CMAP

MAR. 5 2019

INNOVATIVE, USER-BASED REVENUE OPTIONS MUST BE PART OF REGION'S TRANSPORTATION FUNDING SOLUTION

This analysis is one of a series examining transportation funding in northeastern Illinois and explaining the revenue recommendations included in ON TO 2050. This analysis highlights opportunities to use tolling and value capture to fund transportation improvements. Other analyses in the series examine existing revenue sources for the regional transportation system, and explain recommendations including increasing the state motor fuel tax and eventually replacing it with a road usage charge, expanding the sales tax base, expanding parking pricing, and implementing a federal cost of freight service fee.

The region's transportation system is facing significant challenges, including decades of underinvestment and declining revenues. ON TO 2050 estimates that the cost of operating and maintaining the transportation system in its current state of disrepair will exceed the funds expected to be available under existing revenue sources. Innovative transportation funding solutions are needed to make improvements that will provide mobility options that connect residents to economic and other opportunities, and support the region's economy.

Alternative sources of revenue generated by those who benefit from specific transportation projects — whether through their use of the system or an increase in the value of nearby property — are essential to improving the region's transportation system. This analysis describes the potential for tolling, congestion pricing, and value capture to generate revenue for individual projects and meet broader recommendations of ON TO 2050.

Tolling and congestion pricing can raise revenue, improve travel

Just as individual users cover the costs of other utilities, the people and businesses who benefit most from roadway improvements should help cover the costs through direct user fees. Tolling and congestion pricing are user fees that not only would help recoup transportation project costs, but also would contribute to larger regional goals such as improved mobility, travel time reliability, and accessibility.

While traditionally prohibited on federal highways, tolling has recently been introduced into the federal highway program for certain projects. Tolling is permitted for new highways, additional lanes on existing highways, non-Interstate reconstruction, and reconstruction or replacement of bridges, among other options. In addition, the U.S. Department of Transportation operates pilot programs to toll reconstructed highways and implement congestion pricing programs. The region could benefit from expanded participation in these pilot programs.

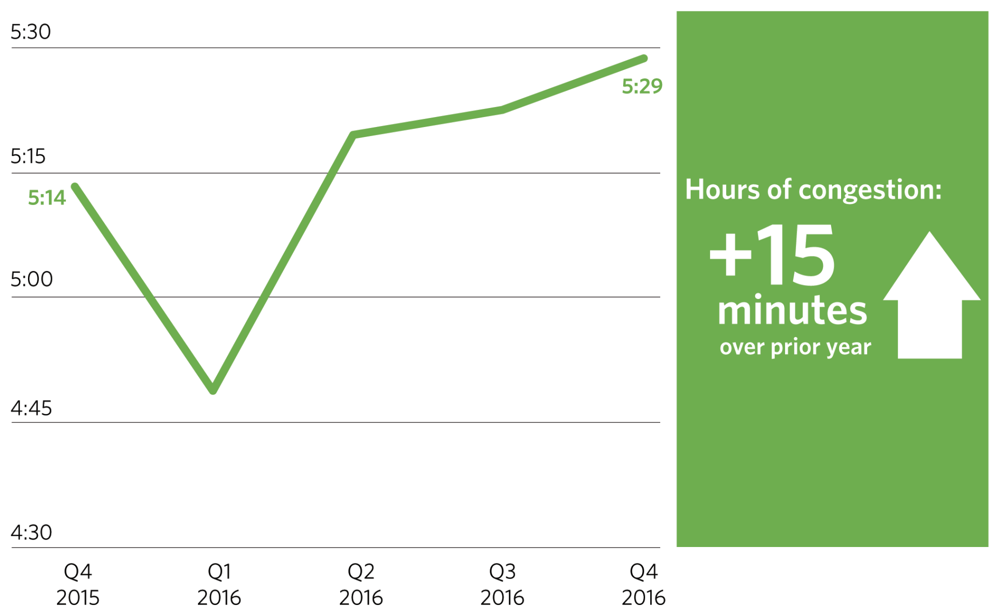
New tolled facilities are already underway in the region. Kane County recently sold bonds backed by expected toll bridge revenues to partially finance a new crossing of the Fox River at Longmeadow Parkway. In Will County, the Houbolt Road Extension over the Des Plaines River will be a tolled roadway to improve truck traffic and congestion on the local road network. The extension project is financed and designed by the Houbolt Road Extension JV, LLC, a business partnership between CenterPoint Properties and United Bridge Partners. The toll structure will be approved by Will County prior to implementation. However, most tolling projects would require State approval. ON TO 2050 recommends the federal and state governments expand authority to toll existing capacity.

With funding from the Illinois Department and Transportation (IDOT) and Illinois Tollway, CMAP is developing a Vision for the Northeastern Illinois Expressway System, which is exploring expanded tolling and congestion pricing for the region's IDOT expressways. The pavement on these expressways are, on average, 42 years old and in need of replacement. Creating a network of priced lanes not only would raise significant revenues from the system's users to improve safety and modernize the expressways, but also would manage demand, easing travel throughout the region.

Congestion causes unreliable, lengthy commutes. An effective solution to this problem is to use pricing to manage demand. ON TO 2050 recommends congestion pricing on the region's expressways, by adding price-managed lanes with higher tolls when traffic tends to be heaviest, to manage congestion and increase vehicle throughput. Price-managed lanes offer a higher-speed, more reliable travel option for a price, while nudging some drivers to travel at other times or use other travel options, such as carpooling and transit. This approach makes better use of the existing transportation system, offers travelers faster options, and offers significant potential to raise revenues as congestion continues to increase in the region. Numerous other states have already begun to operate price-managed lanes on their expressways.

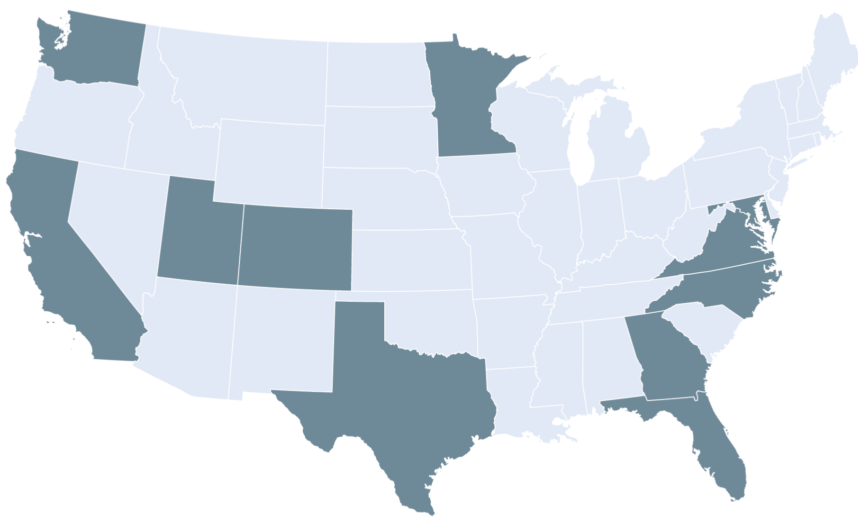
Average daily congested hours, weekdays, for seven-county Chicago region expressways and tollways

Source: Chicago Metropolitan Agency for Planning analysis of National Performance Monitoring Research Data Set.



The Chicago region has long relied on toll revenues to fund the Illinois Tollway and the Chicago Skyway Toll Bridge. Tolling has also funded the I-355 project in Will County and the improvement and ongoing extension of the Elgin-O'Hare Expressway in DuPage and Cook counties. While large-scale congestion pricing has not been enacted in the Chicago region, other regions across the country have already implemented congestion pricing on their roadways, including in Houston, Dallas, Washington, Atlanta, Seattle, Miami, San Francisco, and Los Angeles. Texas offers one example of an extensive network of roadways built with both traditional tolling and managed lanes. In the Dallas-Fort Worth region, a growing network of TEXpress roadways and lanes guarantee travel at 50 mph, with tolls rising to reduce demand during congested periods. The system offers discounts for high-occupancy vehicles to encourage carpooling. Studies of the system indicate that residents of all incomes use these lanes.

States using priced managed lanes on expressways



Source: Chicago Metropolitan Agency for Planning.

The benefits of value capture

Road and transit facilities often increase nearby property values by providing access to customers and goods. Value capture recovers some of the monetary benefits that a public infrastructure improvement generates for nearby properties to fund all or part of the cost of that improvement via increased fees or taxes.

Regions across the country have pursued multiple value capture mechanisms for transit and road projects. Mechanisms available within Illinois include tax increment financing (TIF) districts, special service areas (SSAs), and business district taxes (BDs). Many of the region's municipalities already use these mechanisms for small-scale transit and road improvements, such as new transit stations or roadway reconstruction.

TIF districts, in particular, are increasingly implemented to fund smaller transportation improvements because TIF districts often have the most potential to generate sufficient revenues. TIF districts repurpose future property tax revenues that result from new development and growth in property values to fund project costs, over a period of 23 years. Projects within the region range from the new Morgan Station on the CTA Green Line in Chicago's West Loop to Metra stations in suburbs such as Orland Park, Palatine, Skokie, and others. However, TIF districts may not be ideal to finance larger transportation projects because of the number of jurisdictions affected, the duration of a typical TIF, and the potentially large geographies affected.

In 2016, the Illinois General Assembly approved legislation for a modified form of TIF, called Transit Facility Improvement Areas (TFIA). These districts must be located within one half-mile of a transit improvement, last for 35 years or until the costs of the transportation improvement are repaid, and share more revenues with overlapping taxing districts as compared with TIFs. In particular, TFIAs must pass funds directly to Chicago Public Schools as well as provide 20 percent of revenue to all overlapping taxing districts in proportion to their tax rate. The rest of the revenue generated must be strictly used to cover transit improvement costs. The legislation is currently limited to four specific projects: the Red and Purple Line Modernization, Union Station redevelopment, the Red Line South Extension, and the Blue Line Modernization program. The City of Chicago recently approved a TFIA district to fund the Red and Purple Modernization Phase I program. The TFIA district will generate half of the $2.1 billion project cost, and the remaining funds needed will be provided by the federal government. The Red-Purple Modernization TFIA has already generated more than $58 million during its first two years.

Value capture mechanisms, including TIF and TFIA districts, are crucial funding options for long-term and costly transportation projects. Given existing funding shortages and the substantial revenue-generating potential of value capture, the Illinois General Assembly should consider legislation that allows TFIA to be used for other transportation improvements and expansions. In particular, legislation should refocus the TFIA statute on project criteria such as ridership volume, commute time reduction, and other project impacts, rather than on specific transportation investments. Expanding the statute could help provide much needed local revenues to support the transportation system, particularly as emerging federal policy indicates a growing reliance on state and local revenues. The New Starts program for transit projects currently requires a 40 percent local contribution to receive federal funds, as compared with 20 percent for highways. While not reflected in the subsequent omnibus spending package, the White House's recent infrastructure proposal includes project selection criteria that heavily favor local match over project performance, giving preference to projects with the lowest federal share of project costs and higher shares of non-federal sources of revenue. Value capture may be used to meet current local match requirements as well as fill the gap where federal funding is not available.

Local contributions for arterial expansions

Existing congestion on arterial highways in the Chicago region is high. Combined with local conditions — such as increased retail, office, or industrial development — congestion can drive the need for expanded arterial capacity. While local development conditions drive these capacity needs, IDOT or county transportation departments often implement — and absorb the cost of — these expansion projects.

ON TO 2050 recommends that CMAP, IDOT, and county transportation departments evaluate requiring equitable local contributions for major arterial expansions to ensure that costs are incurred by jurisdictions generating the need for new facilities. Arterial expansions offer both local and regional benefits, including reduced local congestion and increased development and tax revenues. Funding these expansion projects in part with local contributions can better leverage communities' benefits.

Many capacity expansion projects in the region already require a local funding share. The Illinois Tollway requires local governments to contribute at least half of project costs for new interchanges. In addition, new transit stations are generally not primarily funded by the RTA or transit service boards. Rather, municipalities provide or seek out funding for these expansion projects. The Illinois Department of Transportation and county transportation departments — the primary implementers of arterial roadway capacity expansion projects — can consider similar policies to leverage local benefits to fund arterial expansion projects.

Sometimes state and county transportation projects are funded in part through local contributions, although no consistent policy exists. A local contributions program could take various forms, but the process should begin well before roadway expansion is necessary. When new developments occur on or adjacent to state or county roads, these transportation departments should start a dialogue with municipalities regarding future impacts of the new development, and future development, on roadway capacity. This could include exploring the potential for value capture districts or other models to make future contributions to roadway expansion or other local infrastructure improvements. Municipalities should also ensure they are considering these fiscal impacts during the development process. If there is an eventual need to improve state or county roadways, the relevant roadway jurisdiction should identify what factors contributed to the need for the expansion and how municipalities that benefit from the project could share in the costs.

Municipalities should be free to fund their contributions any way they choose — by implementing value capture districts, using sales tax or other revenues generated from new developments, or pursuing more general revenues. Models for flexible match requirements that support municipalities with lower tax bases should also be explored to ensure equitable access to resources and transportation investments.

Traffic impact fees may be another option to raise revenues for local contributions. Impact fees allow counties to assess highway improvement costs against new development, where the funded improvements offer a direct and unique benefit to a development project. DuPage and Kane counties already implement impact fees. Under current law, impact fees may be imposed by counties and home-rule municipalities, but not by IDOT. Counties may apply such fees to IDOT improvements, but no agency has done so, thus improvement fee collection has been limited. Moreover, the current statute is relatively limited in scope and may need to be expanded to fully address current and future development impacts to the roadway system.

Looking ahead

Northeastern Illinois must ensure sufficient funding for transportation. CMAP has outlined four key principles essential to any new revenue proposals. Leveraging sources such as tolling, congestion pricing, value capture, and local contributions can provide funding from those who benefit most from the transportation system, while contributing to regional goals such as improved mobility and travel time reliability. Funding sources that generate additional revenues from individual projects have increasingly been implemented in the Chicago region, as well as in regions and cities across the United States. ON TO 2050 recommends that the federal and state governments expand authority to toll existing capacity. Local governments should continue to pursue new opportunities to derive locally generated revenues for transportation improvements, including expanding the use of value capture where appropriate.

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