Agenda Item No. 6.0

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MEMORANDUM

To: **Planning Coordinating Committee**

Date: **March 3, 2010**

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

Re: **Financial Plan- Executive Summary**

The development of a realistic and relevant regional transportation plan requires estimates of the funds expected to be available for transportation purposes and the costs expected to be incurred. To fulfill this goal, *GO TO 2040* includes a constrained financial plan for its transportation elements. Federal planning regulations require such a plan in order to compare the estimated revenue from existing and proposed funding sources with the estimated costs of constructing, maintaining and operating the total transportation system. CMAP analysis concludes that the plan be fiscally constrained at a level of **$385 billion,** in year of expenditure dollars, for the 2011-2040 planning horizon.

CMAP has worked closely with representatives from United States Department of Transportation (USDOT), the Illinois Department of Transportation (IDOT), the Illinois State Toll Highway Authority (ISTHA), the Regional Transportation Authority (RTA), the transit service boards, county highway departments and a number of municipalities in preparing forecasts of revenues and expenditures. At various points throughout the process, CMAP staff has briefed the Transportation Committee on the assumptions and figures utilized for constructing the plan's fiscal constraint. For more information on these interim staff reports, please consult the Transportation Committee page on the CMAP Website: http://www.cmap.illinois.gov/transportation/minutes.aspx

The following table summarizes GO TO 2040's fiscal constraint for transportation. Please note that all estimates of revenues and costs are stated in *year of expenditure* dollars – in other words, inflation as well and other forecasted revenue/cost increases have already been assumed in these figures.

FISCAL CONSTRAINT FOR *GO TO 2040* (*All Numbers in Year of Expenditure for Period 2011-2040. Numbers are in Billions of Dollars*)	
REVENUES	
Core Revenues	
Federal	$66.3
State	$94.7
Local	$189.3
Subtotal- Core Revenues	**$350.4**
Reasonably Expected Revenues	
Motor Fuel Tax Increase	$19.4
Revenues from Congestion Pricing	$12.0
Variable Parking Pricing	$2.0
Transportation Allowances- Federal Climate Change Legislation	$1.2
Public Private Partnerships	$0.0
Value Capture- Transit Facilities	$0.0
Subtotal- Reasonably Expected Revenues	**$34.6**
TOTAL REVENUES	**$385**
EXPENDITURES	
Operating Expenditures	
Transit	$116.7
Highway	$56.9
Safe and Adequate (Capital Maintenance)	
Transit	$31.6
Highway	$127.6
Subtotal- Operating and Safe and Adequate Expenditure	**$332.8**
Moving the System Toward a State of Good Repair/Systematic Enhancements	**$41.7**
Major Capital Projects	**$10.5**
TOTAL EXPENDITURES	**$385**

The fiscal constraint 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 the analysis of local "own-source" revenues. These are non state and federal sourced revenues used by municipalities, counties and townships for transportation purposes. These revenues would include local sources like property and sales tax, state and local revenue sharing, as well as bond revenue for local capital projects. Given the inclusion of all transportation revenues, the expenditure forecasts also include resurfacing and reconstruction on all local roads and bridges, down to the level of municipal and township. Please see the full financial plan document for more information.

Core Revenues

Forecasting core revenues is meant to provide a benchmark from which additional funding can be identified. A clear description of funding sources and historical dollar amounts helps to ground the regional dialogue around matters of transportation policy and finance. Providing this information requires identifying and analyzing historical trends across varying revenue sources and making a series of different assumptions based upon these trends. In many cases, CMAP has consolidated certain funding sources, particularly at the federal and local levels, to simplify the exposition. Please see the core revenues table and accompanying descriptions and assumptions in the full financial plan document for more detail.

The overriding assumptions used to forecast core revenue trends include the following:

- Northeastern Illinois anticipates continued revenues from federal, state, and local sources for the building, operations, and maintenance of the current roadway and transit systems over the long range planning horizon;

- Over the planning horizon, the various sources of transportation revenues and allocation mechanisms are assumed to remain the same as today. Thus, the core forecast does not include any new sources, or any tax increases or alterations to funding formulas above and beyond historical trends;

- For the different revenue sources, historical trends are used to predict future revenues. Different revenue sources are assumed to grow at different rates, based upon these trends.

CMAP has worked closely with representatives from the RTA, IDOT, ISTHA, and others in preparing these forecasts. In total the amount of core revenues available between 2011 and 2040 is estimated to be **$350.4 billion**.

Reasonably Expected Revenues

The level of core revenues, which largely reflects current revenue trends, will not allow the region to make much progress in addressing our substantial transportation needs given expected population growth. 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. The inclusion of "reasonably expected revenues" is vital for the region to make additional needed investments, though it still will not be enough to move the system to a state of good repair, make all of the strategic improvements or construct all of the major capital projects that are desired.

CMAP has worked closely with the Transportation Committee, FHWA and the MPO consultation team in addressing the feasibility of reasonably expected revenue sources. "Reasonably expected" sources generating considerable revenues include an 8-cent increase (and subsequent annual inflation indexing) of the State motor fuel tax and revenues from the institution of congestion pricing on some segments of the region's expressway system. Smaller revenue generators which CMAP assumes to be "reasonably expected" include transportation allowances from federal climate change as well as revenues from more aggressive pricing of parking in the region. The latter strategy holds the promise of generating considerable revenues for local governments in the region.

The sum of these "reasonably expected revenues" totals an additional **$34.6 billion.**

Expenditures
With the assistance of transportation implementers, CMAP has also estimated the cost of operating, maintaining, enhancing, and expanding the system. The projected costs are organized into four overall categories:

- Maintenance and operations of the transportation system at a "safe and adequate" level;
- Moving the system to a "state of good repair";
- Systematic enhancements and improvements;
- Major capital projects

The total of transportation expenditures in these four categories must be constrained by the predicted amount of future funding. CMAP estimates that while the total of core and reasonably expected revenues will be sufficient to operate and maintain the system safely and adequately, they will prove insufficient in bringing the system to a state of good repair or approach the desired level of enhancements and expansions. CMAP estimates that the first category (maintenance and operations of the transportation system at a "safe and adequate" level) will cost **$332.8 billion** over the 30 year planning horizon. This number does not include assumptions of shorter lifecycles on maintenance schedules, upgrades to capital materials, equipment, rolling stock or facilities or any enhancements or expansions to the system.

To address "year of expenditure" dollars, capital maintenance costs are estimated by applying inflation rates for each year in the plan period. The current estimate of future highway expenditures applies a 3% rate of inflation in all years except 2012 through 2014 (2012 - 4%; 2013 - 6.5%; 2014 - 5.5%). This estimate is based on a recent transportation-specific analysis of construction prices in the article "*Construction Economic Review & Highway Cost Escalation Forecast*" in the December 2009 edition of Economic Forecasting Review, published by the Strategic Consulting Group of Parsons Brinckerhoff. The current estimate of future transit expenditures is based on capital funds available 2010-2014 information from RTA's most recent adopted budget. Those amounts include the impacts of inflation for years 2011 through 2014 and the 3% factor was applied through the remainder of the plan horizon.

The remaining **$52.2 billion (13.7% of total funding)** will be used to bring the system toward a state of good repair, enhance the system, and expand the system via the construction of major capital projects. This remaining envelope of funding constitutes the "regional budget", over the next 30 years, for maintaining or operating the system at a higher level, modernizing, enhancing, or expanding the system. While it is important to acknowledge the overall scale of the estimated investment, CMAP stresses that regardless of any estimated funding totals, the paramount challenge for the region is to set priorities.

The priorities of *GO TO 2040's* preferred scenario are to maintain the existing system and make systematic improvements. The bulk of the region's transportation investment should be to maintain, improve, and modernize our infrastructure. Pursuing new major capital projects, while important, should remain a lower priority than these other activities. Achieving a "world-class" transportation system necessitates improving, modernizing, and increasing service on existing assets, rather than building expensive new projects which will be difficult to finance, operate and maintain over the long term.

Given the policy direction of *GO TO 2040* and CMAP's charge to establish regional priorities, the recommendation is for **$41.7 billion (10.9% of total funding)** of the remaining funding be allocated toward "state of good repair" capital maintenance and strategic enhancement projects and **$10.5 billion (2.7% of total funding)** toward major capital projects.

Other Innovative Financing
CMAP also stresses the importance of other innovative financing mechanisms in the full financial plan, and many of these sources will be recommended as part of the transportation finance recommendation in *GO TO 2040.* While these sources are not included as "reasonably expected" in the fiscally constrained plan, it is still vital for the region to advocate for these sources in order to maintain, enhance, and expand the transportation system. These other potential sources include public private partnerships, value capture for transit projects, a vehicle miles traveled tax (VMT), and an alteration to the current "55-45 split" in the State of Illinois, the informal agreement which allocates highway funding on the basis of 45 percent to northeastern Illinois and 55 percent to the remainder of the state.

See the full financial plan for a more comprehensive exposition of these sources, including best practices on where these sources have been utilized in the U.S. and abroad.

"Unconstrained" Expenditures
The total of core and reasonably expected funding will not be enough to bring the system to a state of good repair or make all the enhancements or expansions that are desired. CMAP has made some progress in estimating the amount of incremental funding necessary to bring the system to a state of good repair and make all desired enhancements and expansions. While more refinement of these numbers is needed, CMAP estimates that between **$100 and $200 billion** of additional funding is required over the next 30 years to bring the system to a state of good repair, strategically enhance, and expand the system.

ACTION REQUESTED: Information and discussion.

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