CUA-03 LOCAL OPTION FUEL TAX INDEXING
STAFF ANALYSIS

PROPOSAL INFORMATION			
SUBMITTING COUNTY:	Hernando County		
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FAC COMMITTEE:	Community & Urban Affairs (CUA)	**CROSS-CLAIMS:**	
FAC STAFF:	J. Scala	**DATE:**	September 28, 2026

This staff analysis is based on the proposal as submitted and does not reflect an adopted position of the Florida Association of Counties.

POLICY PROPOSAL:

FAC supports legislation authorizing counties to index local option fuel taxes to annual changes in the Consumer Price Index, while retaining local adoption requirements and existing statutory restrictions on the use of proceeds.

I. SUMMARY:

Hernando County asks FAC to support legislation authorizing counties to index local option fuel taxes to annual Consumer Price Index changes. The state has applied this annual adjustment to its own fuel sales tax since 1997 and SCETS tax since 1992. Under this annual adjustment, state fuel sales taxes have grown from 6.9 cents to 18.0 cents per gallon while county rates remain fixed in nominal cents.

The proposal amends ss. 336.021 and 336.025, F.S., modeled on the state mechanics in s. 206.41(1)(g), applying an automatic annual adjustment to all twelve county-levied cents. The authority is permissive, statewide, and restricted to existing transportation uses. The proposal is protective of home rule and is not an unfunded mandate. Thirty-five counties, including Hernando, already levy all twelve cents at the statutory maximums, against a statewide base of $1.04 billion in FY 2025-26. FAC has adopted this position in four consecutive cycles, most recently in the 2026 Legislative Action Plan.

II. PRESENT SITUATION:

State Motor Fuel Taxes

Florida taxes motor fuel through a layered structure in ch. 206, F.S. Two state components adjust automatically for inflation: the State Comprehensive Enhanced Transportation System (SCETS) tax, indexed annually to the Consumer Price Index since January 1, 1992 (s. 206.41(1)(f), F.S.), and the fuel sales tax, indexed annually since January 1, 1997 from an initial 6.9 cents per gallon, which is also the statutory

floor (s. 206.41(1)(g), F.S.). DOR sets each forthcoming year's rate before January 1, rounded to the nearest tenth of a cent; parallel provisions index the diesel rates (s. 206.87(1)(d)-(e), F.S.). Under this mechanism the state fuel sales tax stands at 18.0 cents per gallon for 2026 (FDOT, Florida's Transportation Tax Sources: A Primer, 2026), and DOR's 2026 adjustment raised the state tax rate on motor fuel from 21.5 to 22.0 cents (DOR TIP No. 25B05-05).

County Motor Fuel Taxes

The county-levied fuel taxes carry no equivalent adjustment; each is a fixed cents-per-gallon rate set at adoption.

- The **ninth-cent fuel tax** (ss. 206.41(1)(d), 336.021, F.S.) is 1 cent on motor and diesel fuel, adopted by extraordinary vote or countywide referendum.
- The **1-to-6-cent local option fuel tax** (ss. 206.41(1)(e), 336.025(1)(a), F.S.) applies to motor and diesel fuel, is adopted by majority vote or referendum for up to 30 years, and is restricted to defined transportation expenditures (s. 336.025(7), F.S.).
- The **1-to-5-cent additional local option fuel tax** (s. 336.025(1)(b), F.S.) applies to motor fuel only, requires a majority-plus-one vote or a general-election referendum, and is restricted to expenditures meeting the capital improvements element of an adopted comprehensive plan.

On diesel, the Legislature has equalized rates statewide: the full 6 cents and the ninth-cent are imposed in every county regardless of the county's motor fuel levy (s. 206.87(1)(b)-(c), F.S.). The separate 1-cent county fuel tax (ss. 206.41(1)(b), 206.60, F.S.) is state-imposed and distinct from the taxes proposed for indexing.

Statewide levies are summarized in Table 1, as of 1/1/25; Baker and Seminole moved to the maximum 1-to-5-cent levy for 2026. 35 counties levy all twelve cents at the statutory maximums and, like the submitting county, retain no unlevied cents-per-gallon capacity. Unlike the s. 336.025 taxes, which are shared with municipalities by interlocal agreement or the statutory default formula, the county is not required to share ninth-cent proceeds with municipalities (s. 336.021(1)(b), F.S.).

Table 1. County Fuel Tax Levies and FY 2025-26 Revenues

Levy	Rate & Fuels	Counties Levying	FY 2025-26 Realized	Unrealized
Ninth-Cent (ss. 206.41(1)(d), 336.021, F.S.)	1¢ — motor & diesel	55	$102.7M	$12.8M
1-to-6-Cent LOFT (s. 336.025(1)(a), F.S.)	Up to 6¢ — motor & diesel	67 (all at 6¢)	$646.9M	$0
1-to-5-Cent LOFT (s. 336.025(1)(b), F.S.)	Up to 5¢ — motor only	40 (36 at 5¢)	$289.3M	$152.7M

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All levies	**12¢ available**	**35 at full 12¢**	**$1.04B**	**$166M**

Source: EDR, 2025 Local Government Financial Information Handbook (Feb. 2026); rates in effect Jan. 1, 2026. Diesel equalization imposes the ninth-cent and the full 6 cents statewide on diesel (s. 206.87(1)(b)-(c), F.S.).

Hernando County levies all twelve available local cents at the statutory maximums: the ninth-cent, the full 6 cents under s. 336.025(1)(a), and the full 5 cents under s. 336.025(1)(b). At the ceiling on each levy, the county has no remaining cents-per-gallon capacity through which to respond to cost inflation under current law.

III. EFFECT OF THE PROPOSAL:

The proposal amends ss. 336.021 and 336.025, F.S., adding an annual CPI adjustment to levied ninth-cent and local option fuel tax rates, modeled on the state fuel tax mechanics. DOR would determine each county's adjusted rate before January 1, rounded to the nearest tenth of a cent, with the adopted cents-per-gallon rate as the floor. Conforming amendments are required in ss. 206.41(1)(d)-(e) and 206.87(1)(b)-(c), F.S., whose fixed cents and caps an indexed rate would exceed. The proposal covers all twelve county-levied cents. Uniform treatment avoids leaving an unindexed remainder inside an otherwise indexed local rate structure.

The adjustment operates automatically upon levy, using the same annual CPI determination applicable to the state taxes under s. 206.41(1)(g), F.S., so state and county rates move on the same index and the same cycle. The local role remains the decision to levy, extend, or repeal, preserving the statement's "local adoption requirements."

The bill draft expressly provides that an annual CPI adjustment is not a rate change triggering redetermination of the county-municipal distribution method under s. 336.025(1)(a)3., F.S., or the before-October-1 levy timing rules. Because the ninth-cent and the full 6 cents are equalized statewide on diesel, automatic indexing extends to diesel rates in every county, including counties levying no local option tax on motor fuel. Because the levies are county-imposed, implementing legislation authorizes local rate adjustments rather than imposing or raising a state tax or fee within the meaning of Art. VII, s. 19, Fla. Const.

IV. COUNTY IMPACT:

- Counties could adopt, extend, or maintain local option fuel tax levies whose rates preserve purchasing power automatically, rather than eroding in real terms from the date of adoption or relying on the Legislature to raise the statutory maximums.
- The authority to levy remains permissive. No county is required to levy, extend, or take any action. For counties that levy, the annual adjustment applies automatically. Rate administration sits with DOR, which already performs the identical annual determination for the state taxes.

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- The proposal imposes no preemption and restricts no existing county authority; adoption requirements, use restrictions, and duration limits remain as under current law.
- Municipal shares grow proportionally under existing interlocal agreements or the statutory default distribution.
- All 67 counties are eligible. The immediate effect concentrates in counties levying at or near the maximums:
    - all 67 levy the 1-to-6-cent tax at the full rate, and
    - 35 levy all twelve cents.

Protective of Home Rule: Yes — the proposal expands permissive county revenue authority, preserves local adoption and use restrictions, and imposes no preemption.

V. FISCAL IMPACT:

- For levying counties, indexing produces a recurring revenue adjustment proportional to CPI, applied to each county's existing base. The proposal requires no county expenditure and creates no new distribution obligations.
- Table 2 reconciles the submission's FY 2025-26 figures to EDR's 2025 LGFIH and DOR's FY 2026-27 estimates. On the approximately $10.05 million FY 2026-27 base across all twelve cents, each 1 percent CPI adjustment equates to roughly $100,500 countywide and an illustrative 3 percent to roughly $301,400. The base is essentially flat year over year with a nominal change of under one-half percent.

Table 2. Hernando County Fuel Tax Base by Levy

Levy	FY 2025-26 (LGFIH)	FY 2026-27 (DOR Est.)
1-to-6-Cent LOFT (countywide)	$5,525,562	$5,559,821
1-to-5-Cent LOFT (countywide)	$3,491,784	$3,491,784
Ninth-Cent	$986,821	$996,582
Total — all twelve cents	**$10,004,167**	**$10,048,187**
Memo: BOCC share of s. 336.025 taxes	$8,566,478	$8,599,025

Sources: EDR, 2025 LGFIH (Feb. 2026); DOR Office of Tax Research FY 2026-27 revenue estimates (Aug. 31, 2026). Countywide totals; ninth-cent proceeds are county revenue not required to be shared with municipalities.

- Statewide scale: the levies will realize an estimated $1.04 billion in the 2025-26 local fiscal year, with an estimated $166 million unrealized at current levies (Table 1). The unrealized amount is attributable entirely to the ninth-cent and the 1-to-5-cent tax; the 1-to-6-cent tax is fully utilized in all 67 counties. Each 1 percent CPI adjustment applied to the realized base equates to roughly $10.4 million statewide annually, compounding with each year's adjustment.
- Indexing preserves the purchasing power of rates counties have already levied. Indexing does not reach the $166 million in unlevied capacity, which remains available only through the existing local adoption procedures. For the 35 counties

at the full twelve cents, indexing is the only remaining revenue-growth mechanism under the statutory caps.

- No Revenue Estimating Conference impact estimate exists for local option fuel tax indexing. State fiscal impact is limited to DOR administration of the annual adjustment, a process DOR already operates for the state fuel taxes.
- The tax burden falls on fuel purchasers within levying counties, not on other governments.
- Experimental: Table 3 shows the rates county levies would carry had they been indexed when the state's fuel sales tax indexing took effect on January 1, 1997. By 2025 the multiplier is 2.00 — an unindexed cent has lost half its purchasing power since 1997 — and a full twelve-cent levy would stand at approximately 24 cents. These are potential rates only; they are not revenue estimates and assume no change in local levy decisions.

Table 3. Potential Rates Had County Levies Been Indexed from the State's 1997 Implementation

Levy (Nominal)	1997 (Baseline)	2005	2015	2025
CPI multiplier (vs. 1996 base)	1.00	1.20	1.52	2.00
Ninth-Cent — 1¢	1.0¢	1.2¢	1.5¢	2.0¢
1-to-6-Cent — 6¢	6.0¢	7.2¢	9.1¢	12.0¢
1-to-5-Cent — 5¢	5.0¢	6.0¢	7.6¢	10.0¢
Full levy — 12¢	**12.0¢**	**14.4¢**	**18.2¢**	**24.0¢**

Illustrative only — not a revenue estimate. Method mirrors s. 206.41(1)(g), F.S.: nominal cents multiplied by the change in the CPI-U 12-month average ending September 30 of the preceding year relative to the corresponding 1996 base period, rounded to the nearest tenth of a cent (U.S. Bureau of Labor Statistics, CPI-U). Over the same span the state fuel sales tax rose from its initial 6.9¢ to 17.5¢ (2025) under its own 1989 base period.

Unfunded Mandate (Art. VII, s. 18, Fla. Const.): No — the proposal expands county revenue-raising authority rather than reducing it, and requires no expenditure by counties or municipalities in either direction.

VI. LEGISLATIVE & FAC HISTORY:

- Enacted state precedent: the SCETS tax has been indexed annually since January 1, 1992 and the fuel sales tax since January 1, 1997; the fuel sales tax has grown from 6.9 to 18.0 cents per gallon for 2026.
- Documented erosion record (2025 cycle, FTA-1): Pinellas County reported local option fuel tax distributions grew 4.6 percent between FY13 and FY23 while the National Highway Construction Cost Index rose 80 percent; a 2024 Local Government Solutions study projected indexing would yield Pinellas $34.7–$102.4 million over FY26–FY35 (ninth-cent and 1-to-6), or $156.2–$261.3 million with the 1-to-5-cent tax also levied and indexed.
- FACERS included indexing local gas taxes to CPI, mirroring the state methodology, in its 2024 legislative priorities.

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- Past FAC statements: 2021—FTA-PP-2—Fuel Tax Indexing; 2023—FTA-PP-1—Fuel Tax Indexing; 2024—FTA—Fuel Tax Indexing (Legislative Action Plan); 2025—FTA-1—Fuel Tax Indexing.
- Guiding Principles coverage: Under Finance, Tax & Administration, Revenue B (Local Revenue Authority), which names local option fuel taxes and supports "extending protections afforded state revenue sources equally to corresponding county sources."

BoCC action: the Hernando County BoCC has voted to support the proposal, as stated in the submission.

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