



C1: State funding approach for transit

September 26, 2023

Executive summary

The State of Illinois' current support for the RTA is insufficient and, as a portion of total operation revenues, lags the levels of support provided to peer transit systems.

To address this funding shortfall, the state should:

- Fully fund paratransit services and other mandated programs such as fare subsidies.
- Remove the administrative surcharge on RTA sales tax receipts.
- Continue to provide important state matching funds on both existing and potential new local revenue sources for transit.

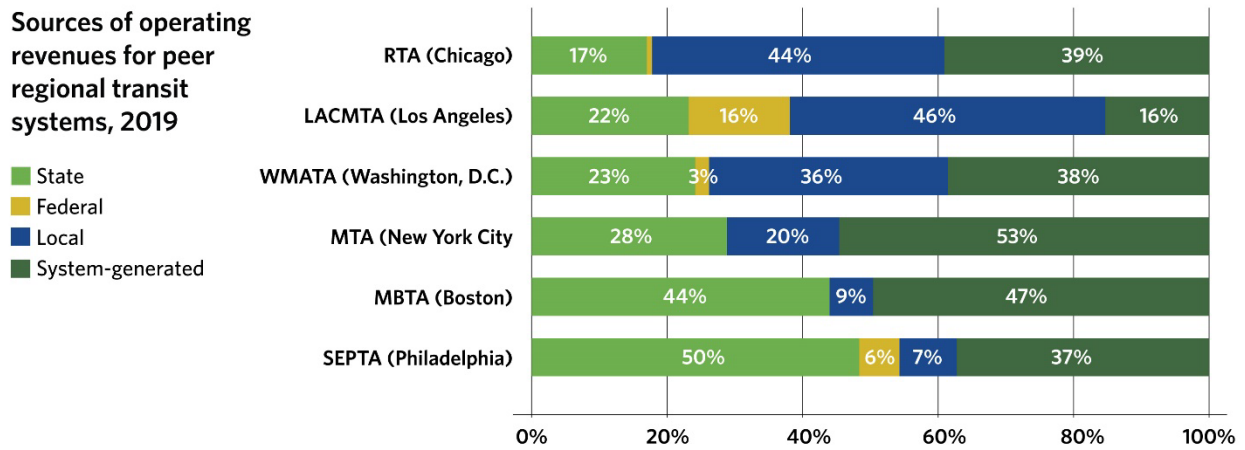
The state could also consider how models pursued in other states, such as a payroll tax, could support the regional transit system. Utility taxes and a cap-and-trade or cap-and-invest approaches are not currently well-positioned to solve the immediate transit funding crisis. However, in the longer term, the state should continue to explore mechanisms like cap-and-invest and its potential to deliver important co-benefits to advance the state's commitment to greenhouse gas reduction.

State funding context for transit in northeastern Illinois

In 2019, before the onset of the COVID-19 pandemic and its associated impacts, state funding sources accounted for 17.1 percent of the Regional Transportation Authority’s (RTA) total operating revenues. In 2021, state action to modernize the collection point for remote sales via the Leveling the Playing Field Act began to improve the performance of the sales tax overall.^a And yet, as of 2023, state funding sources comprised 17.2 percent of RTA’s estimated operating revenues.

The level of state support for regional transit trails that provided to peer transit systems (**Figure 1**). The peers reviewed for this analysis, including regional transit systems that provide urban rail and bus services in large metropolitan regions, received between 22 to 50 percent of their funding from state sources prior to the pandemic. Increased support from the State of Illinois will be an important component of any funding reform package addressing the current transit funding crisis.

Figure 1. State support for transit as a share of total operating revenues is greater for peer transit systems.



Notes:
 1. State and federal revenue sources are assistance from those levels of government. Local revenue sources includes local government assistance and agency revenue from taxes and fees. System-Generated revenue includes fare revenue, donations, and other agency generated funds.

2. The Regional Transportation Authority (RTA) includes the Chicago Transit Authority (CTA), Metra, Pace Suburban Bus, and PACE ADA paratransit. The Metropolitan Transportation Authority (MTA) includes New York City (NYC) Transit, Metro North Commuter, Long Island Railroad, MTA Bus, and MTA Staten Island. The Los Angeles County Metropolitan Transportation Authority (LACMTA), Massachusetts Bay Transportation Authority (MBTA), Southeastern Pennsylvania Transportation Authority (SEPTA), and Washington Metropolitan Area Transit Authority (WMATA) are independent public agencies.

Source: CMAP analysis of RTA and National Transit Database data.

The State of Illinois’s largest revenue sources currently include (in order of magnitude): individual income taxes, state sales taxes, corporate income taxes, motor fuel taxes, and public utility taxes (**Table 1**). In fiscal year 2023 (FY23), these five sources alone are estimated to have

^a The Level the Playing Field for Illinois Retail Act allows for the collection and remittance of some sales taxes from remote retailers and marketplace facilitators that were previously not collected.

generated \$42.9 billion in revenues, or 89 percent of all state-appropriated funds. As a whole, these revenues have performed particularly well in recent years following an increase in the individual and corporate income tax rates in 2017, an increase of the motor fuel tax rate in 2019, and administrative improvements to the collection and disbursement of state sales tax revenues. As a result, the state has been able to use recent budget surpluses to pay off outstanding debts and cut interest costs, to deposit funds into the Budget Stabilization Fund, and to provide temporary tax relief to residents.

Table 1. State sales taxes, corporate income taxes, and public utility taxes are three of the state's largest revenue sources.

State appropriated funds revenues by source (\$ millions)	Estimated FY23 revenues	Share of revenues
Individual income taxes	\$23,881	49.7%
State sales taxes	\$11,779	24.5%
Corporate income taxes	\$5,723	11.9%
Motor fuel tax (gross)	\$2,535	5.3%
Public utility taxes	\$1,469	3.1%
Cigarette and tobacco products taxes	\$812	1.7%
Insurance taxes and fees	\$578	1.2%
Inheritance tax	\$505	1.1%
Casino and racino gaming taxes and fees	\$366	0.8%
Corporate franchise taxes and fees	\$215	0.4%
Liquor gallonage taxes	\$181	0.4%
Total state appropriated funds revenues	\$48,044	100.0%

Source: Illinois State Budget Fiscal Year 2024

Unfortunately, the current transit financial crisis is not the only financial or policy issue facing the state today. Compounding the situation are risks to future tax revenues from a potential recession, continuing high inflation, rising interest rates, exhaustion of pandemic-related stimulus funds, and changes in consumer spending patterns. While it may be tempting to simply introduce new, diverse revenue sources to meet these fiscal challenges, academic literature encourages policymakers to avoid indiscriminately adding to revenue complexity and obscuring government financing structures from citizens. Revenue diversification can better insulate state governments from economic downturns and help them to address fiscal issues, but it does not ensure that states will be solvent when these events occur.^{1, 2} For these reasons, this memo primarily explores funding options that leverage existing sources to meet the needs of northeastern Illinois’ transit system.

Options for increasing state support for transit

This memo explores options for increasing state financial support to northeastern Illinois transit with a focus on existing state revenue streams. In particular, state sales taxes, corporate income taxes, and public utility taxes were reviewed as options for state decisionmakers to

consider when selecting revenues to deliver greater support for transit. The options include the following:

- Option 1: Strengthen existing funding mechanisms that currently support transit.
- Option 2: Leverage corporate taxation streams to generate new funding dedicated to transit.
- Option 3: Leverage utility taxation streams to generate new funding dedicated to transit.
- Option 4: Pursue a new cap-and-invest program to support transit and other green infrastructure needs.

CMAP recommends that the state prioritize increased funding for transit through existing mechanisms (Option 1). There may also be opportunities to leverage new funding sources, such as a payroll tax for transit (Option 2). This option could be pursued as alternative funding source in the event stakeholders are unable to reach consensus around the use of roadway-generated revenues for transit operations. As discussed below, Options 3 and 4 are unlikely to provide near-term relief to regional transit funding concerns, although Option 4 (cap-and-invest) should be evaluated as a long-term funding mechanism for transit investments.

Option 1: Strengthen existing state support for transit

The state currently provides most of its dedicated transit funding for the RTA region through the Public Transportation Fund (PTF), in addition to some smaller line-item appropriations to fund specific programs or services. Through the PTF, the state provides a 30 percent match to two locally generated public revenues that support transit: the RTA sales tax and the City of Chicago Real Estate Transfer Tax (RETT). The RTA budget estimates that PTF will result in \$495 million of direct funding for the RTA and the service boards from the PTF in 2023.

The state also provides financial support to the RTA for debt service, to support reduced fare programs, and to operate ADA paratransit service (see the companion memo on funding paratransit on the [PART webpage](#)).³ However, despite this substantial support, the state provides significantly less proportional funding for the RTA region than peers. The following sections outline three ways that the state could enhance support for transit through existing state transit funding mechanisms.

Fully fund mandated transit programs

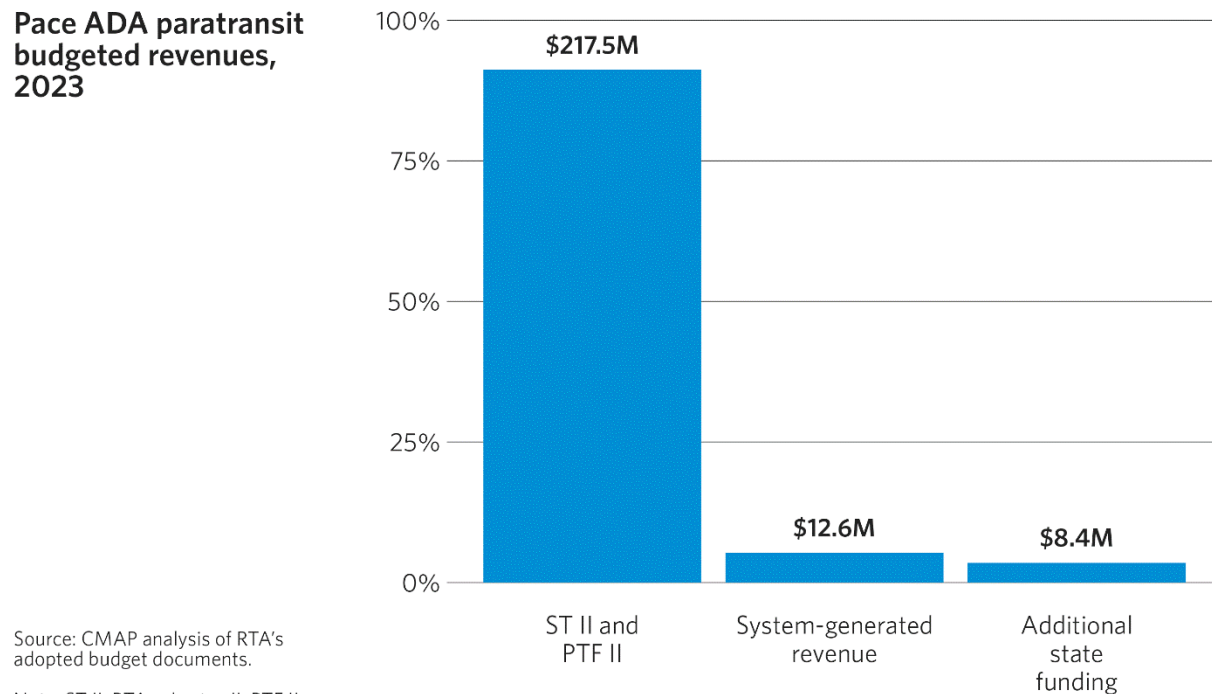
ADA paratransit programs

In 1990, the Americans with Disabilities Act (ADA) mandated the provision of comparable transportation services for individuals who unable to access a fixed-route transit service because of their disability. Deemed “ADA paratransit services,” these essential operations are unfunded by the federal government and have proven to be increasingly costly over time. In a standalone memo outlining the urgent need for increased state paratransit funding, CMAP

explored the extent to which paratransit service has diverted increasing portions of RTA sales tax revenues from fixed-route transit service. In 2023, the total Pace ADA paratransit budget was \$238.5M, of which \$217.5M (91.1 percent) was paid for using RTA sales tax revenues and the Public Transportation Fund (**Figure 2**). While the state previously provided as much as \$54M in direct paratransit funding, it is only providing \$8.4M in FY23 (and budgeted for \$9.1M in fiscal year 2024).

The state should assume a greater role in meeting the region’s federally mandated paratransit needs every year. To do this, the state should provide a contribution – beyond what is currently funded via sales tax II and PTF II – that helps proactively manage the large and growing cost of paratransit. A robust mechanism should also be developed to ensure predictable future delivery of state support in step with annual growth in paratransit costs.

Figure 2. Funding for paratransit in the RTA region comes primarily from sales tax revenue and the state match, reducing the funding available for fixed-route service.



Source: CMAP analysis of RTA’s adopted budget documents.

Note: ST II: RTA sales tax II. PTF II: Public Transportation Fund II.

Free and reduced fare programs

The RTA service boards, like all other transit agencies in Illinois, are required by the state and federal government to provide free and reduced fare programs for some vulnerable travelers in the region.^b In return, the state provides a partial reimbursement to the RTA to offset the loss

^b While the Federal Transit Administration requires that federally subsidized transit providers not charge more than half-price fares to seniors, people with disabilities, and Medicare cardholders during off-peak hours, Illinois has placed additional requirements on transit agencies in the state. This includes providing free rides to low-income seniors and qualifying military personnel.

of revenues, which is redirected to the service boards. The state reimbursement was almost \$40 million in 2007 but was reduced to \$16 million in 2015. Annual funding has remained around 2015 levels; however, a \$1.5 million increase in the fiscal year 2024 (FY24) state budget appropriation will bring state support to \$19.1 million. FY24 funding levels are still less than half of the previous 2007 funding levels, and less than a quarter of the actual cost of providing these programs (\$83 million annually).⁴

The state should fully fund these and any other future, state-enacted reduced fare requirements including the PART recommendation that region’s transit providers offer discounted fares to all travelers from households with low incomes (see the companion memo on fare levels on the [PART webpage](#) for additional details on the recommended cost and implementation considerations for a low-income fare subsidy).

Increase the match rate for PTF operating support and extend the state match to any new local revenues

As mentioned above, the state’s 30 percent match of local revenues generated from the RTA sales tax and RETT accounts for the largest source of state support for transit operations in northeastern Illinois. However, even after accounting for all the other sources of state support provided to the region’s transit system, Illinois contributes proportionally less to the RTA when compared to state contributions to other large metropolitan transit systems (see **Figure 1** above).

For northeastern Illinois’ transit system to receive comparable levels of state operating support to its peers, the state match constituting the PTF should be increased. In 2023, the 30 percent state match was estimated to result in a \$495 million deposit into the PTF, or approximately 13.8 percent of total operating revenues.

Table 2 shows how state deposits into the PTF, and the overall level of state support, would shift if the state provided a match ranging from 40 to 60 percent.

Regardless of whether the match is increased, it should (at the very least) be extended to include any new local public revenues that might be collected to address the RTA region’s fiscal cliff.

Table 2. Estimated funding deposited into the PTF with varying state match rates.

State match rate	30% (existing)	40%	50%	60%
Corresponding 2019 PTF deposit (millions)	\$395	\$527	\$658	\$790
PTF share of total revenues, 2019	13.0%	16.6%	19.9%	23.0%
Corresponding 2023 PTF deposit (millions)	\$495	\$655	\$820	\$980
PTF share of total revenues, 2023	13.6%	17.4%	20.8%	24.0%

Source: CMAP analysis of RTA budget data.



Remove IDOR’s administrative surcharge from the RTA sales tax

The Illinois Department of Revenue (IDOR) imposes a 1.5 percent administrative surcharge on all local sales tax receipts collected by the agency. The surcharge, which was reduced from 2.0 percent in 2018, is a flat fee that is not associated with the actual administrative cost of collecting and processing the revenue on behalf of local governments.⁵ Nevertheless, in 2022, the RTA lost \$22.5 million in revenue to the IDOR surcharge. The surcharge is forecasted to grow to \$26.7 million by 2026 and almost \$30 million by 2030 (see [PART webpage](#) for a companion memo on sales tax reforms).





Given the impending fiscal cliff and the need to consider all potential revenue sources, the state should eliminate its surcharge on sales tax collections. This change would benefit the RTA sales tax, and therefore transit, as well as other jurisdictions that rely on sales tax revenues.

Evaluation^c





Policy

Category	Rating	Rationale
 Mobility	Medium	Increased state support for transit will improve user experience by providing higher-quality and/or more frequent service.
 Equity	High	Increased state support for transit will require less dependence on passenger fares from vulnerable populations.

^c To evaluate different recommendations, CMAP developed a rubric for both policy impact and process difficulty. Policy evaluations are ranked from low to high. "High" means the recommendation would lead to significant improvements in the policy outcome (e.g., greater mobility or additional access to economic opportunities); "Medium" means the recommendation would have a neutral or minimal impact (e.g., no significant impact on transit ridership); and "Low" means the recommendation would worsen policy outcomes (e.g., having a disproportionate impact on low-income communities). For the "Regional benefit" category, the options are "Urban," "Suburban," and "Regional," designating where benefits are concentrated. For all process evaluation categories except timing, the scale ranges from "Low" (difficult) to "High" (easy or relatively straightforward). For "Timing," the options are "Near" (implementation could happen between now and 2026), "Medium" (implementation could occur between 2026 and 2028), and "Long" (implementation would likely be beyond 2028).

 <p>Revenue sustainability</p>	High	Funding for specific programs (paratransit and reduced fares) should be specified in and guaranteed by statute, including a mechanism that ties the funding to annual cost growth estimates. This will ensure state contributions are not subject to the uncertainties of annual budget negotiations. State financial support that matches local tax receipts will depend on the revenue stability in the RTA sales tax and RETT.
 <p>Environment</p>	Medium	Increased state support for transit will enable greater transit frequency and other enhancements that promote mode shift away from cars, reducing emissions over time.
 <p>Economy</p>	High	Increased state support for transit will enhance the attractiveness and functionality of the region’s transit system, critical supports for the region’s business and tourism markets.
 <p>Regional benefit</p>	Regional	Increased state support for transit will increase the share of operating funding coming from the state, which aligns more closely with peer funding sources.

Process

Category	Rating	Rationale
 <p>Administrative feasibility</p>	High	The state can use existing funding mechanisms – such as annual appropriations to the PTF and reduced fare programs – to provide additional support. The state could also codify annual contributions in statute.
 <p>Political feasibility</p>	Low	In a statewide environment of constrained resources and competing priorities, increasing state support for transit is anticipated to be challenging.
 <p>Timing</p>	Near-term	Increases to these existing support mechanisms can be realized quickly, as soon as the end of 2025.
 <p>State span of control</p>	High	The state has complete authority to increase funding under these existing support mechanisms.

Implementation steps

State legislative action

The General Assembly can increase their annual contributions to support both Pace ADA paratransit and the free and reduced fare program. To ensure that these increased contributions are maintained moving forward, and no longer subject to the annual appropriations process, the General Assembly should amend the necessary statutes to make the state contributions statutorily required and to implement a mechanism for calculating what the annual budget figure should be.

The General Assembly would also need to authorize an expanded state match of any new local revenues and/or increasing the state match rate. Additionally, the General Assembly can direct IDOR to stop assessing the administrative fee for collecting and processing the RTA Sales Tax.

Challenges and risks

Competing revenue shortfalls and funding needs across Illinois, coupled with projections of a recession, present a challenge to requesting additional state funding for transit operations. However, as recommended elsewhere to address the transit funding crisis, modernizing state revenues by expanding the sales tax base to include additional services will provide substantial new funding to the state that can be used to address both transit's operating needs and other priorities identified by the state (see [PART webpage](#) for a companion memo on sales tax reforms).

Option 2: Leverage corporate taxation streams to bolster state support for transit

Businesses benefit greatly from the social and economic conditions of the regions and states in which they locate. In turn, business taxation is a revenue generating tool that provides a way for businesses that benefit from public resources to contribute to their success.

In northeastern Illinois, businesses especially benefit from the regional transportation system. In the same way that the roadway and freight systems support the movement of goods that is essential to the region's economy, a connected, integrated, and reliable transit system is critical for workers traveling to and from their places of employment, customers looking to access amenities and resources, and tourists visiting and exploring cultural and recreational opportunities. This was well illustrated by Google, which named the "unparalleled transit access" of the Thompson Center as a key reason for purchasing the historical building in downtown Chicago in 2022.⁶

However, while Illinois currently levies taxes on corporate income, these revenues primarily flow to local governments through the Local Government Distributive Fund and to the state's

general fund; they do not support the transportation system overall, nor the transit system more specifically.

And yet, given the broad corporate tax base that currently exists, imposing only a very small increase to the corporate tax rate could provide significant support for regional transit operations. Three different mechanisms could be used to implement this increase, including an increase to the existing corporate income tax, a headcount tax, or a payroll tax. A headcount tax is a flat fee based on the number of employees at a firm and a payroll tax is a tax rate applied to the total payroll of a firm. While jurisdictions with home-rule authority could impose these additional corporate taxes at the local level, this would likely lead to distortions in the regional economy. For this reason, if pursued, the corporate tax options should be implemented statewide or at least across the entire RTA region.

Increasing the existing corporate income tax

The simplest way to generate additional support from businesses would be to increase the existing corporate income tax rate and dedicate the increment (or a portion thereof) to transit. The current statewide corporate tax rate is 7.0 percent, not including the 1.5-2.5 percent personal property replacement tax that is levied onto corporations by the state and reimbursed to local governments.^d For every one percent increase to the 7.0 percent statewide rate, CMAP estimates an additional \$0.9-1.1 billion would be generated in 2026, with about \$700-800 million coming from businesses located in the RTA region. Due to the significant contribution from businesses in the RTA region, it would be recommended that the region receive most of the additional revenue generated from this option, or at least those revenues generated locally.

Implementing a headcount tax for transit

A headcount tax uses the number of employees to determine a firm's tax liability. Including only those businesses with 100 employees or more, it estimated that a \$1.00 per employee headcount tax in the RTA region could generate between \$2.5 and 3.0 million annually.

While the City of Chicago previously imposed a headcount tax of \$4 per employee for businesses with more than 50 employees (excluding agricultural labor, independent contractors, and a variety of other business categories), it was fully phased out in 2014.⁷ This type of tax is now quite rare in the United States.

Implementing a corporate payroll tax for transit

Instead of taxing based on employee count, a payroll tax is applied to firms on a quarterly basis based on their total payroll. Taxing firms based on payroll in addition to sales can serve as a

^d The current Illinois Constitution (adopted in 1970) restricted local government units and school districts from levying business personal property taxes. To replace the monies lost by those government units who had levied these taxes prior to the adoption of the Constitution, personal property replacement taxes were enacted beginning in 1979. Corporations pay a 2.5 percent replacement tax on their net Illinois income, while partnerships, trusts, and S corporations pay a 1.5 percent replacement tax on their net Illinois income.

useful counterweight for those firms that rely on existing infrastructure but currently have lower corporate income tax burdens because their sales occur elsewhere. Firms with lower payrolls – which are typically smaller in size or are associated with particular sectors – that do not exceed an established payroll threshold are exempt from the tax.

Within the United States, the most prominent example of using a payroll tax to fund transit comes from New York City. The Metropolitan Commuter Transportation Mobility Tax is imposed on the greater New York City region, with a progressively higher quarterly tax rate for firms with greater payroll expenses (see **Table 3**). Borrowing the structure of the New York tax, a transit payroll tax in the RTA region is estimated to generate between \$600-700 million annually.

Table 3. The Metropolitan Commuter Transportation Mobility Tax in New York applies tax rates and collects revenues quarterly based on designated payroll tiers.



Corporate quarterly payroll expense	2022 tax rate ^e
\$312,500	0.11%
\$375,000	0.23%
\$437,500	0.34%

Source: New York State Department of Taxation and Finance





Considering the challenges, precedents and revenue potential for these revenue streams, a payroll tax for transit would be a recommended approach for the General Assembly to explore.

Evaluation





Policy

Category	Rating	Rationale
 Mobility	Medium	New corporate taxes would enable greater transit service, benefiting overall mobility outcomes.
 Equity	High	These taxes are assessed on business entities rather than workers, and headcount and payroll taxes would only be assessed on medium or large firms. This approach adds more progressivity to the public revenues supporting transit.

^e In 2023, New York increased the payroll expense for firms within the New York City municipal boundary. Firms in New York City have an increased rate of 0.60% if their payroll exceeds \$437,500. The other payroll expense thresholds and quarterly tax rates remained unchanged. This tax increase is expected to increase revenue by \$1.2 billion, increasing from about \$1.8 billion in 2023 to \$3 billion after implementation.

 Revenue sustainability	High	All three taxes have strong revenue potential. Revenues may fluctuate according to economic conditions, but there is a sufficiently large base to relative stability.
 Environment	Medium	Increased state support for transit will enable greater transit frequency and other enhancements that promote mode shift away from cars, reducing emissions over time.
 Economy	Medium	Imposing or increasing taxes on businesses could offset some economic development activities. However, increased state support for transit will enhance the attractiveness and functionality of the region's transit system, critical supports for the region's business and tourism markets.
 Regional benefit	Regional	The region would benefit from increased funding for transit. Firms across the region would contribute to and benefit from robust transit service.

Process

Category	Rating	Rationale
 Administrative feasibility	Medium	These corporate taxation options could leverage and/or would only slightly modify existing corporate tax collection mechanisms.
 Political feasibility	Low	There would likely be strong opposition to increasing the corporate tax burden, across the RTA region and/or state.
 Timing	Near-term	Given the existing corporate tax collection mechanism, revenues for new tax could likely be realized by 2025.
 State span of control	High	The General Assembly would need to authorize the implementation of these options, regardless of whether they are imposed statewide or in the RTA region.

Implementation steps

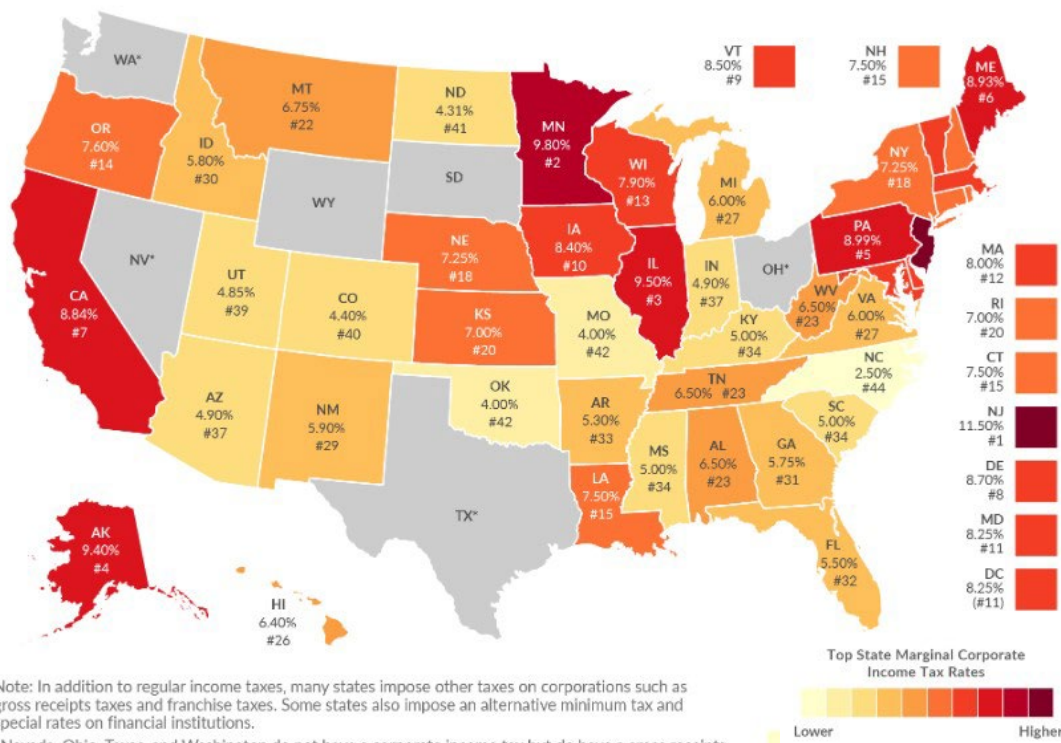
State legislative action

The General Assembly would need to authorize the implementation of these corporate taxation options at the regional or state level.

Challenges and risks

Despite the benefits that regional transit provides for businesses, the corporate community will likely oppose proposals to increase corporate taxes, regardless of the means used or whether the tax is imposed locally, across the RTA region, or statewide. It is also important to consider how increased corporate taxation at a local or regional level could distort economic development and business attraction activities since Illinois already has a relatively high corporate income tax compared to peers (**Figure 3**). Nevertheless, research shows that state and local taxes represent on average less than 2 percent of total business costs in the U.S., and major expenses like employee compensation or freight transportation tend to factor more into overall production costs and firm decisions.⁸ Additionally, by design, headcount and payroll taxes should be applied to larger and higher-earning businesses. This approach adds more progressivity to public revenues supporting transit, while also minimizing negative impacts.

Figure 3. Top marginal corporate income tax rates as of January 2023.



Source: Tax Federation

Option 3: Leverage utility taxation streams to generate new state support for transit

Another existing funding stream available in the state is public utility taxes. Illinois currently levies excise taxes on the distribution and supply of electricity, telecommunications, natural gas, and water and sewer services.⁹ Within this context, there are two options for leveraging state utility taxation streams to support transit: a utility tax surcharge (that can be broadly or narrowly applied to different utilities) and a more targeted tax on public electric vehicle (EV) charging.

Notably, excise taxes on utilities are regressive in nature and are often passed through to consumers in the form of higher prices.¹⁰ Also, public utility taxes alone provided only 3.1 percent of the state's FY23 appropriated revenues. These options are therefore unlikely to produce significant revenues for transit.

Increasing the existing utility tax rate

The simplest way to raise additional revenues from utilities would be to increase the existing utility tax rate(s) and dedicate any increment to transit. Given the number and variety of utility taxes currently in place, the state could explore options for imposing a surcharge that maximizes both the nexus with transit and ability to produce revenues.

Although there are not currently any carbon taxes in place in the United States, carbon taxes implemented in Europe have included mechanisms that function effectively like a utility tax surcharge, with the goal of reducing reliance on fossil fuels. However, there is already a relatively widespread use of alternative energy sources in Illinois, such as nuclear energy. It is therefore not recommended that a utility tax surcharge be utilized for emissions mitigation in addition to funding transit. If the state has an appetite for engaging with large-scale emitters to achieve the related goals of curbing greenhouse gas emissions and investing to support public transit service, they could explore a market-based regulatory regime (see Option 4 below).

Electric vehicle (EV) charging tax







As vehicle fuel efficiency improves and the number of EVs continues to increase, transportation revenues traditionally collected through motor fuel taxes are proving to be unsustainable. In 2019, Illinois implemented an EV surcharge of \$100 onto the state vehicle registration fee to start offsetting these losses. To continue to mitigate these impacts, and to provide support for transit in northeastern Illinois more specifically, the state could levy a tax on public EV charging stations. Similar to the motor fuel tax, where users pay per gallon when they fill up their gas tanks, users would pay per kwh to charge their vehicles.

Several states will be implementing EV charging taxes in the coming year. Specifically, Iowa will levy an EV charging tax of \$0.026 per kwh beginning on July 1, 2023, and Kentucky and Oklahoma are scheduled to begin charging \$0.03 per kwh at EV charging stations in 2024.¹¹





However, these EV charging taxes are limited to *public* EV charging stations and will not impact EV owners who are able to charge their vehicles at home.¹² Given that these EV owners use the same electricity to charge their vehicles that they use to power their homes, it would be challenging to impose and administer an EV charging tax on this segment of the population. EV charging taxes therefore disproportionately impact renters who own EVs, EV owners who do not otherwise have access to charging equipment in their home, and other vulnerable populations.

Evaluation

Policy

Category	Rating	Rationale
 Mobility	Low	A utility tax surcharge is not likely to increase ridership or improve the transit user experience directly. While an EV charging tax may incentivize transit usage over driving, it is not likely to increase ridership or improve the transit user experience directly.
 Equity	Low	Both a utility tax surcharge and an EV charging tax will disproportionately impact vulnerable and low-income households.
 Revenue sustainability	Low	Given the scale of revenues collected through state utility taxes, projected revenues from a utility tax surcharge and/or a tax on public EV charging are likely to be minimal.
 Environment	Medium	Given that utility usage is relatively inelastic, potential reductions in emissions associated with a utility tax surcharge are likely minimal. A public EV charging tax would have only modest impacts on EV adoption, if any.
 Economy	Medium	These options to collect utility taxes for transit will not have a direct impact on economic growth, although they may spur innovation and new economic growth opportunities.
 Regional benefit	NA	Given the scale of revenues collected through state utility taxes, these programs are unlikely to contribute significantly to the region's transit system funding. Although a utility tax and/or EV charging tax could be broadly applicable revenues sources for transit, they would not really provide regional co-benefits.

Process

Category	Rating	Rationale
 <p>Administrative feasibility</p>	Low/ Medium	<p>A utility tax surcharge would slightly modify existing utility tax collection mechanisms.</p> <p>An EV charging tax would require a new utility tax collection mechanism.</p>
 <p>Political feasibility</p>	Low	<p>There would likely be strong opposition to increasing the utility tax burden.</p> <p>Due to its regressive nature, an EV charging tax would likely face opposition from stakeholders in the EV infrastructure space.</p> <p>Due the nexus between utilities and climate, there may also be strong opposition to monopolizing incremental revenues to support transit.</p>
 <p>Timing</p>	Near-term	Both a utility tax surcharge and an EV charging tax could likely be implemented quickly and generate revenue by the end of 2025.
 <p>State span of control</p>	High	The General Assembly would need to authorize the implementation of these options, regardless of whether they are imposed statewide or in the RTA region.

Implementation steps

State legislative action

The General Assembly would need to authorize the implementation of these utility taxation options at the regional or state level. The General Assembly would also need to determine the utility tax surcharge and public EV charging tax rates.

Challenges and risks

Both taxes would create equity issues with vulnerable populations disproportionately bearing the burden. The revenue from a utility surcharge tax is likely to decline over time and create a new budget gap should the transit system come to rely on this revenue source.

Option 4: Implement a cap-and-invest program to advance climate goals and support transit

The State of Illinois has demonstrated its commitment to holistic and innovative climate policy in recent years through the passage of the Climate and Equitable Jobs Act (CEJA) in 2021, as well as the targeted use of funds from the federal Infrastructure Investment and Jobs Act (IIJA) to support carbon reduction and vehicle electrification. And yet, the State of Illinois does not currently have any formal carbon pricing policies or climate mitigation goals in place. As the state continues to evolve its climate approach and expand its efforts to mitigate climate change, it will be critical to support the maintenance and expansion of public transit as a means of reducing greenhouse gas emissions. To produce a new source of transit revenue, the state could implement a market-based cap-and-invest program that simultaneously regulates the level of allowable greenhouse gas emissions and generates additional revenue from (and for) the transit system.

Conceptually, a cap-and-invest program, much like a cap-and-trade program, sets a cap on the level of allowable emissions within a set geography and creates a market in which polluters can buy, sell, and trade credits that allow them to emit, either at public auctions or secondhand from the initial purchasers.^f A cap-and-invest program then funnels the public revenues collected from the sale of credits into a designated fund, which is used to support other strategic investments and/or policy priorities.

Existing cap-and-trade or cap-and-invest programs – such as those in California, Washington, and the northeast United States – serve as templates for how such a program could be structured in Illinois and could be used to support transit investments. For example, California’s cap-and-trade program was started in 2013 and sets a statewide limit on sources responsible for 85 percent of California’s greenhouse gas emissions. California directs the revenue collected from permits to three locations: directly back to utility ratepayers through the California Climate Credit, to the Greenhouse Gas Reduction Fund (GGRF), and to the California Climate Investments program (CCI).¹³ In 2022 alone, California invested \$1.3 billion from their cap-and-trade auction funds to almost 20,000 CCI allocated projects. Over the lifetime of the program, about 90 percent of these funds were distributed to transit agencies (63 percent) and local and regional governments (27 percent). Examples of transit investments supported by funds from the cap-and-invest program include active transportation improvements, capital improvements to intercity and high-speed rail networks, and low-carbon transit operations programs.

Similarly, the Regional Greenhouse Gas Initiative (RGGI) is a regional cap-and-invest collaborative between Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, and Virginia. The

^f This market for emission credits (sometimes thought of as allowances or offsets) is generally created through an auction that is held on a quarterly basis. At this auction, polluters have a chance to bid for credits from the state’s supply. Those whose bids are accepted are given their credits, while others, who do not get any credits from the auction process, can subsequently purchase credits from those who have credits they do not need.

RGGI has a narrower scope for setting limits on greenhouse gas emissions than California’s program, but still generated \$196 million through permit sales in 2020, 8 percent of which were allocated to clean transportation programs such as transportation electrification.




Following the precedent set by these examples, a cap-and-invest approach in Illinois would be particularly suited for supporting the capital investments needed to improve both operating efficiencies and climate mitigation, such as capital funding for bus rapid transit. However, due to the complexity of developing this approach, it is unlikely that such a program could be available in time to meet the current transit fiscal cliff.




More research is needed to identify program development and implementation options for a cap-and-invest program

Cap-and-invest frameworks can take many forms. It is ultimately up to the authorizing entity to determine how the program should be organized, the extent of the necessary emissions regulations, and how to invest the funds generated through the sale of permits. While the revenue potential is substantial, even a relatively restrained level of emissions regulation coupled with a market-based regulatory mechanism could work to both generate new state revenues and achieve state climate goals through greenhouse gas emission mitigation. However, more research is needed to appropriately review and weigh these options.





Evaluation

Policy

Category	Rating	Rationale
 Mobility	Medium	To the extent that a cap-and-invest program impacts ridership, congestion, and the transit user experience, there is little direct alignment. However, revenues from this type of program could be specifically earmarked improve the quality or frequency of service. Some program designs could also make transit relatively more cost-competitive than more carbon-intensive alternative travel modes.
 Equity	Medium	The equity implications of this policy depend on the overall program design and how the revenue from this program is allocated.
 Revenue sustainability	Medium	A cap-and-invest program has potential to provide substantial revenues that could be used to support transit. However, revenues will naturally decline over time meaning it will be less sustainable in the long term, especially as a source of stable operating funds.

 Environment	High	A cap-and-invest program will directly reduce greenhouse gas emissions. Additional secondary impacts could be realized by way of transit and climate projects funded through the program.
 Economy	Medium	The economic growth implications of a cap-and-invest policy depend on the overall program design and the industries and sectors designated for emission regulation. While some sectors may face higher costs as a result, it will likely spur innovation and new economic growth opportunities.
 Regional benefit	Regional	A cap-and-invest policy will likely raise more revenue for the region's transit system, as well as other funding needs.

Process

Category	Rating	Rationale
 Administrative feasibility	Low	This program would require considerable research into program development in the short-term, and an entirely new program structure in the long-term.
 Political feasibility	Low	There would likely be strong opposition to a cap-and-invest program in Illinois, especially without other emissions mitigation-related policies in place. It is also a new, complex way to regulate emissions that would require a heavy lift. At the same time, Illinois has shown progress on climate policy in recent years, which may contribute to a positive outlook on the feasibility of such programs as time goes on. Ultimately, feasibility will likely depend on the details of the program proposal such as the applicable emitters and allowable uses of program funds.
 Timing	Long-term	Given the newness and complexity of instituting a cap-and-invest program, revenues from this option are unlikely to be realized until the latter half of the decade or beyond.
 State span of control	High	The General Assembly would need to authorize the design and implementation of a cap-and-invest program, regardless of whether it is imposed statewide or in the RTA region.

Implementation steps

State legislative action

The state (either the Governor's office and/or the General Assembly) will need to identify and gather consensus around greenhouse gas reduction targets before any cap can be imposed. Then, following a period of program research and development, the Illinois General Assembly could create a cap-and-invest program and allocate a proportion of the funds to transportation.

State agency action

IDOT would likely need to distribute the funds allocated from the program to the RTA. IDOT could also participate in the purchasing and selling of tradable credits to generate additional revenue.

Regional action

The RTA, CTA, Metra, and Pace could participate in the purchasing and selling of tradable credits to generate additional revenue for their budgets. They could then allocate those funds as they see fit.

Challenges and risks

Any cap-and-invest efforts would need to account for the impacts of recent and ongoing related state reforms, including the Climate and Equitable Jobs Act (CEJA), adopted in 2021. A cap-and-invest program with defined GHG reduction targets would build on CEJA's target of 100% clean energy by 2050. However, doing so would require significant political and administrative focus, as the impacts could extend beyond even the broad reach of CEJA.

Additionally, as the state's residents become more "green," energy efficient, and reduce their GHG emissions, funding generated by this program are expected to dissipate. This potential decline could make these funds more suitable for use in one-time capital investments, as opposed to a stable element of structural transit operations funding.

Endnotes

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- ³ Chicago Metropolitan Agency for Planning (CMAP), “Plan of Action for Regional Transit,” <https://www.cmap.illinois.gov/programs/regional-transit-action>.
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- ⁵ Illinois Municipal League, “Locally-Imposed Sales Tax,” May 31, 2021, <https://www.iml.org/file.cfm?key=14271>.
- ⁶ John Pletz, “Google to Buy Thompson Center,” *Crain’s Chicago Business*, July 27, 2022, <https://www.chicagobusiness.com/commercial-real-estate/google-buy-thompson-center>.
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- ⁸ CMAP analysis of U.S. Internal Revenue Service and the Council on State Taxation data.
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- ¹⁰ Jesse V. Burkhead, “The Changing Incidence of Public Utility Taxation,” *The Journal of Land & Public Utility Economics* 15, no. 4 (November 1939): 383, <https://doi.org/10.2307/3158723>.
- ¹¹ Gail Cole, “Electrifying the Highway Use Tax,” *Avalara* (blog), March 17, 2023, <https://www.avalara.com/blog/en/north-america/2023/03/electrifying-highway-use-tax.html>; U.S. Department of Energy, “Electric Vehicle (EV) Charging Station Tax,” Alternative Fuels Data Center, n.d., <https://afdc.energy.gov/laws/12947>; Hicham Raache, “Oklahoma Senate Passes DRIVE Act to Tax Energy Used to Charge Electric Vehicles,” *Oklahoma News 4 (KFOR)*, April 15, 2021, <https://kfor.com/news/local/oklahoma-senate-passes-drive-act-to-tax-energy-used-to-charge-electric-vehicles/>.
- ¹² Gail Cole, “Does Sales Tax Apply to Electric Car Charging Services?,” *Avalara* (blog), June 15, 2020, <https://www.avalara.com/blog/en/north-america/2020/07/does-sales-tax-apply-to-electric-car-charging-services.html>.
- ¹³ Center for Law, Energy, and the Environment, “California Climate Policy Fact Sheet: Cap-And-Trade,” December 2019, <https://www.law.berkeley.edu/wp-content/uploads/2019/12/Fact-Sheet-Cap-and-Trade.pdf>.