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MEMORANDUM

To: CMAP Land Use Committee

From: CMAP staff

Date: May 8, 2017

Re: Reasonably expected revenues in ON TO 2050

As required by law, CMAP must prepare a financial plan, including the anticipated expenditures and revenue sources necessary to carry out the operation, maintenance, and expansion of the region's surface transportation system over the ON TO 2050 planning period (2019-50). Specifically, federal regulations in CFR § 450.322 (f) (10) require that "for purposes of transportation system operations and maintenance, the financial plan shall contain system-level estimates of costs and revenue sources that are reasonably expected to be available to adequately operate and maintain Federal-aid highways" and "public transportation".

In March, CMAP staff presented draft forecasts for core revenues and expenditures necessary to operate, administer, and maintain the transportation system to the CMAP Board and MPO Policy Committee. CMAP staff is continuing to work with transportation agencies to refine the forecast further. The current draft forecast identifies a $45.2 billion shortfall between core revenues and expenditures over the planning period. Not only will expenditures for operating and maintaining the transportation system to its current state of repair greatly exceed the core revenues forecasted to be available, but the expected funding will not allow for additional improvements, enhancements, or expansions to the system.

Fiscally constraining these activities within the long-range planning context will necessitate future policy changes to bring additional revenues to the region. Federal guidance permits the inclusion of these types of revenues, called "reasonably expected revenues," to be included in the financial plan: "All necessary financial resources from public and private sources that are reasonably expected to be made available to carry out the transportation plan shall be identified." GO TO 2040 makes several policy recommendations regarding reasonably expected revenues, including increasing the state motor fuel tax by 8 cents/gallon and indexing the rate to an inflationary measure, replacing the state motor fuel tax, implementing congestion pricing on a portion of the expressway system, and employing variable parking pricing.

This memo describes the ON TO 2050 initial policy recommendations and forecasts for five reasonably expected revenues, drawing in part from the Transportation System Funding

Concepts strategy paper published in August 2016. Recent experience both within the region and across the country suggests that all five revenue sources could be reasonably expected to be implemented over the planning horizon. Given the substantial deficit between core revenues and expenditures, these policies must be implemented to ensure the future viability of the region's transportation system. The following table summarizes a total of $55 billion in proposed reasonably expected revenues for the ON TO 2050 Financial Plan for Transportation.

Reasonably expected revenue	***Amount***	***Notes***
Increase state MFT and replace with vehicle miles traveled fee	$30 billion	Replace MFT with 2 cents/mile VMT, after initial 10 cent MFT rate increase
Expanding the sales tax base	$11 billion	Increase existing sales tax base by 15%, resulting in more RTA sales tax revenue
Federal cost of freight service fee	$7 billion	8% (½ of NEIL's share of national truck and rail freight) of $2 billion
Regional revenue source	$5 billion	Transportation user fee, such as $15 fee on all vehicles registered in the region
Expansion of priced parking	$2 billion	200,000 additional priced spaces by 2050
Total	**$55 billion**	

Certain new funding sources, like congestion pricing, tolling, public private partnerships, and value capture, are specific to particular projects. Therefore, in the financial plan, they will be used to offset the cost of specific Regionally Significant Projects, rather than being included here as reasonably expected revenue.

The remainder of the memo describes the reasonably expected revenues in more detail. An appendix to the memo reviews the methodology used to arrive at the revenue forecasts.

Increase state MFT and replace with a vehicle miles traveled fee

As vehicle travel levels off and fuel economy rises, the state motor fuel tax (MFT) can no longer keep pace with growth in construction costs, let alone the transportation system's larger investment needs. A near-term increase in the state MFT rate supports GO TO 2040 recommendations and will help to offset the decline in purchasing power, and appears reasonable, given experience elsewhere in the country. Many states have enacted transportation revenue enhancements in recent years, with most of those new revenues coming from gas tax increases. According to Transportation for America, 24 states have done so since 2012.

However, over the long term, the state MFT should be replaced with a revenue source that provides sufficient, stable, and growing revenue. The Transportation System Funding Concepts strategy paper suggests that ON TO 2050 recommend a vehicle miles traveled (VMT) fee as the long-term alternative to the state MFT.

Levied on a per-mile rather than per-gallon basis, VMT fees act as a direct user fee and also offer opportunities to integrate with other types of facility-level pricing. Eventually, VMT fees could be leveraged to implement a system where different rates could be applied to travel on different types of facilities, at different times of day, and for different classes of vehicles. This revenue source would benefit from a national solution that allows VMT fees to be collected from out-of-state drivers; a national approach would also streamline implementation. In addition, the state should take the opportunity presented by the implementation of a new revenue source to integrate measures to lower the burden on lower-income drivers.

Given recent efforts across the United States to study or begin implementation, it is reasonable to assume that one could be implemented in Illinois by 2025. For example, Oregon has initiated a vehicle miles traveled fee, although the program is currently limited to 5,000 participants. Other states are in varying stages of testing or piloting VMT fees, including Delaware (in partnership with neighboring states), Hawaii, Minnesota, Washington, and California. Additionally, several states are studying alternatives to the MFT, including VMT fees, and the federal government provided funding in 2016 to test innovative approaches to transportation funding. Just recently, FHWA announced a second round of funding for the grant program. Last year, two bills (SB3267 and SB3279) were introduced in the Illinois General Assembly to establish state VMT fees, with one assumed to take effect in 2017 and the other in 2025. CMAP studied VMT fees in the May 2015 issue brief, Possible Alternatives to the Illinois Motor Fuel Tax.

Expanded sales tax base

As part of its tax policy recommendations, GO TO 2040 recommends expanding the sales tax base to include additional services. If current rates remained the same, this expansion would generate more revenue for state and local governments, including the RTA, potentially providing more funding for operating costs and freeing up other revenues to use for transportation capital costs. Currently, the RTA imposes a sales tax of 0.75 percent in the collar counties and 1.0 percent in Cook County (1.25 percent for qualifying food, drugs, and medical appliances). In addition, the RTA receives Cook County's 0.25 percent portion of the state sales tax on general merchandise. These funds support transit operations in the RTA service area, as well as transportation and public safety purposes in the collar counties.

There has been recent state legislative interest in implementing GO TO 2040's recommendation of expanding the sales tax base. There have been two bills proposed this legislative session. For example, Senate Bill 9, Amendment 3 would add several services to the Use Tax Act. The structure proposed in this specific bill would mean that the RTA sales tax would not be affected, but the RTA would eventually receive 10 percent of the local share of the statewide revenues in state disbursements.

Cost of freight service fee

Freight investment is an emerging transportation policy issue at all levels of government. At the federal level, a sales tax on the cost of shipping freight could raise considerable revenues with a very low rate. Such a "cost of freight service fee" has a user-fee nexus to the freight system, and could be mode-neutral (that is, not collected disproportionately from shippers using truck, rail, air, or water to move goods). A similar approach is currently used for air-freight shipments to help support the nation's aviation capital program, which are taxed at the rate of 6.25 percent of the amount paid for the air-cargo service. Administration could be difficult – for example, properly accounting for shipments made by private fleets – and new rules and practices would need to be established to accurately and efficiently collect the fee.

A cost of freight service fee would likely be implemented in the context of a long-term transportation reauthorization bill, which would define how revenues could be disbursed in the federal transportation program, or potentially as part of a larger federal tax reform bill. Drawing on the example of the freight program in the current authorization law, the Fixing America's Surface Transportation Act (FAST Act), it is possible that revenues raised from a cost of freight service fee would be split between a formula program and a competitive program. CMAP's federal agenda supports performance-based approaches to federal programs, as well as an engaged role for metropolitan planning organizations in planning and project selection. This proposal assumes implementation of a cost of freight service fee after the FAST Act expires in 2020, as part of the next surface transportation bill.

Cost of freight service fees have recently received attention among national policy circles. The 2009 National Surface Transportation Infrastructure Financing Commission considered the waybill tax -- essentially a version of the cost of freight fee -- as a potential revenue source, assuming a 0.01 percent rate. AASHTO's 2014 transportation revenue matrix similarly included versions of a freight waybill tax of 0.5 percent applied to gross freight revenues. In 2014 and 2015, bills were introduce in the House of Representative to establish new freight funding programs based on a waybill tax fee. For example, the 2014 proposal for the "Economy in Motion Act" would establish an $8 billion freight fund based on a 1 percent tax on trucking and rail shipments to be paid by the shipper. Most recently, the Eno Center for Transportation's 2016 Delivering the Goods report recommends a "cost of freight shipment" fee to support a national freight discretionary grant program over the long term. Eno recommends a rate of 0.3 percent applied to all modes, exempting international portions and aviation portions of trips. It also recommends applying the fee to internal private fleets.

Regional revenue source

CMAP's Regional Tax Policy Task Force recommended that the region pursue regional revenue sources for regional transportation needs. Other than the RTA sales tax, which provides funding for transit operations, metropolitan Chicago does not have a regionwide, dedicated source of funding to provide for capital transportation investments. As noted in the March 2017 memo, the region faces significant transportation infrastructure needs, while revenues overall are increasing slower than expenses. Changes at the federal and state levels alone are unlikely to sufficiently address the region's transportation infrastructure needs. Moreover, many of the transportation system needs in northeastern Illinois are unique. For example, the investments needed in the region to move the transit system to a state of good repair, decrease freight delay, and reduce roadway congestion are significantly greater than investments required in other parts of the state.

Other regions have imposed other types of regional taxes and fees to raise funding for transportation improvements and expansions. For example, sales tax measures were implemented in the Los Angeles and Denver regions, while Las Vegas has both a sales tax and a motor fuel tax to fund transportation improvements.

One potential regional source, a regional vehicle registration fee, could raise significant revenues at relatively low rates, and could build off existing collection mechanisms. The state collects a vehicle registration fee and more than half of the region's municipalities do as well. Regional vehicle registration fees have been implemented to support and improve transit in the Seattle region, as well as in North Carolina's Research Triangle region.

Expansion of priced parking

While some parking spaces – both on-street and off-street – are priced, particularly in denser parts of the region, the majority of parking spaces in the region are unpriced. A growing body of research illustrates how free parking obscures the true cost of driving and thereby discourages transit, bike, or walking trips. Pricing more publicly-owned parking spaces on streets and in municipally-owned lots and garages could provide revenue for local transportation improvements and reduce the number of trips by car, helping to reduce emissions, alleviate congestion, and allow land to be transitioned to revenue-generating uses.

Given the vast number of parking spaces in the region, even relatively low parking rates applied to relatively few parking spaces could raise significant revenues for municipalities to expend on local transportation needs. In some areas, parking rates could be variable, with higher prices charged at times and locations of peak demand – or for certain type of vehicles, like delivery trucks in business districts – allowing for more efficient use of a limited number of parking spaces.

There is growing interest in innovative parking strategies. The City of Chicago launched a Downtown Loading Zone Reform pilot program in 2017. It is anticipated that $13 million to $18 million would be generated annually if this program were implemented citywide. Similar programs have been implemented in other cities, such as New York and Washington D.C. CMAP has published a toolkit to assist municipalities in developing parking strategies and has completed Local Technical Assistance projects related to local parking issues. Based on recommendations in the LTA studies, the Village of Hinsdale upgraded payment technologies in one parking lot to credit card machines and increased hourly rates, and new on-street parking meters were installed in two Chicago neighborhoods to encourage parking turnover. To fully implement this revenue source, CMAP should continue to emphasize LTA assistance for these types of projects.

Moving forward

To move forward, the region must work collaboratively to protect and enhance its transportation assets. The current forecast draft indicates that the region faces a $45.2 billion shortfall between the forecasted core revenues and the forecasted cost to operate the system and maintain the system in its current state. The proposed reasonably expected revenues focus on near-term solutions to raise revenues and support capital investment. The region's financial challenges can become opportunities for bold, cooperative actions to enact policy changes. By acting in cooperation with one another, the region can ensure the long-term sustainability of the region's transportation system, which is a major contributor to the economy and the livability of northeastern Illinois. The following table identifies key implementers, timelines for implementation, and federal or state legislative requirements.

	Lead implementers and authorizers	**Timeline for implementation**	**Legislative requirements**
Increase state MFT and replace with VMT fee	MFT increase: Illinois General Assembly and Governor VMT fee: Illinois General Assembly and Governor; U.S. Congress and the President	MFT increase: Short term (first 3 years) VMT fee: mid-term (4-10 years)	MFT increase: State legislation required VMT fee: State legislation required, federal legislation could play a supportive role
Expand sales tax base	Illinois General Assembly and Governor	Short term (first 3 years)	State legislation required
Federal cost of freight service fee	U.S. Congress and the President	Short term (first 3 years)	Federal legislation required
Regional revenue source	Illinois General Assembly and Governor	Short term (first 3 years)	State legislation required, administration likely to be done through existing mechanisms
Expansion of priced parking	Municipalities	Throughout planning period	None, policy could be implemented through local action

Forecast methodology

This section discusses the specific methodologies used for projecting reasonably expected revenues for ON TO 2050 over the 2019-2050 planning period.

Increase state MFT and replace with VMT fee

Draft forecast: $30 billion	Draft assumptions for ON TO 2050
Northeastern Illinois would receive increased revenues resulting from an initial state motor fuel tax rate increase, followed by the implementation of a vehicle miles traveled fee to replace the state motor fuel tax.	The state motor fuel tax rate would be increased by 10 cents in approximately 2020, and the rate would be indexed to an inflationary measure. An annual growth rate of 2.5 percent was used for the purposes of this forecast. A vehicle miles traveled fee would be implemented in approximately 2025 at a rate of 2 cents per mile. The rate would be indexed to an inflationary measure, assumed to be 2.5 percent annually for the purposes of this forecast. Funds would flow to northeastern Illinois in the same manner as the state MFT current does.

Expand the sales tax base to additional services

Draft forecast: $11 billion	Draft assumptions for ON TO 2050
The sales tax would be expanded to additional services, which would result in additional RTA sales tax revenues, as well as state sales tax disbursements to the RTA.	Additional services would be added to the sales tax base in approximately 2021, resulting in a 15 percent increase in the base. Revenues are assumed to grow at a rate of 3.2 percent annually, which is the average annual growth rate for personal consumption expenditures in Illinois for certain services between 2006-15.

Federal cost of freight service fee

Draft forecast: $7 billion	Draft assumptions for ON TO 2050
The federal government would impose a new cost of freight service fee, with a portion of revenues allocated to the region.	The COFS fee would be implemented as part of the next federal transportation bill in 2020. The forecast assumes that $2 billion would be raised nationwide, as was estimated in Eno's 2016 Delivering the Goods report. The forecast assumes that the region's share of the federal revenue will be equivalent to half of its share of the nation's truck and rail freight traffic, which totals 16.2 percent. It is assumed that allocations will grow at the same rate as other federal revenue in the forecast (2.25 percent).

Regional revenue source

Draft forecast: $5 billion	Draft assumptions for ON TO 2050
A regional revenue source, such as a vehicle registration fee, would be imposed in northeastern Illinois.	As an example, it was assumed that a $15 regional fee would be imposed on all vehicles registered in the 7-county region beginning in approximately 2021. The rate would be indexed to an inflationary measure, assumed to be 2.5 percent annually for the purposes of this forecast.

Expansion of priced parking

Draft forecast: $2 billion	Draft assumptions for ON TO 2050
Municipalities in the region would increase the number of priced parking spots in the region throughout the planning period.	Pricing of unpriced parking spots will be phased in annually, starting with 550 spaces in the first year. The number of priced spaces would accelerate as the concept gained popularity. Prices would vary by location, and it was assumed that the regional average would total $4 per day, with rates growing annually with inflation, assumed to be 2.5 percent annually for the purposes of this forecast.