

December 8, 2008

The Honorable Welton G. Cadwell, Chairman
Lake County Board of County Commissioners
315 West Main Street
Tavares, FL 32778

RE: Recommendations of the Transportation Alternative Funding Task Force

Chairman Cadwell:

The Transportation Alternative Funding Task Force (Task Force) respectfully submits the attached document containing formal recommendations on transportation funding options. The Task Force, created by the Lake County Board of County Commissioners (BCC) in October 2007, met a dozen times since January 2008. The review of budget and planning information has been extensive and the depth of the issues surrounding transportation funding is substantial.

Through the process, the Task Force recognized several factors that have influenced today's transportation funding conditions. It was clear through the group's analysis that the situation evolved through the last two decades. Through incremental policy actions, a departure occurred from funding road maintenance and capacity through property taxes. An over-dependency was created over time on transportation impact fees.

Evidencing these facts are the following:

- (1) A transportation program not structured to meet current or future maintenance and capacity needs;
- (2) An adopted Lake County Five-Year Road Construction Program missing more than \$100 million in needed construction and maintenance projects;
- (3) The 2007 Impact Fee Study that would have resulted in the highest transportation impact fee in the state – a fact attributed to no other funding sources committed to road capacity projects.

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To address these issues and to provide potential solutions, the Task Force has formulated a set of options categorized by funding type. The group has articulated rationale as to the benefits and issues surrounding each funding source and has listed the funding sources in an order that places the most viable options to the front.

The group has made a point to clarify for each funding source that some are recommended to address the need for additional road capacity dollars and other funding sources are recommended to cover maintenance costs. Following the listing of funding recommendations is a background section detailing the issues that helped shape our conclusions. Please note that many factors were considered, including one that had particular impact on our discussion: maintenance funding needs versus road capacity funding needs.

The Task Force focused a great deal on the funding source being logically connected to the public purpose to be served. Of surprise to the group was the fact that no Lake County property tax revenue is formally committed to transportation needs.

The document closes with some direct conclusions that the Board of County Commissioners should consider before moving forward on any policy decisions regarding transportation funding. The Task Force would be pleased to present the results of their work to the BCC in a formal meeting to be scheduled at your discretion.

Thank you for your consideration.

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Respectfully,

Lake County Transportation Alternative Funding Task Force:

H. Bennett Walling, P.E., Chairman

Virgil Clark

Fred Johnson

Bud Beucher

Duane K. Booth, P.E.

John A. Moore

Ronald M. Jacobs

**Lake County Board of County Commissioners
Transportation Alternative Funding Task Force**

CHAIRMAN'S FOREWORD

As the chairman of the Transportation Alternative Funding Task Force, I would like to thank Cindy Hall, Jim Stivender and T.J. Fish for their help in educating us on this complex issue, providing to us their educated opinions as well as their own insights. I would also like to thank the other six members of this Task Force who gave of their time and talents.

The following report was based on twelve meetings of seven private citizens who were appointed and who agreed to volunteer their time to assist Lake County in an attempt to determine what funding sources might be available to fund Lake County's transportation needs.

The Task Force members are citizens who have a diverse background in business and management as well as engineering. Because of the diversity, we have compiled what I believe is a comprehensive report outlining the options available to the Board of County Commissioners for funding of roads in Lake County. Unfortunately over the past year since the task force was appointed, the entire economy has changed. For that reason, what is concluded in this report evolved slightly from of the original parameters that were set for this group.

During the first few meetings, the Task Force was provided with the historical data of the county's road network and all of the available funding sources. We were somewhat overwhelmed with data when it came to learning about transportation issues, capacity, maintenance, funding for roads, concurrency, taxation, inter-local agreements etc. Discussions for funding went from unrealistic user fees using GPS tracking to the unpopular idea of increasing property taxes and everything in between including increasing impact fees.

We quickly found that it wouldn't have mattered how good the economy was, the needed funding was never going to be met with a one-source solution. It also became clear that due to the state of the present economy, Lake County's Public Works could no longer rely on impact fees as a major funding source. Therefore, we developed a funding concept requiring commitments by the Board of County Commissioners, the cities of Lake County and all its citizens. Perhaps what resonated most often at the meetings was the need for the county to first and foremost reprioritize its budget - to first budget for the basic needs of its citizens before funding any items not part of the county's basic services. Further, it was unanimously agreed by the Task Force that, not until a reprioritization occurs, would it support any new fees which would further burden the Citizens of Lake County.

We hope you will read this report and reflect on its conclusions. The Task Force and I look forward to meeting with the Commission to discuss the report in detail.

Lastly, I might add that a majority of the Task Force members indicated that they felt a temporary moratorium on impact fees may promote some new development and might soften the present economic woes here in Lake County.

Chairman H. Bennett Walling, PE

**Lake County Board of County Commissioners
Transportation Alternative Funding Task Force**

Recommendations on Lake County Transportation Funding Options

December 8, 2008

Recommendations on Funding Sources

The following pages detail various funding sources analyzed by the Task Force. Some of the funding sources are already enacted but structured such that room for improvement exists. Other funding sources require enactment through a voter referendum or by the Board of County Commissioners (BCC) or other local governments. The funding source recommendations are grouped by funding type for ease of reading and understanding.

Each description of funding source includes the following: (1) the taxing source from which funds would be derived; (2) the purpose for which the Task Force supports utilization of the funding source; (3) the revenue potential of the source in terms of low, moderate, high or variable yield potential; (4) the action required to enact the funding source for the recommended purpose; and (5) a narrative explanation the Task Force's rationale and clarifying the recommendation. Following the recommendations on funding sources, an extensive background section is provided on how the Task Force reached final conclusion on the recommendations.

The Task Force viewed the issue of transportation as one linked directly to the health, safety and welfare of the community. The group stated that the importance of transportation ranks as high as other infrastructure needs like water, sanitary sewer and schools and the need, in fact, outweighs many other services provided by county government. For this reason, and because the group was hesitant to support an increase in taxes or fees during the current economic downturn, the Task Force has focused its recommendations on the comprehensive effects of funding policy.

Additionally the group felt in light of the disproportionate growth in county revenues and expenditures the county needed to shift monies out of peripheral projects and refocus those monies on roads. The group suggested that adequate funding first be achieved for the health, safety and welfare of the citizens of Lake County before any funding of non-essential services. It was suggested that perhaps a budget assessment committee be formed to analyze all budgets before presentation to the commission for adoption.

In reviewing the history of transportation funding through the last three decades, the group concluded that Lake County underwent an incremental shift in funding policy that deviated from utilizing property taxes and that established an over-reliance on impact fees. Through the last five years, road construction costs increased in unprecedented fashion and revenues declined due to fewer impact fees collected and due to a first-ever decline in fuel tax revenues. During this same timeframe, ad valorem tax revenue also increased at an unprecedented rate.

(Option 1)

Cost Cutting Measures

Source:	Current road maintenance and capacity programs
Purpose:	Enhanced efficiencies
Revenue Potential:	Low to moderate
Requires:	Policy decision by BCC
Revenue Availability:	Fiscal Year 2009-10

The Task Force recommends a new look at how transportation projects are accomplished. It is recommended that a scrutinizing approach is needed to ensure that no waste occurs and that efficiency is paramount.

The group strongly supports the idea of an audit of the planning and production process to determine areas for improvement. Such an assessment would be to determine opportunities for enhanced efficiency and to target for elimination any redundancies or inefficiencies.

Considerations should be taken in the planning and design of projects to examine options that lower right-of-way and construction costs. Policies may need to be reexamined regarding the requirement of additional features, such as sidewalks, landscaping and other enhancements, to ensure that the public benefit outweighs the public's cost.

Furthermore, conditions may require reevaluation of the processes by which road congestion is measured and by which level of service failures are determined. Adopted levels of acceptable traffic congestion may need to be rethought and the public may need to tolerate additional traffic without the addition of lanes. The Task Force recommends serious consideration that economic conditions may require Lake County to literally do more with less.

(Option 2)

General Fund

Source:	Ad valorem property tax
Purpose:	Maintenance
Revenue Potential:	Variable
Requires:	Policy decision by BCC
Revenue Availability:	Fiscal Year 2009-10

Recommended for enactment in Fiscal Year 2009-10, General Fund revenues are not currently utilized for road maintenance. As the Task Force reviewed budgets, work programs and historical trends, the group not only focused on the need for road capacity funding, the group recognized a major shortfall in road maintenance funding. There was surprise among the members as they learned that NO General Fund revenues from the County's budget are committed to road maintenance, a cost the Task Force concluded should be shared by all.

For these reasons, the Task Force focuses first on the General Fund of the Lake County budget. The group concludes that the increase in the County's budget and the General Fund outpaced the County's investment in transportation and therefore should be addressed as a comprehensive policy issue. The group recommends that an incremental shift of general fund revenues be dedicated to transportation.

The Task Force recommends specifically that the shift occur over four fiscal years. The group recommends that Year 1 result in two percent (2%) budget commitment from General Fund revenues to road maintenance. In Year 2, that commitment should be increased to four percent (4%) and, in Year 3, the commitment should be increased to six percent (6%). For Year 4, the group recommends a final incremental increase to eight percent (8%), which is a level that, based on historical data, is proportionate to the need. This source is in addition to the current impact fee program.

The Task Force views an eight percent commitment as substantial but appropriate as a function supported by General Fund revenues. The Task Force acknowledges that such a policy decision will require a level of re-prioritization under current taxing levels. However, the funding need for road maintenance is massive and worthy of such a change. Although a good revenue source for maintenance, a General Fund approach can also be vulnerable to the annual budget process unless long-term policy commitments are made.

This recommendation arose from discussion that, prior to the adoption of Lake County's first transportation impact fee, the County committed roughly eight percent of general revenue to road maintenance, improvements and expansions. Subsequently, it appeared to the Task Force that this early commitment to road maintenance funded by general revenue was abandoned and replaced with a system that has shifted the funding burden away from the citizens already living in Lake County. The result is an underfunded system that shifts the burden of repairing roads to new growth and future citizens.

Because the Task Force believes that this source is the quickest funding source available for transportation at this time, the Task Force recommends that a budget assessment committee be appointed by the commissioners to assist the commissioners in analyzing proposed budgets prior to its adoption. It is the Task Force recommendation that the appointees be from "for-profit companies" and all shall be vested citizens of Lake County.

(Option 3)

Municipal Role

Source:	Municipal ad valorem property tax, fuel taxes, sales tax
Purpose:	Maintenance and capacity
Revenue Potential:	High
Requires:	Major intergovernmental cooperation
Revenue Availability:	As municipalities agree

Each of the 14 municipalities of Lake County have at least one collector road through their community that is a major county road. In larger municipalities, there are multiple roadways under Lake County's jurisdiction that serve residents and businesses within those municipalities. The group views the need as paramount for Lake County and the 14 municipalities to partner on transportation projects within city and town jurisdictions.

It was recommended that municipalities should take the lead on transportation projects within their jurisdictions and should work with the County as simply the maintaining jurisdiction. The County impact fee fund should be viewed by municipalities as one of several funding options, including utilizing funds from municipal sources to make transportation improvements. This approach would be aided if there was a countywide funding approach as cited in Option 4-A or Option 5-A.

A major basis for the Task Force's support of this approach is that municipalities typically are the driving forces behind new development approvals. There are limited areas of unincorporated Lake County where development approvals are occurring or that are planned for future growth. Most urban densities are within municipalities and therefore more demand for road capacity exists within municipalities. The group noted that the current system creates a dynamic in which the cities look to Lake County to fund County jurisdictional roads. However, the impact fee program is not sufficient to cover some needs already created by development approvals. Instead of municipalities considering other funding options, they tend to pressure the County to prioritize their local project.

The group discussed that Lake County could perhaps begin an incentive program to encourage the use of municipal funding options. The group also stated concerns about city-county planning coordination as they learned that it is often practice of municipalities to annex land but not public rights-of-way, thus leaving road maintenance solely to the County. This was a point that the Task Force strongly emphasized as a need for better cooperation.

The Task Force acknowledges that this cooperation should be met openly and positively by all parties as these types of cooperative arrangements require mutual consent. The Task Force also suggests the BCC deeply analyze the dynamic between County and municipality.

The BCC should take action through resolutions to create disincentives as well as incentives to create the level of cooperation that will be needed to solve this very complex and expensive problem. Incentives could include a matching program through which municipalities leverage County funds through their own seed money. Cities and County could split certain costs, such as the County covering road costs, but the municipalities covering enhancement costs for sidewalks, landscaping and lighting. Disincentives could be put in place such as the County relinquishing maintenance of local roadways within annexed areas.

(Option 4-A)

Source:	<u>Ad Valorem</u> Countywide ad valorem property tax
Purpose:	Capacity
Revenue Potential:	Moderate to high, variable based on millage rate
Requires:	Policy decision by BCC
Revenue Availability:	Fiscal Year 2009-10

Although not supportive of a property tax increase, the Task Force acknowledges the potential revenue that could be generated for road capacity projects through a millage rate commitment. This approach would dedicate ad valorem revenues to transportation capacity needs by specifying a millage rate at which revenues would be committed to road capacity projects. The Task Force could support a 0.25 millage rate committed to transportation. This option is with the caveat that this is supported only if other General Fund revenues are allocated per this report and if cost-cutting measures are enacted. To add to the supporting rationale, the group views the millage approach as dependable enough for bonding infrastructure projects, meaning that ad valorem revenues could allow major road projects to be bonded over time and repaid with this dedicated funding source should voters agree. Because the current impact fee system is vulnerable to major fluctuations in revenues dictated by the rate of building permit issuances, the Task Force views the millage approach as one to stabilize the imbalance with the impact fee system. It is recommended that should this approach be utilized, the revenues collected within each transportation benefit district remain within that district for road capacity projects. It was acknowledged through the group's analysis that a 0.25 mill was dedicated to transportation until the mid-1980s, at which time the millage rate approach was removed and replaced with Lake County's first impact fee. The Task Force cited this change in policy as one that has resulted in an overreliance on the impact fee to fund road capacity projects.

(Option 4-B)

Source:	<u>Commercial Ad Valorem Growth</u> Countywide ad valorem commercial property tax
Purpose:	Capacity
Revenue Potential:	Moderate, variable based on commercial development
Requires:	Policy decision by BCC
Revenue Availability:	Fiscal Year 2009-10

The group also discussed another approach to utilizing ad valorem revenues. The Task Force discussed the fact that new growth is not at this time occurring in the residential sector but is occurring in many parts of Lake County in the commercial sector. The group supported the idea of committing dollars from that new growth to transportation. Therefore, the Task Force recommends that ad valorem taxes for each new commercial development be dedicated to transportation capacity projects for the first five years the improved property is on the tax roll. After the fifth year, the ad valorem revenues would be directed to the General Fund. This commitment of funds would be an infusion of funds to bolster an underfunded road capacity program. It is recommended that these funds stay within the benefit district in which they are collected. This commitment would be above and beyond the eight percent General Fund commitment specified by the Task Force in Option 2. On this second concept, the rationale of the group is based on commercial developments providing a substantial level of ad valorem revenues while creating few public expenses as compared to residential development. It was held that the commercial sector is appropriate to specify for a new policy committing or earmarking growth in ad valorem revenues to transportation. This funding policy could be enacted immediately so that commercial properties appearing on the tax roll January, 1, 2009 would provide revenues into this new program.

(Option 5-A)

Countywide Municipal Services Taxation Unit (MSTU)

Source:	Ad valorem property tax
Purpose:	Capacity
Revenue Potential:	High
Requires:	Policy decision by BCC and municipal cooperation
Revenue Availability:	As municipalities enter into interlocal agreement

A Municipal Service Taxation Unit (MSTU) is an ad-valorem-based funding mechanism available to local governments to cover capital costs. The Task Force supports as an option the implementation of a countywide MSTU in cooperation with the 14 municipalities. It is recognized that cities share the need for road capacity and therefore should coordinate with the County and assist in the funding solution.

The Task Force recommends the BCC, in coordination with the Lake~Sumter MPO, convene elected officials from the 14 municipalities to discuss a countywide funding approach. If the intergovernmental coordination can be achieved, the funding potential is such that capacity issues in and around cities may be better addressed. Also being discussed statewide among cities and counties is the development of a new type of planning area called an Interlocal Service Delivery Area. Agreement with each municipality may increase efficiencies of the county road network, which runs through all 14 cities. Municipalities and the County would have clearer expectations on responsibilities and funding opportunities.

The concept of a countywide funding approach coordinated with the municipalities was thoroughly discussed and supported by the Task Force. Of interest to the group is the implementation of incentive and disincentive programs, discussed more in Option 3, that encourage cooperation and taxpayer savings and that dissuade waste and inefficiencies experienced through fragmented approaches to transportation.

(Option 5-B)

Unincorporated Municipal Services Taxation Unit (MSTU)

Source:	Ad valorem property tax
Purpose:	Capacity
Revenue Potential:	High
Requires:	Policy decision by BCC
Revenue Availability:	Fiscal Year 2009-10

An MSTU has been adopted by the BCC that can be utilized for stormwater system improvements, parks and roads. The Task Force explored the concept of dedicating or reprioritizing the existing MSTU to focus the funding source on road maintenance or capacity. However, the group concluded that a truly dedicated approach would be more appropriate than forcing road issues to compete with stormwater and park projects. After exploring all options, the Task Force further concluded that this funding source is best matched with transportation capacity needs.

Therefore, the Task Force recommends that the BCC consider the adoption of an MSTU that covers only the unincorporated areas of Lake County. This option should be considered if it is in lieu of Option 5-A, not in addition to Option 5-A. This option could provide capacity funding for roadways needs outside of municipalities.

(Option 6)

Impact Fees

Source:	New construction starts or expansions
Purpose:	Capacity
Revenue Potential:	Moderate to High, Variable
Requires:	Policy decision by BCC
Revenue Availability:	After update of study

The Task Force concludes that, although impact fees may assist in obtaining revenue for costs associated with new capacity, because of the recent decline in new development, any reliance on future funds from this source should be minimal. Furthermore, the impact fee program, as evidenced by the current economy's effect, is vulnerable to market conditions and is therefore unpredictable and unreliable.

The Task Force concludes that the addition of revenue from other sources to meet road capacity needs would lower the County's dependence on impact fees. The group acknowledges that the transportation impact fee schedule may need to be adjusted based on labor and materials cost. However, the group recommends against any change to the impact fee program without a complete reevaluation of the methodology, the assumptions and the factors used to derive the impact fee rates. Because the group was never provided the impact fee formula or data by which the impact fees were calculated, the Task Force was unable to validate or invalidate the proposed impact fee schedule. The Task Force felt that the impact fees are being utilized inappropriately to cover expenses that should have been paid for by the current residents of Lake County. The Task Force recommends that impact fees should only be utilized for net capacity projects.

The group strongly opposes an immediate increase in impact fees due to current economic conditions. The group recommends an updated study of impact fees with a renewed emphasis on the methodology being tied as much as possible to Lake County conditions and not to State of Florida standards or to other broad assumptions. The Task Force further recommends that the impact fee formula include the additional funding sources recommended in this report.

The Task Force finds it critical that the methodology take into direct consideration net capacity. Much discussion occurred on the difference between a two-lane roadway being improved to a better two-lane roadway and a two-lane roadway being improved to a four-lane roadway. The Task Force concludes that the impact fee program should be focused on capacity projects with a high cost-benefit ratio, such as a two-lane to four-lane project. Minor capacity projects could be supported by one of the options within this report that dedicates funding to capacity

It is also recommended that consideration of an increased fee include a phasing approach to ease the impact on the local economy. These recommendations come with the caveat that they are supported as long as the items inherently wrong in the current system are addressed and fixed. Those concerns with the current system are detailed in the Background section of this document.

(Option 7)

Fuel Taxes

Source:	Gas and diesel fuel sales
Purpose:	Maintenance
Revenue Potential:	Moderate (five cents unapproved)
Requires:	Policy decision by BCC or voter referendum
Revenue Availability:	January 1, 2010; through at least 4/5 BCC vote

Five pennies of fuel taxes remain available for adoption and are known as the Second Local Option Fuel Tax, which is on gasoline only. The Task Force concludes that the additional revenue would benefit the financial picture, but that the new revenue would not be as substantial as many taxpayers may believe, potentially generating approximately \$6 million annually if all five cents were to be enacted. It is recommended the additional gas taxes be dedicated primarily to maintenance projects or, to a limited extent, to capacity projects.

If approached comprehensively as part of a package of changes to transportation funding policy in coordination with municipalities, fuel taxes dedicated to maintenance could substantially benefit cities and the County through mutual maintenance agreements. As mentioned previously, such agreements could be part of an Interlocal Service Delivery Area agreement. Again, this is an area in which coordination with the 14 municipalities could enhance taxpayer savings and eliminate redundancy and waste. The BCC should explore these options along with incentives for municipal cooperation and disincentives for lack of coordination.

It is legally feasible for the BCC to adopt the remaining five cents per gallon through a supermajority vote. For the BCC, this would require at least four of the five commissioners to support the change in funding policy. A vote would be needed before July 1, 2009, in order for the new revenue source to be in place January 1, 2010. Otherwise, adoption of the available gas taxes would have to be decided by a voter referendum.

The Public Works proposal supported by the Task Force is to expend all monies for resurfacing of roads using the PASERS rating system that Lake County already has in place. Public Works would utilize the new revenue source to work with cities to rate their roads in same manner. The County would use a county-wide bid system for all roads, city and County using the \$6 million and the rating system to resurface roads. County and municipalities will benefit from optimum pricing, with Lake County taking on the responsibility of bidding and inspections.

Currently adopted county fuel taxes each have sunset dates in the relatively near future. The BCC, or voters, will have to decide whether to renew certain fuel taxes in 2012, in 2014 and in 2016. These decisions are in addition to any consideration of adopting the five remaining local option pennies. Noted by the group, indexing of county fuel taxes is not currently enabled by state legislation. Lobbying efforts are recommended to change state statute to allow indexing of county fuel taxes.

(Option 8)

Public-Private Partnerships

Source:	Private funds as part of development projects
Purpose:	Capacity
Revenue Potential:	Variable
Requires:	Concurrency management and effective partnership program
Revenue Availability:	Ongoing

The Task Force has concerns with taxpayer funding of transportation projects that would not be needed if not for the approval of new development. Therefore, the group emphasizes the need for new development to pay for costs associated with their impact, whether through impact fees, through proportionate fair share or through constructing improvements directly.

Under concurrency law, no new developments should proceed unless road capacity exists or is funded for construction or unless the development contributes to improvements to meet the transportation needs created by the development. The group supports the use of pioneer agreements to fund certain capacity improvements. Such an agreement would require a developer to receive approval if the developer provides capacity in excess of their impacts. The developer would then be paid back over time for the excess capacity as revenues come in from other developments benefitting from the improvements.

The development of public-private partnerships requires a cooperative environment in which developers can work with government officials in producing road capacity projects that truly handle the impact of the new traffic. The partnerships may also require the cooperation of municipal governments considering approval of new developments that will impact Lake County roadways.

The emphasis of public-private partnerships should be on constructing improvements, not on collecting payments, as that approach is already in place through the impact fee program. By a development constructing road capacity improvements in conjunction with their development, the goal is accomplished without the collection of and then the redistribution of impact fees. This partnership approach requires negotiability of impact fees and credits.

(Option 9)

Other Funding Sources

Source:	User fees, tolls, MSBUs and special districts
Purpose:	Capacity and maintenance
Revenue Potential:	Variable
Requires:	Policy decision by local government(s)
Revenue Availability:	Requires further exploration

User Fees

Several additional funding sources have been considered by the Task Force. Although the group discussed the concept of user fees to cover transportation needs, it is acknowledged that no new toll roads are being planned for construction in the near future. Furthermore, toll roads are appropriate for major expressways carrying high traffic volumes and not for the county roadways that are the concern of the Task Force's analysis.

The group also discussed transponder-based user fees such as a recent test project in the state of Oregon in which, instead of fuel taxes, drivers were assessed a per-mile fee each time they fueled their vehicle. The technology is available. However, this type of approach would likely not work on a countywide level and would likely need to be enacted through state or federal legislation.

MSBUs

Also examined were municipal service benefit units (MSBUs), a district assessment-based approach. The group agrees that MSBUs could be utilized in specific areas where major improvements are needed. An MSBU approach could allow certain transportation projects to be bonded through special assessments on specific properties. Although the group agrees the concept could be applied, it is concluded that MSBUs should be determined case-by-case and that the use of MSBUs is unlikely to solve the existing funding needs as the approach would likely fit better tied to large development projects.

Special Districts and CRAs

Special assessment districts could also be utilized to bond improvements within specific districts and again would be determined case-by-case, perhaps in partnership with municipalities. One type of district being considered by the County and already enacted in some municipalities is the Community Redevelopment Area. CRAs are based on growth of property values within the district, with that ad valorem growth being reinvested through infrastructure improvements within the district. On a case-by-case basis, CRAs may be an effective financing tool.

(Option 10)

Sales Tax

Source:	Sales receipts of goods and services
Purpose:	Capacity
Revenue Potential:	High
Requires:	Voter referendum; municipal and school district cooperation
Revenue Availability:	Referendum in 2016; would be effective January 1, 2018

It is apparent that the magnitude of needs requires a large revenue source that exceeds the potential offered by fuel taxes, impact fees and general fund approaches. The Task Force acknowledges that the county capital sales tax currently divided in thirds among municipalities, school district and county government may be the best revenue source for covering major infrastructure needs.

This revenue source is currently not dedicated to road capacity projects. Currently, sales tax is sometimes used for road maintenance. But the buying power is low due to the split of the revenue among so many local governments and the school district.

The group concludes that the sales tax is effectively committed through its sunset in 2017. Therefore, the group recommends that voters be given the option in 2016 to re-enact the sales tax, this time solely dedicating the penny to transportation needs. This funding option is viewed by the group as the most effective long-term solution to the current underfunding of transportation.

In addition to the fact that voters will have to decide the future of the capital sales tax, this option would also benefit from a cooperative and coordinated approach among the County, municipalities and school district. The shift of dedicated transportation to the sales tax would greatly benefit the County's transportation program. However, the effects on school and municipal work programs should be taken into account and collaboration and planning should occur among all affected.

Information Supporting the Recommendations of the Task Force

Background

In August 2007, the Lake County Board of County Commissioners (BCC) tabled action on an ordinance that would have revised impact fee policy and potentially increased the transportation impact fee for various uses by a range of 400 to 1000 percent. The BCC withheld action on the ordinance and opted to further analyze the issue.

The BCC created the Transportation Alternative Funding Task Force (Task Force) composed of seven citizens with backgrounds in business and/or transportation. The purpose of the Task Force was to examine the issues surrounding transportation funding in Lake County and recommend a diversification of funding that would theoretically reduce the need for a high impact fee.

The Task Force met 12 times since January 2008. The group was exposed to volumes of information ranging from public works and county budget items to adopted plans and revenue and cost projections produced by the Lake-Sumter Metropolitan Planning Organization (MPO). The Task Force was staffed by the county manager, public works director and the executive director of the MPO.

The group looked primarily at the revenue sources of: fuel taxes, sales tax, ad valorem (property taxes), municipal services taxation units (MSTUs), municipal benefit taxation units (MSBUs), special districts and user fees. The group also heard from several citizens and representatives of groups. The group held a special meeting at which they heard from the Lake County Homebuilders Association, the Greater Lake County Association of Realtors, the Chamber Alliance of Lake County and a member of the Metro Orlando Economic Development Commission.

Initial Concerns of the Task Force

A majority of the seven members entered the process concerned with the Lake County budget. Several voiced concerns with the rate of growth of the budget through the last few years. The rates of growth were in most cases four or five times the rate of growth of population and consumer price index (CPI). The group directed staff that it was their desire to pursue solutions by looking more intently at the budget. It was initially clear to the Task Force members that relying solely on impact fees as a funding source is no longer feasible, especially in light of downturns such as now when new construction starts are down.

The Task Force began to focus more specifically on the General Fund of the budget once it was clear that many items in the annual budget are tied to state and federal requirements, grants and constitutional offices. Of particular interest to the Task Force was the fact that General Fund revenues are not utilized to support transportation. This fact was greeted with surprise that the County once used approximately eight percent (8%) of General Fund revenues for road improvements and maintenance before enacting impact fees. Today the current citizens, through general revenues, contribute nothing to the maintenance of their roads. The group voiced concerns that county government should be focused on needed services first, like transportation.

Also, the topic of much discussion was the basis for the impact fee. Methodology and assumptions were discussed and some members remained skeptical of the foundation on which the impact fee is based. It was ultimately understood by the group that the BCC's commitment of other sources of funding to transportation would indeed lessen the reliance of Lake County on the Transportation Impact Fee.

The Task Force focused on the fact that the study of the Transportation Impact Fee resulted in a level of fees that would be the highest fees in the state. It was clear this was attributed to no other funding sources being committed to road capacity.

Appropriateness of Source to Purpose

Staff provided reports to the group regarding available sources of revenue, including increasing property tax, increasing fuel tax, creating toll roads, tag tax based on yearly trips, etc. As the Task Force discussed available sources of transportation revenue, the group sought to ensure that the proposed revenue source was legally and logically appropriate for the purpose to which it is committed. This premise led to a strong consensus by the group on certain issues.

It was held by the group that all taxpayers should share the cost of maintaining the transportation network already under the County's jurisdiction. It was also stated by the group that impact fees have their place in the funding formula and should be strictly for the addition of sincere capacity. This concept of strict adherence is critical in light of the historical manipulation of the impact fee monies and how they have been used. The long-term blending of impact fee funds into maintenance projects exposes the county government to criticism as the concept of source to purpose has not always been followed.

The Task Force discussed the importance of tying the benefit to the source of funding. Examples were given of two-lane roadways that were improved via impact fees, but no lanes were added; capacity was added only through shoulders and turn lanes. Although it was explained that some capacity is gained by adding shoulders and turn lanes, the group stated that such improvements should come from gas taxes, sales taxes or property taxes instead of impact fees.

The group also examined the need to blend funding sources. The example was given of a two-lane regional county road that is to be widened to four lanes. The group supported that net capacity should come from impact fees; however, a portion of the cost should be covered by the other primary sources because the two-lane facility was already a responsibility of Lake County, and therefore all taxpayers.

Many questions arose from the group pertaining to the types of improvements provided as part of a road project. Members questioned whether impact fees were used for sidewalks, trails, lighting, stormwater facilities and landscaping. Although the group was informed that impact fees can only be used for additional capacity, the concern remained that, during tight fiscal periods, certain amenities or extras may have to be reexamined. It was concluded that certain features such as stormwater facilities and erosion controls are non-negotiable on projects. The Task Force cited rural road projects perhaps not needing sidewalks or at least sidewalks on both sides of roadways.

Therefore, the group supported that the County scrutinize the cost-benefit of additional features and the group recommended that additional features be funded only by a funding source appropriate to the

cost. For example, landscaping other than erosion controls should never be funded through transportation funding. Bicycle and pedestrian facilities should be secondary to the primary need of road capacity and lighting should only be covered in cases of safety. Decorative lighting should not be included as a transportation cost.

Finally, some members voiced concerns that state road facilities should not be included in the impact fee methodology. Staff informed the group that the current transportation impact fee is based on the countywide roadway network and therefore must include state roads, which account for approximately 20 percent of the network and therefore 20 percent of the fee. Staff added, however, that Lake County has yet to use impact fees for state road capacity projects.

Maintenance versus Capacity

The Task Force spent considerable time examining the lack of recurring funding for maintenance. Although this was not directly under their scope of looking at capacity funding, the Task Force recognized the severity of the funding shortfall and discussed the need for a new approach. Of greatest concern was the statistic that it would take more than a century under current conditions to perform sufficient maintenance to Lake County's roadway network.

The Task Force strongly supported the principle that maintenance is a financial responsibility of all taxpayers. It was clear to the group that impact fees cannot be utilized for maintenance costs as this is inherently wrong. However, the group discussed that some sources that could be used for capacity can also be used for maintenance and it is that competition that creates conflicts in funding policy.

Current property taxes were strongly supported for maintenance and the group also supported ad valorem taxes and fuel taxes being utilized for maintenance. Similarly, the group supported the use of ad valorem taxes, fuel and sales taxes for capacity. The Task Force supported impact fees being utilized for capacity projects. However, new fuel taxes up to five cents and, as of 2018, a reallocated one-cent sales tax could go toward funding road capacity.

Current sales tax and current gas taxes were targeted as revenue options for additional road capacity. It was explained to the group that, under current conditions, the options of sales tax and fuel taxes being committed to capacity were in question since those sources were being used for maintenance projects. Again, the competition between maintenance and capacity was recognized as a major source of conflict.

Minor County Roads versus Regionally Significant County Roads

The Task Force addressed transportation as a whole, which includes all roads under county jurisdiction. Of the whole network, many roads are minor roads and residential streets with no concerns of capacity needs. The group acknowledged that, apart from maintenance, the greatest concern appears to be with the increase in need to improve the network of regional county roads. Many of the cross-county collector and arterial roadways were once state roads that were handed over to Lake County decades ago. The lengths of and capacity needs of these roadways creates project costs beyond the magnitude of current fiscal policy. The Task Force was unable to point to one funding source to support these needs.

Needs versus Wants

Many questions were raised on how transportation needs are determined. The Task Force was informed of the MPO process of developing a Needs Plan based on population and employment projections. The needs are then filtered to determine priorities and then cost feasibility is applied to determine which needs could be afforded based on revenue projections. The group acknowledged that state roads are typically covered through state and/or federal revenue sources. As for county needs, the group scrutinized "needs" that may in fact be "wants."

It was explained that the MPO's 2025 Long Range Transportation Plan is the adopted formal document containing Lake County's transportation needs plan and the County's cost-feasible adopted plan for transportation. It was explained that work on the plan was performed in 2004-05 and the document serves as a snapshot in time, capturing conditions and providing a guide for future policy. That snapshot includes not just county road needs, but also state and federal facilities and facilities that may be development-driven.

Because of the changes in the rate of development in Lake County and the recent reduction in road construction costs, the group asked whether the 2025 plan is still cost feasible. It was explained that the plan is no longer cost feasible due to project costs increasing while revenue projections show a decrease in buying power. Therefore, the group recommended a new snapshot be taken to determine needs and revenues before implementing major changes. Many suggested that this new snapshot may lead to a vastly different impact fee study that would show less needs and therefore a lower recommended amount. Staff reminded that the impact fee is based on project costs while the MPO's plan is based on cost-feasible needs.

A policy issue in which the group took interest was the adopted levels of service for roadways. It was explained to the Task Force that local government comprehensive plans include an adopted level of service for roadways. The levels of service were determined to sometimes be a factor in determining needs. The group asked if it was feasible to relook at adopted levels of service to determine if the levels are realistic. It was explained to the Task Force that a failing level of service creates an obligation on local government to fund improvements to achieve the adopted level of service. This was an area the group emphasized as needing additional analysis and modification. It was discussed that perhaps changes in the service levels of many roads may be more feasible than attempting to fund an improvement. The members indicated that although it was great when they could drive from point A to point B quickly, a little longer drive was not objectionable.

Conclusions

The Task Force recommendations can be summarized as follows:

- Although not supportive of tax increases, the Task Force has provided an array of options from which the BCC could choose to begin policy reform. The Task Force recommends the BCC act now to begin. With each passing month and year, the problem worsens and opportunity is lost.
- Impact fees are viable if based on accurate data and if supplemented with a consistent funding source. However, due to the economic slowdown, funding from impact fees will be inadequate to meet even the most insignificant capacity needs of the County.
- It appears that the analysis used to develop the most recently proposed impact fees is no longer accurate due to the assumptions used for construction costs. Not only is a revised study warranted, a new look at policy is justified to ensure that impact fees are used strictly for true road capacity projects, not maintenance. Task Force members asked that they be included in helping set the parameters, assumptions and methodology for an updated Impact Fee Study.
- Many alternate funding sources are available for enactment within a short timeframe, while some are not immediately available. Others will require a referendum vote and yet others may be perceived as too costly for the citizens of Lake County.
- A serious look is needed at funding that must come from existing revenue. It is recommended that Lake County engage outside auditors to assist in analyzing staff efficiency, policies, procedures and the present budget. It is also recommended that the county form a public budget assessment board for public oversight of budget development. An analysis of the process of guiding a transportation project through study, design, right-of-way and construction could add efficiencies to the program.
- Lastly the Task Force must alert the commission as to realistic state of the county. Members of the Task Force believe that, regardless of road funding shortages, Lake County is at the threshold of economic conditions which will threaten the County's ability to provide even basic services. Such times call for a countywide scrutiny of costs and procedures to locate opportunities for savings in transportation and in other areas of government.

As members of Lake County's business community, we urge you to begin taking the very hard steps to reduce expenses and increase efficiencies at all possible levels. Because of homes being foreclosed, Amendment 1 and the fact that property values are depreciating at an alarming rate, we know that the general revenue over the next few years will be much lower.