Chicago Metropolitan Agency for Planning

233 South Wacker Drive
Suite 800, Willis Tower
Chicago, IL 60606

312-454-0400 (voice)
312-454-0411 (fax)
www.cmap.illinois.gov

MEMORANDUM

To: **MPO Policy Committee**

Date: **January 7, 2010**

From: **Matt Maloney, Senior Manager for Program and Policy Development**

Re: ***GO TO 2040*: Transportation Financial Plan & Additional Revenues**

GO TO 2040 will include a constrained financial plan for its transportation elements. Previous memos to the Transportation Committee have explained the process of developing the financial plan, covering the following topics:

- Introduction to the financial plan (May 15, 2009)
- Context and time frame of process for estimating revenues and costs (June 12, 2009)
- Description of categories of transportation costs (July 31, 2009)
- Estimate of core revenues (September 18, 2009)
- Estimate of "safe and adequate" maintenance and operations costs (October 23, 2009)
- Description of "reasonably expected" revenues (October 23, 2009)
- Estimate of "reasonably expected" revenues (January 6, 2010)
- Estimates of financial constraint (January 6, 2010)

This memo provides a brief summary of the transportation financial plan, as well as potential additional revenues for consideration. For more detailed information on the financial plan, please consult the memos referenced above that are available on our Web site at http://www.cmap.illinois.gov/transportation/minutes.aspx. Staff would like the Policy Committee's feedback on the additional revenues highlighted in this memo.

Transportation Financial Plan

Revenues

The transportation financial plan, a part of *GO TO 2040*, will estimate both transportation costs and revenues. Calculating revenues has two primary components. The first component, "core revenues", is the projection of revenues that the region currently receives for transportation, without assuming any changes to tax rates or funding formulas. CMAP has consulted with RTA, IDOT, the Tollway and others in refining these numbers. At this point, we anticipate

federal, state, and local "core revenues" to equal roughly **$350 billion**, in year of expenditure dollars, over the thirty year planning horizon.

The core revenue forecast for *GO TO 2040* has been constructed somewhat differently than in past plans. The first difference is the use of "year of expenditure" dollars, rather than constant dollars. This is commensurate with the federal requirement for MPO long range plans. The second difference is that staff has spent more effort analyzing local "own-source" revenues. These are non state and federal sourced revenues used by municipalities, counties and townships for transportation purposes.

In addition, FHWA/FTA guidance on the fiscal constraint permits MPOs to calculate revenues that can "reasonably be expected". What is "reasonable" usually constitutes a judgment call, based upon the current political and policy climate at various levels of government. CMAP is seeking an additional **$35 billion** in these "reasonably expected revenues", which would bring the combined revenue total to roughly **$385 billion**. Please see the later section on "additional revenues" for more information on these potential sources.

Expenditures

Initial results show that the vast majority of the region's transportation resources are devoted to maintaining and operating the current transportation system in a safe and adequate condition. According to current estimates, **$359 billion** is devoted to basic maintenance and operations. Current estimated costs to maintain the system at a safe and adequate level are as follows:

- Roadway maintenance: $152 billion
- Roadway operations: $57 billion
- Transit maintenance: $30 billion
- Transit operations: $117 billion

This leaves only $26 billion for "state of good repair" projects (eliminating maintenance backlogs), strategic improvements (such as arterial add-lanes projects, new or expanded bus services, pedestrian or bicycle improvements, and many others), and constructing major capital projects. Please note that these are current estimates, and may change based on new information. The remaining $26 billion is a *financially constrained* figure, meaning that the plan will recommend additional improvements beyond what can be funded within available revenues. Clearly, this level of funding will not allow the region to make much progress in addressing our substantial transportation needs. Even if all of the $26 billion were devoted to achieving a state of good repair, it would not be sufficient. The same is true for other project classifications as well; $26 billion would not be enough to make all of the strategic improvements or construct all of the major capital projects that are desired.

For the purposes of initiating discussion at the Transportation Committee, staff proposed that the estimated remaining $26 billion be split roughly into thirds among the three project categories. This distribution is **not** a recommendation, but a starting point for discussion**:**

- $9 billion for additional maintenance activities that move toward state of good repair
- $9 billion for strategic improvements and enhancements
- $8 billion for major capital projects.

Because maintenance and strategic improvement projects are treated systematically rather than as individual projects, assignment of projects and costs into these categories can be fuzzy. In contrast, the level of funding for major capital projects must be firm, because the plan must include a list of fiscally constrained capital projects.

Two clear conclusions can be drawn from this result. First, careful prioritization of transportation projects is necessary, and gaining cost savings from operational efficiencies should be sought wherever possible. Second, current and reasonably expected revenues are not sufficient to make the transportation investments that our region needs to support economic growth. Going beyond basic maintenance and operations of the current transportation system will require additional revenues beyond what is now available.

Additional Revenue Sources

Transportation finance is expected to be one of the key policy issues of *GO TO 2040.* Relative to exploring and identifying new transportation funding sources, *GO TO 2040* should first recommend the careful examination of specific transportation investments to ensure that each is an effective long-term investment for the region. Every investment in a transportation project should be based on regional priorities, using performance-driven criteria that lead to decisions that are transparent and outcome-based. The plan should guide the programming decisions of the various transportation implementing agencies and call for a change in the funding splits on both the highway and transit side.

The total 30 year revenue figure of $385 billion includes "core revenues" as well as additional "reasonably expected revenues". The latter consists of additional funds above and beyond what the region receives today. These revenue sources will only arise from changes in public policy or new and innovative financing strategies by project implementers. CMAP staff believes that the merits of these additional revenue sources deserve careful consideration and discussion.

<u>State Motor Fuel Tax Increase</u>

While the State of Illinois motor fuel tax has remained $0.19 per gallon since 1990, rate increases do have historical precedent. Since 1929, the tax rate has been increased nine times- five of these increases occurred between the years 1983-1991, in response to steadily declining revenues during the 1970s. Since the tax is imposed "per gallon" rather than "per dollar", State MFT revenues have failed to keep pace with inflation and the cost of construction materials as expressed through the construction cost index (CCI). Since both state and federal motor fuel tax revenues must be used for transportation-related expenditures, a lack of MFT inflation indexing

will continue to impact the ability of the State and local governments to maintain and enhance the system.

To date, the CMAP Board has formally supported an Illinois House Bill (House Bill 1 (Bradley)) amending the motor fuel tax law by raising the rate by 8 cents to 27 cents per gallon. A number of transportation policy advocates in northeastern Illinois have also advocated various similar measures for raising the state MFT tax, as well as indexing the rate to inflation.

CMAP estimates that an 8-cent gas tax adjustment, indexed to inflation and assumed to begin in 2012, would yield **$19.4 billion in new revenue** for transportation in northeastern Illinois over the planning horizon.

Transportation Allowances from Federal Climate Change Legislation

H.R. 2454 (the American Clean Energy and Security Act of 2009) passed the full House of Representatives on June 26, 2009. S. 1733 (the Clean Energy Jobs & American Power Act) passed out of the Senate Environment and Public Works Committee on November 5, 2009. Both pieces of legislation would limit greenhouse gas emissions via a cap –and-trade system and require the use of more renewable energy. The time horizon for both bills extends to the year 2050.

These proposed cap-and-trade systems would work by setting annual limits on GHG emissions. Entities would comply by either reducing emissions, holding an allowance for each ton of GHG emitted, or acquiring an offset credit. The federal government would sell a portion of the allowances and distribute the remainder to various entities including the private sector, households, and units of government. A percentage of these allowances would be distributed through States and MPOs for the purposes of "clean transportation".

While it is difficult to forecast how final legislation will eventually proceed, CMAP believes that some percentage of these proposed allowances can be considered "reasonably expected" based upon the policy climate surrounding the climate change legislation. While CMAP will continue to monitor this ongoing legislation, it can be expected that a 2% transportation allowance allocation would result in roughly **$1.2 billion** in new revenues for transportation for northeastern Illinois.

Congestion Pricing

Congestion pricing seeks to apply economic principles of supply and demand to efficiently allocate scarce road space. Experience from other places shows that congestion pricing can raise considerable revenues by forcing travelers to consider the true marginal cost of their travel through direct user pricing; correspondingly some travelers choose to change their time, mode, or route of travel, or choose not to travel at all. CMAP has studied "managed lanes" strategies as part of the *GO TO 2040* process. If included as a reasonably expected revenue source, congestion pricing would be considered as a strategic enhancement within the Plan's preferred scenario and assume no additional expressway capacity, unless included as part of a specific major capital project proposal.

While the implementation of congestion pricing in northeastern Illinois is not unanimously supported, there has been a considerable level of coordination among local transportation agencies in studying its impacts and proposing specific projects to the federal government for implementation dollars. In December 2007, CMAP, in coordination with the Illinois Tollway, Illinois Department of Transportation, Regional Transportation Authority, and Pace submitted a Congestion Reduction Demonstration proposal to the United States Department of Transportation. The submittal proposes congestion pricing along the I-90/Jane Addams Memorial Tollway. The proposal can be found here: http://tinyurl.com/2m2bxu. While the proposal was not selected by USDOT for funding, it demonstrates a regional commitment among both planners and implementing agencies to a careful implementation of congestion pricing.

Furthermore, The Illinois Tollway, in partnership with the Metropolitan Planning Council and Wilbur Smith Associates (WSA), is in the final stages of a two-year study to develop strategies that will reduce congestion in the region. The study models the impacts of congestion pricing on the Tollway, as well as IDOT expressways, and considers the diversion to local roads. It considers a range of scenarios, routes, and configurations to help reach desired goals. This study has included outreach to a range of local implementers and the general public. Initial results have been shared with CMAP's Transportation Committee. See more information about this study here: http://www.cmap.illinois.gov/WorkArea/DownloadAsset.aspx?id=16529

The Tollway study includes a range of evaluation measures for prioritizing congestion pricing on different expressway segments across the region. The measures include weekday congestion, constructability, peak period traffic management potential, and revenue potential (net, including operating costs). CMAP used revenue estimates from this study to construct forecasts, which also assume no additional added capacity. In other words, these are simply based upon conversions of existing lanes. The estimates assume a conservative $0.15 per mile toll rate. CMAP assumes revenues from congestion pricing will flow to the region beginning in the year 2020.

Projects scoring "medium to high" in terms of overall implementation potential comprise roughly 2.5% of the region's total expressway lane miles. Based on the study, these projects are estimated to generate roughly $343,000 net annual revenue per lane mile. In this scenario, anticipated revenues total **$1.6 billion** over the planning horizon. A more aggressive forecast could assume that 20% of the expressway network's lane miles will be priced. In this scenario, anticipated revenues would total **$13.2 billion** over the planning horizon.

Variable Parking Pricing

Like other parking management strategies, applying variable rates to parking can be used to influence traveler mode choice, time and amount of travel, and to shift drivers from a congested location. Variable pricing seeks to apply a free market-inspired pricing system to more efficiently allocate parking supply, with higher prices charged at times and locations of peak

demand. Variable pricing has the promise of both effective congestion mitigation and the ability to raise considerable revenues for the public sector. Like other strategies listed in this memo, CMAP intends to advocate for the careful implementation of parking pricing in local municipalities, where appropriate. Revenues from parking can help local governments fund a variety of services, including transportation improvements.

CMAP recently analyzed the revenue potential of variable parking pricing in a strategy report entitled *Parking Management Strategies*. In variable pricing scenarios, it is estimated that variable pricing could raise considerable revenues for northeastern Illinois. Given 3.2 million off-street spaces, and numerous on-street spaces, the report makes the conservative estimate that 2 million of the spaces are free. Charging a nominal fee of $1 / day for weekdays only would provide $520 million in annual revenues for the region. These estimates are for illustrative purposes only; pricing should be determined on a local level, with consideration of transit facilities, bicycling and walking amenities, land value, and demand.

For purposes of the *GO TO 2040* fiscal constraint, CMAP again chose to analyze potential parking revenues in a very conservative fashion. A beginning assumption is that 1% of the above spaces would be priced in the first year. Thus, $5.2 million in new revenues would be generated. Each subsequent year would price an additional 1% of spaces- thus by the year 2040, 30% of these currently free spaces would be priced. With a final assumption that 50% of these revenues would be used for transportation purposes by local governments, implementation of this above strategy would yield just over **$1.2 billion** in new revenues for transportation.

A more aggressive approach could simply assume that the quantity of priced parking spots will increase at a rate of 2% per year. Thus, by the year 2040, 60% of these currently free spaces would be priced (again, assuming $1 a day, with 50% of revenues be used for transportation). The aggressive approach would yield around **$2.4 billion** in new revenues for transportation.

Public-Private Partnerships

Public Private Partnerships have strong support from federal agencies as an innovative finance mechanism. The City of Chicago has used PPPs for asset sales. Illinois lacks State-enabling legislation that allows IDOT and the Tollway to enter into PPPs. The Volpe Center produced a strategy report on PPPs for CMAP. This report is largely an overview of the range of different PPP arrangements, State and Federal policy on PPPs, and the potential role of the MPO. The report can be found here: http://www.goto2040.org/WorkArea/DownloadAsset.aspx?id=14844

CMAP believes that PPP revenues should be estimated on the project level and should be associated with a particular major capital project proposal. As analysis and discussion of major capital projects continues, some project sponsors may include PPP as a financing mechanism, but this will be done on a project-by-project basis, not systematically. Thus, at this time, CMAP would not be including PPP as a reasonably expected revenue source. *GO TO 2040* will lend policy support to PPP in the Plan's narrative, and it is anticipated that the CMAP Board will continue to advocate for the prudent use of PPP for transportation and other capital projects in northeastern Illinois.

The "55/45" Split for Northeastern Illinois

State of Illinois highway funding from the Road Fund and Construction Account has traditionally been allocated on the basis of an informal agreement that sends 45 percent to northeastern Illinois and 55 percent to the remainder of the state. A breakdown of the highway awards for IDOT District 1 (includes both federal and State funds for IDOT highways and local roads) compared to the statewide resources since 1992 shows that District 1 has received 43 percent, relative to the rest of the State. IDOT District 1 covers the CMAP planning area except for Kendall County, which is located in District 3. The CMAP Board believes that decisions on the division of transportation funding should be based on clear criteria and performance measures, rather than on such an arbitrary allocation.

The revenue potential for northeastern Illinois from such a change would be quite large. CMAP estimates that shifting the allocation to 50/50 could yield an additional **$8 billion** or more in year of expenditure dollars for the region between 2011 and 2040.

Value Capture for Transit

A local option for increasing revenues for transportation funding is the concept of value capture by creating assessment districts as well as tax increment financing. Value capture attempts to capture some of the increase in value due to the transportation improvements that benefit the affected properties. Assessment districts are special property taxing districts where the cost of transportation infrastructure is paid for by properties that are deemed to benefit from the transportation infrastructure. These assessments can be applied to the full value of the subject property, or a Tax Increment Financing technique can involve issuing bonds to finance public transportation infrastructure improvements, then paying off the bonds with dedicated revenues from the increment in property taxes that would result from such improvements. This could be categorized as a PPP if a developer constructed the transportation infrastructure with private funds to increase the value of the development and turned over the infrastructure to a public entity for operation.

Similar to PPP, CMAP has not estimated "value capture" revenues at this point, since these revenues should be included as a financing strategy for a new major capital project proposal.

Vehicle Miles Traveled (VMT) Tax

One funding mechanism that has received a lot of attention recently is the idea of a vehicle miles traveled (VMT) tax to charge road users a fee based upon distance driven. The fee could be charged in a number of ways that can take into account vehicle type, weight, use, and other travel characteristics. This has the potential of replacing MFTs at the federal and state level. The use of global position system (GPS) as the measurement tool could also create a more dynamic mechanism that would not only be able to measure vehicle miles traveled but also to prorate fees for peak period travel in congested conditions. One major drawback would be the considerable costs and challenges of implementing such a system. Estimates for implementing

a national system range from 10 to 15 years. We expect to lend policy support in the plan's narrative to continue to research this mechanism.

ACTION REQUESTED: Information and discussion