HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 7095 PCB TR 06-02 General Revenue Bonds for Transportation/Program Implementation
SPONSOR(S): Transportation Committee
TIED BILLS: HJR 7093 **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.: Transportation Committee	11 Y, 0 N	Pugh	Miller
1) Transportation & Economic Development Appropriations Committee		McAuliffe	Gordon
2) State Infrastructure Council			
3)			
4)			
5)			

SUMMARY ANALYSIS

The Florida Department of Transportation (FDOT) is responsible for managing a $36 billion, Five-Year Work Program of highway, turnpike, aviation, seaport, and public transit projects, financed with state, federal and, in certain instances, advanced local funds. About two percent of the agency's funding is derived from general-obligation bonds, specifically for right-of-way acquisition and construction of bridges.

Although FDOT has a well-planned work program, and last year received additional funding over the next decade for transportation infrastructure crucial to implementing new growth management and concurrency requirements, a backlog of between $38 billion and $48 billion remains.

HB 7095 creates a bond-financing program for transportation right-of-way acquisition and bridge replacement and repair. The general obligation bonds financing the program pledge the full faith and credit of the state, and their debt service will be paid with state revenues transferred from the General Revenue Fund to the State Transportation Trust Fund. The bonds will be issued by the state Division of Bond Finance (DBF), pursuant to the State Bond Act.

The bill does not specify the amount of bonds to be issued; rather, it limits the total debt service to be appropriated in any one year at $500 million. The term of the bonds also is flexible, ranging up to 30 years. Based on that range and current interest rates, the amount of bonds that could be issued based on the $500 million debt service cap is between $3.7 billion and $6.7 billion.

The bonds may be issued only upon passage of a constitutional amendment creating the program. Under Florida law, the issuance of general obligation bonds must first be approved by the voters. HB 7095 is the implementing legislation for the proposed joint resolution HJR 7093 that seeks to amend the state constitution to add this new bond program.

HB 7095 takes effect upon becoming law. However, the section implementing the bond program becomes effective only if the electorate approves the constitutional amendment providing for the issuance of the general obligation bonds.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Provide limited government: If the proposed constitutional amendment and implementing legislation pass, FDOT potentially will have access to hundreds of millions of dollars to build more transportation infrastructure. As such, this legislation can be viewed as facilitating growth in government. Viewed from a larger context, the legislation promotes greater government spending on much-needed public infrastructure.

B. EFFECT OF PROPOSED CHANGES:

Current Situation

Transportation funding in the state of Florida

For FY 05-06, FDOT's budget is $8.1 billion, about $7 billion of which is the first year of the Work Program's expenditures. Additionally, the Legislature adopted the agency's $34.9 billion 2006-2010 Work Program.

The sources of FDOT's current Work Program funding are: 47 percent fuel tax revenues and other traditional transportation revenue sources; 24 percent federal funds; 20 percent toll revenues and bond proceeds; eight percent documentary stamp tax revenues; and one percent General Revenue.

State transportation bonds

Although bond-financing programs are about six percent of FDOT's overall budget, they play important roles in the agency's ability to meet transportation needs. The agency has three programs financed with revenue bonds: the Florida Turnpike Enterprise, the State Infrastructure Bank program, and individual bonds supporting transportation and environmental improvements at several non-Turnpike toll facilities operated by FDOT. The agency also contributes $25 million annually to pay debt service on $324 million in bonds issued by the Florida Ports Financing Commission.

FDOT has only one general obligation bond program that comprises about two percent of its total budget. In 1988, Florida voters approved a constitutional amendment creating section 17, Article VII of the state constitution, authorizing the issuance of general obligation bonds to acquire right-of-way for roads and to construct bridges. The Legislature approved the use of these bonds for the advance acquisition of right-of-way land beginning in 1991 and bridge construction beginning in 1994. The Legislature also provided that the bonds' debt service was to be paid from state fuel tax revenues. About three-fourths of the funds from these bonds are being spent on right of way acquisition and one-fourth is being spent on bridge construction.

Current law provides that a maximum of seven percent of state transportation tax collections, not to exceed $275 million, may be used to pay the annual debt service on these general obligation bonds.

As of December 2005, a total of $1.86 billion in right-of-way bonds have been issued. Examples of major projects whose right-of-way has been purchased using these bond funds include: $66.3 million for phase I of the Miami Intermodal Center; a $26.4 million bond fund grant to the Orlando-Orange County Expressway Authority to help purchase right-of-way for the Western Beltway Part A project; $8.5 million in bond funds for the Brannon Field Chaffee project in Duval County; $34.2 million in bond funds for the Seminole Expressway; and $15.9 million for the Polk Parkway project.

During the 20-year period from fiscal years 1990-91 through 2009-10, FDOT estimates that it will have leveraged $2.7 billion in right-of-way bond proceeds to finance approximately $18.1 billion in land acquisition.

Since 1995, approximately $800 million in Right of Way Acquisition and Bridge Construction Bonds have been committed to the replacement of bridges on the State Highway System, according to FDOT staff. With other funding sources considered, this $800 million has been used to leverage $1.6 billion in total project costs. Some of the major bridge projects financed with these bond funds are: the Fuller Warren Bridge; the Interstate-10 bridge over Blackwater Creek; and the Flagler Memorial Bridge.

Backlog of unmet transportation needs
Several studies in recent years by public and private institutions have concluded that Florida's transportation infrastructure is not keeping pace with its growth in population and number of visitors. These studies have concluded that Florida has unfunded state transportation needs ranging from $38 billion to $48 billion; this does not include projected transportation needs by cities and counties.

FDOT's recent selection of projects for the new growth-management funds made available in the 2005 session also illustrates how transportation needs are outstripping available funding. The 2005 session laid the groundwork for FDOT to receive nearly $6 billion in general revenues to finance a variety of transportation infrastructure programs and is designed to help the state and local governments meet new concurrency requirements. Last year, 273 projects requests totaling $4.6 billion for the growth management funds earmarked for the Strategic Intermodal System were submitted to FDOT's Central Office. FDOT selected 141 projects, totaling $2.2 billion.

Exacerbating the backlog is the unprecedented growth in the costs associated with transportation construction, due in large part to increased international and regional demand. Recent reports by FDOT indicate that asphalt prices have increased nearly 22 percent per ton; concrete prices have increased nearly 33 percent per cubic yard; and steel prices have increased from six percent to nearly 19 percent per pound, depending on the type of steel. Right-of-way costs in Florida also are increasing, by as much as 10 percent annually in some areas, FDOT has reported.

Effect of Proposed Changes
HB 7095 creates a bond-financing program for transportation right-of-way and real property acquisition, and for bridge replacement and repair. The land acquisition would be for highway, rail, public transportation, airport, and seaport uses.

The general obligation bonds financing the program pledge the full faith and credit of the state, and their debt service will be paid with state tax revenues transferred from the General Revenue Fund to the State Transportation Trust Fund. The bonds will be issued by DBF, pursuant to the State Bond Act.

The draft bill does not specify the amount of bonds to be issued; rather, it limits the total debt service to be appropriated in any one year at $500 million. The term of the bonds also is flexible, ranging up to 30 years. Based on that range and current interest rates, the amount of bonds that could be issued based on the $500 million debt service cap is between $3.7 billion and $6.7 billion.

The bonds may be issued only upon passage of a constitutional amendment creating the program. Under Florida law, the issuance of general obligation bonds must first be approved by the voters. HB 7095 is the implementing legislation for HJR 7093, seeking to create the bond program in the constitution.

HB 7095 takes effect upon becoming law; however, the section implementing the bond program becomes effective only if the electorate approves the constitutional amendment providing for the issuance of the general obligation bonds.

C. SECTION DIRECTORY:

Section 1: Creates s. 215.606, F.S., which addresses a new general-obligation bond program to fund certain types of transportation infrastructure. The section: expresses legislative findings; lists eligible project categories; sets debt-service cap for bonds; sets terms of bonds; and explains the Division of Bond Finance's role.

Section 2: Specifies that this act takes effect on the effective date of the Constitutional Amendment, if the amendment is approved by the electors in November 2006. If the amendment is rejected by the voters, this bill will be null and void.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None, unless the constitutional amendment creating the new general obligation bonds for this program is adopted by the state voters and the Legislature appropriates debt-service. See "II.D. FISCAL COMMENTS" below.

2. Expenditures:

   None, unless the constitutional amendment creating the new general obligation bonds for this program is adopted by the state voters and the Legislature appropriates debt service. See "II.D. FISCAL COMMENTS" below.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   None.

2. Expenditures:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None, unless the constitutional amendment creating the new general obligation bonds for this program is adopted by the state voters and the Legislature appropriates debt service. Under those circumstances, transportation contractors and supporting industries would likely benefit from the opportunity of bidding for additional FDOT projects.

Indirectly, the state's economy, local governments, and citizens would benefit from the infusion of transportation funding and the resulting infrastructure. An FDOT economic study indicates that for every $1 spent on transportation infrastructure results in a $5.50 economic benefit.

D. FISCAL COMMENTS:

DBF and FDOT prepared a variety of bonding scenarios for committee staff using a range of debt service caps, terms of maturity for the bonds, and interest rates.[1] At the high end, a $500 million annual limit on debt service on 30-year bonds at six-percent interest would generate an estimated $6.7 billion in bond proceeds. FDOT could commit those funds to build nearly $8 billion worth of projects. The debt service would be $14.9 billion. In whatever scenario is selected, the source of the debt service would be recurring state general revenue. Pledging general revenue as debt service on transportation bonds will result in these pledged funds not being available to the Legislature to appropriate for other state programs or needs while the bonds are outstanding.

[1] Documents on file with the House Transportation Committee.

Also, FDOT staff has said that a trust fund should be created for the new bonding program. If the constitutional amendment creating the program is approved by voters in November 2006, no bonds will be sold until the Legislature appropriates the debt service, which at the earliest will be May 2007, during the regular session. At that time, a trust fund could be created, if necessary.

Additionally, DBF staff has evaluated HB 7095's potential impact on the state's debt position by calculating the impact on the state's benchmark debt ratio, and have projected that the $500 million maximum debt service would cause the state's benchmark debt ratio to exceed the seven-percent cap. This projection assumes that this proposed bonding program would be fully leveraged in the three years following passage, and also assumes the proposed bond financing of the class-size reduction required by the State Constitution would be fully leveraged.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

   HB 7095 does not: require counties or municipalities to spend funds or to take an action requiring the expenditure of funds; reduce the percentage of a state tax shared with counties or municipalities; or reduce the authority that municipalities have to raise revenues.

2. Other:

   None.

B. RULE-MAKING AUTHORITY:

FDOT and DBF have sufficient existing rulemaking authority to implement the provisions of this bill.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES