CMAP

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CHICAGO REGION NEEDS SUSTAINABLE TRANSPORTATION FUNDING TO MAINTAIN COMPETITIVE ADVANTAGE

This analysis is one of a series examining transportation funding in northeastern Illinois and explaining the revenue recommendations included in the region's long-range comprehensive plan, ON TO 2050. This analysis explains existing revenue sources for the regional transportation system. The first analysis in this series examined the ON TO 2050 recommendation related to the need for the state to increase its motor fuel tax and eventually replace it with a road usage charge. Other analyses in this series will explore the ON TO 2050 recommendations to expand the sales tax base, expand parking pricing, use tolling and value capture to fund transportation improvements, and implement a federal cost of freight service fee.

The transportation system in northeastern Illinois — a vast multimodal system of roads, bridges, transit, railroads, airports, waterways, and ports — has historically been and continues to be a strategic advantage for the region. This system is essential to our economic competitiveness and quality of life, yet is costly to maintain and operate: Billions of federal, state, and local dollars are spent on transportation in the CMAP region annually. Systemic shifts are leading to stagnant and even declining revenues, and structural problems make current revenue sources inadequate for maintaining and operating the system. For example, revenues generated from flat rates, such as the federal and state motor fuel taxes, have lost significant purchasing power due to inflation.

The revenue forecast for the metropolitan Chicago region is worrisome. Using existing revenues, ON TO 2050 shows a $24 billion gap through the planning period just to operate and maintain the transportation system as it is today, with its current deficiencies. Bringing the system to a state of good repair, modernizing it, and making limited, targeted expansions will cost even more. The following analysis explains the system's current funding sources and recent revenue trends, making the case for new revenues needed to support a multimodal, well-functioning transportation system that meets today's and tomorrow's needs.

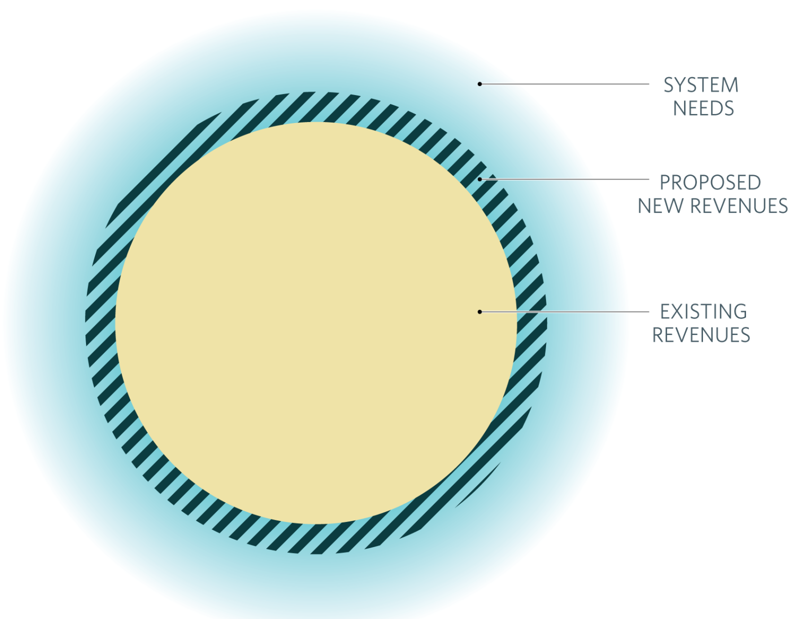
The transportation system needs investment

Current conditions on both transit and road networks in the region are far from adequate, leading to transit system delays, traffic congestion, and increased vehicle maintenance costs. About 23 percent of the region's National Highway System roads have poor ride quality; reducing that number to 10 percent by 2050 will cost $3.8 billion. As of 2017, nine percent of National Highway System bridges were rated as poor, and the region would need an additional $1 billion to achieve a target of 6.5 percent by 2050. Only 69 percent of the region's transit assets are in a state of good repair; attaining 80 percent by 2050 will cost more than $15 billion.

In addition to maintaining the infrastructure that we have today, changing demands and emerging needs call for new investments. Among many factors, the number of congested hours on roadways is increasing annually; freight traffic is on the rise due to changing supply chain patterns and increasing next-day deliveries, and the resulting rise in truck traffic can be significantly more costly; residents are demanding new bicycle and pedestrian infrastructure; and private operators such as Uber and Lyft are creating new options for seamless mobility across multiple modes. Supporting the existing system and meeting modern demands will require sustained new investment. For example, just 41.5 percent of the region's plan for greenways and trails has been completed, and little funding is available for alternative mobility options. Reducing freight delays by completing implementation of the public-private investment initiative to modernize the region's freight system, known as the Chicago Region Environmental and Transportation Efficiency program (CREATE) — recommended by ON TO 2050 — will require an additional $2.8 billion.

Transportation system revenues and needs

Source: Chicago Metropolitan Agency for Planning.



Note: To view an animated version of this graphic, see https://www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/Chicago-region-needs-sustainable-transportation-funding-to-maintain-competitive-advantage

Improvements to roadway communications infrastructure and data processing capabilities needed to support innovation over the coming decades will require even more. Failure to improve infrastructure has a negative impact on the region's economy, which can only grow as fast as its transportation system will carry it.

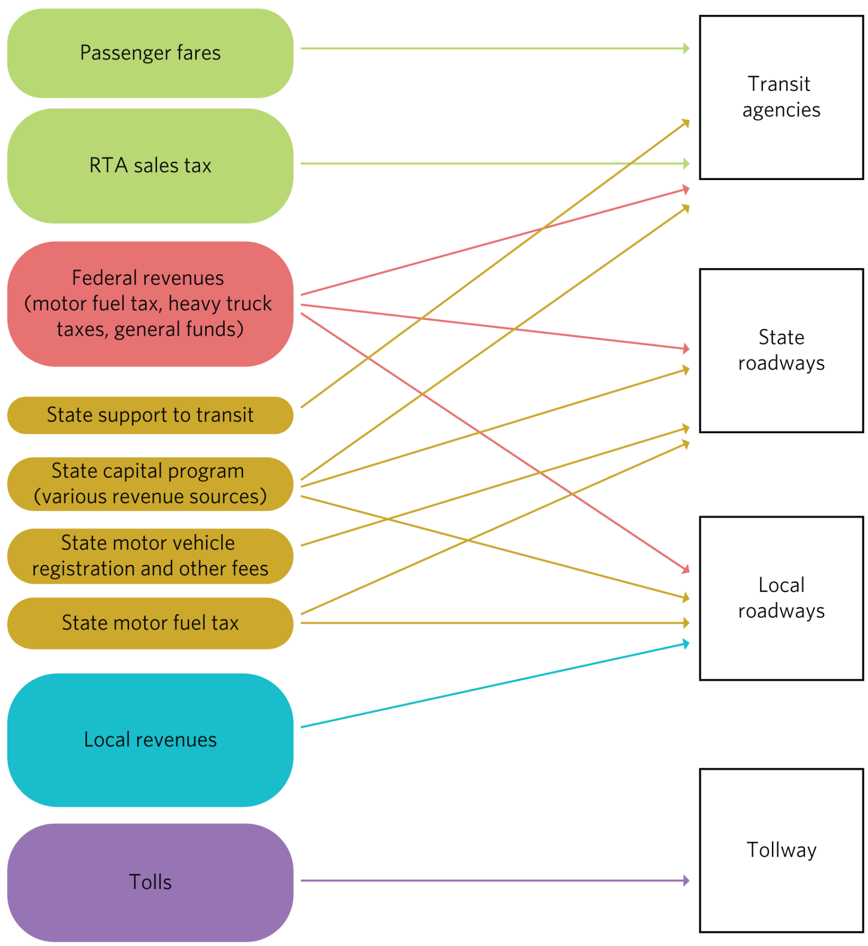
How the system is funded today

The following diagram shows northeastern Illinois' major transportation revenue sources, and the part of the system on which they are spent. More information on revenues can be found in the ON TO 2050 Financial Plan for Transportation Appendix.

Northeastern Illinois transportation funding

Note: This is a simplified diagram for illustrative purposes and represents typical funding flows from major revenue sources. The relative size of figures in the left column roughly represents revenues available for use in northeastern Illinois. Not all revenue sources are reflected. "Roadways" includes bicycle and pedestrian infrastructure.

Source: Chicago Metropolitan Agency for Planning analysis.



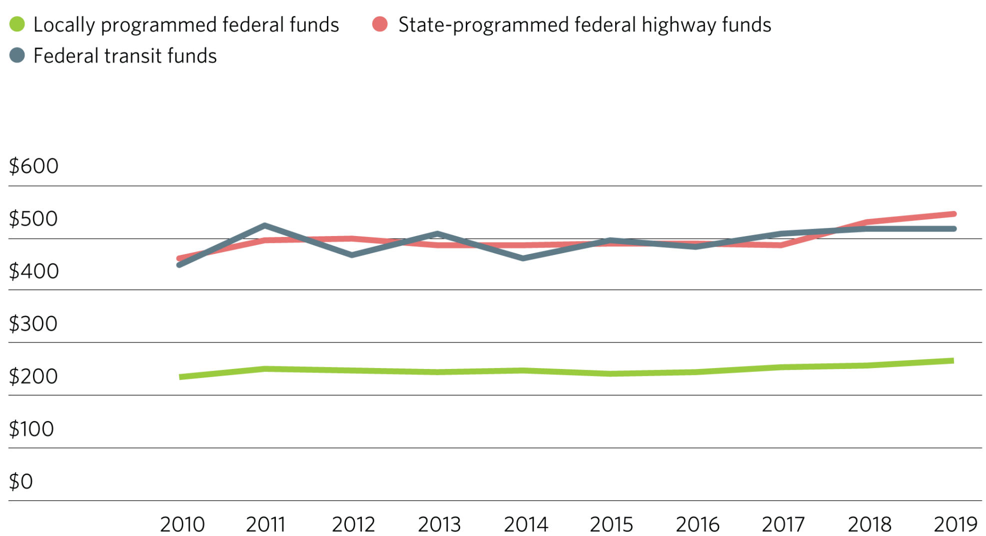
Federal revenue sources have become less sustainable

Federal revenue flows to northeastern Illinois from surface transportation authorization legislation, annual appropriations bills, and occasional supplemental funding bills. Funding through various highway and transit programs is used for capital improvements: road, bridge, and trail construction and repair; and transit system upgrades such as bus and train car replacement, and station improvements. Operating expenses and routine maintenance are generally not an eligible use of federal funds. The largest sources of federal highway and transit funds available in northeastern Illinois over the last decade have been nearly flat, even as capital costs have risen. The current authorizing legislation — the Fixing America's Surface Transportation (FAST) Act established spending levels for Federal Fiscal Years (FY) 2016-20 including modest annual increases of approximately 2 percent.

Federal funds available in northeastern Illinois, 2010-19, in millions

Note: Chart excludes discretionary and earmarked funds.

Source: Chicago Metropolitan Agency for Planning analysis of Federal Highway Administration and Regional Transportation Authority data.



The majority of spending authorized by surface transportation legislation is derived from the Federal Highway Trust Fund (HTF). The source of almost all federal highway funding and about 80 percent of federal transit funding, the HTF provided $52 billion for surface transportation in 2016, nationally. The primary revenue source for the HTF is the federal motor fuel tax of 18.3 cents per gallon on gasoline and 24.3 cents per gallon on diesel, which has not been raised since 1993. Increased vehicle fuel economy has resulted in less fuel consumption and stagnant fuel tax revenues, while growth in vehicle miles travelled has slowed. Taken together, revenues from the HTF now have approximately 58 percent of the purchasing power that they did in 1993. About 10 percent of trust fund revenues come from other sources such as truck and trailer sales taxes, a tax on certain tires, and a weight-based heavy vehicle use tax. These revenues are not sufficient to meet the commitments of the HTF.

Since 2008, the HTF has required transfers from the General Fund and other federal funds to meet authorized levels of spending for surface transportation programs. Though transfers included in the FAST Act will allow the fund to remain solvent through September 2020, the Congressional Budget Office projects HTF expenditures will exceed revenues by about $20 billion annually thereafter. Absent new revenue or additional transfers, expenditures would need to be cut by approximately one-third to address this shortfall.

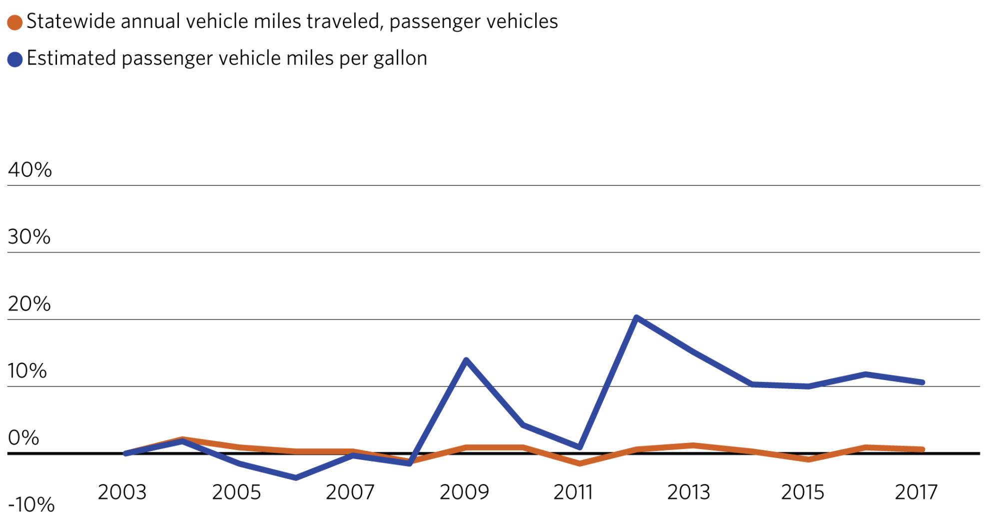
Other surface transportation spending, including for Federal Transit Administration (FTA) Capital Investment Grants, Better Utilizing Investments to Leverage Development Grants (BUILD), and various railroad infrastructure and safety programs, is derived from the federal general fund. Since these funds are subject to the annual Congressional appropriations process and are awarded competitively, they cannot be relied upon as a sustainable, consistent source of funds for the purposes of long-term planning. Moreover, some federal policymakers have proposed that state and local governments bear a higher burden to fund transportation projects, which may signal that some policy makers will not support an increase in federal revenues.

Traditional state funding sources are stagnant

The two largest state revenue sources — the state motor fuel tax and motor vehicle registration fees — have not grown sustainably either. The state MFT has been impacted by increasingly fuel-efficient vehicles and stagnant vehicle miles traveled, as illustrated below, resulting in less fuel consumption.

Vehicle miles traveled and miles per gallon, percent change since 2003, statewide

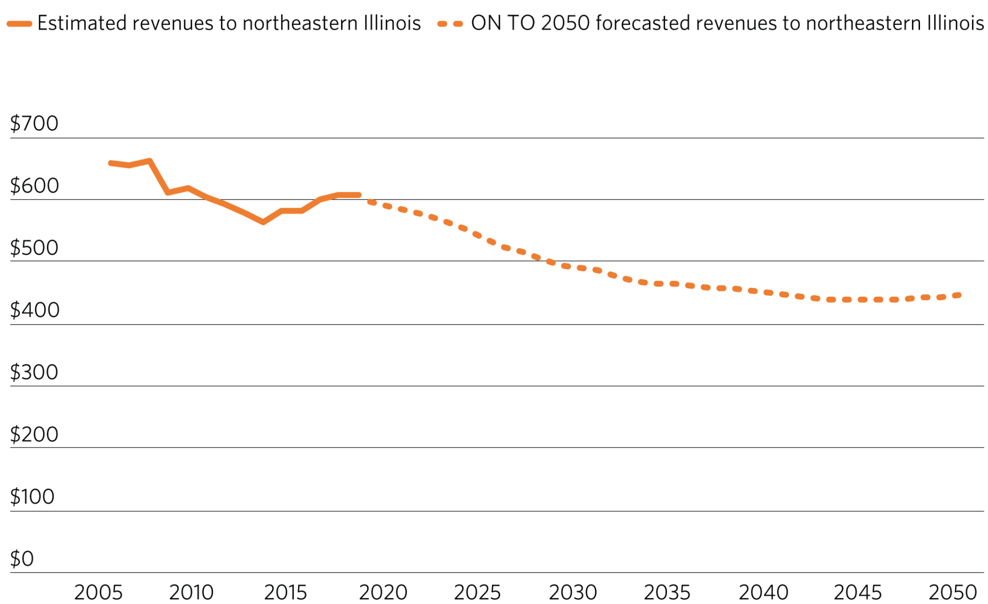
Source: Chicago Metropolitan Agency for Planning analysis of National Highway Traffic Safety Administration Corporate Average Fuel Economy Fact Sheets; Illinois Department of Transportation data; 2009 National Household Travel Survey data.



As a result, revenue from the state MFT has gone down, affecting funding for both state and local roadways. The following chart provides an overview of state motor fuel tax revenues forecasted in ON TO 2050.

State motor fuel tax revenue to northeastern Illinois, estimated revenues compared to the ON TO 2050 forecast, 2005-50, in millions

Source: Chicago Metropolitan Agency for Planning analysis of National Highway Traffic Safety Administration Corporate Average Fuel Economy Fact Sheets; Illinois Department of Transportation data; 2009 National Household Travel Survey data.



State roadways are also funded through other types of transportation user fees. Motor vehicle registration fees in Illinois vary by vehicle type, with a standard passenger vehicle fee of $101 annually. Other smaller sources include title fees, overweight fines, permit fees, and operator license fees. Statewide growth in passenger vehicle registration counts and operator licenses have flattened in recent years, which has coincided with slower rates of state population growth. As a result, revenues are almost entirely flat.

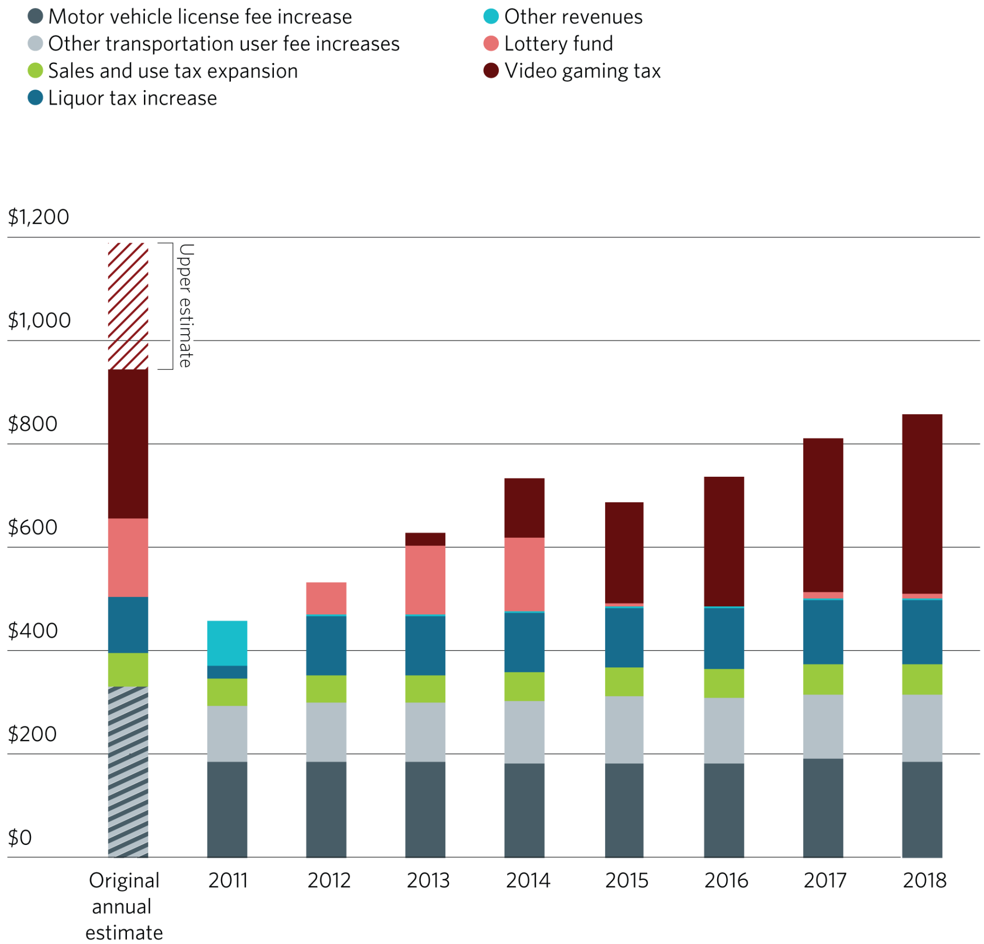
The previous state capital program did not live up to expectations

Beyond federal capital funding, revenues also come infrequently from state capital programs. Multimodal capital funding is vital to bring the transportation system to a state of good repair, but funding sources must be consistent and sustainable over the long term. Illinois Jobs Now, approved in 2009, provided authorization to issue bonds for capital projects across the state, including state and local roadways and transit infrastructure improvements, as well as new and increased taxes and fees to pay off the bonds. However, half of the expected revenue from the program was to come from unproven sources, namely a 30 percent tax on video gaming revenues and privatizing the operation of the state lottery. Subsequently, many communities opted out of video gaming, and the initial annual revenue projection for video gaming revenues was not met until 2017. Transfers from the state lottery have not met projections either; these revenues were only sufficient in fiscal years 2013 and 2014 when the State required the private provider to pay penalties. As a result, current overall revenues have yet to meet even the original projection of $943 million to $1.2 billion per year and the State has needed to use other funds — including some Road Funds that otherwise would have been used for different transportation projects — to pay off these bonds. The following chart provides an overview of Capital Projects Fund revenues since the enactment of Illinois Jobs Now.

Capital Projects Fund revenues, projection compared to actual revenues, fiscal years 2011-18, in millions

Note: "Other transportation user fee increases" includes increases to registration transfer fees, vehicle title fees, operator licenses fees, and overweight fines. "Sales and use tax expansion" refers to application of the sales tax on candy, pop, and grooming and hygiene products at the general merchandise rate.

Source: Chicago Metropolitan Agency for Planning analysis of Commission on Government Forecasting and Accountability and Illinois Office of the Comptroller data.

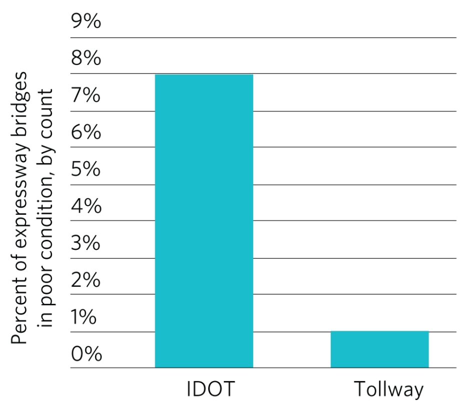


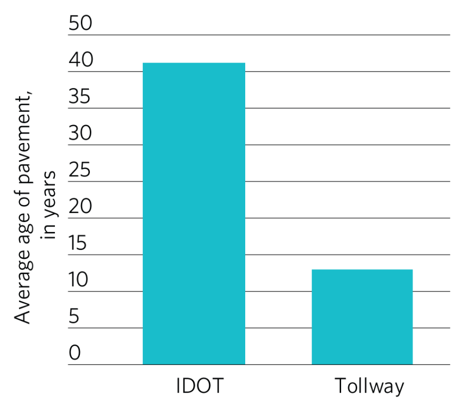
Future revenue efforts should focus on identifying consistent and sustainable capital funding for transportation from revenues generated by those who benefit from the transportation system. The advantages of this structure are illustrated by the Illinois Tollway's funding system. Tollway revenues come almost exclusively from tolls collected on the 294-mile system and have experienced substantial growth since 2000. This is in part due to increases in toll rates in 2005 and 2012 as well as a slight increase in transactions. Unlike other revenue sources for the region, certain Tollway rates are tied to an inflationary measure. As of 2018, commercial vehicle rate increases have been tied to the Consumer Price Index. Roadway conditions on the Tollway are now substantially better than the non-tolled expressways in the region that do not benefit from a sustainable, dedicated funding source, as demonstrated below.

Illinois Department of Transportation (IDOT) and Illinois Tollway bridge condition and pavement age, 2016

Note: Includes ramps and crossing structures.

Source: Chicago Metropolitan Agency for Planning analysis of IDOT Structures file and National Bridge Inventory and CH2M analysis.





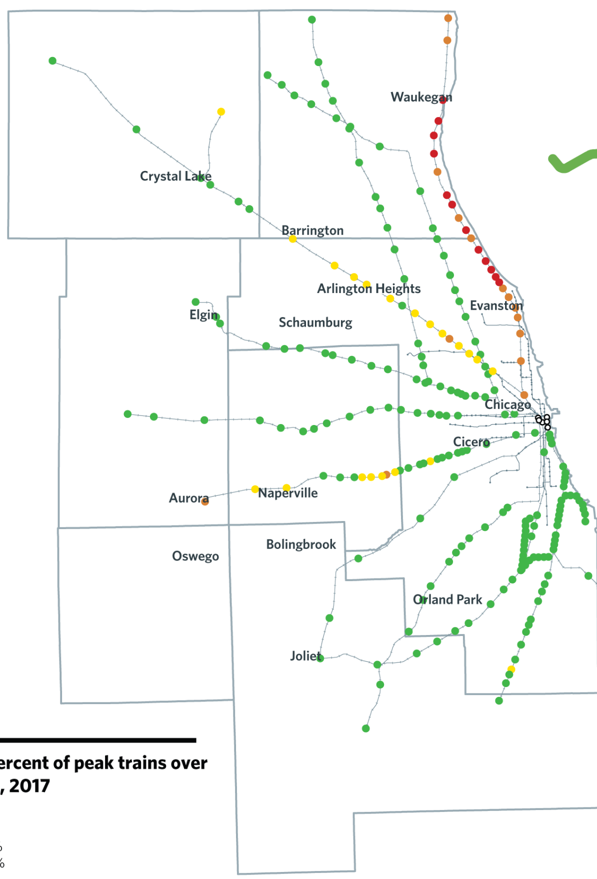
Many local governments lack sufficient resources to keep up their roadways

Local roadway, bicycle, and pedestrian infrastructure is maintained by counties, townships, and municipalities. Funding comes from state motor fuel tax distributions and a wide range of local funding sources that vary by locality: property tax revenue, sales tax revenue, local motor fuel taxes, and impact fees. Localities also receive federal revenues on a project by project basis, through competitive grant programs at the regional or subregional level (such as the Surface Transportation Program-Local, Congestion Mitigation and Air Quality Improvement Program, and Transportation Alternatives Program), state level (such as Safe Routes to School and the Highway Safety Improvement Program), and federal level (such as BUILD).

However, many local governments have infrastructure needs that remain unmet. Moreover, many municipalities lack the resources necessary to even assess the condition of their roadways and other transportation infrastructure. Smaller or resource-constrained municipalities may be unable to raise sufficient revenue from their tax bases or may have limited options for increasing revenue to make investments in their local systems. CMAP is beginning a pilot program to help local governments develop pavement management systems and plans, which can help optimize timing and expenditures of transportation maintenance projects. However, these plans often provide evidence of the need to devote more revenues to head off long-term declines in pavement conditions. Due to limited local budgets, many communities are unable to prioritize these preventative maintenance activities.

Transit lacks a sustainable source of capital funding

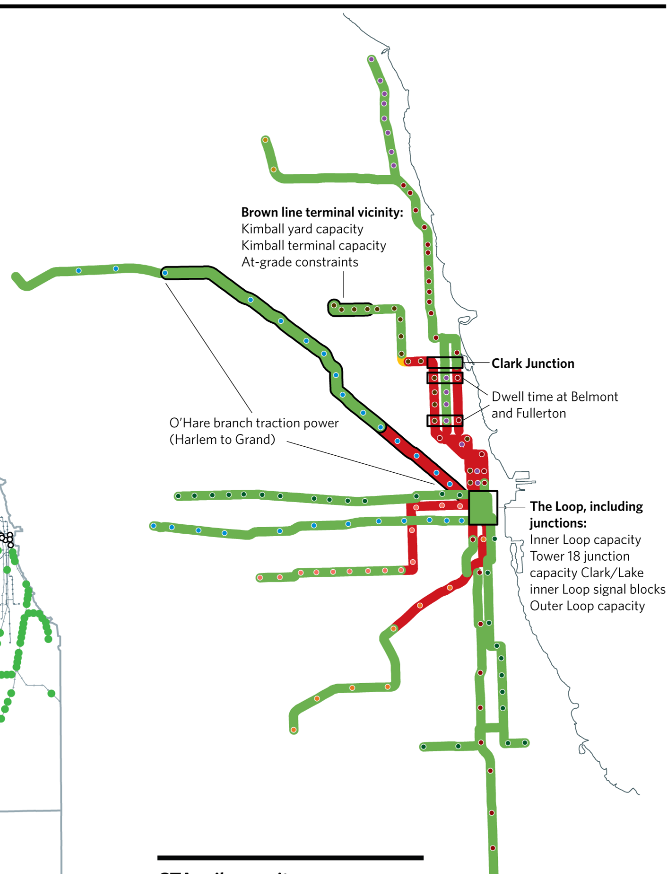
The region's public transit agencies are experiencing a capital funding shortage, with mounting state-of-good-repair and modernization needs. Thirty-one percent of the public transit system's assets are beyond their useful life — a percentage projected to grow absent significant increases in capital funding. Use of these dated buses, rails, and rail cars contributes to breakdowns and delays. Despite the recent decline in overall ridership, parts of the Chicago Transit Authority (CTA) and Metra systems are at capacity, leading to overcrowding and delays. For example, the following maps illustrate CTA rail capacity in terms of square feet per passenger on rail cars and the percent of peak trains that were over capacity on the Metra system in 2017.



Metra percent of peak trains over capacity, 2017

- 0-10%
- 11-20%
- 21-30%
- >30%
- Terminal

Source: Metra.



CTA rail capacity utilization, 2017

- < 5.4 square feet per passenger
- 5.4 - 5.7 square feet per passenger
- > 5.7 square feet per passenger
- CTA rail stops
- Top line capacity constraints

Source: CTA 2017 System-Wide Rail Capacity Study.

As discussed above, federal funds for capital expenses have been flat and the State has not approved a capital program in nearly a decade. Meanwhile, sources such as the Regional Transportation Authority (RTA) sales tax revenues and passenger fare revenues have grown, but not at a pace sufficient to free up additional revenues for capital expenses after paying for operating costs.

While the transit funding system is presently insufficient to meet current needs, it is also potentially unsustainable over the long term. Passenger fare revenue has been a steady source of operating revenue, on average increasing about 3 percent annually since 2000. However, regional transit ridership has declined from a peak in 2012, which has necessitated fare increases from all three transit systems to maintain steady revenues. Without further investments in the system to ensure that transit continues to be an attractive transportation option, ridership is unlikely to recover.

RTA sales tax revenues have increased, though the sales tax in Illinois is imposed on a narrow base of taxable goods, while consumption of services not covered by the sales tax is growing. The State of Illinois also provides several smaller funding sources, such as the Public Transportation Fund and reimbursements for reduced fares; but over the years, the State's fiscal situation has resulted in a lack of growth, and sometimes even a reduction in these funds. Because the federal government requires state and local revenues to match federal transit funds, at potentially increased rates in the future, the need to ensure the availability of these sources is clear.

Moving forward

The revenues underpinning the region's transportation system no longer reflect current costs or ways of getting around. Federal and state revenues do not provide the support they once did, and the transit agencies in particular are experiencing a capital funding shortage. As a result, CMAP projects that over the next three decades, growth in transportation revenues will not be enough to cover growth in expenditures needed to operate and maintain the system — even in its current inadequate condition. Moreover, the region will require billions of dollars to improve and enhance the transportation system in order to meet future needs.

To ensure that the region can make these necessary investments, ON TO 2050 contains a set of recommendations necessary to fully fund the region's transportation system. The region needs additional, ongoing support to rebuild and modernize the transportation system using a stable, adequate, and fair revenue structure. The right policies must also be in place to guide our investments in the transportation system. The following principles are essential to any transportation revenue proposal:

Sustainable: New revenues should grow sustainably over time — such as by indexing rates to inflation — to keep pace with costs of operating and improving the system.

Fair: Costs should be paid primarily by those who gain the most benefit from the system.

Equitable: Because some revenue sources could have a disproportionate impact on low income residents, revenues should be structured in a manner that considers the ability of users to pay.

Flexible: Project selection should use performance-based criteria and data-driven processes that fund projects of greatest impact to help the region achieve a well-integrated multimodal system.

More information on these principles is available here. New transportation revenues will ensure the region's competitive advantage and provide long-term benefits for livability, mobility, and the economy.

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