Transportation

Fund Condition

Fund Condition Statement (Paper #630)

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Transportation Fund Condition Statement

The Governor's budget was based on revenue and debt service estimates made prior to the time of the bill's introduction. Since that time, the Department of Transportation (DOT) has reestimated revenues and debt service payments and this office has reviewed, and, in some cases, modified, those estimates. The resulting estimates are reflected in the fund condition statement shown below. At the time of introduction, the biennium-ending fund balance was estimated at $11.2 million. However, due primarily to projections of higher motor fuel tax revenues and lower debt service costs, the transportation fund is now projected to have a biennium-ending balance of $84.7 million. This paper describes the main factors that account for the estimated increase in the balance.

	2015-16	2016-17
Unappropriated Balance, July 1	$32,242,200	$74,752,700
Revenues		
Motor Fuel Tax	$1,025,070,300	$1,032,570,300
Vehicle Registration Fees	670,583,200	672,585,000
Less Revenue Bond Debt Service	-242,101,400	-276,309,000
General Fund Transfer	37,976,900	46,068,000
Petroleum Inspection Fund Transfers	27,258,500	27,258,500
Driver's License Fees	38,444,100	38,124,000
Miscellaneous Motor Vehicle Fees	28,528,100	28,709,000
Aeronautical Fees and Taxes	7,788,100	7,803,700
Railroad Property Taxes	32,857,800	32,507,600
Miscellaneous Departmental Revenues	21,178,300	21,851,800
Total Annual Revenues	$1,647,583,900	$1,631,168,900
Total Available	$1,679,826,100	$1,705,921,600
Appropriations and Reserves		
DOT Appropriations	$1,575,109,500	$1,581,511,400
Other Agency Appropriations	26,557,500	26,711,000
Less Estimated Lapses	-3,500,000	-3,500,000
Compensation and Other Reserves	6,906,400	16,529,200
Net Appropriations and Reserves	$1,605,073,400	$1,621,251,600
Unappropriated Balance, June 30	$74,752,700	$84,670,000

Opening Balance

The estimated opening balance at the time of introduction was $12.0 million, an amount that is now estimated to be $20.2 million higher, at $32.2 million. At the time of the passage of the 2013-15 biennial budget (2013 Act 20), the 2013-15 biennial ending balance in the transportation fund (which is also the 2015-17 opening balance) was estimated at $1.8 million, so current estimates represent a $30.4 million increase over the 2013-15 budget estimate. There are several factors that account for the increase. However, one of the primary reasons is that actual motor vehicle fuel tax and vehicle registration revenues were higher in 2013-14 by $47.3 million, and are projected to be higher in 2014-15 by $52.3 million, than estimated when Act 20 was enacted. These additional revenues were partially offset by 2013 Act 141, which appropriated $43.0 million for the state highway rehabilitation program and a supplement of $27.4 million approved under s. 13.10 of the statutes for the state highway maintenance program.

Motor Vehicle Fuel Tax

Compared to the amounts in the bill, motor vehicle fuel tax revenues are estimated to be higher by $6.7 million in 2015-16 and $2.5 million in 2016-17. In addition, the base year fuel consumption estimate in 2014-15 increased motor vehicle fuel tax revenues by $3.8 million from the earlier estimate due primarily to higher actual and projected diesel fuel consumption through the fiscal year. Overall, compared to the amounts in the bill, motor vehicle fuel tax revenues are estimated to be $13.0 million higher over the three-year period from 2014-15 through 2016-17. The following table shows the original and revised consumption estimates for each type of motor fuel.

Taxable Gallons of Motor Fuel
(Gallons in Millions)

Fiscal Year	Original Estimate	Revised Estimate	Difference	Percent Change	Year-to-Year Rate of Change
Gasoline					
2013-14	2,502.0	2,502.0		0.0%	
2014-15	2,527.7	2,526.3	-1.4	-0.1	1.0%
2015-16	2,527.4	2,541.8	14.4	0.6	0.6
2016-17	2,537.6	2,535.5	-2.1	-0.1	-0.2
Diesel					
2013-14	719.7	719.7		0.0%	
2014-15	750.8	765.2	14.4	1.9	6.3%
2015-16	768.3	777.4	9.1	1.2	1.6
2016-17	796.2	807.7	11.5	1.4	3.9
Total					
2013-14	3,221.7	3,221.7		0.0%	
2014-15	3,278.5	3,291.5	13.0	0.4	2.2%
2015-16	3,295.7	3,319.2	23.5	0.7	0.8
2016-17	3,333.8	3,343.2	9.4	0.3	0.7

Overall fuel consumption in 2014-15 is now estimated to increase by 2.2% from the 2013-14 level and then is projected to increase over the prior year by 0.8% in 2015-16 and 0.7% in 2016-17. The increase in 2014-15 reflects actual consumption being notably higher due to actual fuel prices being lower in the first six months of the fiscal year and projected fuel prices also being lower through the end of the fiscal year compared to earlier projections The higher consumption in the 2015-17 biennium compared to earlier estimates is primarily due to lower forecasted fuel prices, with the forecasts for all other variables used in forecasting fuel consumption remaining constant or slightly better compared with DOT's original estimates. The increase in diesel consumption is also reflective of slightly higher actual and forecasted industrial production throughout the forecast period compared to the earlier estimate.

Vehicle Registration-Related Revenue

Gross vehicle registration revenues are projected to be slightly lower than earlier estimates by $0.2 million annually. Relative to the estimate used for the Governor's bill, the number of light and heavy trucks is projected to be slightly lower, offsetting slightly higher numbers of automobiles. However, the downward revision in revenues in this category is quite small as a percentage of total revenues. Relative to the bill estimates, registration-related revenues are projected to be less than 0.01% lower in each year.

It should be noted that while the revised registration revenue estimates are lower than the estimates in the bill, they remain higher than current estimates of registration revenues in 2014-15. Vehicle registration revenues in the 2015-17 biennium are now projected to increase by 2.6% over such revenues in the 2013-15 biennium.

Debt Service Estimates

DOA Capital Finance staff indicate that the bond market remains somewhat volatile, not with respect to the true interest cost of financing, which is expected to remain low, but in how bond sales are most advantageously structured to receive the lowest true interest cost to the state. Specifically, it is not known whether the bond market will continue to have a preference for bonds that are structured to yield premiums at the time of issuance. If bonds are sold at market rates in the biennium, the coupon (interest) rates on the bonds would be lower than those used in DOA's and DOT's debt service projections for the 2015-17 biennium. Conversely, if the state again sells bonds at a premium, the state would face higher financing rates in the out years associated with those premiums, but would borrow less upfront if those premiums are used to reduce the amount of principal borrowed.

This estimate assumes that transportation revenue bonds and transportation fund-supported, general obligation bonds issued in the biennium will continue to be sold at a premium. However, it also assumes that the bond premium proceeds will be used to lower the actual amount of principal borrowed. This action is required by law for DOT's general obligation bonds and the same practice is also expected to be used by DOA Capital Finance for the transportation revenue bond program. As a result, when factoring in the lower principal amounts borrowed due to the use of premium proceeds in lieu of borrowed principal, the true financing costs associated with borrowing would be considerably lower than the above-market coupon rates on the bonds. This estimate reflects those true financing costs and, as a result, debt service savings will accrue in the biennium. In addition, a Spring, 2015, transportation revenue bond refinancing transaction will result in lower debt service over the life of the issue, including 2016-17. Finally, this estimate also reflects that a $243 million transportation revenue bond issuance in the Spring, 2015, which had been assumed under the budget bill's estimates, will not occur at that time. This impacts the amount and timing of debt service associated with that authorization, which also lowers revenue bond debt service costs compared to the bill. In total, transportation revenue bond debt service is projected to be $37.0 million lower over the biennium compared to the bill. Applying the same assumption regarding the use of bond premium proceeds to the transportation fund-supported, general obligation bonds lowers estimated debt service by $6.3 million on those bonds in the biennium.

Other Fund Revenues

All other transportation fund revenues are projected to be, in aggregate, higher than budget estimates by $2.4 million over the biennium. This is the net effect of an estimated increase in railroad ad valorem taxes ($3.3 million) and an estimated decrease in aeronautical taxes and fees (-$0.9 million). These revenue sources have been updated to reflect projected values and projected property tax rates, as well as the December, 2014, payments.

Other Agency Appropriations

Transfers to the conservation fund under the motorboat, snowmobile, and all-terrain vehicle formulas are projected, in aggregate, to increase by $0.4 million in 2015-16 and $0.8 million in 2016-17, relative to budget estimates.

Summary

The revenue estimates upon which the Governor's transportation budget was based were generally conducted in the fall of 2014, at the time of the Department of Transportation's biennial budget request submittal. Since that time, actual collections through the first several months of 2014-15 have improved base year projected revenues. Along with a sustained outlook for collections for fund revenues, primarily from the motor fuel tax, this results in higher estimated total revenues to the fund in the 2015-17 biennium. Revised debt service estimates lead to lower net appropriations than originally estimated. When combined with a larger estimated opening balance, the revised revenue and spending estimates for the 2015-17 biennium, under the provisions of AB 21/SB 21, produce an estimated closing balance of $84.7 million.

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