

What Drives the Revenue and Economic Stability?

The recent economic downturn emphasized the need for economic stability and revenue diversification for both the public and private sectors. For many Florida jurisdictions, the primary available revenue sources are ad valorem/property taxes, sales taxes, and fuel taxes. This article briefly summarizes the trends in these revenue sources and the primary variables that affect them.

Fuel Taxes

Historically, fuel taxes were the primary revenue source for transportation projects. However, their effectiveness as a revenue source for local governments has been eroding, primarily due to the following:

- Fuel taxes are charged on a per-gallon basis as opposed to a percentage of dollars spent on fuel. Although the State fuel taxes are indexed, local fuel taxes have not been indexed over time. With inflation, the amount of revenue generated by each penny of fuel tax decreases in real terms.
- Fuel tax revenues are also reduced due to more efficient vehicles. As the requirements for fuel efficiencies increased and will continue to increase, dollars generated by each penny of fuel tax will be reduced.
- Figures 1 and 2 show trends in fuel taxes historically and estimates for the future. Figure 1 present the historical trends, where the value of fuel tax per penny decreased until about late 1990, and then stabilized primarily because of no additional fuel efficiency requirements. However, with recent changes in this area, the value of a penny of fuel tax is expected to decrease even further in the future, which is presented in Figure 2. The graphs also show the difference in loss of revenues for the State versus local governments. As presented, between 1960 and 2012, the value of 1 penny of fuel tax decreased by 30 percent for the State, while it decreased by 90 percent for local governments. This trend is likely to continue with the new regulations on fuel efficiency levels.

Ad Valorem Taxes

Ad valorem tax revenues tend to be higher in communities with higher levels of income and wages. One of the key economic development goals of attracting jobs with higher wages results in higher tax base, which is presented for the state average in the accompanying graphs. It is also important to note that over the past 35–40 years, income per capita increased by approximately 550% while wages per job increased by almost 400%, which is consistent with the recent observations regarding the increase in the gap between the wealthier population and the wage-earning/middle-class population. It is important to note that in Florida this gap occurred mostly in earlier years, until early 1990s. More specifically, income per capita increased by 8.6% annually between 1976 and 1989, while wages per job increased by 6.3% annually during the same period. Since 1990, the rate of change in the two variables has been consistent at 3.5% per year.

Sales Taxes

Similar to ad valorem taxes, sales tax revenues also depend on income and wage levels, as shown in Figure 5.

In the case of sales tax, area attractions are also important since this tax is paid by residents as well as visitors. To the extent an area can attract a large number of visitors and have high-priced products, higher sales tax revenues are likely because sales tax is paid as a percentage of sales value and is paid by all residents and visitors. As such, it is not surprising that counties such as Orange, Monroe, and Collier attract the most sales tax revenues per capita.

According to the projections released by the Florida Office of Economic and Demographic Research in February 2014, taxable value per capita is expected to increase by 5.1% per year statewide over the next five years, starting with a 4.2% increase in 2014. In 2014, sales tax revenues per capita are estimated to increase by 6.2%. Based on these projections, sales taxes continue to be a more productive revenue source in the near future.

Figure 1

Decrease in Value of 1 Penny of Fuel Tax (Historical Trend), 1960–2012

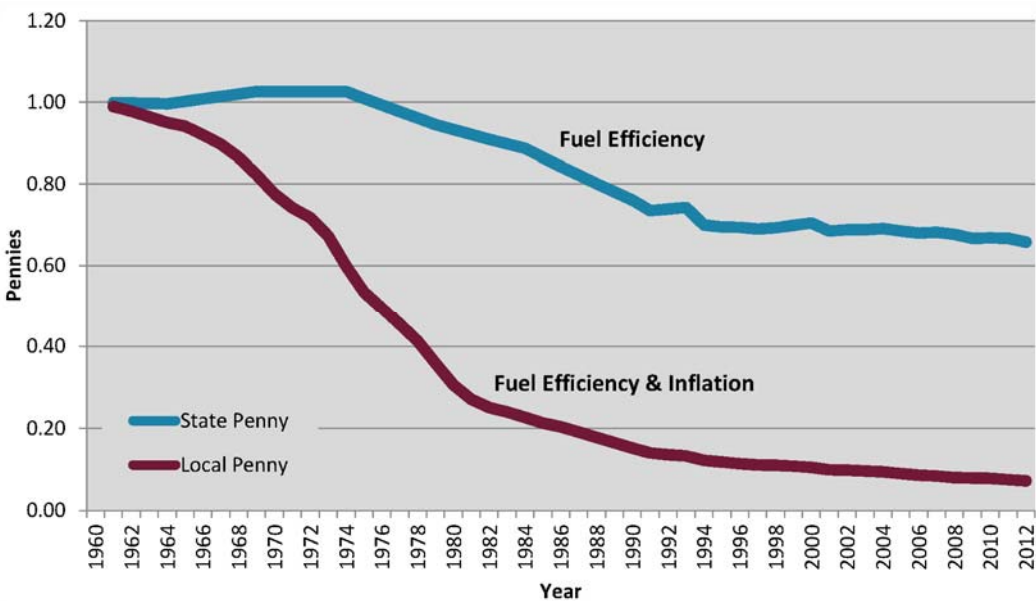


Figure 2

Decrease in Value of 1 Penny of Fuel Tax (Future Trend), 2014–2025

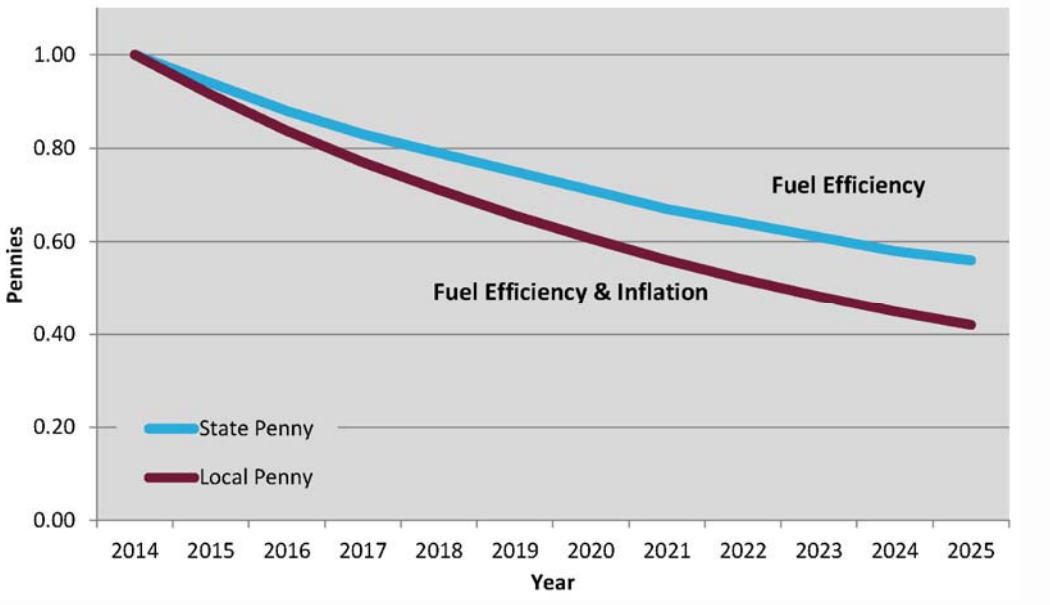


Figure 3

Florida Demographic Trends (Cumulative Growth), 1977–2017

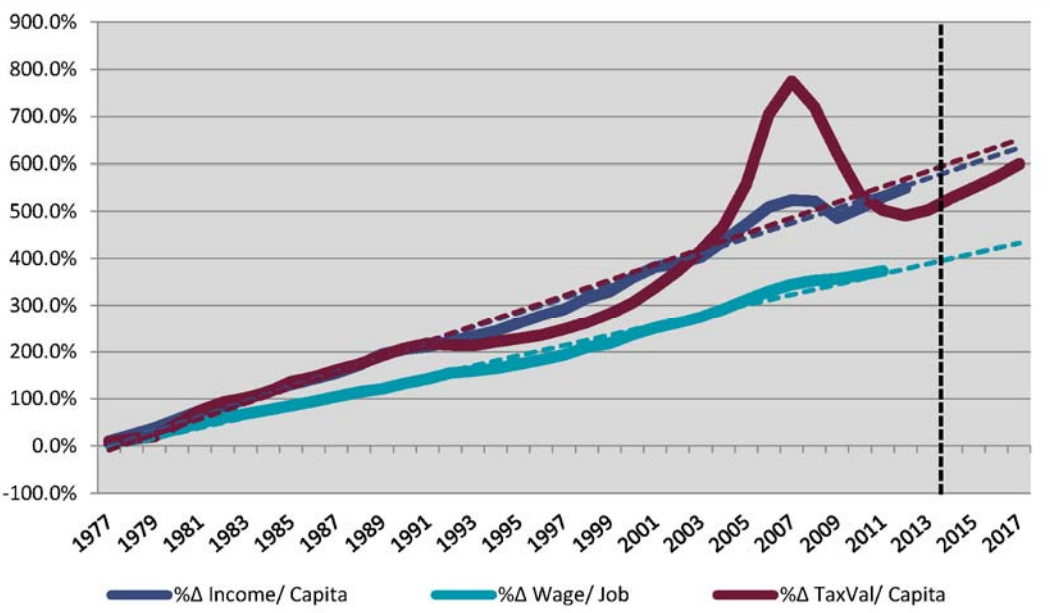


Figure 4

Lee County Demographic Trends (Cumulative Growth), 1977–2017

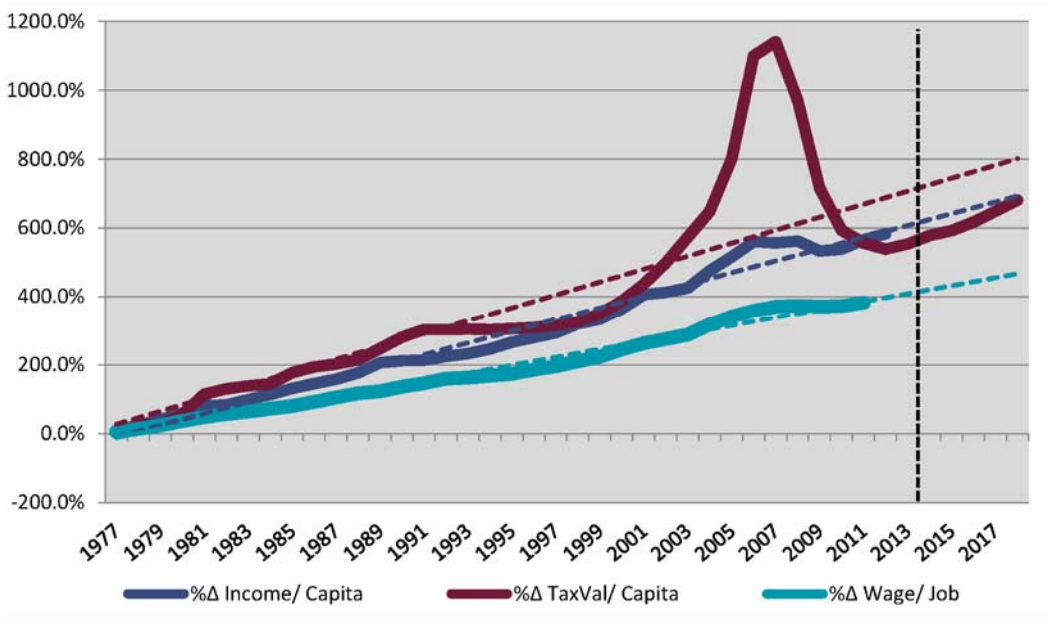


Figure 5

Florida Demographic Trends (Cumulative Growth), 1990–2018

