

LONG-TERM FUNDING FOR FLORIDA'S TRANSPORTATION INFRASTRUCTURE



**House Transportation Committee
October 18, 2005**

ISSUE STATEMENT

Florida's transportation infrastructure is not keeping pace with its growth in population and number of visitors, an estimated 65 percent of its major highways already are congested, and the costs of maintaining the existing systems – let alone addressing the transportation backlog – are accelerating.

FDOT's Current Budget

- Primary sources of revenue (FY 05-06):
 - State fuel taxes: \$1.77 billion;
 - State motor vehicle fees: \$807 million;
 - State Rental Car Surcharge: \$102 million; and
 - Federal funds: \$1.4 billion.
- Funding available for 5-Year Work Program: \$35 billion.
- FDOT's budget is about 11% of state's annual expenditures.

Work Program Development

- The Department operates on a cash-flow basis by matching project funding commitments with transportation revenues expected to be received over future years through a revenue estimating/cash forecast process.
- Funds are allocated to various programs and geographic districts based on federal and state law and on agency policies.
- Allocations are for broad program areas such as the Florida Intrastate Highway System, bridges, resurfacing, routine maintenance, public transit, and airports.
- Projects are selected and added to the work program through a cooperative process involving the 7 FDOT district offices and Turnpike Enterprise, the 26 Metropolitan Planning Organizations (MPO's), all 67 counties and other local or regional transportation agencies.

Adopted Five Year Work Program

Total Budget - FY 05/06 – 09/10

In Millions

Highway, Aviation, Rail, Seaports and Intermodal Capacity:

Land, roads and bridges, aviation, rail, intermodal access and seaport grants which add to the capacity of highway and other modes of transportation.

Product Support:

In-house and contract staff who perform studies, produce design plans, acquire right of way, inspect and manage construction work and administer public transportation grants.

Operations and Maintenance, Safety:

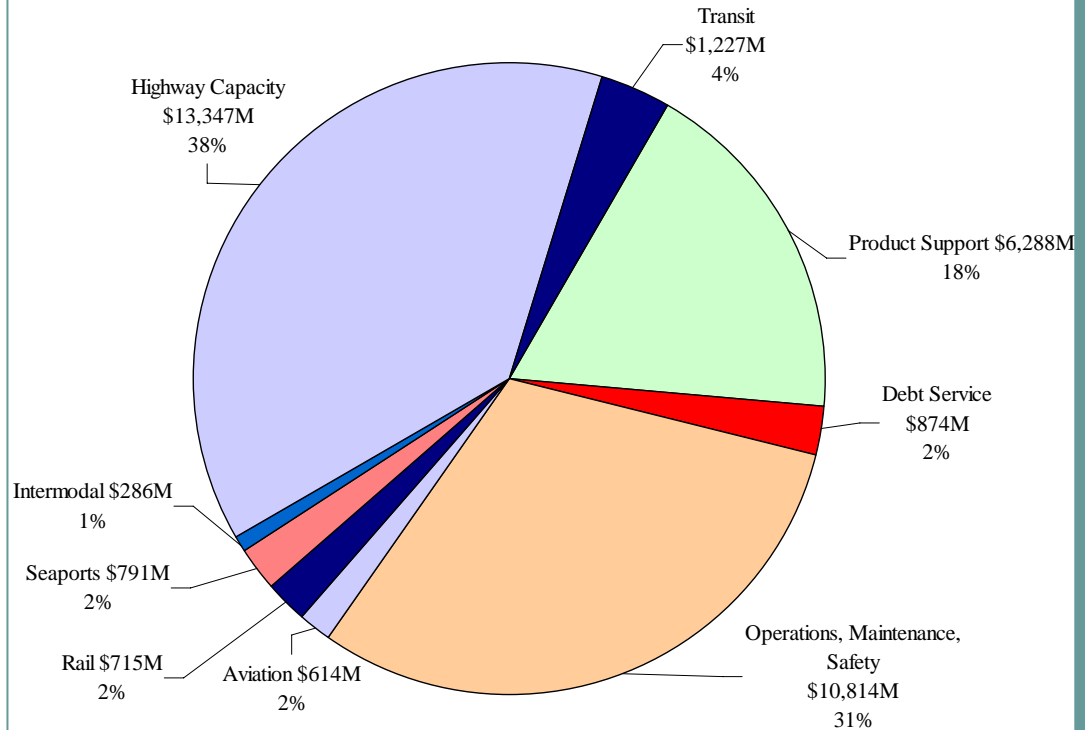
In-house and contracted staff, equipment and materials needed to maintain and operate the State Highway System and to collect tolls and enforce motor carrier compliance laws.

Transit:

Provides funds to public transit and paratransit systems and transportation disadvantaged service providers. Includes capital and operating funding assistance.

Debt Service:

Principal and Interest costs associated with bonds issued as part of the Departments financing of the Work Program.



Five Year Total \$34,956M

PROFILE OF FLORIDA'S TRANSPORTATION SYSTEM

● Current System Components

- State Highway System has 41,000 Lane Miles with 6,381 Bridges.
- 800 Active Aviation Facilities; 131 are public facilities and 19 of those have scheduled service.
- 29 Fixed-Route Transit Systems
- Transportation Disadvantaged services in all 67 counties
- 14 Seaports
- 2,707 Railway Miles

● System Users

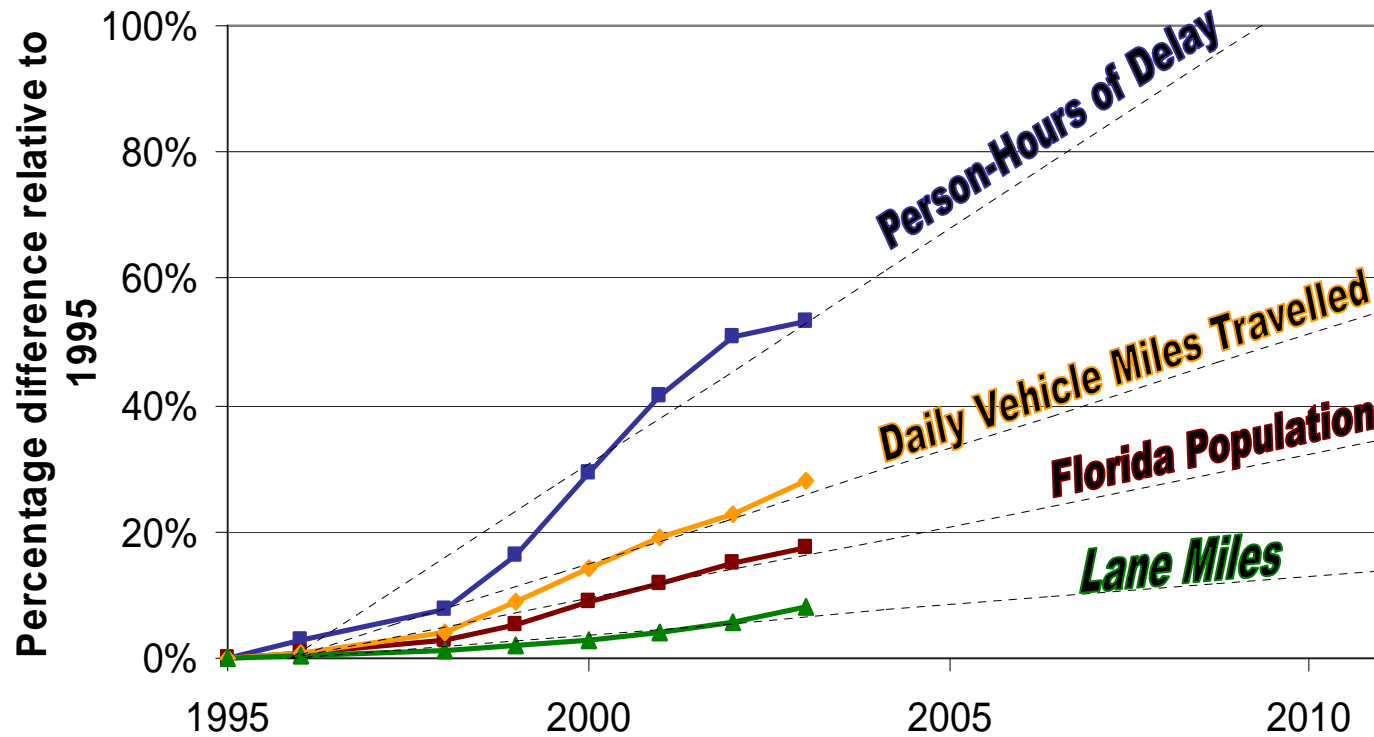
- 17.4 Million Residents
- 76.8 Million Annual Visitors

CURRENT STATUS OF SYSTEM: Highway

- More than 65 percent of urban freeway miles are moderately or severely congested during peak traffic periods.
- Total vehicle-miles traveled on highways are expected to increase much faster than highway lane miles can be added. This continued rate of growth will increase system demands and reduce mobility.

Growth: More Demand

Trends in Mobility and Demand on the FHHS: Continued Growth Will Increase System Demands and Reduce Mobility



Note: Trends based on 3-year moving average
Source: Transportation Statistics Office

CURRENT STATUS OF SYSTEM:

Aviation

- About 68 percent of Florida's commercial service airports are at or near threshold capacity.
- In the current year, an estimated 121 million passengers will use Florida's airports and an estimated 3.8 million pounds of freight will be shipped.

CURRENT STATUS OF SYSTEM:

Seaports

- Florida's Seaports handle more than 120 million tons of cargo, more than 2.5 million cargo container units, and nearly 15 million cruise passengers annually.
- In 2004, Florida's international trade (waterborne and airborne commodities moving through the state's gateways) totaled \$81.4 billion. This 11.7 percent increase over 2003 more than doubles the 5.3 percent growth rate of the previous year.
- Despite this growth, Florida's share of U.S. international merchandise trade has declined from 4.39 percent of U.S. trade in 1999 to 3.69 percent in 2004.

CURRENT STATUS OF SYSTEM: Public Transit

- Transit provides key connections to the Strategic Intermodal System. Florida's transit properties reported over 207 million passenger boardings in 2003
- Transit ridership, service levels, and operating costs have grown steadily over the past 15 years.
- Due to funding constraints, existing transit services can have inadequate service to employment centers, and to other commercial, education and recreation activities.
- A recent study by the University of South Florida indicated a shortfall of \$9 billion over 20 years in 12 of 25 local long-range transit plans. (The remaining long-range plans did not distinguish shortfalls between transportation modes.)

COST ISSUES: Right-of-Way

- Right-of-way costs continue to escalate, with parcels in urbanized areas of Florida appreciating well over 10% annually.
- The future availability of right-of-way is an issue in our high-growth state, creating land-use competition and increased costs.

COST ISSUES:

Construction Expenses

- An inflation factor of 3.3%-4.5% is built into construction costs for projects in FDOT's Tentative Work Program.
- Nationally, highway material costs rose 8.5% in 2004, compared to the previous 12-year average increase of 1.8%, and are on track to rise up to 12% more in 2005.
- U.S. Labor Dept. estimates double-digit increases in the producer price indices for ready-mix concrete and crushed stone – crucial components in transportation construction.
- Accelerating product costs could mean that SAFETEA-LU's \$286.5 billion brings little or no real increase in federal transportation funding.

REVENUE ISSUES

- State fuel taxes are indexed to the Consumer Price Index which helps offset some inflation costs.
- Fuel price volatility has raised concerns about future stability of fuel tax revenues.
- Growing popularity of hybrid and alternative-fuel vehicles may impact fuel consumption.
- Recent federal transportation bill provided for a study of future funding for federal transportation programs.

FUTURE DEMANDS ON SYSTEM

- Florida's population is projected to grow to nearly 23 million residents, by the year 2020.
- The number of visitors to Florida is projected to increase from 76 million persons to as many as 116 million persons by 2013.
- Freight transportation is a significant economic generator in Florida and is increasing exponentially. By 2020, the tons of freight shipped in Florida is projected to double from current levels to 1.4 billion tons per year, and its value will nearly quadruple, from \$567 billion to \$1.9 trillion.
- Freight-hauling by trucks will continue to be a leader in Florida, both in tons delivered and value (more than half the total in those categories).
- There is also an increasing demand for specialized transportation services, such as those that serve transportation disadvantaged residents and seniors. Only 14 percent of the 6.2 million Floridians who potentially qualify for transportation services currently are being served.

PROJECTED NEEDS

Various studies have concluded Florida has unfunded transportation needs ranging from \$38 billion to \$48 billion.

FUNDING IMPLICATIONS

- Florida's transportation infrastructure is not keeping pace with its population growth, visitor travel, and freight movement demands.
- The Florida Transportation Commission has determined that an additional \$2.7 billion (\$160 per capita) is needed annually just to maintain current transportation conditions. To actually improve conditions and increase capacity will cost about \$4.9 billion annually (\$295 per capita).
- For the Florida Intrastate Highway System alone, the unfunded need, by 2015, will be over \$30 billion.
- The MPO's long-range plans also indicate significant shortfalls in necessary funding. The total shortfall estimate is \$37.7 billion (in year 2000 dollars) —a 43% increase over the 1997 statewide shortfall estimate.

ECONOMIC IMPLICATIONS

- For Florida to maintain and improve its overall state economy, it must compete in the national and global marketplace for trade, tourism and economic development.
- A key factor in remaining competitive is the state's transportation system.
- Florida must be able to provide better transportation facilities and services, moving goods and people more efficiently and more cost effectively.

ECONOMIC IMPLICATIONS

- In general, macroeconomic business benefits and personal travel benefits yield \$5.50 worth of economic benefits for every \$1 invested in the FDOT Work Program for highway, rail and transit improvements.
- FDOT's 2002-2007 Work Program investments in highways, transit, and rail over the next five years was expected to result in an increase of \$44 billion in personal income for Florida residents and generate 88,000 new permanent jobs over the next 25 years.

ECONOMIC IMPLICATIONS

- Studies indicate that investments which increase the capacity or service at airports and seaports also can return benefits ranging from \$2 to \$13 for each \$1 invested.
- Traffic delays on Florida's urban highways cost the average motorist in the state's eight largest cities about \$500 per year in lost time and fuel.
- For trucking companies, the cost of delay exceeds \$1 per minute.

SOURCES OF NEW FUNDING: 2005 Growth Management Legislation

- \$575 million non-recurring from General Revenue
- \$542 million recurring GR from Documentary Stamps
 - Breakdown:
 - 10% to “New Starts” Transit Program;
 - 5% to Small County Outreach Program;
 - Remaining funds:
 - 75% to Strategic Intermodal System
 - 25% to new Transportation Regional Incentive Program (TRIP)
- Additionally, 2 programs get one-time funding in FY 2005-06 from the non-recurring funds:
 - County Incentive Grant Program gets \$25 million; and
 - State Infrastructure Bank gets \$100 million.

Total growth-management transportation project commitments for the next 10 years (through FY 2014-2015): \$ 7.5 billion

SOURCES OF NEW FUNDING:

Other Options

- Open-road tolling. This enables motorists to pay highway entry and exit tolls while driving at normal speeds through interchanges by using transponders, video imaging, and other tracking devices.
- Leveraging federal funds. GARVEE bonds- FDOT has statutory authority to pledge future federal-aid reimbursements to pay debt service on these 12-year bonds.

SOURCES OF NEW FUNDING:

Other Options

- More partnerships with private entities. FDOT has statutory authority to enter into agreements with private entities to build transportation facilities. State-private partnerships to build High Occupancy Toll (HOT) lanes have been explored.
- Issuance of additional revenue and general-obligation bonds.

CURRENT BONDING OPTIONS

- FDOT utilizes Right-of-Way and Bridge Construction general obligation bonds. Since FY 1990-1991, FDOT has issued about \$1.8 billion in these type of bonds, and has about \$1.4 billion outstanding. FDOT has plans to issue \$1.3 billion over the next 7 years to fully implement the program.
- The Florida Turnpike, 10 other tolled bridge or highway facilities in Florida, and the Florida Seaport Transportation and Economic Development (FSTED), currently utilize revenue bonds. The outstanding bonded indebtedness is an estimated \$2.84 billion.

BONDING OPTIONS

Debt Affordability

In 2001, the Florida Legislature passed a law implementing “debt affordability requirements” based on a percentage of state revenues, pursuant to s. 215.98, F.S.

BONDING OPTIONS

Debt Affordability

- The state has adopted the debt affordability **target ratio** of keeping debt service at or below 6 percent of state revenues.
- According to the Division of Bond Finance's *2004 Debt Affordability Study*, this target results in a bonding capacity of \$1.8 billion available over the next 5 years and \$11.9 billion available through 2014.

BONDING OPTIONS

Debt Affordability

- The state also has adopted a **bond affordability cap** that provides that debt service cannot exceed 7 percent of state revenues.
- Based on the 2004 study, this cap results in a bonding capacity of \$6.6 billion available over the next 5 years and \$17.9 billion available through 2014.

BONDING OPTIONS

Proposed General Obligation Bonds

- \$200 million – \$500 million of recurring general revenue could be pledged as debt service.
- Bond term would be flexible and could range from 10 years to 30 years.
- Legislation needed to create framework of program, and to put issue on the ballot.

BONDING OPTIONS

Proposed General Obligation Bonds

- The Florida Constitution requires a statewide referendum before general obligation bonds can be issued.
- If referendum passes, approval by State Board of Administration (Governor, Attorney General, and Chief Financial Officer) needed before bonds could be issued.
- Bonds would be issued by Division of Bond Finance pursuant to the State Bond Act.

PROPOSED USE OF BOND PROCEEDS

- The bond proceeds would be used to address transportation infrastructure backlogs and future transportation needs that far outpace current transportation revenues.
- As a starting point for discussion, these bond proceeds could be distributed in a similar manner as the recent Growth Management funding.
 - 10% to “New Starts” Transit Program;
 - 5% to Small County Outreach Program; and
 - Remaining proceeds:
 - 75% to Strategic Intermodal System
 - 25% to Transportation Regional Incentive Program (TRIP)
- This distribution formula is intended to achieve a balanced statewide system.

BONDING vs. PAY-AS-YOU-GO

- The use of bonds to pay for transportation infrastructure results in financing costs that are significant when compared to using the current “pay-as-you-go” approach.
- However, the use of bond financing can build projects many years sooner than using cash from tax revenues. The financing costs associated with bonds are largely offset (and may even be eliminated or exceeded) when compared to the increases in right-of-way, construction, and material costs for completing a project many years in the future.
- The additional benefit to the business community and to the driving public of having transportation capacity improvements sooner and avoiding additional traffic delays also should be considered as a factor in determining the appropriate use of bond financing.

RESOURCE MATERIALS

Further information can be found at these websites:

- <http://www.dot.state.fl.us/financialplanning/fr/transportationfundingsources.pdf>
- http://www.dot.state.fl.us/financialplanning/revenue/taxprimer/200501/Tax_Primer_Jan2005.pdf
- http://www.dot.state.fl.us/financialplanning/pr/poa_2004.pdf
- <http://www.dot.state.fl.us/planning/policy/pdfs/macroimpacts.pdf>
- <http://www.dot.state.fl.us/planning/gm/default.htm>
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