida's allocations go up and down, growth of these revenues has not kept pace with inflation. Florida's allocation growth of 9.3 percent since 2006 is just more than half the inflation rate of 18.1 percent.[14]

Looking at it another way, since 2006, Florida has contributed 5.3 percent of the taxes and received 4.7 percent of the allocations (although the total amount Florida has received is larger than the amount it contributed due to the General Revenue additions). If Florida had received a percentage of allocations equal to its percentage of contributions, the state would have received $2.314 billion more an average of $257 million more per year.[15]

11 Florida House of Representatives, staff analysis of SB 2514-A, June 24, 2015.

12 The amount of federal transportation funding goes up and down each year but has averaged $2.02 billion over the past ten years. Calculations by Florida TaxWatch using data from the Federal Highway Administration, Comparison of Federal Highway Trust Fund receipts attributable to the States and Federal-aid apportionments and allocations from the highway account, August 2015.

13 Florida Department of Transportation, Work Program Overview 2016-2020.

14 Calculations by Florida TaxWatch, using data from the Federal Highway Administration's Highway Statistics Series and the Florida Legislature's Office of Economic and Demographic Research.

15 All calculations by Florida TaxWatch, using data from the Federal Highway Administration's Highway Statistics series.

The Benefits of Transportation Funding

An efficient transportation system is critical to Florida's economic viability and the quality of life for the state's residents and out-of-state visitors. An effective and efficient transportation system is good for residents because it contributes to a high quality of life and reduces costs, is good for businesses because it reduces costs and is key to a good business environment, and is good for the economy because it creates jobs and economic activity. Overall, estimates show that transportation investment has a very positive quantifiable return on investment.

Benefits to Residents

Transportation infrastructure investment improves the quality of life for residents by reducing traffic congestion,[16] which increases productivity and leisure time by decreasing commute-time, reducing vehicle-operating costs, which saves money for personal and business vehicles owners by avoiding wear and tear on vehicles and reducing gas consumption, and enhancing safety, thereby lessening the costs associated with crashes, all while increasing mobility, which improves access to job opportunities and services.

Congestion costs residents time and money, and investments can reduce those costs. ASCE estimates that Americans waste $32 billion in travel time delays each year, and another $97 billion on vehicle operating costs, creating at $130 billion drain on the economy.[17] Congestion is not only costly to commuters and travelers, but also to businesses whose freight trucks are delayed. Seventy-seven percent of the $400 billion worth of goods delivered annually from Florida is transported by trucks on the state's highways. An additional 16 percent is delivered by parcel, U.S. Postal Service or courier, which also use highways.[18] Also, congestion can cost taxpayers when it affects governmental activities such as police, fire, emergency response, school buses, public transportation, and waste pickup.

Poor road conditions increase vehicle wear and tear, including suspension systems and tires. If pavement deteriorates enough, the road may require complete rebuilding, which is much more expensive than routine maintenance costs.

Poor pavement is also a safety concern, and investments in Florida's transportation system can significantly improve safety. Projects like widening lanes and shoulders, upgrading roads from two lanes to four lanes, adding or improving medians, and improving road markings and traffic signals can reduce accidents and improve traffic flow to help relieve congestion. The Federal Highway Administration estimates that $100 million spent on such improvements will save 145 lives over a 10-year period.[19]

16 Congestion in urban areas is defined as traffic that is bumper to bumper or stop and go during peak periods. For non-urban areas, congestion means car and truck traffic is heavy and changing lanes is difficult.

17 American Society of Civil Engineers, Failure to Act: The Economic Impact of Current Investment Trends in Surface Transportation Infrastructure (2011).

18 TRIP, Key Facts about Florida's Surface Transportation System and Federal Funding, April 2015.

19 Ibid.

Benefits to Businesses

The state's economic health and its ability to remain competitive in the global economy depend on the efficient transport of people and goods. Businesses depend on the transportation system to move workers to their jobs, raw materials and supplies to construction sites and manufacturers, products to markets, and customers to their business. Less congestion and travel time delay can reduce the time and cost spent throughout a company's supply chain, and help ensure that customers have reliable access to the company's products. Ultimately, reducing these delays allows businesses to be more competitive and increase market share in national or global markets.

These reduced costs also improve the perception of Florida's business environment, making the state more attractive to employers of all sizes when evaluating potential states for investment. A recent FDOT report concludes that this improved business environment would support a significant number of new long-term jobs.[20]

Benefits to the Economy

Funding critical transportation assets will boost the economy in the short-term by creating jobs in construction and related fields. In the long-term, these improvements will enhance economic competitiveness and improve the quality of life for the state's residents and visitors by reducing travel delays and transportation costs, improving access and mobility, improving safety, and stimulating sustained job growth.

Focusing on these long-term impacts, the FDOT produces a legislatively-mandated report to analyze the macroeconomic implications of transportation investments. The latest report estimates that the investment in the state transportation Work Program returns $4.40 for each $1.00 spent.[21] It analyzed the $32.1 billion Work Program (FY2013-14 through FY2017-18), and estimates it will return $141.7 billion in user benefits and increased personal income; and because it does not try to consider all the benefits of transportation investment, such as short-term construction jobs, the estimate may be conservative. Earlier estimates in the report calculated returns ranging from $4.92 to $5.60 per $1.00 of investment.[22]

The design, construction, and maintenance of transportation infrastructure in Florida supports more than 210,000 full-time jobs across all sectors of the state economy, creating $7.2 billion in economic activity annually.[23] Transportation construction also contributes an estimated $1.3 billion in federal, state and local taxes. Due to these and other factors, estimates show that the return on investment is high. The Federal Highway Administration estimate that each dollar spent on road, highway, and bridge improvements results in an average benefit of $5.20 by improving traffic flow, resulting in reduced vehicle maintenance costs, delays, fuel consumption, and emissions, as well as improving safety.[24]

20 Florida Department of Transportation, Macroeconomic Analysis of Florida's Transportation Investments, January 2015.
21 Ibid.
22 Ibid.
23 American Road and Transportation Builders Association, 2015 U.S. Transportation Construction Industry Profile, Florida Transportation Facts.
24 TRIP, Key Facts about Florida's Surface Transportation System and Federal Funding, April 2015.

Investment Needs

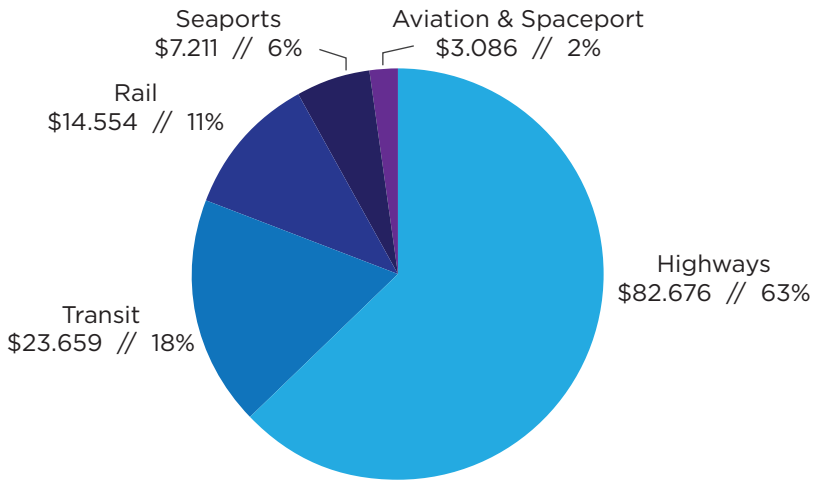
Despite the billions Florida already spends each year, there remains need for more investment in transportation infrastructure. Investment is needed to: increase capacity, maintain road conditions, and increase safety. Furthermore, estimates show that the need for future investment is in the billions, and the unfunded portion of that need is very high.

Growing transportation needs are a problem across the country, not just in Florida. It is estimated that the annual investment in the nation's roads, highways, and bridges needs to increase from $88 billion to $120 billion and from $17 billion to $43 billion for public transit, to improve conditions and meet mobility needs. The estimated current backlog in needed road, highway, and bridge improvements nationwide is $740 billion.[25]

But Florida's transportation shortfall may be relatively greater. Over the next 25 years (up to 2040), the unmet need on just the SIS is expected to reach $131.2 billion, with highways accounting for 63 percent of the need.[26] The unfunded needs in highway projects include roadway widening, interchange modifications, special use lanes, and access management systems, new facilities, and bridge replacement.

Florida's $131.2 billion Unmet SIS Funding Needs

$ billions // Through 2040 // In 2010 Dollars



Source: Florida TaxWatch from the Florida Department of Transportation Data, January 2016.

25 2015 American Association of State Highway and Transportation Officials Transportation Bottom Line Report
26 2010 dollars

Increase Capacity

Managing congestion on Florida roads is one of the most critical components of the state's unfunded transportation needs. Generally, congestion is reduced by increasing capacity. Congestion is bad for residents, businesses, and tourists. Congestion costs people and businesses time and money: thereby reducing quality of life and economic activity. Overall, traffic congestion costs American motorists an estimated $121 billion a year in wasted time and fuel.[27]

Nearly half (47 percent) of Florida's major urban highways are congested, according to TRIP estimates.[28] According to the FDOT, 379 of the 4,547 (approximately 7 percent) highway miles on Florida's Strategic Intermodal System (SIS) are congested.[29] The SIS is a statewide network of high-priority multi-modal transportation facilities most critical for statewide and interregional travel. It represents only 3 percent of the total state roadway mileage, but it carries 54 percent of all traffic and 70 percent of all truck traffic on the State Highway System.[30]

By 2040, however, FDOT estimates that 1,088 more SIS miles will be congested, bringing the portion of congested miles to nearly-one third (32 percent).[31] More alarming is the fact that due to the amount of travel done on the major highways of the SIS, this means that 61 percent of highway vehicle miles traveled will be on congested roads.[32]

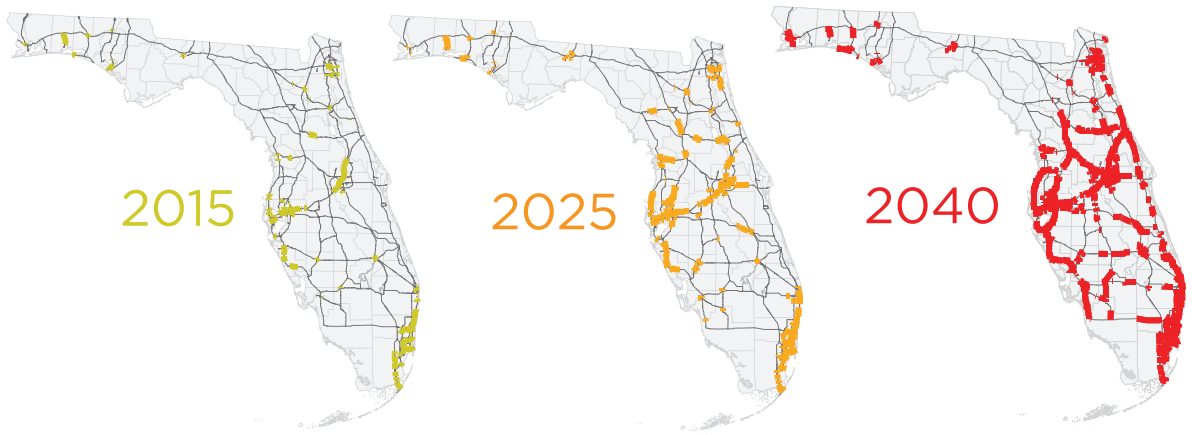
Florida continues to grow and is now the nation's third largest state. After a slowdown during the Great Recession, Florida is on the rise again, and the state will add more than four million new residents by 2030.[33] This growth and the economic expansion that will come with it will further strain Florida's already over-burdened transportation system. The 21.1 percent population growth forecasted by 2030 means there will be four to five million new Florida drivers commuting on our roads, and tourists are again flocking to Florida, as 100 million visitors are expected to come to our state this year. More than 150 million daily vehicle miles will be added to Florida roads by 2030 (see maps on next page).[34]

Only 42 percent of the FDOT's budget is dedicated to capacity improvements to the state's highway, aviation, rail, seaport, transit, and intermodal systems.[35] While Florida's statutorily required focus on maintenance has produced generally good pavement conditions, this investment strategy has not allowed for sufficient funding for capacity improvements. Congestion on Florida's roads is becoming a growing problem, especially in urban areas and in the corridors connecting the state's largest cities.

27 TRIP, Key Facts about Florida's Surface Transportation System and Federal Funding, April 2015.
28 Ibid.
29 Florida Department of Transportation, Florida's Current and Future Heavily Congested Corridors, December 2015.
30 Florida Department of Transportation, SIS Cost Feasible Plan (2024-2040). 2013.
31 Florida Department of Transportation, Florida's Current and Future Heavily Congested Corridors, December 2015.
32 Ibid.
33 Florida Legislature, Office of Economic and Demographic Research, results of the Demographic Estimating Conference, December 1, 2015.
34 Florida Chamber of Commerce, Six Pillars, Transportation Investments. www.flchamber.com/issue/transportation-investments
35 Florida Department of Transportation, Work Program Overview 2016-2020, July 2015.

Florida's Current and Future Heavily Congested Corridors

Strategic Intermodal System // Maps by the Florida Department of Transportation



Impacts on Tourism

Furthermore, ensuring that the state has sufficient capacity in the transportation infrastructure system to welcome additional visitors is key to retaining Florida's position as a competitive, world-class tourism destination. Tourism is a strong economic engine, which has proven to diversify Florida's economy by creating jobs in a variety of fields. In recent years, increased investment in the state's tourism sector, including in tourism marketing, has resulted in an unprecedented number of visitors to the sunshine state, who have added billions of dollars to the state economy. The industry employed approximately 1.09 million Floridians in 2013[36] and has supported one job for every 85 visitors, on average, since 2002.[37] Tourism contributed $51.14 billion to the Florida Gross State Product in 2012, and generates as much as 23 percent of Florida's sales tax revenue.[38] The tourism industry is also one of the most resilient sectors during economic downturns in Florida.[39]

This year, Florida tourism is expected to reach its goal of a record 100 million visitors.[40] That number is expected to climb to 127 million by 2020. The growth in visitation has translated into more job opportunities for Floridians, added contributions to the Gross State Product, and an increase in state and local revenues,[41] but it also translates into more strain on our transportation infrastructure.

36 U.S. Department of Labor, Bureau of Labor Statistics. This figure includes jobs in Leisure and Hospitality; Travel Arrangement and Reservations; and Air Transportation.

37 Florida TaxWatch. *Investing in Tourism: Analyzing the Economic Impact of Expanding Florida Tourism.* January 2013.

38 Florida TaxWatch. *Making Room for 100 Million Visitors: An analysis of Florida's transportation infrastructure and its relationship to Florida's vital tourism industry,* April 2015.

39 Florida TaxWatch. *Investing in Tourism: Analyzing the Economic Impact of Expanding Florida Tourism.* January 2013.

40 Data from VISIT Florida. Through the first 3 quarters of 2015, 79.1 million tourists came to Florida, a 5.5 percent increase from the previous year.

41 Florida TaxWatch. *Making Room for 100 Million Visitors: An analysis of Florida's transportation infrastructure and its relationship to Florida's vital tourism industry.* April 2015.

A Florida TaxWatch study found several transportation issues that will affect the experience of visitors, including: congestion on main roads; long wait times at immigration (passport control) checkpoints in international terminals; and connectivity issues around cruise terminals, especially those expecting greater demand in the next years.[42]

According to a September 2014 World Travel and Tourism Council report,[43] insufficient capacity may also lead to supply-side bottlenecks and an upward pressure on prices. This affects the competitiveness of Florida's tourism industry, whereas investing in increased capacity enhances the experience of the visitor and thus encourages them to return. Given that most Florida visitors are repeat visitors, it is crucial that Florida continues to develop efficient transportation infrastructure.

Maintenance and Repair

The condition of Florida's roads and bridges is among the best in the nation, but maintenance and repair will be an ongoing, and increasing, cost. Because the FDOT has traditionally focused its limited funding on maintenance, it has met or exceeded its roadway maintenance standard target each year since 1994.[44]

Data released by TRIP shows Florida has the smallest percentage (7 percent) of urban roads with poor pavement condition in the nation.[45] A report by the Reason Foundation[46] also gave Florida high marks for the condition of its roads and bridges. Using data from the Federal Highway Administration (FHWA),[47] Florida TaxWatch found that only 2.0 percent of all urban and rural road miles[48] in Florida were rated "poor,"[49] the second lowest percentage in the nation. Consistent with these high rankings, 83.1 percent of Florida roads are rated "good," but the percentage falls to 74.7 percent when only urban roads are considered.[50]

While road conditions are generally favorable, there is still ample room for improvement. Of the state's more than 26,000 miles of roads that are eligible for federal aid, 4.8 percent are rated "not acceptable" and need major repairs or replacement. In addition, 17 percent of the state's more than 12,000 bridges are either "structurally deficient" (243 bridges) or "functionally obsolete"[51] (1,760 bridges). It will cost an estimated $2.2 billion to make needed repairs on 830 structures in the state.[52]

42 Ibid.
43 World Travel and Tourism Council. "Travel and Tourism Investment in the Americas: Will the region's infrastructure and investment constrain or support future industry growth?" September 2014.
44 Florida Department of Transportation, 2014 Performance Report.
45 Washington Post, "Where America's worst roads are — and how much they're costing us," June 25, 2015.
46 Reason Foundation, "21st Annual Report on the Performance of State Highway System," September 2014.
47 FHWA, Highway Statistics Series www.fhwa.dot.gov/policyinformation/statistics.cfm
48 Includes interstates, freeways, expressways, and principal and other arterials
49 International Roughness Index (IRI) rating of 170 or higher. IRI is a standard measure of pavement condition based on scientific measures of ride vibration.
50 Ibid.
51 "Functionally obsolete" means that the design of a bridge is not suitable for its current use, such as lack of safety shoulders or the inability to handle current traffic volume, speed, size, or weight.
52 American Road and Transportation Builders Association, 2015 U.S. Transportation Construction Industry Profile, Florida Transportation Facts.

Even a relatively small amount of bad roads have a cost. TRIP estimates that driving on roads in need of repair costs Florida motorists $4.5 billion a year in extra vehicle repairs and operating costs ($325 per motorist).[53]

Safety

Congestion and road condition also have an impact on safety. Florida has a history of above-average crash and fatality rates, and suffers from a high level of pedestrian and bicyclist fatalities. There were 344,170 crashes in Florida during 2014, resulting in 2,336 fatalities and 225,608 injuries. A total of 14,568 people died on Florida's highways from 2009 through 2013. Florida's traffic fatality rate of 1.25 fatalities per 100 million vehicle miles (2013) of travel is higher than the national average of 1.09, and Florida's rural roads have a disproportionately higher fatality rate than that on other roads (3.20 fatalities per 100 million miles of travel vs. 0.96).[54] Motor vehicle crashes cost Florida $14 billion per year in medical costs, lost productivity, travel delays, workplace costs, insurance costs and legal costs.[55] Overall, Florida must increase investment in the transportation infrastructure to address these issues, and to prepare for even greater needs in the future.

Funding Can Have a Significant Impact

As mentioned earlier, the condition of Florida's roads now compare very favorably to others states. But it hasn't always been this way. In a 1991 report that examined Florida's and Georgia's highway systems, Florida TaxWatch reported that data from the FHWA showed that Florida road pavement was in the worst condition in the nation—by far. Using these "present service ratings," the data showed that more than half of Florida's pavement was rated "poor." The FDOT claimed that the FHWA data was incorrect, but even using FDOT's data, Florida fared much worse than the national average. Another measure of road condition—the international roughness index—showed that only 0.6 percent of Florida roads were in the highest rating category. This compared to 10.2 percent nationwide.

The report mentioned that things could be looking up for Florida roads. The recently created Florida Transportation Commission was going to add some needed stability to FDOT. Most importantly, the Legislature had recently provided more funding for transportation. In 1990, spurred by a broad-based transportation coalition and armed with Florida TaxWatch research, the Legislature passed a $6 billion, five-year funding package. The funding was statutorily tied to improved FDOT performance and productivity measure developed by Florida TaxWatch, the Florida Council of 100 and the Transportation Commission. This package was instrumental in bringing Florida's roads to their current condition.

53 TRIP, Key Facts about Florida's Surface Transportation System and Federal Funding, April 2015.
54 Ibid.
55 Ibid.

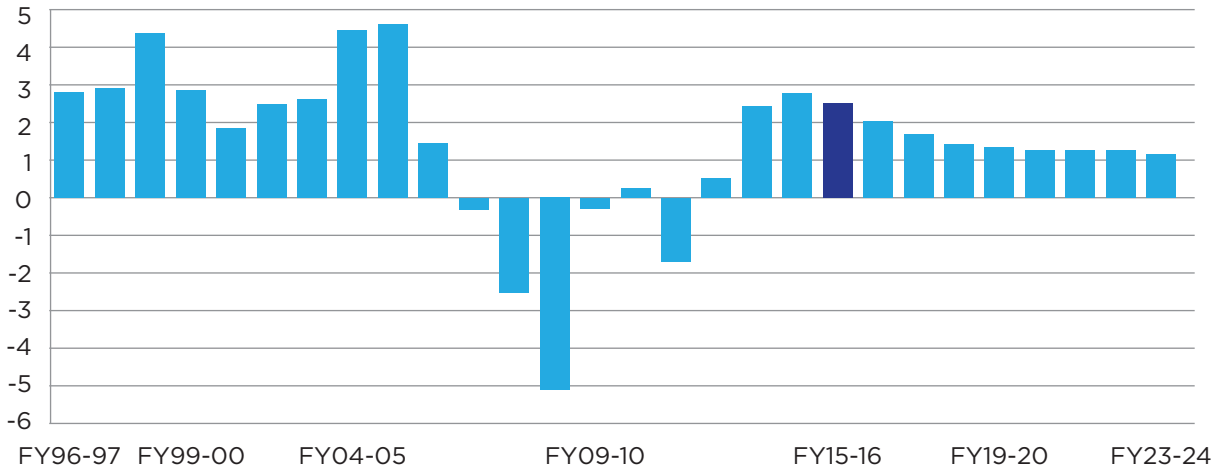
The Future of the Gas Tax as a Funding Source

The gas tax has long been the majority source of funding for the state's transportation network, and as consumption in Florida increased by an average of 3.3 percent annually from FY1989-90 to FY2004-05,[56] the tax was a reliable source. Then came the recession, people began to drive less, an increased focus on fuel efficiency took hold nationwide, and consumption fell in three out of the next six years. Fuel consumption is rebounding, thanks to the state's population and tourist visits increasing, but fuel efficiency and changing driving habits are projected to cause that growth rate to decline every year through FY2024-25 (see chart on next page).

Fuel tax collections also fell during the recession, but thanks to the indexing of the gas tax rate,[57] not as much as fuel consumption. Tax collections are growing again; the state's latest forecast estimates that fuel tax collections will grow by 40.1 percent from FY2015-16 through FY2024-25, adding nearly $868.6 million in revenue.[58]

Growth in Fuel Consumption in Florida

Total Highway Fuels // % Change over time // FY2016-17 – FY2023-24 projected



Source: Florida Transportation Commission, The Fuel Tax: An Unsustainable Transportation Revenue Source. 2015.

However, that estimated growth may be significantly overstated. FDOT released an analysis that factored in the full effect of the new federal CAFE standards,[59] estimating much slower growth than the current official state estimate, resulting in a loss of $3.4 billion through FY 2024-25, including $686 million in the last year (see chart on next page). These estimates result in growth of Florida's fuel tax collections over that period of

56 Florida Transportation Commission, The Fuel Tax: An Unsustainable Transportation Revenue Source (presentation).

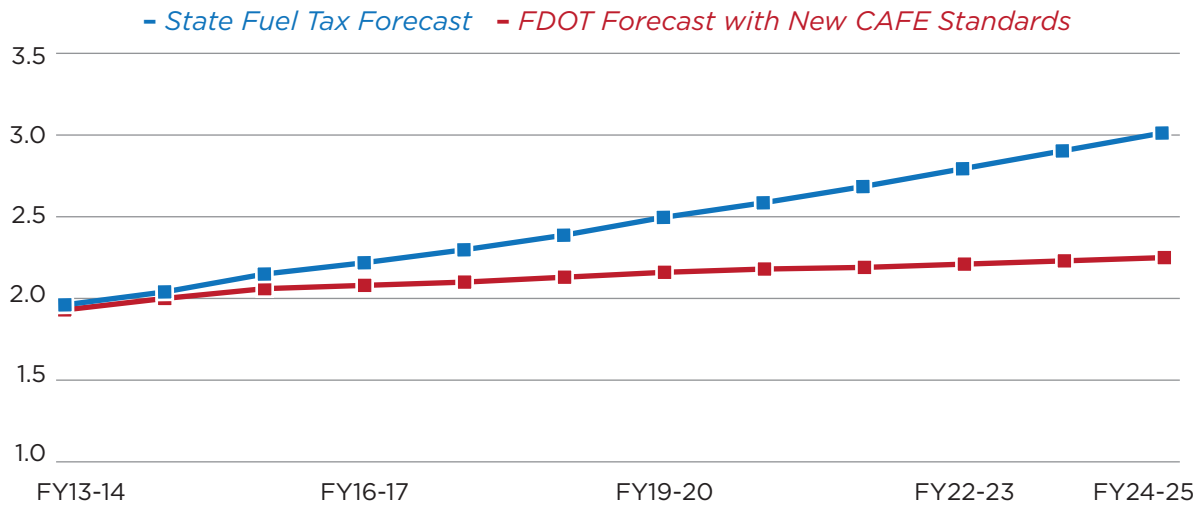
57 Beginning in 1990, the sales tax was set at 6.9 cents per gallon and indexed to inflation (Consumer Price Index). Since then, the tax has nearly doubled.

58 Florida Legislature, Office of Economic and Demographic Research, results of the Transportation Revenue Estimating Conference, January 7, 2016.

59 The federal government recently raised the Corporate Average Fuel Economy (CAFÉ) standards requiring automobile manufacturers to attain a fleet-wide average of 54.5 MPG by 2025.

Florida Could Lose $3.4 Billion in State Fuel Tax Under New CAFE Standards

$ billions // Projected Through 2025



Source: Florida Department of Transportation, State Tax Revenue via Increased Fuel Efficiency in Vehicles, January 2016.

12.9 percent, which would not even keep pace with inflation of more than 23 percent.[60]

The result of this would be a further falling behind and the estimated $131.2 million[61] in unmet needs will also grow faster. The current fuel tax (along with other transportation funding) will not close that funding gap.

A Transportation Commission presentation states:

> *Right now, only 43% of the Department's budget is dedicated to Capacity Improvements to the state's highway, aviation, rail, seaport, transit and intermodal systems. The rest is dedicated to operations and maintenance, product support, and debt service, in other words, the care and feeding of the existing transportation system. Since the Department's top priorities are safety and preservation of the system, the percentage dedicated to capacity improvements will only get smaller as fuel tax receipts continue to erode.*[62]

The Florida Legislature will soon be faced with further supplementing the gas tax as the main source of revenue, and if the CAFE standards have the impact that FDOT has projected, supplemental solutions may not be adequate. New and innovative ways to meet the growing needs of the state's transportation network will be required to keep up with the state's growing population, influx of tourists, and maintenance needs.

60 Calculations by Florida TaxWatch.
61 Florida Department of Transportation, SIS Cost Feasible Plan (2024-2040). 2013.
62 Florida Transportation Commission, The Fuel Tax: An Unsustainable Transportation Revenue Source (presentation).

An Uncertain Future

As is the case with most areas of life, technological advances are making the future of transportation more and more uncertain. More fuel-efficient hybrid and electric vehicles may someday render gas taxes obsolete, while "autonomous" and "connected" vehicles are beginning to become a reality, with the potential to both increase and reduce transportation costs.

A 2015 automated vehicle summit held in Jacksonville highlighted the potential that exists in what can only be described as the next frontier of transportation. Both "autonomous" vehicles (those that use sensors to map out and safely traverse areas without driver input) and "connected" vehicles (those that communicate with other vehicles and/or technology built into the roadway to operate more safely with or without driver input) are the subject of what is collectively referred to as AV/CV research throughout Florida.

As of January 2016, 6 Florida universities (Embry-Riddle, FAU, FSU, UCF, UF, and USF) are performing AV/CV research. Additionally, there are AV/CV test beds in Orlando (I-4, SR 570, SR 423, and I-Drive); in Tallahassee, at FDOT's Transportation Engineering Research Laboratory; and in Tampa on the Lee Roy Selmon Expressway. There are also pilot projects in Miami (AV/CV/ITS-Freight Applications) and Tampa (Assessing Advanced Driver Assistance Systems).

The good news for Florida, in terms of developing the ability to deploy these new technologies, is that the state already has intelligent transportation systems and fiber optics statewide. Nearly every mile of limited access facilities on the Florida State Highway System is equipped with them. Additionally, of the states that have passed legislation for testing automated vehicles, Florida rates highest in 67 percent of the ranking criteria.

TaxWatch Research Analyst Elle Piloseno with "Jack," an autonomous AUDI A7 that was on display at the Jacksonville summit.

Challenges Facing Florida's Transportation System

Florida's transportation system will experience many pressures as the state grows and evolves. The 2060 Florida Transportation Plan enumerates many of the challenges facing the state that must be overcome in order to achieve the plan's goals, including:

Increased demand for moving people and freight – Capacity must be increased to handle growth and relieve congestion. There will need to be more transportation options for groups like the elderly and disabled, especially as the state ages. Improving connectivity with key industry clusters will help them prosper and add more job options for Floridians.

Florida's role as a global hub – Connectivity must be improved for trade and visitors. Seaports need to deepen channels and expand terminals to accommodate trade and the cruise industry. Airports, spaceports, and rail will all require increased investment.

The emergence of Megaregions – Travel between the state's economic regions must be improved. Most urban and inter-regional highway corridors will be congested by 2035, even after already planned investments.

More choices for where Floridians live and work - Many rural areas may not be sustainable in their current form due to limited economic opportunities and poor connectivity to employment centers or markets in surrounding regions.

Safety – Increasing safety not only for drivers, bicyclists and pedestrians, but ensuring that police, fire and emergency services can respond quickly to incidents and disasters such as hurricanes.

Evolution of transportation – The system must evolve to accommodate new types of vehicles, fuels, and logistics practices.

Sustainability of Florida's environment - The impacts of transportation on air quality, energy, climate, water, wildlife, habitat, and land use must be considered and addressed.

Transportation funding - Available funding will not be sufficient to pay for needed improvements to the transportation system – and the funding gap is likely to grow as travel demand increases, new initiatives are launched, and the value of the motor fuel tax erodes.

The issue of transportation funding is key. Obviously, enhancements will cost money. This is exacerbated when funding sources are already strained and there is already unmet need.

Action in Other States to Increase Funding

States realize that they cannot depend on the federal government to address their transportation backlogs, so many states are doing it themselves. At least 24 states have taken steps to raise transportation revenue since 2012. In 2015, Georgia, Idaho, Iowa, Nebraska, South Dakota, Utah, and Washington enacted gas tax increases ranging from 6 to 11.9 cents per gallon.[63] At least five other state legislatures enacted transportation revenue increases through fees, bond issues, or indexing gas tax rates

Voters in Maine and Texas approved transportation funding measures through ballot propositions.[64] Maine passed an $85 million bond issue and Texas will now transfer some sales tax revenue to transportation. The Texas initiative was approved by 86 percent of the voters. Rather than raising taxes, Texas will shift money from the sales tax to transportation. The next $2.5 billion in sales taxes over the current level of $28 billion will be devoted to transportation over the next 10 years. Additional money from the sales tax collected on vehicles sales (over a certain level) will also go to transportation.[65]

Delaware, which has a fee on the sale of new and used vehicles that is devoted to transportation, raised the rate from 3.75 percent to 4.25 percent.

In 2013, Pennsylvania passed a $2.3 billion transportation funding package that increased almost every transportation revenue source in the state. It eliminated the retail tax on motor fuel and increased the wholesale level sales tax by 28 cents per gallon.[66]

There has also been considerable discussion about finding an alternative to the gas tax as gas consumption has slowed. This challenges the traditional user fee model for transportation funding and raises a question of equity because, as cars become even more efficient or move away from gasoline entirely, the relationship between using the roads and paying for them becomes more tenuous.

A Vehicle Miles Traveled (VMT) tax and other alternatives have been discussed, including very preliminarily in Florida. There are costs and ideological hurdles associated with the VMT, and public support, while building, is low. No matter which option Florida may choose to pursue, a wholesale overhaul of the gas tax is unlikely in the foreseeable future.

As an alternative to a VMT, three states have instituted additional registration fees for electric or hybrid vehicles. Georgia has a $200 annual fee for electric vehicles, Idaho levies $140 for electric vehicles ($75 for hybrids) and Wyoming requires a $50 decal for electric cars.[67]

63 National Conference of State Legislatures, State Legislature Magazine, "States take the wheel on transportation funding as Congress sputters along", October 22, 2015.
64 Balllotpedia.org, "Texas Sales and Use Tax Revenue for Transportation Amendment, Proposition 7 (2015)" and "Maine Transportation Bond, Question 3 (2015)."
65 "Texas Approves New Road Funding Plan," Governing Magazine, November 4, 2015.
66 New Pennsylvania Law Will Increase Transportation Funding by Billions," Governing Magazine, November 25, 2013.
67 National Conference of State Legislatures, State Legislature Magazine, "States take the wheel on transportation funding as Congress sputters along", October 22, 2015.

Conclusion

A high-quality transportation system is vital to the economic wellbeing of our state. Not only does the existence of a good system help citizens, tourists, and businesses, additional investments in transportation provide a substantial return on investment.

Florida's future transportation system will have to accommodate more residents, visitors, and new (and more diverse) industries. The state is already facing a huge backlog of unfunded transportation needs, and with current estimates predicting that 61 percent of all highway vehicle miles traveled will be on congested highways by 2030, it is clear something needs to be done.

Over the next 25 years, the state is facing a $161 billion shortfall between projected revenues and estimated transportation needs. The per capita spending on roads by Florida's state and local governments ranks 41st among the 50 states. Florida has not had a major state transportation funding increase since 1990 and the gas tax has proven itself to be an inadequate source to meet the state's future transportation challenges. Improving fuel efficiency could further reduce state gas tax collections by $3.3 billion by 2025.

Many other states are addressing transportation funding, and the resulting improvements will make those states more attractive to businesses and economic growth. In Florida, the indexing of some fuel taxes in Florida has helped, but more needs to be done. In the short term, with tax and fee increases in Florida a very longshot, the Legislature must look for other creative ways to increase transportation funding within existing revenues.

Florida needs to begin thinking now about a future sustainable transportation funding system. We cannot afford to ignore it.

Options for Florida to Explore

Tax increases in Florida are unlikely to be a possibility in Florida in the near future. The Governor and the Legislature have shown no appetite for tax increases (or new bonding), and have instead been reducing taxes.

While the erosion of the gas tax is something that will eventually have to be addressed, there are some options that could be explored to increase transportation revenue that would not require the Legislature passing a tax increase.

Revisit Budget Priorities

Florida's transportation budget is largely on automatic pilot. With established revenue streams going into the STTF, the annual transportation budget is simply how much money is available in the STTF. Transportation does not really compete with other budget areas for funding, a competition in which transportation would stack up well.

Occasionally, some general revenue is put into transportation, but STTF funds are also used to shore up general revenue funding. The Legislature should consider enhancing transportation funding within existing revenues by shifting dollars from lower priorities.

DOT Spending on Environmental Activities

Amendment 1, passed by the Florida voters in November 2014, requires that 33 percent of state documentary stamp tax collections be deposited into the Land Acquisition Trust Fund (LATF). The money is to be used for land acquisition and a host of other environmental uses.[68]

FDOT spends considerable dollars from the STTF every year for activities that likely meet the requirements of Amendment 1, including environmental mitigation, pollution discharge elimination and bicycle and pedestrian trails. Over the last five years (FY 2011-FY 2015), FDOT has spent $709 million on these activities, including $198.5 million in the last year, for an average of $141.8 million.[69]

The department believes these amounts are a conservative estimate of the spending that could qualify for LATF funding.[70] In addition, forecasted amounts in the work program generally increase as FDOT refines the work program. These amounts also do not include funding for the Florida Shared-Use Nonmotorized Trail Network (SunTrail), a statewide system of multiuse trails. Last session, the Legislature mandated a minimum of $25 million annually for SunTrail.

Funding these items from the LATF instead of the STTF would increase funds available for other transportation projects. The Legislature could transfer $140 million annually from the LATF to the STTF with the caveat that it be spent on Amendment 1 purposes or returned to the LATF.

Reduce Diversion of Transportation Funds for Other Uses

Not all revenue from transportation taxes and fees is deposited into the STTF.[71] More than $106 million in motor fuel taxes is distributed annually to other agencies for uses including agriculture emergency eradication, marine resource conservation, recreational boating activities, aquatic weed control, and fresh water fisheries management and research. Approximately $221 million of motor vehicle and mobile home licenses go to general revenue and other trust funds.[72] Nearly $36 million of the rental car surcharge goes to promote international trade and tourism.[73] There are also several other vehicle fees that are shared with the STTF and other funds.

This is not to question the value of any of the other programs that are funded with traditional transportation revenues and there are logical connections between some of the source and the some of the programs.

68 Article X, Section 28, *Florida Constitution.*
69 Analysis by DOT from Adopted Work Program data, July 1, 2015.
70 Ibid.
71 Florida Revenue Estimating Conference, 2016 Florida Tax Handbook.
72 Ibid.
73 Ibid.

However, the Legislature could revisit whether the distributions of these funds address current state priorities; and while sales taxes collected on vehicle sales would not be considered a diversion, some states, including Texas and Delaware use taxes and fees on the sales of vehicles for transportation. Delaware has a "document fee" of 4.25% on the purchase price or a vehicle. Texas devotes the growth revenue (over the current level) from the sales tax to transportation.

Eliminate Transportation-Focused Member Projects

When the Legislature adds local transportation projects that are not part of the work program to the state budget, it bypasses the planning and priority process and can supplant planned projects. This can result in the postponing of needed projects and expenditures. Florida TaxWatch has identified $94.2 million worth of these projects over the last five years.[74] Moreover, these projects are often vetoed by the Governor.

Avoid Sweeping the Transportation Trust Fund

The Legislature routinely "sweeps" trust funds, transferring the money into the General Revenue Fund to use for other purposes. This occasionally includes the STTF, although it has not been swept since FY2011-12, when $150 million was transferred. Florida TaxWatch has warned against this practice and recommends that when the Legislature wants to sweep a trust fund, it should be required to introduce a separate general bill for each trust fund sweep. Currently, a legislator cannot vote against a trust fund sweep without voting against the entire budget.[75]

Utilize Local Option Capacity

While enacting unused local option gas taxes would be a tax increase at the local level, these taxes have already been authorized by the Legislature. There are three local option taxes available to counties. One (the 1 to 6 cent local option) is almost universally utilized, but 15 counties have not enacted the Ninth-Cent Fuel Tax and 45 counties still have unutilized capacity in the 1-5 Cent Fuel Tax, including 39 that have the full five cents/gallon available. It is estimated the unused local option taxes are worth $212 million annually.[76]

Increase Federal Aid

Addressing this is difficult, since it can only be addressed by Congress. As discussed earlier in this report, Florida does not fare well, compared to other states, in federal funding. Since 2006, Florida contributed 5.3 percent of the taxes and received 4.7 percent of the allocations. If Florida had received a percentage of allocations equal to its percentage of contributions, the state would have received $2.314 billion more since 2006, an average of $257 million more per year.[77]

74 Florida TaxWatch, Budget Turkey Watch Report, multiple editions.
75 Florida TaxWatch, Putting the Trust Back in Trust Funds, March 2014.
76 Florida Department of Transportation, Office of Comptroller, "Florida's Transportation Tax Sources: A Primer, January 2015.
77 All calculations by Florida TaxWatch, using data from the Federal Highway Administration's Highway Statistics series.

Appendix

Florida Transportation Funding Sources

Generally, Florida funds its transportation system through user fees – fuel taxes and motor vehicle licenses and fees. All state transportation revenue is deposited into the State Transportation Trust Fund (STTF), which provides the vast majority of funding for FDOT and the Work Program. The state levies a 24.7 cent/gallon gas tax, but 4 cents of that is distributed to local governments. The state tax levy is comprised of:

Fuel Sales Tax – 13.3 cents per gallon. This is no longer really a sales tax, as the tax is not related to the price of gas. It started in 1983 as a 5 percent sales tax levied on a legislatively established price per gallon. Beginning in 1990, the sales tax was set at 6.9 cents per gallon and indexed to inflation (Consumer Price Index). Since then, the tax has nearly doubled.

Comprehensive Enhanced Transportation System (SCETS) Tax – 7.4 cents per gallon. This tax was enacted in 1991, with a variable rate in each county based on the amount of local option gas levied by the county. The minimum rate was 4 cents per gallon. This tax is also indexed to inflation. The rate is now 7.4 cents in all counties except for Franklin, which has a 6.1 cents per gallon tax. This revenue goes into the STTF, but it must be spent in the district, and to the extent possible, the county in which it was raised.

State Highway Fuel Tax – 4 cents per gallon. This is a state tax, but the revenue is distributed to local governments. Three cents go to counties and one cent goes to cities. This tax is not indexed. These state fuel taxes will raise an estimated $2.45 billion in FY 2015-16, $391 million of which will be distributed to local governments. The STTF also receives revenue from an aviation fuel tax (6.9 cents/gallon), motor vehicle fees (such as license taxes, initial registration fees and title fees), and a rental car surcharge ($2 per rental) (see chart below). The only non-traditional user tax source that contributes to the STTF is the documentary stamp tax. This source will provide an estimated $271.3 million in FY 2015-16.

Local Gas Taxes

In addition to the state gas tax revenues that are shared with local governments **t**he Legislature has also authorized three local options which can be adopted by an ordinance approved by the governing board or by countywide voter referendum. Local option taxes on motor fuels vary between counties—ranging from 5 cents to 12 cents per gallon-- but diesel local option taxes were "equalized" at a rate of 7 cents per gallon. These taxes raise approximately $860 million annually[78] and must generally be used for transportation expenditures. Twenty-three counties have used all their allowable local options. Statewide, 80 percent of total capacity is being used, with $204 million still available.

Ninth-Cent Fuel Tax – 1 cent per gallon. Currently, 52 counties levy the tax on motor fuel, but all counties levy the tax on diesel.

1 to 6 Cent Local Option Fuel Tax – Up to 6 cents per gallon. All counties currently levy the full six cents, except for Franklin, which levies 5 cents. Diesel is taxed at the full rate of 6 cents statewide.

1 to 5 Cent Local Option Fuel Tax – Up to 5 cents per gallon. Twenty-nine counties currently levy the tax on motor fuels, 22 of them at the full 5 cents rate. This tax does not apply to diesel fuel.

78 Florida Office of Economic and Demographic Research, 2015 Florida Tax Handbook.

ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the citizens of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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