



MEMORANDUM

To: CMAP Board and MPO Policy Committee

From: Subcommittee on Transportation Revenue

Date: June 6, 2018

Re: Recommendations on transportation system revenues

Since December 2017, the CMAP Board and MPO Policy Committee Subcommittee on Transportation Revenue has met to discuss both revenue forecasts and recommendations for the ON TO 2050 Financial Plan for Transportation, as well as prioritization for near-term implementation of those recommendations. The Subcommittee's discussions informed the ON TO 2050 Financial Plan for Transportation funding recommendations, and those recommendations have already been presented to the MPO Policy Committee and the CMAP Board.

At their March meetings, the CMAP Board and MPO Policy Committee chairs requested that the Subcommittee report back on its final funding recommendations and near-term implementation priorities and principles. This memorandum outlines recommended language for a report based on the Subcommittee's discussions.

Purpose of increasing transportation system funding

The region's transportation system supports mobility of people and goods, but a long-term lack of investment will lead to deteriorating conditions on both the transit and road networks. The most recent data available indicate that about one quarter of the region's National Highway System roadways are of unacceptable ride quality. Currently, only 68 percent of transit assets are in a state of good repair, and the RTA estimates that an additional \$19 billion would be required to move the remaining assets to a state of good repair. Condition clearly is a function of the availability of funding; for example, the average age of IDOT expressway pavements is more than three times that of Tollway pavements. Just keeping the state and local bridge system in its current condition will cost an additional \$100 million annually compared to what is currently being spent, and will not improve the 5 million square feet of bridges in the region that are in poor condition.

New investment is also required to adapt the transportation system to quickly changing mobility patterns, such as increased freight deliveries or increased multimodal trips. Continued lack of funding will affect the region's ability to move goods, offer reasonable and affordable commutes to residents, and remain economically competitive.

ON TO 2050 funding recommendations

Available funding is insufficient to meet projected needs. CMAP staff estimates that the expenditures for operating and maintaining the transportation system to its current state of repair will exceed revenue from existing sources between 2019 and 2050 by \$24 billion. Moreover, the expected funding will not allow for enhancements or expansions, nor for improving the condition of the system. To improve the region's transportation system, as well as fiscally constrain a limited number of enhancements and expansions within the long-range planning context, the region must emphasize new revenue sources as major policy priorities in ON TO 2050 and subsequent implementation. Similar to proposals for reasonably expected revenues in GO TO 2040, five reasonably expected revenues were identified during the ON TO 2050 process to allow the region to meet its transportation needs. These revenues must be used to leverage and supplement existing sources of revenue. The Subcommittee on Transportation Revenues has arrived at consensus over these sources to be recommended in ON TO 2050:

- Increase the state MFT and replace with a vehicle miles traveled fee
- Expand the sales tax base to additional services
- Implement a regional revenue source
- Adopt a federal cost of freight services fee
- Expand parking pricing at the local level

Funding implementation priorities and principles

Implementing these revenue sources requires advocacy from many public, civic, and private sector partners to encourage policy and statutory changes at the federal, state, and local level. In the near term, it is important to develop clear priorities for the region in its pursuit of additional transportation revenues. The following describes the subcommittee's consensus on implementing new revenues, focusing on the funding structure that should be prioritized for near term action.

Transportation funding principles

Any potential transportation revenue package must be suitable to address the state and region's transportation infrastructure needs. While CMAP has proposed revenues, partner campaigns or legislative initiatives may call for different amounts or combinations of revenue options. Coming to consensus on essential components for any transportation revenue proposal will broadly help efforts to generate new funds for the region's transportation network. The focus of this effort should be creating additional, ongoing support for the State and region's transportation needs, however, these principles could easily apply to a state capital program.

Revenues must also help implement emerging ON TO 2050 recommendations to make transit more competitive, take advantage of emerging technology to improve travel and guide changing mobility, maximize the use of existing assets, promote transportation and job access for the region's low income residents, modernize the region's approach to transportation programming through asset management, share services, improve air quality, and other initiatives.

Revenue structure

Able to sustain the transportation system

Any package of new transportation revenues must provide sufficient near term and long term funding to the region to improve condition of the system and allow for advancement of

transformative projects. Revenue sources must also be stable year-to-year in order to bond or fund multi-year transportation programs. Focusing on implementing more than one revenue source would raise sufficient funds and diversify reliance across sources. A new revenue package must also implement strategies that require revenue sources to grow sustainably, at the same pace as growth in the cost of maintaining and improving the system. Strategies to promote sustainability should include indexing rates to inflation and implementation of modern user fees. Similarly, the state and transportation agencies should ensure that existing rates of fees, fares, and tolls also keep pace with inflation and increasing costs of operating and maintaining the transportation system.

Benefit based

Any revenue package must modernize the revenue structure to generate revenues from those who use the system the most or derive the most benefit. This may include direct transportation user fees, such as vehicle miles traveled fees, potentially with varying rates based on users' impacts on the system. Other revenue sources that capture user or private benefits reaped from improvements to the system should also be considered. For example, the region's retailers, commercial tenants, and distribution facilities draw substantial benefit from the road system.

Considers ability to pay

Promoting equity and inclusive growth is of increasing concern in the region. In some cases, new transportation revenues have the potential to disproportionately impact low income residents. Revenues should be implemented in a manner that integrates measures to reduce the burden on lower-income individuals, or be offset by other tax strategies to reduce the impact of increased transportation costs.

Investment structure

Invested via performance based approaches

Revenues should be invested through performance-based approaches. New funding should be directed to the state and region's most critical capital needs for the transportation system by reworking long-standing formulas to support a multimodal system. Criteria should focus on areas of greatest concern and impact, such as significantly improving the condition of the region's transit infrastructure. While this approach may raise concerns that jurisdictions with varying needs may not be supported, CMAP's approach to performance-based criteria has historically resulted in a distribution that has been geographically equitable over time, an approach that must be preserved. At all levels of government, programs should rely on asset management and other approaches to efficiently invest the region's limited transportation dollars.

Supports all modes

New revenues should help the region achieve a well-integrated multimodal system. The region's transit and road networks both face funding challenges. Many revenue options under consideration have the potential to provide significantly more revenue for roads as compared to transit, unless carefully structured. For example, user fees on automobile travel should be allocated flexibly to improve the region's transit, bicycle, and pedestrian infrastructure. Supporting all modes also requires allowing jurisdictions to contribute funding toward transportation improvements that would benefit their residents and businesses, regardless of mode or which jurisdiction owns the infrastructure.

Proposals for near-term transportation revenue increases

The following represents three near-term priorities for transportation revenue implementation, based on the ON TO 2050 recommendations made above. These revenues each have potential for near term action at the state level and represent a balanced, multimodal set of options.

Transportation user fee revenue through the MFT and VMT would have to be spent for transportation purposes, pursuant to Article IX, Section 11 of the Constitution of the State of Illinois. ON TO 2050 will still recommend a federal cost of freight service fee and local parking pricing, and the region should pursue implementation of these sources as well.

Between now and 2050, growth in expenditures will outpace growth in revenues, particularly for the transit system. The State and local governments must enact new and enhanced revenues in order to continue to operate, maintain, enhance, and expand northeastern Illinois' transportation system, as well as expand the use of tolling and value capture to generate revenues for projects. This proposal would provide support for transit, but not enough to completely address the state of good repair backlog. In addition, some funding would be available to make enhancements and expansions in the future.

| Revenue source | Estimated transportation revenues 2019-50 |
|---|---|
| 15 cent increase in state MFT; transition to VMT* in 2025 | \$31 billion |
| 4 cent regional MFT; transition to VMT* in 2025 | \$5 billion |
| Expand sales tax base** | \$11 billion |
| Total | \$47 billion |

*If a transition to a VMT fee does not occur, the state revenue estimate decreases by \$8 billion and the regional revenue estimate decreases by \$1.5 billion.

**Amount generated from the RTA sales tax, which provides revenue for the RTA and collar counties. Sales taxes imposed for other purposes may also generate revenue, but not necessarily for transportation purposes.

The region should consider the following implementation issues:

- Revenues must be used to leverage and supplement existing sources
- Fee rates should be indexed to an inflationary measure
- A VMT fee pilot program should begin as soon as possible
- MFT/VMT increase for both the state and the region to be used flexibly for transit, road, bicycle, and pedestrian infrastructure
- As a replacement to the MFT, the VMT fee should provide both state and local funding
- Flexible use of new toll revenues to support corridor transit and other improvements
- Sales tax base should be expanded to include additional consumer services in order to ensure the tax base fits consumption patterns

Future steps

As proposals continue to be formed, CMAP and its stakeholders can continue to address details in future conversations, such as:

- How any revenues would be distributed
- How the revenues would be programmed
- The structure and administration of a VMT fee
- The specific structure of a sales tax base expansion

ACTION REQUESTED: Information

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