Transportation Funding and the State Motor Fuel Tax

GO TO 2040 provides a number of recommendations to encourage strategic investments in transportation and provide sufficient funding for system preservation and modernization. Among the recommendations, increasing the state motor fuel tax (MFT) (the plan calls for an 8-cent increase with indexing to inflation) and altering the current state transportation funding split between northeastern Illinois and the rest of the State would represent major progress toward the goals of raising revenues sufficient for operating, maintaining and expanding the region's system. As GO TO 2040 establishes, the transportation network is one of our region's most important assets and key to our economic prosperity. While our advanced system of highways, trains, and buses retains an excellent national and global reputation, it is aging quickly and falling behind other industrialized parts of the world, many of which have invested significantly to create, operate, and maintain world-class systems. The purpose of this interim report is to provide background on transportation funding in Illinois, GO TO 2040's main transportation funding recommendations, and the motor fuel tax allocation to local governments.

Transportation Funding and the "55/45 Split"

The most recent federal transportation act (SAFETEA-LU, Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users), like its predecessors, allocates federal dollars via a multitude of different programs. Most highway funding is allocated to state Departments of Transportation based on formula, which differs by program but typically includes criteria like total lane miles, vehicle miles traveled, and fuel use. The Illinois Department of Transportation (IDOT) is the primary recipient of the funds and generally holds the most responsibility for programming, financing, and implementation. Illinois, like other states, is given wide latitude in how the different funds are used. While this flexibility would allow for allocating this funding based on cost/benefit or other metrics of performance or impact, the federal government has few restrictions for states in terms of how projects are selected or what outcomes are being achieved.

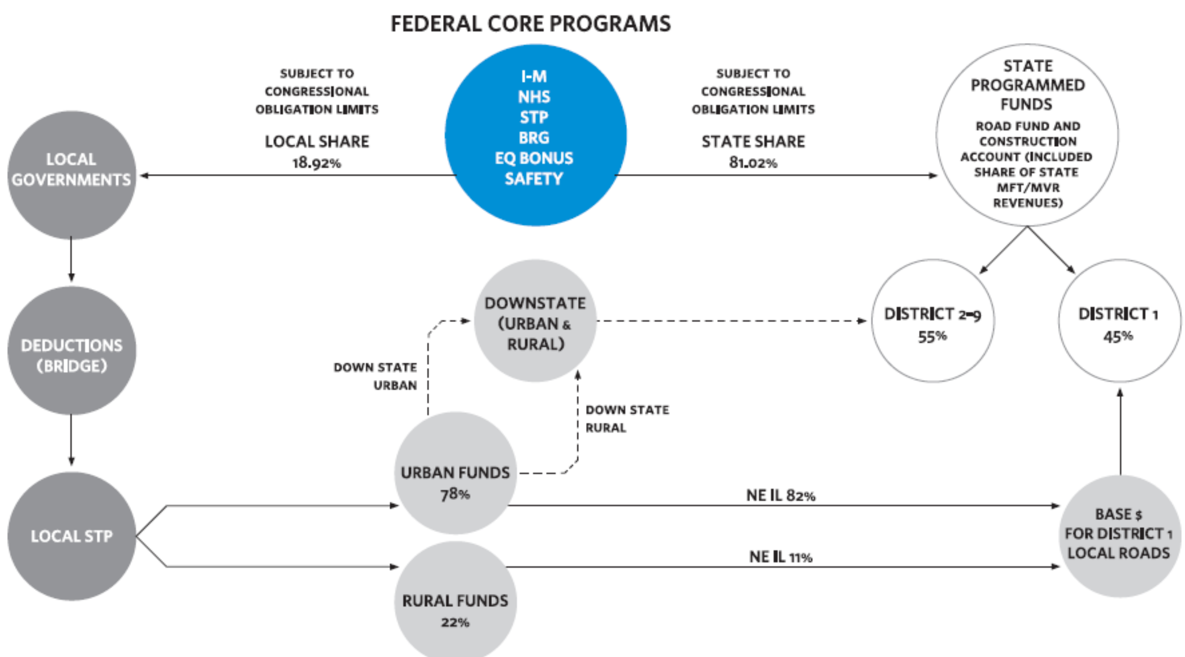
The State sends roughly 81 percent of these Federal Highway Administration (FHWA)-sourced program funds to the IDOT Road Fund and State Construction Account, while the remaining federal funds are allocated to local governments, primarily via the Local STP program. The Road Fund is used to pay for IDOT's operating expenses, debt service on highway bonds, other agency operations, and highway construction. The Construction Account is restricted by law to paying for highway construction expenses on the state system.

In addition to federal funds, state revenues are also utilized for state and local transportation needs. The two primary state funding sources are the MFT and motor vehicle registration fees. After a variety of deductions, 45.6% of MFT revenues are allocated to the IDOT Road Fund and State Construction Account, and the remainder is disbursed to local governments. The MFT and its allocation to local governments will be discussed in greater depth in the second section of this report. Motor vehicle registration fees vary according to vehicle type and weight. Unlike the MFT, these revenues are not shared with local governments by formula. They accrue directly to the Road Fund and Construction Account. In 2010, motor vehicle registration fees generated $1.9 billion statewide.

For the Local STP program, which differs from the state STP funds deposited into the Road Fund and Construction Account for state highway projects, project selection is accomplished through the Council of Mayors process, which is administered through CMAP, as the region's federally designated metropolitan planning organization (MPO). Each of the 11 subregional councils and the City of Chicago receive individual funding and each council has a self-determined methodology for selecting the most beneficial projects. CMAP also manages and monitors the federal Congestion Mitigation and Air Quality Improvement (CMAQ) program through the CMAQ Project Selection Committee, which recommends CMAQ projects in northeastern Illinois.

Distribution of both the local and state program funds to projects is determined through a "55-45" split, where northeastern Illinois ("District 1") receives 45 percent of the federal and state allocation, while downstate Illinois ("Districts 2-9") receives 55 percent. In addition, CMAQ funds are included in District 1's 45 percent. Thus, the current system works in some respects as a "zero-sum game"—for example, if state or local road projects are programmed through the CMAQ process, dollar-equivalent projects are removed from other programs to maintain balance in the state funding split. It is important to note that local allocation of MFT funds as well as FTA-sourced funds for public transit are not included in the 55-45 split. The following chart illustrates transportation funding streams in Illinois.

How IDOT allocates federal and state highway dollars



Source: CMAP

While the State of Illinois has a great deal of flexibility in how federal and state funds are used, the State continues to employ a non-statutory funding split which allocates 55 percent of road funding to downstate districts and 45 percent to northeastern Illinois. The attached issue brief provides additional information on the 55/45 split, an issue that has already been addressed by the CMAP Board. GO TO 2040's section, "Regional Mobility," recommended ending the 55/45 funding split and provides the following implementation action area:

End the "55-45" split for Illinois transportation dollars and make investment decisions based on metrics of need Lead Implementers: IDOT	Northeastern Illinois continues to be plagued by a non-statutory funding split which allocates 55 percent of road funding to downstate districts and 45 percent to northeastern Illinois. Transparent performance driven criteria should be used to drive investments rather than an arbitrary split.

The State Motor Fuel Tax

The MFT is Illinois' primary state source of transportation funding, along with motor vehicle registration fees. This section of the report will address GO TO 2040's recommendation to increase the MFT as well as MFT revenue sharing disbursements.

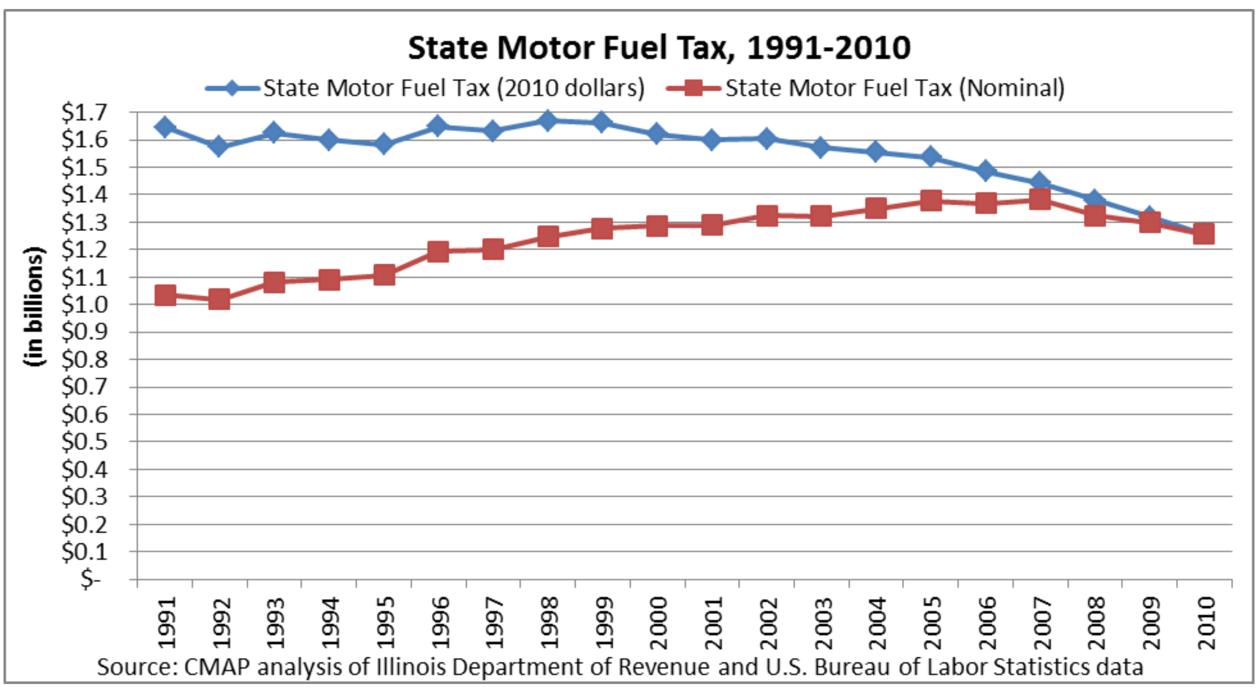
Illinois originated a 3 cent per gallon motor fuel tax in 1929. Since then, the tax rate has been increased nine times, most recently on January 1, 1990. The MFT is primarily used for road construction and maintenance. The current statewide base rates are:

- $0.19/gallon for gasoline and gasohol
- $0.215/gallon for diesel and combustible gases

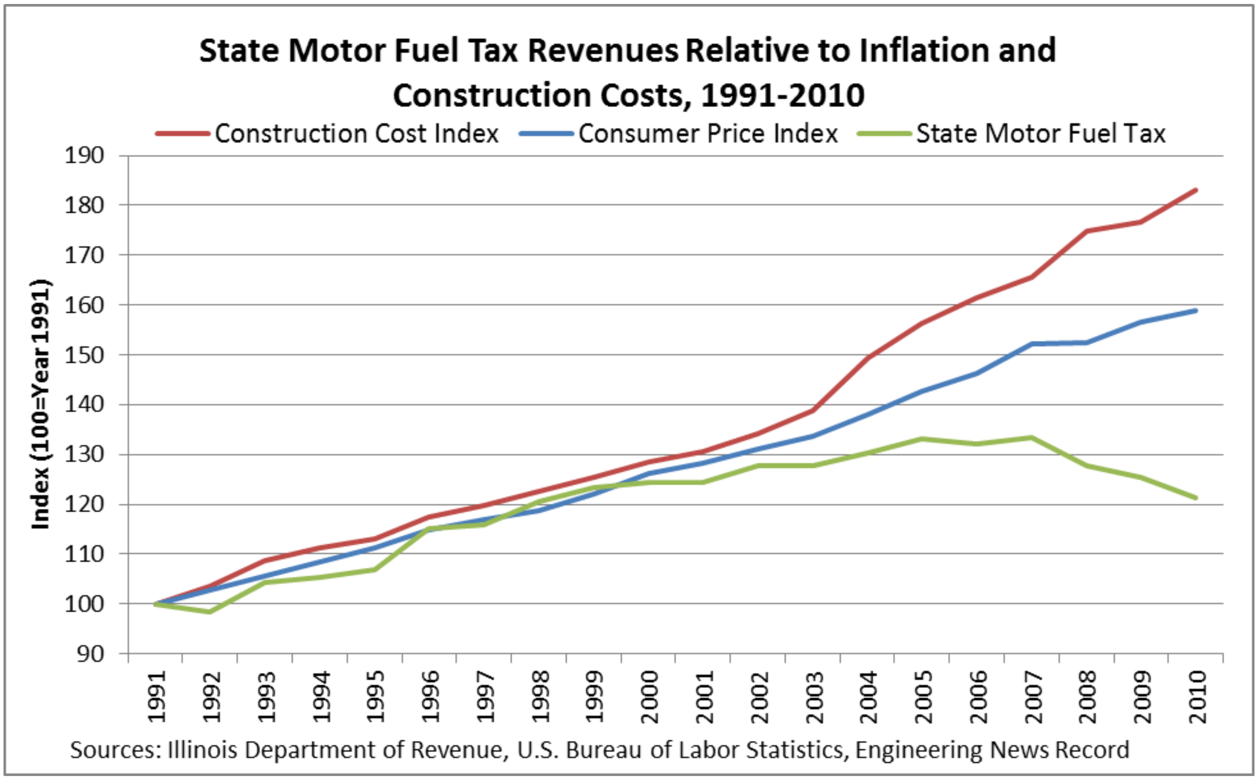
In addition, Illinois levies a 0.3 cent/gallon tax for the Illinois Leaking Underground Storage Tank (LUST) fund and 0.8 cent/gallon in an Illinois Environmental Impact Fee. Standard sales tax rates at both the State and local level also apply to motor fuel sales. Like the federal excise tax on gasoline, the State MFT is applied on a per-gallon rather than a per dollar basis. Thus, if total consumption is held constant, MFT collections do not vary with the wholesale price of gasoline.

The State collected $1.3 billion in gross collections in 2010. When adjusted for inflation, state collections of the motor fuel tax have varied considerably over time. At a level of 7.5 cents per gallon in 1972, the State collected $376 million in motor fuel tax, which equates to $2 billion in 2010 dollars. By 1983, MFT collections had fallen to $371.4 million in nominal dollars ($803.6 million in 2010 dollars). The State raised the MFT per gallon rate five times in the 1980s, beginning with a 3.5-cent increase in 1983. By 1990, MFT collections grew to $906 million in nominal dollars (nearly $1.6 billion in 2010 dollars). On January 1, 1990, the MFT was raised to its current rate of 19 cents per gallon.

In real terms, gross state MFT revenues have fallen dramatically since 1991. The fall from 1991 ($1.7 billion) to 2010 ($1.3 billion) equates to a 23.6 percent drop in revenues. In terms of average annual change, MFT revenue has fallen roughly 1.4% per year between 1991 and 2010. The following chart illustrates gross MFT revenues in nominal dollars and in 2010 dollars.



Since the MFT was last increased 20 years ago, revenues have greatly declined in their purchasing power. The lack of MFT inflation indexing greatly affects the ability of the State and local governments to maintain and enhance the transportation system. Starting in 2003, construction costs began to outpace MFT revenues. The following chart shows how construction costs and the consumer price index compare with MFT revenue since 1991.



GO TO 2040 Recommendation to Increase the Motor Fuel Tax

While continued reliance on gas taxes may not be an attractive solution over the long run (largely based on its growing inefficiency as a "user fee" once more alternative sources of fuel are utilized), in the short and medium term, the MFT holds the most near-term revenue potential for transportation funding. Unlike many of the potential alternatives that could replace or supplement the tax, gas taxes already have administrative systems in place for collection. The MFT also has the ability to directly charge for negative air quality impacts caused by the burning of fossil fuels, particularly carbon dioxide and other greenhouse gas emissions. The failure of the MFT 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.

GO TO 2040 recommends that the State of Illinois increase the existing 19 cents per gallon tax by eight cents and index the tax to inflation, either the consumer price index (CPI), construction cost index (CCI), or a transportation materials cost index. GO TO 2040's section, "Regional Mobility," provides the following implementation action area:

Implement an eight cent increase of the state's motor fuel tax and index it to inflation Lead Implementers: State (General Assembly)	This would require an act of the Illinois General Assembly and the Governor. An increase in the state's MFT presents the best option for short-term increase in revenues for transportation funding. The tax should be indexed to the rate of inflation to combat the decrease in purchasing power that occurs over time. A portion of these proceeds should be devoted to funding transit.

Based on available data regarding historical gross MFT revenues as well as literature on the price sensitivity of consumers to gasoline price increases, estimates can be made regarding the impact of an 8-cent gas tax increase. CMAP's analysis estimates a large untapped revenue capacity in the State MFT. Inflation-adjusted revenues from the State MFT have declined sharply since 1991 at an average annual rate of nearly 1.4%. The 19-cent per gallon rate has not been raised since 1990. CMAP estimates that an 8-cent increase per gallon, indexed to inflation, would generate $19.4 billion in revenues to northeastern Illinois between 2012 and 2040.

It should be cautioned that these estimates are derived from recent trends in thestate MFT over the past 20 years. Due to uncertainty in domestic and international energy markets, the technological push for more fuel efficient vehicles, and the highly politicized nature of gas taxes, it may be unlikely that the above estimate of untapped tax capacity really exists in motor fuel taxes. Additionally, if analyzed as a flat rate regressive tax, the MFT may create a proportionally larger burden for low-income consumers, raising equity concerns. A higher MFT may limit individuals' access to mobility, and limited mobility often translates into limited health care, educational, and employment opportunities.

Statutory Allocation of Motor Fuel Tax Funds to Local Governments

After a variety of deductions, 45.6% of MFT revenues are allocated to the Illinois Department of Transportation's Road Fund and State Construction Fund, and the remaining 54.4% are allocated to local governments. This allocation has been in effect since 1999, when the local government portion increased from 41.6 percent to 54.4 percent.[1] In FY2010, about $200 million was deducted off the top for various programs and funds, approximately $500 million to the IDOT Road Fund and Construction Account, and nearly $600 million was allocated to local governments.

State statute divides these MFT allocations into four pots: 49.1 percent to municipalities, 15.89 percent to townships; 18.27% to counties with fewer than 1 million residents, and 16.74% to counties with more than 1 million residents. These funds are then disbursed to local governments based on formulas that vary depending on the local government pot. While the State began allocating MFT to local governments in 1933, the current proportions were enacted in 1990.[2] The table on the following page describes how the 54.4 percent to local governments are disbursed.

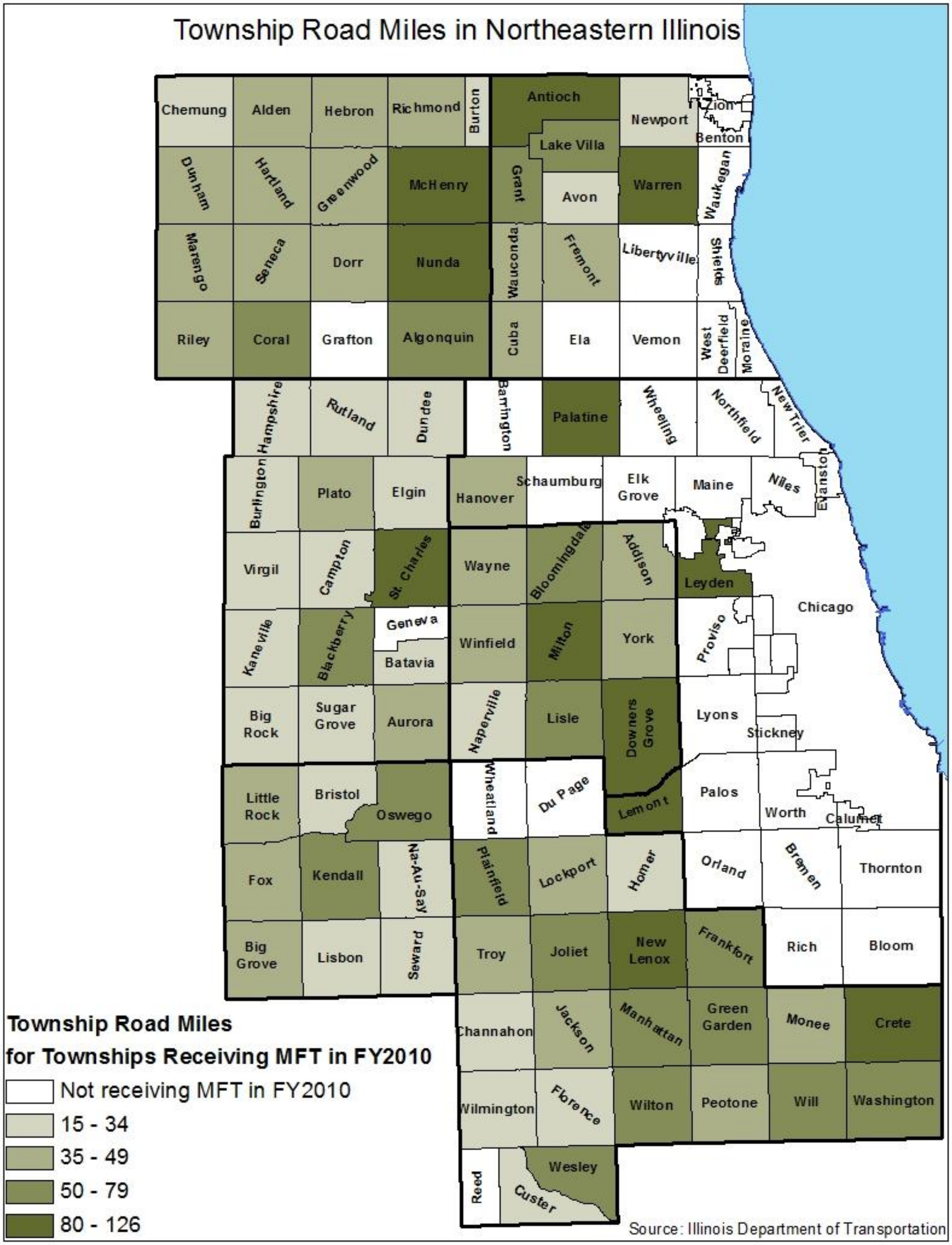
In FY 2010, northeastern Illinois local governments received $347.0 million, which is equal to 59.9 percent of the total funds disbursed statewide. Because such a large portion of the region is incorporated, municipalities received 58.6 percent of the funds disbursed to the region, which is more than 49.1 percent that goes to municipalities statewide. At the same time, townships received 1.6 percent of the revenues to the region. While the region has 124 townships, only 84 received revenue in FY2010 because many road districts property tax levies do not meet the statutory threshold. All but four of the region's townships receiving funds were located in the collar counties. The following map provides an overview of road district miles in FY2010 for northeastern Illinois townships.

Because Cook County received the entire 96.9 million statewide allocation for counties with more than 1 million residents, Cook County received more than a quarter of the revenues disbursed to northeastern Illinois. For the 564-mile Cook County road system, this equates to $171,678 per road mile. The six collar counties received a total of $41.3 million or 11.9 percent of the $347.0 million disbursed to northeastern Illinois. The collar counties have jurisdiction over 1,400 miles of road. This equates to between $17,595 and $56,766 per road mile for each of the six collar counties.

[1] Illinois Public Act 91-20
[2] Illinois Public Act 86-982

State Motor Fuel Tax Disbursements to Local Governments

Type of Local Government	Disbursement Formula	Estimated Revenues FY2010 per Formula Basis	Number of Units Receiving MFT in FY2010		Amount Received in FY2010		Northeastern Illinois Proportion of Statewide Total	Proportion of Total MFT Revenues	
			Statewide	Northeastern Illinois	Statewide	Northeastern Illinois		Statewide (Statutory)	Disbursements to Northeastern Illinois
Municipalities	Based on population	$25.30 per resident	1,298	284	$284,254,974	$203,351,899	71.5%	49.10%	58.6%
Townships	Based on mileage of township roads. Only received if the property tax levied for road and bridge purposes is at least 0.08 percent (or for townships in DuPage County, an amount of at least $12,000 per mile of township road).	$1,297.02 per road mile	1,424 (of 1,509)	84 (of 124)	$91,992,088	$5,393,315	5.9%	15.89%	1.6%
Counties less than 1 million residents	Based on the proportion of motor vehicle license fees received	8 cents per dollar of motor vehicle license fees received	101	6	$105,770,639	$41,298,726	39.0%	18.27%	11.9%
Counties with more than 1 million residents (Cook County)	N/A	N/A	1	1	$96,912,999	$96,912,999	100.0%	16.74%	27.9%
Total			**1,526**	**375**	**$578,930,700**	**$346,952,636**	**59.9%**	**100%**	**100%**


Township Road Miles in Northeastern Illinois
Chemung
Alden
Hebron
Richmond
Burton
Antioch
Newport
Zion
Benton
Lake Villa
Dunham
Hartland
Greenwood
McHenry
Grant
Avon
Warren
Waukegan
Marengo
Seneca
Dorr
Nunda
Wauconda
Fremont
Libertyville
Shields
Riley
Coral
Grafton
Algonquin
Cuba
Ela
Vernon
West Deerfield
Moraine
Hampshire
Rutland
Dundee
Barrington
Palatine
Wheeling
Northfield
New Trier
Burlington
Plato
Elgin
Hanover
Schaumburg
Elk Grove
Maine
Niles
Evanston
Virgil
Campton
St. Charles
Wayne
Bloomingdale
Addison
Leyden
Chicago
Kaneville
Blackberry
Geneva
Batavia
Winfield
Milton
York
Proviso
Big Rock
Sugar Grove
Aurora
Naperville
Lisle
Downers Grove
Lyons
Stickney
Little Rock
Bristol
Oswego
Wheatland
Du Page
Lemont
Palos
Worth
Calumet
Fox
Kendall
Na-Au-Say
Plainfield
Lockport
Homer
Orland
Bremen
Thornton
Big Grove
Lisbon
Seward
Troy
Joliet
New Lenox
Frankfort
Rich
Bloom
Channahon
Jackson
Manhattan
Green Garden
Monee
Crete
Wilmington
Florence
Wilton
Peotone
Will
Washington
Reed
Custer
Wesley
Township Road Miles
for Townships Receiving MFT in FY2010
Not receiving MFT in FY2010
15 - 34
35 - 49
50 - 79
80 - 126
Source: Illinois Department of Transportation

CMAP
Issue Brief: The 55/45 Split

Recommendation: IDOT and the General Assembly Should Boost Illinois' Economic Competitiveness through Targeted Transportation Investments

The future prosperity of Illinois depends on making strategic transportation investments. As the economic catalyst of the state, northeastern Illinois produces the greatest return per public dollar. In tough economic and fiscal times, the Illinois Department of Transportation and the General Assembly should lead a new approach to transportation investments based on economic and system performance rather than an arbitrary formula. This is a key recommendation of GO TO 2040, northeastern Illinois' comprehensive regional plan, which was adopted unanimously by the CMAP Board and MPO Policy Committee in October 2010. Reinforcing the economic vitality of northeastern Illinois and other metros will not only increase spending efficiencies, it will also improve the business climate and help restore the economic and fiscal vitality of Illinois.

The Problem

While the State has flexibility in allocating gas tax and vehicle fees that accrue to the Road Fund and State Construction Account, in practice IDOT and the General Assembly have followed a rather arbitrary way of distributing these funds. This is sometimes referred to as the "55/45 split," where District 1 typically receives around 45 percent of the allocation. The amount of funds at stake is large -- in FY 2011 alone, the General Assembly authorized over **$2.5 billion** statewide in new appropriated spending from these funds.

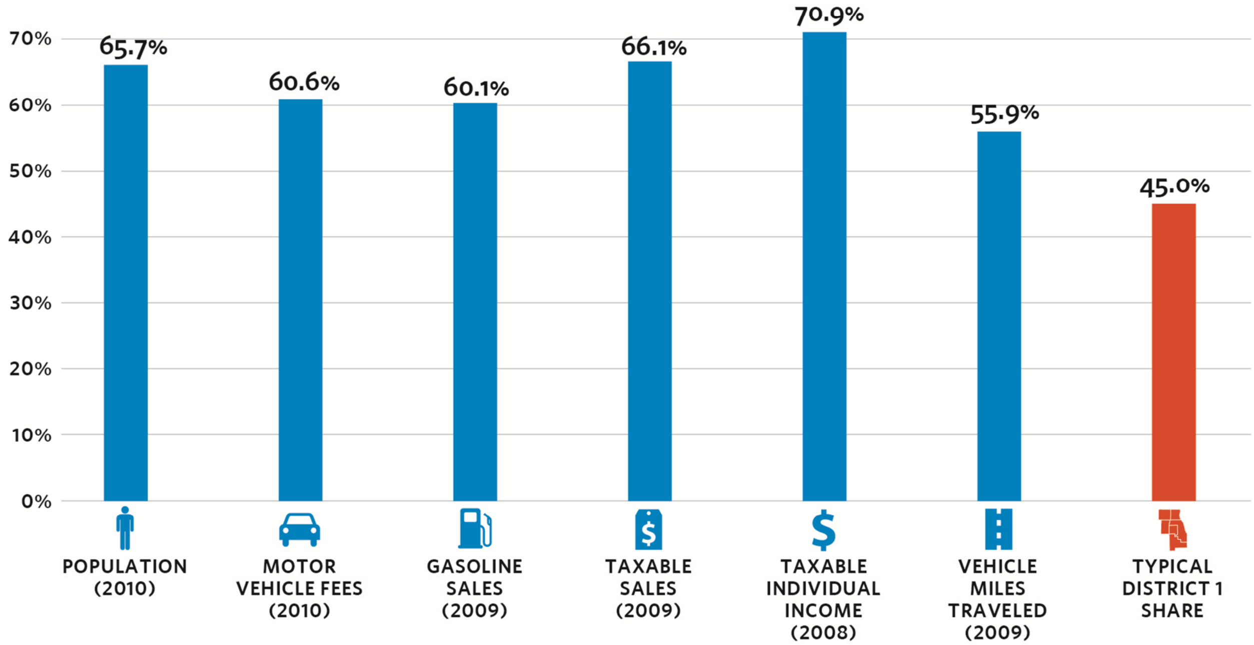
Northeastern Illinois Drives the Economic and Fiscal Sustainability of the State

Focusing transportation investments toward northeastern Illinois will catalyze private investment, which leads to a better fiscal situation for the state. Surveys consistently indicate that businesses want good infrastructure systems, including rapid access to airports and efficient movement of goods. While it is just one corner of the state in geographic terms, northeastern Illinois generates over **70 percent of the gross state product and nearly 56 percent of vehicle miles traveled (VMT)**. Furthermore, the intensity of highway use is far greater. Northeastern Illinois has more than **four times the VMT per lane mile as the rest of the state**. Northeastern Illinois now ranks as the **most congested metro area in the U.S.,** as measured by yearly delay per auto commuter and congestion cost per auto commuter.

Congestion is symptomatic of high levels of economic activity, but it also presents a major barrier to economic efficiency. Targeting investments toward the congestion problem will lead to economic benefits -- such as more efficient freight movements and increased worker productivity -- that are far broader and more sustainable than the "boom and bust" approach to job creation. For example, CMAP analysis estimates that targeting investments toward GO TO 2040's major capital projects will yield a **Gross Regional Product (GRP) to expenditure ratio of 1.26**, which is significantly greater than the 1.1 impact ratios of more generalized infrastructure investments.

The majority of tax revenues accruing to state transportation funds are generated from user fees paid in northeastern Illinois -- namely, the federal and state gas taxes and motor vehicle registration fees. According to data gathered from the Department of Revenue and Secretary of State**, northeastern Illinois contributes over 60 percent of both the state's gasoline sales taxes and motor vehicle registration fees.** Of course, sales and income taxes remain the primary revenue drivers for the state, generating almost 85 percent of annual state revenue collections. The vast majority of these revenues are also generated in northeastern Illinois, which supplies **two-thirds of the state's taxable retail sales** and **over 70 percent of taxable individual income**.

By the numbers: northeastern Illinois percentage of state totals



Source: CMAP analysis of data from the Illinois Department of Transportation, Illinois Department of Revenue, Illinois Secretary of State, and U.S. Census

Northeastern Illinois also has a robust public transit system, which improves access and mobility and helps limit congestion. However, this is funded almost entirely by regional sales taxes, passenger fares, and federal capital assistance; annual state transit operating assistance funds are limited, and state capital assistance for transit is not appropriated on a consistent annual basis. Northeastern Illinois' robust transit network, which also faces an extensive maintenance backlog, should not be used as an excuse to shortchange the region on state transportation dollars.

Moving Ahead with More Targeted Transportation Investments

Illinois, like many other U.S. states, lacks a "performance driven approach" to programming transportation dollars. Some states, such as Virginia and Maryland, have taken recent steps in implementing performance measurement systems for transportation investments. Currently, IDOT's approach to prioritizing transportation projects appears to emphasize pavement condition ratings and total lane mileage as factors in program development. It is less clear how or whether IDOT considers VMT or "VMT per lane mile," though relying on these "intensity of use" measures would better target funds to reduce congestion and to maximize the public's return on investment. When making spending decisions, IDOT and the General Assembly should, at a minimum, place a greater emphasis on where people live and work (and where VMT and congestion are highest). This will bring economic and fiscal returns to our metro areas and statewide.

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