



MEMORANDUM

To: CMAP Board

Date: December 2, 2009

From: Douglas Ferguson, Senior Policy Analyst

Re: *GO TO 2040* Policy Briefing: Transportation Finance

From fall 2009 to spring 2010, CMAP staff will brief the Board on key policy areas that are recommended to be among the priorities of *GO TO 2040*. At the December meeting, one of the key policy issues discussed will be **transportation finance**. It is expected that the *GO TO 2040* plan will recommend changes to the current mechanisms used to fund surface transportation to meet the maintenance demands and increase the capacity of the current system.

Summary

Mobility for all users of our transportation system will continue to be a major issue for the region as our aging infrastructure needs to be preserved and maintained to meet the current and future demands of the system. A well-functioning transportation system is integral to maintaining a high quality of life and a strong economy. The costs of providing transportation services are currently higher than the fees paid by users of our transportation network. The region needs new funding mechanisms to meet the demands of maintaining and improving the system.

Importance of transportation finance

Federal, state, local, and private infrastructure funds continue to dwindle even as the region's needs grow regarding basic maintenance and capacity. Coupled with rising construction expenses and other costs of doing business, inflation has significantly undercut the purchasing power of federal and state motor-fuel-tax receipts. The federal Highway Trust Fund (HTF) is currently supported by an 18.4 cent per gallon gas tax. The National Surface Transportation Infrastructure and Finance Commission calculated that the actual purchasing power of the federal gasoline tax has declined by 33 percent since the last increase of this tax in 1993. In 2008 and 2009, the HTF reached a crisis in which Congress had to supplement it with funds from the General Fund to keep the fund solvent.

In Illinois a motor fuel tax (MFT) of 19-cent per gallon is collected for road maintenance and construction. The State of Illinois MFT was last increased in 1990 and is split between IDOT's Road Fund and State Construction Fund and local governments. MFT revenues have declined nearly 20% in their purchasing power between 1991 and 2008. The decline in these funds occurs against a backdrop of increasing deferred maintenance needs for our state and local governments due to the increased cost to maintain and reconstruct roads and bridges.

The decline in the MFT has also affected the counties and municipalities in northeastern Illinois. Cook, DuPage, Kane, and McHenry counties each levy their own 4-cent MFT, and most have seen revenues decrease in recent years. For municipalities, only those that are home-rule units can levy a municipal MFT, with Chicago the highest at 5-cents per gallon and Berwyn and Dolton the lowest at 1-cent per gallon. Most counties and municipalities in the region rely heavily on property taxes and general funds to pay for transportation improvements.

Preliminary analysis by CMAP staff shows that the estimated costs to maintain and operate our highway and transit systems in northeastern Illinois will exceed forecasted revenues from current sources for the years 2011 to 2040. The estimated costs do not include major capital projects, systematic enhancement and improvement costs, or the elimination of maintenance backlogs. Staff is currently working with our partner agencies to refine these cost estimates. Two Transportation Committee memos are attached, detailing the work to estimate future costs and revenues. This analysis demonstrates that new revenue sources are needed for any improvement and even to maintain the current system. In addition, we believe that the transportation funding system should be reformed by placing a new emphasis on sustainable revenue sources.

Recommendations

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.

For example, State of Illinois highway funding 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. IDOT District 1 covers the CMAP planning area except for Kendall County, which is located in District 3. Decisions on the division of transportation funding should not be made on such an arbitrary allocation. The *GO TO 2040* plan should establish **clear criteria and performance measures** to create a new decision-support tool for the allocation of state highway, road, and transit funding.

A variety of **additional financing options** are being explored as part of *GO TO 2040*'s approach. The plan should take a detailed approach to several alternatives that appear to have the most potential to raise significant revenue and be implemented in the short term, including MFT increases, additional user pricing, and public-private partnerships; other potential funding sources will also be identified but explored in less depth. Identifying sources of additional transportation funding will be a critical part of the plan, but it is equally important to ensure that funding is efficiently spent.

As the primary revenue source for transportation funding, federal and state MFTs have not been levied at appropriate levels to fund the maintenance and operations of our current system and provide for necessary capital improvements. In the short and medium term, an **MFT increase has the most revenue potential** for transportation funding. Unlike many of the potential alternatives that could replace or supplement the tax, it already has administrative systems in place for its collection. The MFT also has the ability to directly charge for negative environmental impacts caused by the burning of fossil fuels, particularly carbon dioxide and other greenhouse gas emissions. The failure of the MFTs in keeping up with the rate of inflation can be solved by **indexing the tax rates to institutionalize annual adjustments** that would at least maintain the purchasing power of the generated revenues.

The long term downside to MFTs is the inability to maintain and increase revenues as the fuel efficiency of vehicles increases and as vehicles switch to alternative fuels. Recent estimates by the U.S. Energy Information Administration (EIA) predict that the average fuel efficiency of light-duty vehicles on the road will increase from 20.7 miles per gallon in 2010 to 28.9 miles per gallon by 2030. Additional revenue sources are needed to offset the decline in MFT receipts or possibly to replace the tax altogether. However, EIA does not predict a major jump in average fuel efficiency of light-duty vehicles until around 2015.

Another potential mechanism to increase transportation revenues would involve the implementation of **congestion pricing** on select segments of the road network. Congestion pricing seeks to apply economic principles of supply and demand to efficiently allocate scarce road space. Congestion pricing can take many forms, from variable pricing in which toll rates are predetermined according to time of day to truly dynamic pricing in which toll rates are set real-time in response to market demand. This strategy can reduce congestion on our roadways and has the potential to raise considerable revenues since travelers must consider the true marginal cost of their travel through direct user pricing; correspondingly, some travelers would choose to change their time, mode, or route of travel, or choose not to travel at all. Congestion pricing can also benefit the environment by reducing vehicle emissions and the economy by saving time and expense.

However, despite its potential benefits, there are significant concerns about congestion pricing. One major issue involves possible equity concerns for residents with low to moderate income levels. To address this, congestion pricing would need to **reinvest revenues into transit modes** that would provide alternatives. Another significant concern is that congestion pricing would increase traffic on nearby local streets; this could be mitigated by **reinvesting in arterials** with

congestion pricing revenue. A preliminary analysis conducted by CMAP staff on congestion pricing found that considerable revenue could be generated by implementing it on a large part of the highway network in the region. Because that analysis was very general, more detailed project-level studies that consider tolling all lanes or partial lanes within a facility are needed to estimate costs, benefits, and revenues of implementing congestion pricing on specific facilities. Several project-level studies are currently active in the region on various segments of the highway and tollway system.

Similar to congestion pricing, the mechanism of **variable pricing for parking** -- which not only involves revenue generation but the use of fees and taxes -- can be used as a demand management tool for congested road facilities. Introducing or increasing parking prices can generate increased revenues and also alleviate excessive parking, which, in turn, can lead to increased densities and transit use and to reduced traffic congestion.

Public private partnerships (PPPs) offer several different approaches for funding transportation infrastructure improvements and operations. It can include but is not limited to strategies such as design-build, "cost + time" bidding, long-term lease agreements, design-build-operate-maintain and design-build-finance-operate-maintain. In northeastern Illinois, the most well-known examples involve the City of Chicago's long-term lease agreements of the Chicago Skyway and their metered parking, along with the CREATE program. Currently the State of Illinois lacks the necessary enabling legislation that would allow the State the broad authority to enter into PPPs, and it is not clear what role CMAP and the region as a whole should take in encouraging and monitoring of PPPs. Like the City of Chicago, individual cities and municipalities have the ability to execute these financing agreements.

Other Potential Funding Mechanisms

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.

A local option for increasing revenues for transportation funding is the concept of value capture by **creating assessment districts and 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.

All states collect a **vehicle registration fee**, with at least half raising more than a quarter of their dedicated transportation revenues through this mechanism. In 2007 the State of Illinois collected 54 percent of its dedicated transportation revenues through registration, yet Illinois is currently below the national average of \$185.38 (2008) for a mid-sized car. In addition to increasing vehicle registration fees, other options include driver's license surcharges, vehicle sales tax increases, or a special sales tax on vehicle-related products and services.

Concerning the **funding of freight-specific improvements**, CMAP has engaged the services of Cambridge Systematics to conduct a regional freight study that will feed into the *GO TO 2040* process. Part of the study will include recommendations regarding finance options available for freight system improvements.

ACTION REQUESTED: Discussion.

###

