STATE OF ILLINOIS APPROVES MOTOR FUEL TAX INCREASE AND OTHER REVENUES TO SUPPORT CAPITAL INFRASTRUCTURE

In early June 2019, the Illinois General Assembly passed a package of legislation to fund transportation capital projects, water infrastructure, natural resources and open space projects, and construction of schools, affordable housing, and other facilities. It makes progress on implementing the ON TO 2050 recommendation that the State of Illinois provide sustainable funding for transportation infrastructure, including increasing the motor fuel tax (MFT) and indexing the rate to inflation to avoid loss of purchasing power over time. The legislation will result in a major boost in resources for transportation and takes a significant step toward adequately funding the state's roads, bridges, and transit system. Furthermore, its allocation of additional revenues to transit capital represents the first time that a portion of the state MFT has been dedicated toward funding transit capital infrastructure, although many needs on the transit system remain unfunded.

Specific pieces of legislation include Senate Bill 1939 related primarily to revenue for transportation projects, Senate Bill 690 related primarily to revenue sources for other construction, House Bill 62 containing capital appropriations and specific projects, as well as House Bill 142 authorizing bonding. The following analysis provides an overview of the capital funding legislation.

Legislation expands funding for infrastructure

Besides revenues for capital projects such as water infrastructure and public buildings, the legislation provides an estimated additional $2.5 billion annually for transportation, with most of that from raising transportation user fees, although a portion comes from shifting General Funds revenues to the Road Fund to be spent only on transportation. In addition to providing funds to be used for capital needs on an ongoing basis, a portion of these revenues will be used to support new bonds issued over six years that will fund capital projects in the near term. These revenues will not become available again until bonds are repaid. The following table provides a summary of initial revenue estimates for funding increases included in the legislation.

Initial estimates of annual increased revenue of Senate Bills 1939 and 690

	Capital infrastructure funds	General Funds
Senate Bill 1939 (funds transportation infrastructure)		
Motor fuel tax	$1,235 million	
Diesel differential	$77.5 million	
Sales Tax switch (at full implementation)	$600 million	($600 million)
Vehicle registration fee*	$475 million	
Electric vehicle registration fee*	$4 million	
Certificate of title fee	$146 million	
Commercial vehicle registration fee*	$50 million	
Commercial Distribution Fee repeal		($54 million)
Senate Bill 690 (funds water, buildings, transportation, broadband, and other infrastructure)		
Parking garage tax	$60 million	
Cap traded-in property exemption	$60 million	
Cigarette tax increase	No data at time of publication	
Gaming and gambling	No data at time of publication	

*$1 of the increase is directed to the Secretary of State.

Source: Illinois House of Representatives staff analysis, ReBuild Illinois proposal, Illinois Office of the Comptroller, and State of Illinois analysis provided by the Transportation for Illinois Coalition.

The legislation doubles the state MFT rate from 19 cents per gallon to 38 cents per gallon. In addition, the rate would be indexed to the federally calculated Consumer Price Index for all Urban Consumers, allowing revenues to grow more sustainability and keep up with the costs of operating and improving the system, which increase over time. The higher rate imposed on diesel fuel, known as the diesel differential, will also increase from 2.5 cents per gallon at present to 7.5 cents per gallon. The diesel differential is meant to help account for the impacts of freight haulers, which cause additional wear and tear on the roadways due to vehicle weight. Under the legislation, while the 38 cent per gallon base rate is indexed to inflation, the 7.5 cent differential is not.

The legislation provides some local governments with the ability to implement their own local MFT. This helps accomplish the ON TO 2050 recommendation that local governments implement user fees to fund the cost of providing infrastructure and that the state allow them to do so. Currently, DuPage, Kane, and McHenry counties are the only non-home rule counties permitted to charge a local MFT, while both home rule counties and municipalities may establish local MFT pursuant to their home rule powers. The legislation newly allows Lake and Will counties to establish their own MFT, while also increasing the current maximum rate to 8 cents per gallon from 4 cents and indexing the rates to inflation. In addition, non-home rule municipalities located within Cook County may implement a local MFT of a maximum of 3 cents per gallon. The Illinois Department of Revenue (IDOR) would collect the taxes and charge a collection fee.

In addition to increasing the state MFT, the legislation also increases several transportation-related fees. This is significant because such fees actually are the largest source of construction funding for the Illinois Department of Transportation. These include increasing passenger vehicle registration fees by $50, truck registration fees by $100, and certificate of title fees by $55. One dollar of the registration fee increases would go to the Illinois Secretary of State. In addition, fees for electric vehicles would be changed. Instead of a discounted $35 biennial electric vehicle registration fee, electric vehicle owners would now pay the same base registration fee as all vehicle owners plus an additional $100 fee in lieu of paying the MFT.

The legislation eliminates a fee and shifts other existing revenue to funds where it can only be used for transportation purposes. The portion of state sales tax revenue attributable to motor fuel purchases will be incrementally shifted from the General Revenue Fund and the Common School Fund to the Road Fund, a change that will be phased in between fiscal years 2022 and 2026. This will provide additional resources for the state's transportation needs but will reduce funding available for other state programs and services. The portion of state sales tax on motor fuel that is disbursed to local governments would not be affected. Lastly, the legislation repeals the Commercial Distribution Fee, a surcharge on heavy truck registrations, which had previously been directed to the General Fund.

While not the focus of this Policy Update, the legislation has a major non-transportation component, including funding to the Illinois Department of Natural Resources, Capital Development Board, and other state agencies for housing, open space, state facilities, and other uses. Revenues supporting this spending include a new sales tax on parking garages, capping the sales tax exemption for traded-in property (such as vehicles) to $10,000, increased cigarette tax rates by $1 per pack, increased electronic cigarette taxes, expansion of gambling and new casinos, sports betting, and increased video gaming taxes. The funding will primarily go toward bonding.

Use of new funding in the capital bill

Of the new revenues, which will provide an additional $2.5 billion annually for transportation, a portion will be dedicated over approximately 20 to 30 years to paying off $11 billion in new transportation bonds authorized in the capital bill. Between bond funds and ongoing annual funding, over the next six years an estimated $14 billion is provided for roads and bridges, $4.5 billion for transit, and $1.5 billion for passenger rail, freight rail, ports, and airports. About 54 percent will be funded by bonds, with the remainder provided as ongoing annual funding.

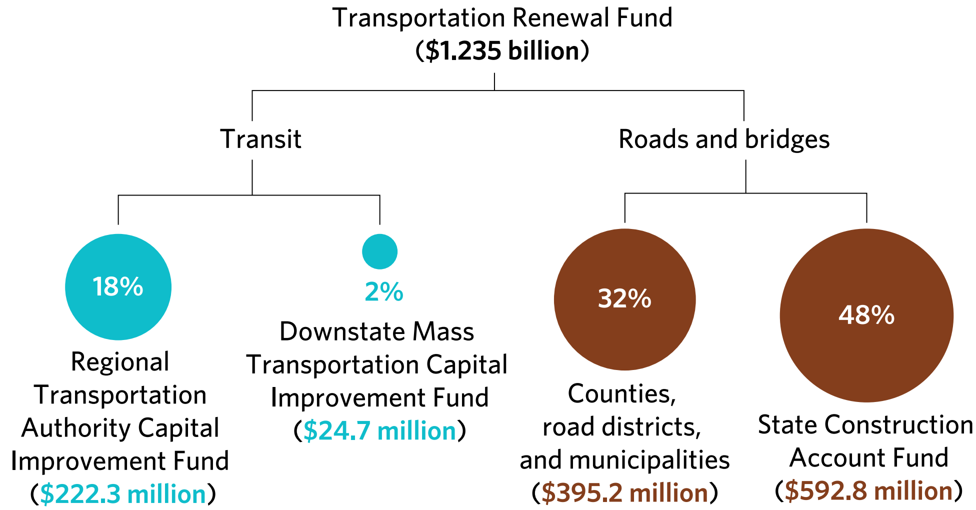
Revenue from the 19 cent per gallon MFT increase will be directed to a new Transportation Renewal Fund. Similar to distribution of MFT funds at the federal level, 80 percent of the new funding is directed to roads and bridges and 20 percent to transit. The State will provide a portion of the transit funding (90 percent) directly to the Regional Transportation Authority. Approximately $250 million per year of the new revenues available for transportation, including MFT, fees, and sales tax switch, or 10 percent, will be placed into funds dedicated to transit capital spending, while bonds will provide additional upfront funding for transit. Over the six years of the capital program, considering both the new ongoing funding and the bond funds for transit, approximately 22 percent of the transportation portion of the capital bill would be for transit.

Of the new Transportation Renewal Fund road and bridge funding, the state retains 60 percent to be used for ongoing annual support for transportation infrastructure, while localities receive 40 percent. This represents a smaller share for localities than the 54 percent they receive from distribution of funds raised under the existing MFT rate, but distribution of existing funds is not changed in the bill. Within the local share of the Transportation Renewal Fund, MFT revenue is distributed to counties, road districts, and municipalities according to the same percentages as funds raised under the existing MFT rate. The chart below displays the final percentage of new MFT revenues distributed to each entity.

Distribution of Illinois' 19-cent motor fuel tax increase

Note: Percentages represent the portion of $1.235 billion in anticipated new annual motor fuel tax revenue.

Source: Chicago Metropolitan Agency for Planning analysis of Illinois Senate Bill 1939.



The legislation shifts more investment toward non-motorized uses by requiring IDOT to set aside $50 million from the Road Fund for bicycle and pedestrian improvements to be awarded competitively through the Illinois Transportation Enhancements Program, with provisions to allow high-need communities easier access to the funds. The funds will help support development of compact, walkable communities in line with ON TO 2050's recommendation, but it is important that localities identify and prioritize high-quality bicycle and pedestrian projects for construction. In addition, it will be important for the state and region to provide support to high-need communities that may not have sufficient staff to oversee the project application or the management of these projects.

Going forward

The passage of Illinois' first capital plan in a decade is a success for transportation funding and transportation policy in the state. As the state, local governments, and transit agencies begin to reinvest in a cash-starved transportation system using the funds newly available to them, we must recognize the work is not entirely done. The increase and indexing of the state MFT implements a major recommendation of ON TO 2050 and its predecessor GO TO 2040. Yet motor fuel consumption is expected to continue to decrease over the coming decades, meaning that the MFT is not a sustainable source of transportation revenue on its own. The State and regional partners should begin the long-term process of replacing the MFT with a more sustainable road usage charge. In the near term, ON TO 2050 recommends that the State begin a pilot program to test road usage charges.

Having new dedicated state resources for transit is a particularly important innovation in the capital bill. Due to years of underinvestment, the need for repair, replacement, and modernization of just the existing system remain significant. In particular, northeastern Illinois' transit system, which moves approximately 2 million riders per day, is in need of an estimated $2.58 billion annually over the next 20 years to make the capital improvements necessary to reach a state of good repair. Going forward, the state and region will need to continue seeking ways to provide critically needed capital funding to help the transit system meet its remaining investment gaps.

Using available data and tools to assess and prioritize transportation projects helps the state and region meet established federally mandated road, bridge, and transit performance targets. Even with newly identified revenues in place, prioritizing only the very best projects in order to maximize regional benefits is crucial given the region's backlog of transportation needs. ON TO 2050 identifies the need for transportation funding to be based on transparent evaluation criteria that assesses a project's merits relative to established goals and targets. It is important to build processes that make sure new and existing transportation revenues are used for projects that best achieve state goals for improving system condition, enhancing safety, reducing congestion, and providing better transportation access, among others. CMAP looks forward to working with the state and other partners to help maximize the value of our transportation investments.

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