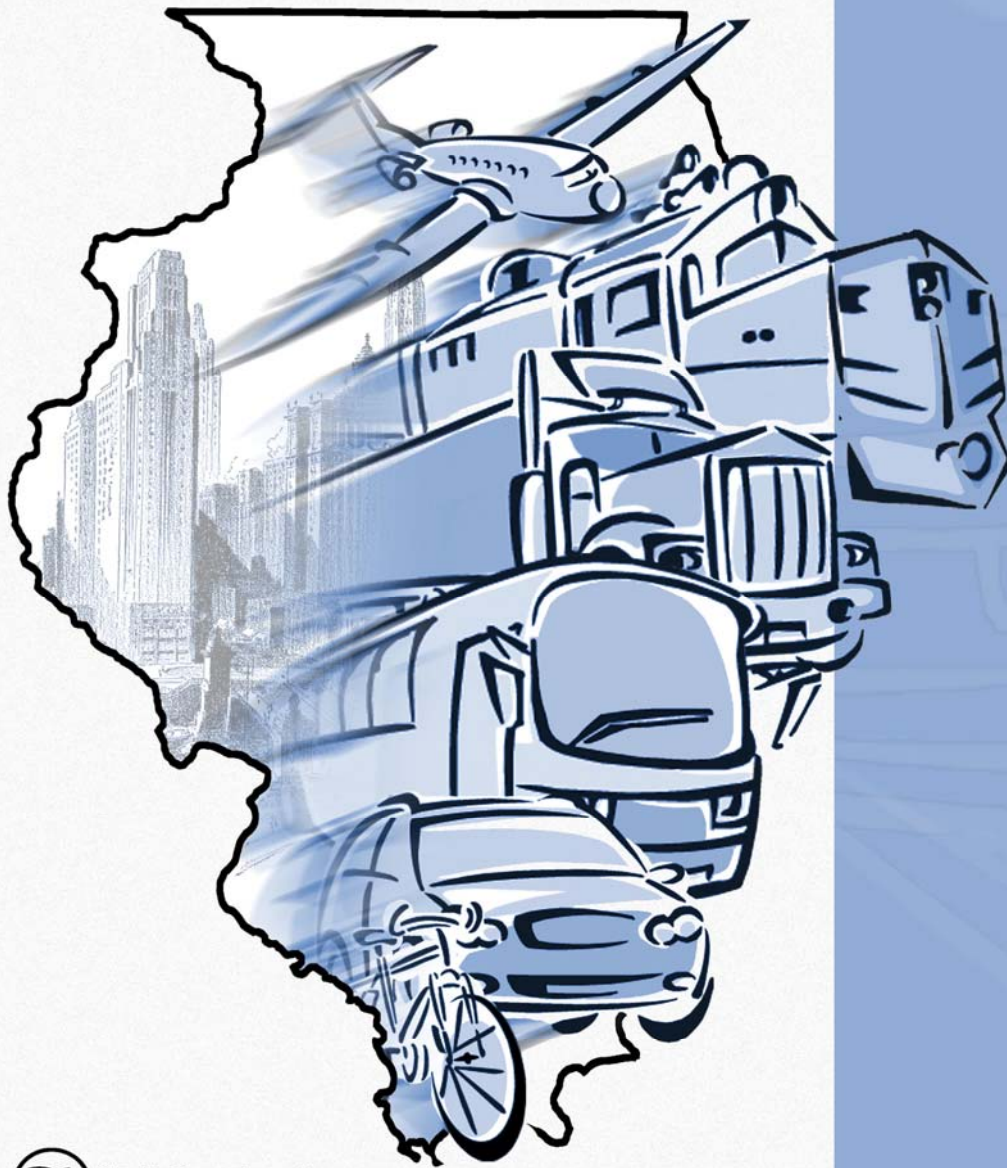


Illinois State Transportation Plan

Special Report: Transportation Funding



Foreword

Throughout Illinois history, transportation has held an important role in shaping and developing the state. This is evident today as business and leisure travelers rely on the transportation system to support and enable all manner of economic, social, educational and cultural activity. The Illinois Department of Transportation (IDOT) has a responsibility to ensure that the transportation system can answer these needs and address future transportation demand.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was signed into law in August 2005 and authorizes federal surface transportation programs for highways, highway safety, and transit through 2009. This act resulted in changes to rulemaking for statewide transportation plans. In compliance with the required changes, this Illinois State Transportation Plan will amend the 2005 Illinois Transportation Plan. Illinois law requires a plan update by December 31, 2007.

The initial phase of the update will be the adoption of technical amendments prior to July 1, 2007, to meet federal compliance deadlines. The final plan update will be completed in December 2007 to meet state legislative requirements.

The Illinois State Transportation Plan sets forth policies and goals that guide the development of the state transportation system. The plan identifies issues and key needs that will influence transportation decision making during the next 20 years or more. Instead of a specific list of projects, this plan provides the strategic framework for the future direction of transportation in Illinois.

The Illinois State Transportation Plan update consists of several special reports that address varying subjects. These special reports are designed to add information to the existing 2005 Illinois State Transportation Plan and to meet SAFETEA-LU requirements. These special reports include:

- Transportation System Update (Aviation, Bicycles and Pedestrians, Freight Railroads and Intermodal Facilities, Highways, Intercity Passenger Service, Public Transit, and Waterways and Ports)
- Trends, Issues and System Condition
- System Preservation and Maintenance
- Mobility and Reliability
- Transportation Safety
- Global Competitiveness and System Security
- Environmental Coordination and Quality of Life (including sub-reports on Context Sensitive Solutions and Human Services Transportation)
- Transportation Funding

TRANSPORTATION FUNDING

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1.0 Introduction

The mission of the Illinois Department of Transportation (IDOT or the Department) is to provide safe, cost-effective transportation in ways that enhance the quality of life, promote economic prosperity, and demonstrate respect for the environment.¹ The Department has established five priorities to help identify actions and investment decisions that support the mission: improve safety, maintain reliable mobility, preserve the multi-modal transportation system, streamline project delivery, and improve internal and external communications.

As in all states, transportation in Illinois is provided through a complex interaction of public and private services, facilities, and vehicles. The most familiar example of the public-private transportation interaction involves publicly-owned streets and highways being used by privately-owned vehicles. Another example is publicly-owned airport facilities supporting the operations of privately-owned commercial, corporate, and personal aircraft. While the specific roles and responsibilities of the public and private sectors are separate and distinct, they must work in concert to accomplish the goal of moving people and goods.

The financing mechanisms and arrangements for transportation infrastructure and services are equally complex. On the public side, transportation system and service users pay a significant share of the costs. For highways, motor fuel taxes, vehicle registration fees, tolls and other fees are used to finance the construction, operation, and maintenance of the road and street system. These “user fees” are often supplemented by general tax fund contributions for road improvements by local agencies. General tax funds also are used to supplement user-paid fares for transportation services such as transit and intercity rail passenger services.

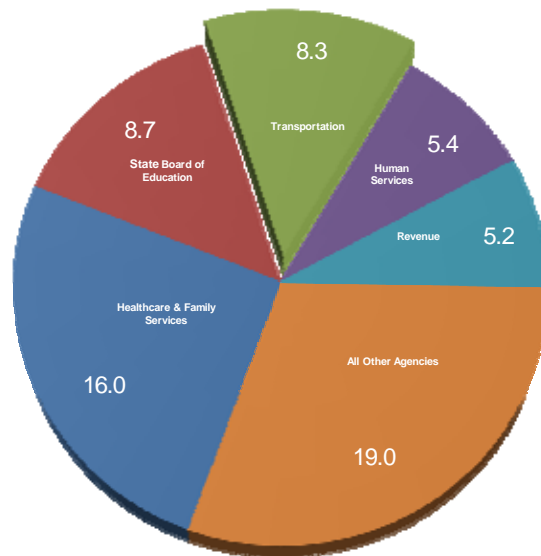
This report will discuss the financing mechanisms for the public side of the transportation system equation. While references will be made to local and toll revenues, the report will focus on state and federal funding used and distributed by the Illinois Department of Transportation. Discussions of private financing will be limited to public-private partnerships to fund traditionally public elements of the transportation system.

¹ Illinois Department of Transportation. *Department Overview*. Springfield, IL.

2.0 Overview of Transportation Funding in Illinois

The Illinois Department of Transportation is funded through a combination of federal and state resources. The Department's ability to access those resources is provided by appropriations passed by the General Assembly and signed by the Governor. In Fiscal Year 2007 (FY 2007), IDOT received an appropriation of \$8.3 billion. Figure 2-1 and Table 2-1 below illustrate how IDOT fits into the total state appropriation.

Figure 2-1: FY2007 State of Illinois Appropriations (\$62 Billion)



NOTE: The Transportation appropriation includes a \$3.5 Billion reappropriation for previously obligated awards, grants and construction contracts.

Table 2-1: FY 2007 IDOT Appropriations

All Funds - By Category		
	Dollars (in billions)	Percent
Personal Services & Related	0.45	5%
All Other Operations	0.36	4%
Permanent Improvements	0.03	0%
New Awards & Grants *	1.46	18%
New Construction	2.44	30%
Reappropriation **	3.51	43%
TOTAL	8.26	100%

NOTES: * Includes Transit, Airport, Rail and Local Highway Programs

** Includes Previously Obligated Grants, Awards and Construction

It is important to note that an appropriation does not provide funds to spend; it simply represents an upper limit on the Department's authority to spend the money contained in the various accounts identified. Because overall needs typically outstrip revenue resources the amount of appropriation requested by the Department starts with an analysis of the amount of money that will become available from state and federal sources within the fiscal year. This analysis is discussed in the Highway Program Funding section below.

Federal transportation funds are authorized and appropriated by Congress and allocated to Illinois by the USDOT. The federal funds that are available to IDOT are supplied through the following sources:

- Federal Highway Trust Fund – Highway Account
- Federal Highway Trust Fund – Transit Account
- Federal Airport and Airway Trust Fund
- Federal Rail Freight Loan Repayment Fund
- Federal General Fund

State funds that are appropriated to IDOT by the General Assembly for highways and bridges come from the Road Fund, State Construction Fund, and Series A Bond Fund. Revenue for the road and construction funds is generated by the following taxes and fees:

- Motor fuel and diesel fuel taxes (19 and 21.5 cents per gallon, respectively)
- Driver's license fee (\$10)
- Annual auto and pick-up truck registration fee (\$78)
- Annual heavy truck registration fee (\$138 to \$2,790 based on weight)
- Title certification fee (\$65)

State funds that are appropriated to IDOT by the General Assembly for transit, airports and rail come from the General Revenue Fund (GRF), Series B Bond Fund, Public Transportation Fund, Downstate Public Transportation Fund, Metro East Public Transportation Fund, Federal Mass Transit Fund, Federal Airport Fund, Federal Rail Freight Fund, State Rail Freight Fund and High Speed Rail Fund. Revenue for the General Revenue Fund is derived from all of the tax and fee sources that feed into that fund. The various public transportation funds are funded through GRF transfers. The federal funds are funded from federal sources.

A summary of all IDOT funding sources is shown in Table 2-2. Figures 2-2 and 2-3 illustrate how the state taxes and fees flow into the Road and State Construction funds.

Table 2-2: IDOT Funding Sources by Major Transportation Mode

Major Transportation Type	Funding Source	Type of Fund	Amount/Comments
Highways	Federal	Highway Trust Fund – Highway Account	18.4 cents per gallon of gasoline; 24.3 cents per gallon diesel tax; 12.9 cents per gallon tax on gasohol; and other user fees (excise taxes on tires and auto parts)
	State	Motor Fuel Tax	19 cents per gallon; 2.5 cents per gallon differential for diesel fuel
		State Vehicle Registration Fees	\$78 - automobiles, pickup trucks; \$138-\$2,790 – heavy trucks (based on weight); \$65 - titles
Transit	Federal	Highway Trust Fund – Transit Account	A portion of the revenue is used for capital projects
		General Fund	Capital and operating assistance
	State	General Revenue Fund and Series B Bond Fund	Includes reduced fare reimbursement, state operating assistance for some transit agencies, and some capital assistance for projects that do not qualify for bond funding
Aeronautics	Federal	Federal Airport and Airway Trust Fund	Aviation user fees
	State	General Revenue Fund and Series B Bonds	
Rail	Federal	Highway Trust Fund	
		Rail Freight Loan Repayment Fund	Federal loans that are repaid to the state and placed into an interest-bearing account
	State	General Revenue Fund and Series B Bonds	Amtrak service
		State Rail Freight Loan Repayment Fund	State loans that are repaid to the state and placed into an interest-bearing account

Source: Illinois Department of Transportation – Fiscal Year 2001 Annual Report

* Data not available.

Figure 2-2: Highway Funds State Source Revenue

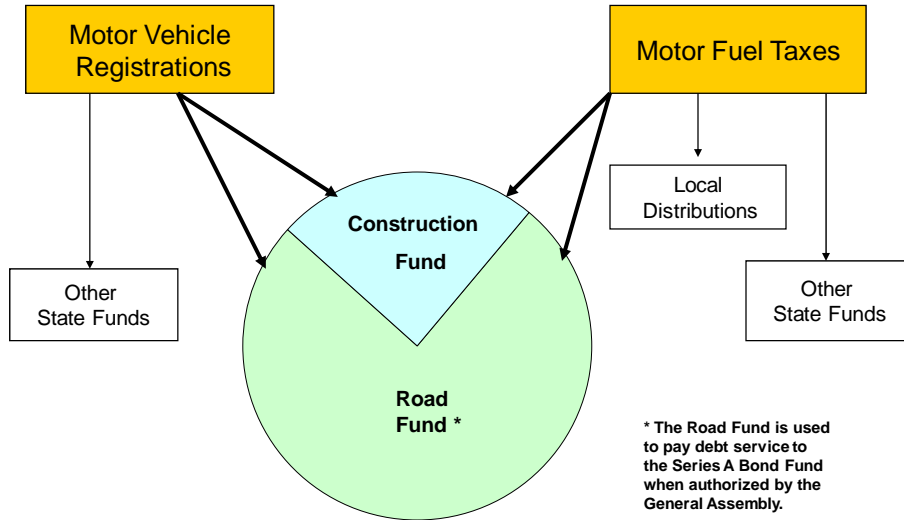
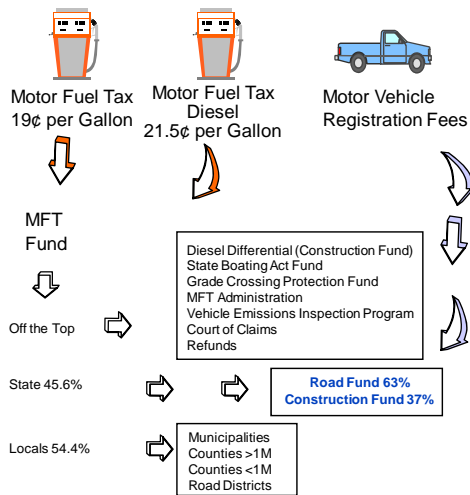


Figure 2-3: Highway User Fee Distribution Formula (Effective April 1, 2000)



NOTE: the Motor Fuel Tax charge per gallon of gasoline and diesel fuel is constant. It does not change with the price fuel.

The transportation network in Illinois is a collection of modal systems: highways, transit, airports, and railroads. The challenge for IDOT and all the Illinois transportation providers and implementers is to integrate these systems into a seamless network that effectively and efficiently moves people and goods.

The state highway system consists of more than 16,000 miles and includes 2,050 miles of interstate roads (which includes 282 miles of tollway). This is part of the 138,000-mile

network of state, county, municipal, township, and toll roads that is the third largest system in the nation. IDOT also provides technical assistance and administers state and federal funding to 52 public transit systems throughout the state to serve an average of 600 million passengers a year. Among these is the Regional Transportation Authority in Chicago, which oversees the second largest public transportation system in the nation. In addition, Illinois' airport system is the second largest in the nation and includes 138 airports, 280 heliports, and nine balloon ports. Among the airports for general public service is O'Hare International in Chicago, which is the second busiest airport in the United States and serves more than 76 million passengers annually.²

Currently, IDOT is faced with a transportation funding problem. Construction costs have risen dramatically over the past several years while revenues have grown very little. Conventional transportation funding sources have not kept pace with the rate of inflation, much less the construction cost index. This combination has resulted in an increase in the backlog of transportation infrastructure, facilities, and transit vehicles needing repair, rehabilitation, and replacement.

The funding that IDOT uses and distributes to improve, operate, and maintain the various transportation modes in Illinois is described in the sections that follow. A discussion of potential alternate funding strategies is also included in this report.

² Airports Council International

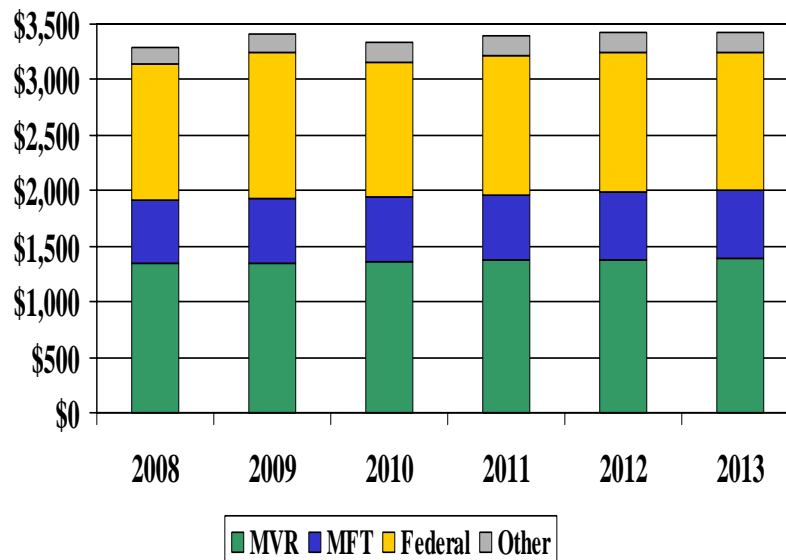
3.0 Highway Program Funding

The IDOT multi-year highway program is the strategic capital investment plan for the Department. Programming objectives have been established to ensure the capital program promotes the Department’s mission and addresses its priorities. On an annual basis, the objectives (listed below) are evaluated in terms of available revenues and a project mix is created.

- Preserve and maintain the existing highway system by resurfacing rough roads and by replacing or rehabilitating bridges.
- Upgrade existing facilities to address congestion and improve safety.
- Construct new routes to enhance economic development.

Because overall need typically outstrips revenue resources, the first step in determining the size of the capital improvement program is to estimate the funds that will become available from state sources (Motor Fuel Tax [MFT] and Motor Vehicle Registration Fees [MVR]) and federal sources (anticipated reimbursements from ongoing projects and from new projects). Figure 3-1 illustrates the revenue projections made for the time frame of the FY 2008–2013 multi-year program. These projections are the starting point for developing IDOT’s FY 2008 appropriation request.

Figure 3-1: Estimated Sources of Program Revenue (Millions)

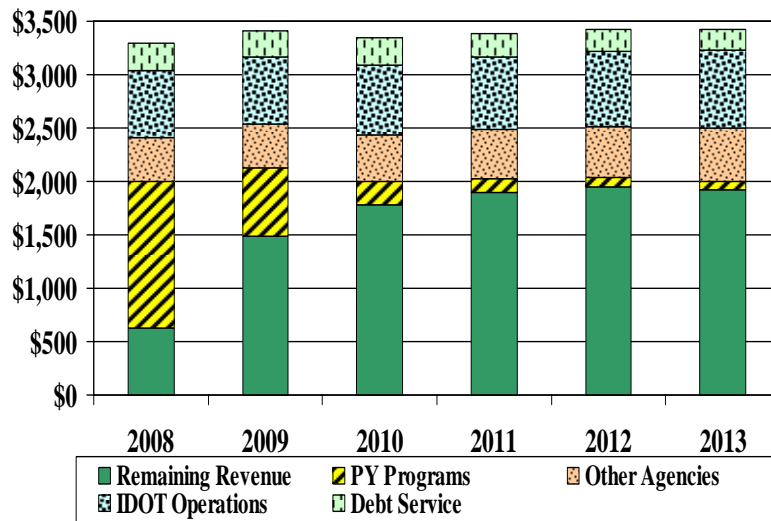


“Other” can include bond sale proceeds, reimbursements from local governments, interest on investible balances and miscellaneous fees

Once the total revenues are identified, reductions must be made for existing obligations and for non-capital spending before the size of the capital program can be determined. First, debt service for Series A highway bonds, funding for current year IDOT operations, and road fund spending by other agencies (Secretary of State, State Police) are deducted. Then, because transportation projects spend out over a number of years, obligations from previous year (PY) programs need to be accounted for and deducted. The remaining revenue is available for programming capital improvements.

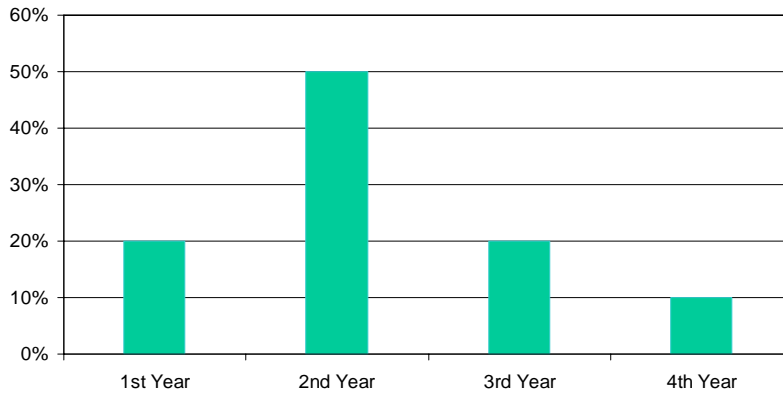
Figure 3-2 illustrates how the FY 2008–2013 revenue projections allocate funds to the multi-year capital program and to existing and non-capital obligations.

Figure 3-2: Estimated Uses of Program Revenue



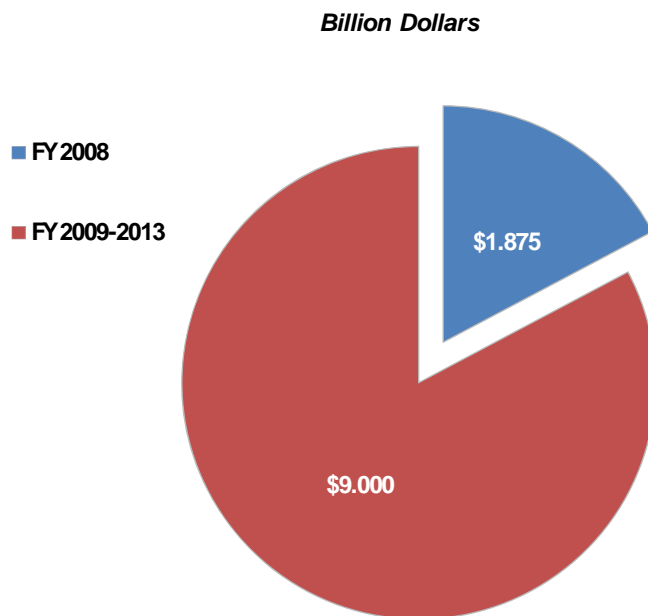
Again, because transportation projects spend out over several years, the size of the first year of the multi-year program is not restricted to the remaining revenue for that year. The Department uses historic program payout rates to determine the size of the first year program that can be supported by the remaining revenues. Through an iterative process, the remainder of the multi-year program is developed. In the FY 2008-2013 multi-year program, the FY 2008 appropriation is \$1.875 billion while the rest of the program (FY 2009-2013) totals \$9.0 billion. Figure 3-3 illustrates how program payout rates are used to calculate the size of program that can be supported by the remaining revenue projections.

Figure 3-3: Typical Program Payout



Based on the analysis of revenues and existing and non-capital obligations, the size of the FY 2008–2013 multi-year program has been set at \$10.875 billion. The FY 2008 annual element is pegged at \$1.875 billion. Figure 3-4 illustrates the relationship between the annual element and the subsequent years of the program.

Figure 3-4: IDOT FY 2008–2013 Multi-Year Program



Once the size of the program is established, the program objectives are used to evaluate how the program will be structured to address the needs. The highway improvement programs typically include a mix of projects ranging from repair and rehabilitation of existing roads and bridges to reconstruction and expansion of new highways. A more

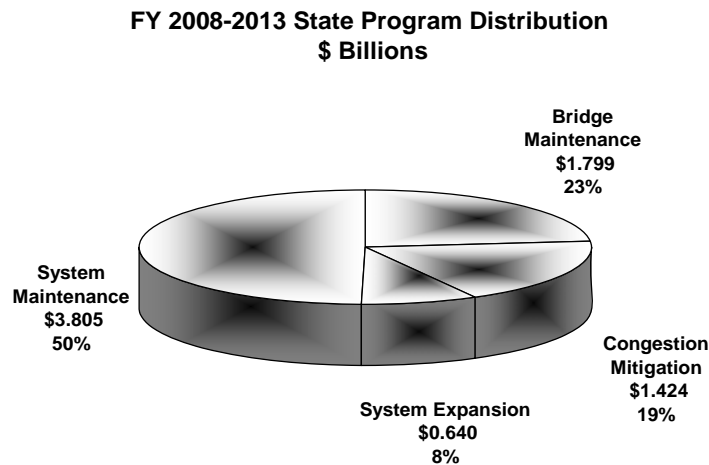
fiscally constrained program tends to have a higher percentage of projects that preserve and maintain the existing system. However, some high cost, high priority projects may be included, even at constrained funding levels.

The actions taken to assess the needs of the various program objective categories include:

- Assess highway and bridge conditions on a continual basis through visual inspection and analysis by the Department’s engineering personnel
- Quantify condition data to determine existing and future needs
- Identify high accident locations
- Identify areas that could benefit from new major highways that open industrial access to rural areas and foster economic development
- Prioritize additional capacity projects on existing roads and new major arterials needed to relieve congestion

Program estimates are compared to the highway system needs, and resources are allocated to ensure the objectives are met. The Department develops options that place emphasis on different objectives through resource allocation among program categories. Changing program emphasis will directly impact the ability to reduce the number of rough roads and deficient bridges. The project mix identified in the FY 2008–2013 multi-year program is shown in Figure 3-5.

Figure 3-5: FY 2008–2013 State Program Distributions (\$ Billions)



Note: Excludes Local Program

3.1 Local Funding

Municipalities, counties, and townships receive a portion of the state generated MFT funds by formula. They also have access to a “fair share” of federal Surface Transportation Program (STP) funds, either through the local metropolitan planning organization (MPO) in urbanized areas or through the Department in rural and small urban areas. Other federal funds such as Transportation Enhancement can be received through a competitive statewide selection process. Locally generated taxes and fees also are used to fund road and street projects. There may or may not be dedicated revenue streams depending on the local government.

3.2 Illinois State Toll Highway Authority

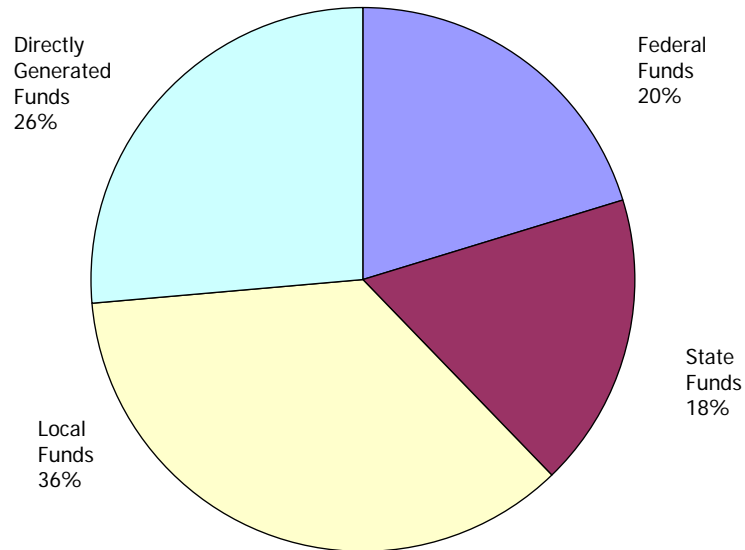
The Illinois State Toll Highway Authority (ISHTA or the Authority) operates 282 miles of tollway with an annual budget of approximately \$600 million. The primary source of revenues for ISTHA is tolls collected on the system. The Authority is currently undergoing a ten-year capital campaign that includes a \$5.3-billion Congestion-Relief initiative and \$600 million for other capital uses. In 2007, \$1 billion is budgeted for congestion relief and \$100 million is budgeted for other capital projects. Expenditures for congestion relief include roadway improvements and an open road tolling program that permits tolling without toll booths.

4.0 Transit Program Funding

Public transportation in Illinois is provided by 52 transit agencies with an aggregate operating budget of \$2.8 billion in 2006. IDOT serves largely as a funding and coordination support for these agencies.

Illinois transit agencies rely on a number of funding sources. Statewide, transit user fees and local funds account for 26 percent and 36 percent of total funding respectively. State funds provide approximately 18 percent and federal funds provide approximately 20 percent of the total funding. Figure 4-1 summarizes Illinois transit funding.

Figure 4-1: Illinois Transit Funding Source Breakdown (2006)



Source: Illinois Department of Transportation

For transit operations funding, the state provides operating assistance to transit operators in Illinois. For the six-county northeastern Illinois region, the primary source of revenue is the Regional Transportation Authority (RTA) sales tax. The second largest revenue source is the Public Transportation Fund, which is annually appropriated by the Illinois General Assembly in an amount equal to 25 percent of the total sales tax revenues. According to the 2007 RTA budget, an estimated \$186.5 million is expected for the Public Transportation Fund. The state also provides partial reduced fare reimbursement for discounts provided to students, elderly, and disabled riders. The reduced fare reimbursement also is subject to annual appropriations by the Illinois General Assembly, with an estimated \$36.3 million expected according to the 2007 RTA budget. In 2005 and 2006, the state also appropriated \$54.3 million in annual funding for paratransit service to meet Americans with Disabilities Act (ADA) requirements.

Table 4-1 illustrates the FY 2007 and 2008 Downstate Operating Assistance Program (DOAP) which provides funding for downstate transit operations.

Table 4-1: Downstate Operating Assistance Program (\$ Million)

	FY 2007 Appropriation	FY 2008 Appropriation Request
Districts		
Madison Co Transit District	9.72	10.04
Champaign-Urbana	11.38	12.52
Peoria	8.79	9.23
Rock Island	7.18	7.90
Rockford	6.24	6.55
Springfield	6.07	6.07
River Valley Metro MTD	1.37	1.51
Municipalities		
Bloomington-Normal	3.10	3.40
Decatur	2.98	2.98
Pekin	0.45	0.45
South Beloit	0.04	0.04
Danville	1.08	1.08
St. Clair Co. Transit District	16.17	17.79
Macomb	0.80	0.88
DeKalb	1.40	1.54
Non-Urban		
Galesburg	0.68	0.68
Quincy	1.49	1.49
South Central Mass Transit District	1.95	2.15
Rides Mass Transit District	2.13	2.34
Jackson Co. Mass Transit District	0.15	0.15
Shawnee Mass Transit District	0.66	0.69
West Central	0.35	0.35
Monroe-Randolph counties	0.39	0.39
TOTALS	84.56	90.22

For transit capital funding, the state provides reimbursements for debt service for Strategic Capital Improvement Program (SCIP) Bonds. A second round of SCIP bonds was authorized by the Illinois General Assembly in May 1999 through the Illinois FIRST program, which was a \$12-billion, five-year capital program. It granted the RTA the ability to issue a total of \$1.6 billion in capital investments bonds, of which the state would reimburse the debt service on \$1.3 billion in bonds. In addition, Illinois FIRST provided IDOT with \$540 million for statewide transit projects, most of which was intended for local match of federal funds. With the expiration of Illinois FIRST,

additional transit capital funding assistance is being sought by transit agencies in Illinois.

Transit providers face a funding problem similar to that of the highway implementers. In this case, however, the revenue side of the equation is more difficult to predict because General Revenue Funds (GRF) are the source of state funding. This puts transit in competition with all state agencies receiving GRF for revenues, primarily through the payment of debt service on general obligation bonds issued for transit purposes. One potential strategy would be to identify a dedicated transit fund to receive tax monies intended for transit services.

5.0 Airport Program Funding

There are 138 airports in Illinois, of which 77 are publicly owned and eligible for public funding. Capital funding is primarily provided by the Federal Aviation Administration (FAA) from the Federal Airport and Airway Trust Fund. This fund provides both formula funds and discretionary funds for aviation projects in Illinois. The FAA also provides formula funds directly to larger primary airports, like O'Hare and Midway in Chicago.

State capital assistance is provided through the sale of Series B Bonds. The availability of these funds is determined by the General Assembly. Table 5-1 delineates state appropriations for airports between 1992 and 2007.

Table 5-1: State Airport Appropriations History

Year	Series B Bonds	GRF	Federal-Local	Series B Bonds Land Acquisition Chicago's 3rd Airport
1992	\$5,000,000	\$260,000	\$115,088,000	--
1993	\$14,500,000	\$991,000	\$162,832,000	--
1994	\$23,789,000	\$260,000	\$191,552,000	--
1995	\$37,903,600	\$260,000	\$206,427,000	--
1996	\$16,000,000	\$260,000	\$99,539,000	--
1997	\$12,000,000	\$278,500	\$144,900,000	--
1998	\$12,000,000	\$278,500	\$112,487,000	--
1999	\$13,016,100	\$300,000	\$95,858,000	--
2000	\$17,000,000	\$350,000	\$102,790,900	\$13,500,000
2001	\$16,600,000	\$400,000	\$99,184,400	\$16,000,000
2002	\$18,586,400	\$400,000	\$133,204,800	\$15,000,000
2003	\$20,072,600	\$400,000	\$140,370,000	\$15,000,000
2004	\$16,000,000	\$400,000	\$71,763,100	\$5,000,000
2005	\$0	\$400,000	\$235,148,119	\$0
2006	\$0	\$400,000	\$152,000,000	\$0
2007	\$2,200,000	\$350,000	\$137,000,000	\$0

Similar to transit, state funding for airports is provided by the general revenue fund, including debt service for Series B Bonds. As Figure 4-1 illustrates, the airport program suffers when GRF shortfalls result in overall state budget cutbacks.

6.0 Rail Program Funding

Rail services—both freight and passenger—are paid for primarily by user fees. In support of intercity rail passenger services, the General Assembly provides funds from the general revenue fund for operating subsidies and capital improvements.

Passenger rail service in Illinois has recently experienced renewed attention. In 2005, ridership increased by 11 percent on all routes subsidized by the state. Recognizing the increased demand for the service, Illinois increased state funding from \$12 million in FY 2006 to \$24 million in FY 2007. This additional funding has allowed for expanded daily service between Chicago and the downstate communities of Springfield, Quincy and Carbondale.

The freight program provides grants and low interest financing to capital rail projects that benefit economic development in Illinois. Projects are evaluated based on a benefit/cost ratio. Table 6-1 identifies the 2007 and proposed 2008 state appropriations for freight and passenger rail programs in Illinois.

Table 6-1: Railroad Program Budget

	2007	Proposed 2008
Federal Revolving Fund		
Rail Freight Loan	1.045	1.045
Total	1.045	1.045
General Revenue Fund		
Intercity Rail Passenger	24.250	28.000
State High Speed Rail Project	0.500	1.000
Total	24.750	29.000
State Revolving Fund		
State Rail Freight Loan	2.700	2.700
	2.700	2.700
Appropriation Totals	28.495	32.745

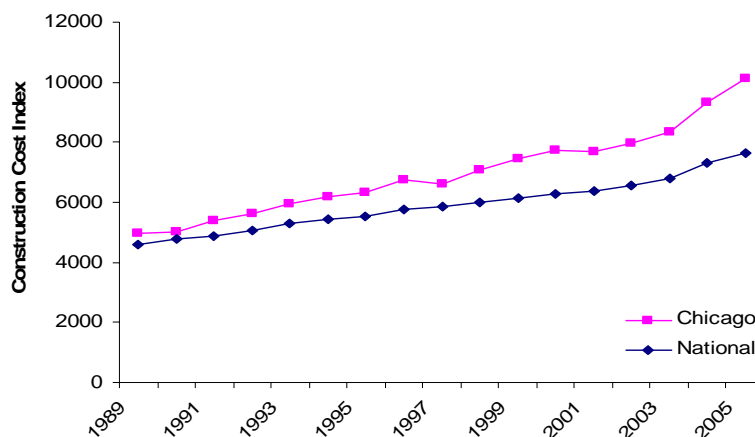
Another element of IDOT's efforts to support freight and passenger rail service is the Chicago Region Environmental and Transportation Efficiency (CREATE) program. CREATE is a partnership between the state of Illinois, the city of Chicago, and six major national freight rail carriers (BNSF Railway, Canadian Pacific Railway, CN, CSX Transportation, Norfolk Southern Corporation, and Union Pacific Railroad). The proposed CREATE program will invest an estimated \$1.5 billion in capital projects to improve transportation efficiency in the region.

7.0 Current Funding Issues

One of the key factors affecting long-range plans for the Illinois transportation system is the reality that needs outpacing available funds. This is a reality that most states must consider as maturing systems like the interstates need to be reconstructed, not just resurfaced. Other issues, such as inflation and slowing revenue growth in traditional funding sources, are exacerbating the problem.

Driven by increases in fuel, steel, asphalt, concrete, and equipment, the construction cost index has risen by almost 30 percent between 2004 and 2006. This increase significantly outpaced inflation and eroded the purchasing power of the transportation improvement dollar by nearly a third. The Chicago area index has grown at a rate faster than the national average, making the transportation finance challenge in Illinois even greater. Figure 7-1 below compares the national and Chicago area construction cost index from 1989 to 2005.

Figure 7-1: Construction Cost Index



Several factors are contributing to reduced growth of state and federal highway revenues. The increased fuel efficiency of the vehicle fleet and the dramatic rise in the price of fuel have combined to retard the growth of fuel usage. While this is a positive in terms of global economic and environmental issues, it does create downward pressure on transportation revenue growth and the ability to address transportation system needs. Increased fuel efficiency and fuel prices tend to reduce consumption, which hurts revenues because traditional state and federal fuel taxes are levied by the gallon and not as a percentage of the overall sales price. The long-term growth rate for both motor fuel tax and vehicle registration is 1.0 to 1.5 percent annually.

While the dynamics on the revenue side are different, transit, aviation, and rail have similar problems. Because these non-highway modes tend to draw funds from general revenues, they must compete with a wide variety of important social issues for resources. Health care, education, children's services and law enforcement are just a few of the interests competing for general funds. As a rule, tax and fee revenues that are deposited into general funds grow faster than highway revenues; even they do not keep up with inflation. In addition, legislative priorities often change from year to year and thus the percentage of the general fund pie available to transit, airports, and rail tends to be unpredictable.

At the same time, the cost to maintain infrastructure, facilities and services for transit, airports and rail are increasing at a rate faster than inflation due to many of the same factors that affect highway costs. The result is an unsteady stream of revenue for these modal programs that, in the best of times, provides only for maintaining the existing system with little money available for system enhancement or expansion.

8.0 Long Term Funding Gap

While IDOT's revenues are increasing, they are not keeping pace with the growth in system needs. The total amount of vehicle travel continues to grow at historic levels while the rate of growth of fuel usage has slowed. This growth in travel contributes to wear and tear on the highway system and to increased congestion in urbanized areas. As a result, system maintenance and expansion needs continue to grow. These needs, combined with the overall infrastructure rehabilitation needs driven by the aging highway system, make transportation funding more challenging.

In general, the improvement needs for roads and bridges is growing, the transit systems have aging assets and infrastructures and rising costs are outpacing inflation. Overall, this has created a capital and operating funding gap that Illinois needs to address in both the short term and the long term.

With the US Department of Labor's Highway and Street Construction Cost index going up at an average annual rate of 3-4 percent and a long-term rate of growth of transportation funding of between 1-1½ percent per year, long-term funding solutions are problematic. Further complicating this concern now is the even higher rate of 8.5 percent road construction inflation experienced over the last three fiscal years. Even if existing programs were able to meet all of the system maintenance and expansion needs of all modes, ultimately the reduced buying power of the transportation dollar will create a growing backlog of unmet needs in the future.

However in the long term, travel on of all modes of transportation is growing and capital improvement programs must address ever increasing needs to rehabilitate and expand infrastructure, facilities and services. Since inflation is threatening the ability of existing revenue sources to preserve the existing systems, the growing needs for enhancement and expansion will go unfunded.

One study that illustrates this problem is the "Illinois Surface Transportation: 2007 Capital Needs Analysis" prepared for the Illinois Road and Transportation Builders Association and Transportation for Illinois Coalition by the American Economic Group, Inc (AEG), an economic consulting firm. This report projects cost estimates for maintaining and updating highways, mass transit, and the freight rail system in Illinois over a 30-year period. This analysis is based on the Highway Economic Requirements System—State (HERS-ST) model, which was created by the Federal Highway Administration (FHWA). This model is an engineering-based tool, which assesses road conditions, performance, and costs to provide a cost estimate for different levels of system performance.

As shown in the Table 8-1 below, the AEG report projects a \$237-billion transportation need (in 2007 dollars) over the next 30 years. More than half of that amount is needed for roads and bridges (\$171 billion) and just over a quarter is needed for mass transit. According to the AEG report, the Chicago Region Environmental and Transportation Efficiency (CREATE) program, a partnership between the state of Illinois, city of Chicago, and the nation's freight railroads, is expected to require \$1.7 billion (or less than one percent).

Table 8-1: Illinois Surface Transportation Capital Needs (2007 \$ Millions)

	30-Year Total	Annual*
Roads & Bridges	\$171,408	\$6,084
Mass Transit	\$64,688	\$2,456
CREATE	\$1,714	\$286
Total	\$237,810	\$8,826

Source: American Economic Group, Illinois Surface Transportation

** Annual cost in first five years is above the overall 30-year average of \$7,927 million (\$237,810/30).*

It is clear that existing funding resources for public sector transportation facilities are falling well short of existing system preservation and expansion needs. New revenues will be needed to close this funding gap.

9.0 Potential Funding Strategies

Historically, Illinois has addressed the need for additional funding for transportation. However, as the divergence between traditional funding mechanism and transportation needs continues to grow, new options need to be explored. In response to this changing funding environment, the Department has established the following goals for transportation funding:

- Maintain a transportation funding structure that provides adequate and stable resources for demonstrated transportation needs, incorporating federal, state, local, and private revenue sources and providing equitable funding for all transportation modes and jurisdictions.
- Maintain the user pay principle to transportation facilities and services, charging user fees and other beneficiaries of the transportation system in proportion to the costs they impose and benefits they derive to the maximum extent possible. Extend user-pay principles to new technologies and alternative fuels.
- Explore joint public-private partnership and private sector initiatives to provide transportation facilities and services where public expenditures can be reduced, while maintaining the quality and quantity and long-term service stability. Support joint use of transportation facilities for compatible, non-transportation activities and businesses where these are economically feasible.
- Explore innovative financing methods to fund transportation facilities and services.

The strategies listed below are funding options that could help to bridge the gap between funding and needs. This list is not comprehensive and represents no commitment toward any strategy.

9.1 Traditional Funding Sources

One method to bridge the funding gap is to increase traditional taxes and fees that support transportation at the federal and state levels. Given the significant increase in the price of fuel over the past several years, however, it is even more difficult for legislators to support such a tax or fee increase.

9.2 Adjust Motor Fuel Tax Structure

Structural adjustments to existing motor fuel taxes, such as indexing, have a significant ability to increase revenues. Vehicles are becoming much more fuel efficient, and alternative fuel engines are also having a negative effect on fuel consumption. Lastly, the popularity of larger and less efficient vehicles is clearly slowing. Structural changes to the traditional fuel tax collection mechanisms should be considered to better maintain

future revenues. Oregon is piloting a program to collect mileage-based taxes rather than quantity-based fuel taxes.

9.3 Privatization and Outsourcing

Private sector participation can assist efforts to balance available funding with program and project costs. Expanded uses of outsourcing (maintenance contracts, management contracts, and vehicle and equipment leasing), combined with hedges on commodities (fuel and electricity) and even strategic sourcing of equipment (mobile phones and other hand-held communication devices), can present significant cost savings for operating budgets.

9.4 Public-Private Partnerships

To address the need to leverage additional funds from other sources, fewer restrictions are now placed on combining public and private investments to make some transportation projects financially feasible. While limited in their application, public-private partnerships offer one option for government agencies to capitalize on private sector resources to implement specific transportation projects or services that will be beneficial to both public and private interests. Key to these types of initiatives is the need to clearly identify the potential public benefits to ensure public support for joint investments with private partners.

The CREATE project in Chicago is an excellent example of this approach—private railroads improve and rationalize their rail operations to realize economic efficiencies. The state of Illinois and the city of Chicago will coordinate with investments that will reduce rail-highway traffic conflicts and thereby improve access and travel times for commuters, travelers and residents in northeastern Illinois.

9.5 Impact Fees

Other opportunities exist to leverage private funding of public transportation facilities and services. Land developers and other businesses have frequently participated in funding transportation improvements that open up new areas for commercial and residential development. In many high-growth communities, local transportation development impact fees and infrastructure requirements have been enforced to ensure that development is orderly and public infrastructure are built concurrently with growth.

Local option impact fees can be instituted by local governments in Illinois to help the jurisdiction recover some of the costs related to the impacts of new developments on the transportation network. These beneficiary fees can include value capture fees, such as

tax increment finance districts, which generate funds from taxes related to the added value of sites around transportation sites. Impact fees can encourage more opportunities for joint development, value capture, and transit-oriented development. Several municipal and county governments use impact fees and tax increment finance districts to help fund transportation and other infrastructure projects.

10.0 Other Innovative Funding Strategies

This section explores flexible funding options offered by the USDOT and other innovative funding strategies implemented by other states and countries. This list is not comprehensive and represents no commitment toward any strategy.

10.1 Borrowing Mechanisms Sponsored by the Federal Government

The federal government encourages the use of innovative financing techniques and new applications of existing revenues to support transportation. It is worth noting that many innovative financing techniques discussed in this sub-section are not actually “new” sources of revenues; rather, they are more a means to expedite capital investment which can, ultimately, save money. This is typically done by relaxing financial restrictions on the use of federal aid, establishing financing institutions at the state level, providing federal credit assistance, and tapping private sector resources for investment in public projects. Repayment flexibility is one of the strongest benefits that can be achieved through improved access to capital and the use of innovative finance mechanisms.

It should be noted that the state of Illinois is constitutionally required to obtain a three-fifths majority from both state legislative houses to issue debt over the current principal caps. Currently, the Illinois debt principal for transportation is capped at \$5.3 billion (\$3.4 billion for highway, \$1.5 billion for transit, and the remaining portion for airports and railroads).

Transportation Infrastructure Finance and Innovation Act (TIFIA). TIFIA provides \$2.5 billion in annual credit assistance, improves access to capital markets, employs flexible repayment terms, offers potentially more favorable interest rates than can be found in the private capital markets, and facilitates earlier completion of large capital intensive projects due to the market’s uncertainty over the timing of revenues. The line of credit can cover up to 33 percent of eligible project costs under normal federal-aid highway rules.

State Infrastructure Bank (SIB). A SIB is a state-level financial institution that has a revolving low-interest loan program for infrastructure projects.

Private Activity Bonds (PABs). PABs allow surface transportation projects with significant private participation to access the tax-exempt bond market.

Tax Credit Bonds. Tax credit bonds allow financial institutions, pension funds, and other large investors to purchase bonds in which the “interest” paid to the holder would be a federal tax credit instead of a cash payment.

Grant Anticipation Revenue Vehicles (GARVEEs). GARVEEs allow states to use expected future-year federal-aid appropriations to repay principal and interest on bonds. A \$15-billion national cap is imposed by the U.S. Treasury.

FTA Full Funding Grant Agreement Bonds (“FFGAs”). FFGA Bonds are issued in the traditional municipal marketplace and are secured by the FTA’s commitment to pay grant dollars awarded to a project. The timing risk of when the FTA will obligate the funds is borne by the investors, as the project sponsor receives the full proceeds up front at financial closing.

10.2 Regional Mobility Authorities

Recently, several innovations in California, Texas, and Virginia, for example, have allowed regions, as opposed to the whole state, to take on stronger roles by allowing them to participate in decisions about what levels of service they want. One way to address this is to have regions establish regional mobility authorities (RMAs) or they can strengthen inter-municipal authorities that have toll authority in their regions. It is through the RMAs that the regions can sponsor either public or public-private partnerships for the toll roads. RMAs provide the regions with the incentive to generate local revenues and they eliminate the need to involve more stakeholders (statewide).

RMAs can collect funds in a number of ways. Tolling is an often used method, but taxing and bond issues can be used as well. RMAs can levy a tax by joining with a unit of local government to tax local users of the roadway.

10.3 Tolling on New and Existing Roads

Conversion of existing free lanes to tolled facilities has traditionally been met with significant challenges. The traveling public is much more apt to accept a toll when that payment can be tied to some sort of improvement, such as new capacity or access, or when improved services can be tied to a new or increased toll payment.

10.4 New Toll Pricing

Pricing decisions are critical when considering new toll projects. There are many different forms of pricing structures, including tolling and technologies used (fully electronic, cash, video, transponder, etc.), method of enforcement, and the manner in which prices are adjusted, if at all. For example, toll rates can be adjusted to act as a

form of demand management, and prices can fluctuate in real time based on current volumes, or toll rates can be simply based on time of day analysis. Each of these factors has the ability to significantly influence the operation of the toll facility and therefore operations and maintenance (O&M) expenditures as well as the revenue generation of the facility. Several forms of tolling used for demand management are discussed below.

10.4.1 Congestion Pricing

Congestion pricing is a transportation control measure that allows the government to charge drivers to use roadways depending on location, time or vehicle occupancy. The FHWA is currently funding several pilot programs around the country. In February 2003, London, England, began a similar program. When private cars drive into the center of the city between certain high congestion times on weekdays, they are charged a fee. This system tracks motorists through a video camera system that matches license plate numbers to a database of paid customers. The program has been expensive to administer but has proven to be very successful by reducing congestion and generating a significant amount of funding for transit.

10.4.2 HOT Lanes

Many areas currently use high occupancy vehicle (HOV) lanes on their roadway systems. These lanes allow vehicles with high occupancy (more than a specified number of passengers) to travel in a dedicated lane. A new trend is emerging to convert HOV lanes to high occupancy toll (HOT) lanes. These lanes continue to allow high occupancy vehicles to travel at no or little charge but also allow low occupancy vehicles to use the lanes by paying a toll.

California has a number of HOT pilot programs funded by FHWA. In San Diego, HOT lanes were initiated in July 1997. Initially, window decal permits were sold to low occupancy users. Within a year, however, automated tolling was implemented. Other similar programs have been implemented in Minneapolis, Denver, Miami, and Houston.

10.4.3 Express Lanes

Express lanes provide drivers with connections between major points without access to every interchange. Express lanes are often built alongside traditional freeways and have limited access to the traditional lanes and limited access to exits. This allows drivers traveling between major points to use a more limited access roadway, ideally with less congestion while locally traveling drivers use the traditional freeway. Express lanes could be tolled as a general transportation revenue source or to fund the construction and maintenance of the lanes themselves. In Southern California, the I-91 Express Lanes provide privately funded and operated lanes along Interstate 91 between Orange

County and Interstate 5. The private entity that operates these lanes is funded through toll proceeds.

10.4.4 Truck Only Lanes

Truck only tolls (TOT) allow commercial vehicles to pay a toll to use an exclusive lane. Most often commercial vehicles are given the option to remain on normal use lanes and avoid the toll. TOT pricing can be set to maintain a desired level of service similar to HOT lanes. This option may be particularly appealing in areas of high congestion as commercial vehicles will be more willing to pay for alternative routes in these circumstances. This option is currently being examined by FHWA and the Texas Department of Transportation in the Austin area.

10.5 Public-Private Partnerships

Involving private sector investors and developers in infrastructure development can present opportunities for increased available investment funds. As shown recently in the roads sector, private companies and consortiums invest their equity capital not only to purchase existing greenfield facilities but also to enter into longer-term planning and development contracts with government to facilitate longer-term corridor development projects. Illinois is well aware of the benefits that private sector participation can bring and the city of Chicago and the state continue to explore privatization opportunities.

Private sector participation can come in many forms, such as long-term concession transactions, where substantial up-front payments or ongoing revenue sharing arrangements are transferred to the public owner in return for the private sector's rights to charge and collect user fees and to obtain their financing. Private sector participation can include other forms of alternative delivery mechanisms all targeted at allocating risks to the party that is best able to mitigate that risk. The most advantageous aspect of including the private sector in infrastructure development is their willingness to bring their own equity capital to the project and place their capital at-risk. In today's environment of funding shortfalls and rising costs, private sector capital can help bridge the funding gap to deliver needed investments.

The idea of private concessions is not new to Illinois nor is it restricted to transportation. The state currently is investigating a concession of the state run lottery to a private firm. Evolving notions of private-partner concessions could ease the process of future transportation-related public-private partnerships.

10.6 Vehicle Miles of Travel User Fees

A vehicle mile of travel (VMT) user fee is an emerging notion for transportation pricing. A VMT system uses a GPS unit attached to each vehicle to register travel distance and

location. A pricing mechanism is then applied to this information and the driver is billed for road usage. This method will provide truly equitable cost pricing while allowing for the flexibility to accommodate differential charges according to vehicle type and characteristics of use. For example, fees could be lowered if a vehicle faces congestion. Drivers also could be given a discount for lower level of service trips.

The VMT is not without challenges however. Implanting an electronic tracking device on vehicles raises privacy issues. It will also take time and substantial cost for the technology to be implemented. Not only must every vehicle be outfitted with a data collection device but the collecting agency must gather all of the data. Individuals may also be concerned about government tracking of their travel.

Despite the potential consequences, VMT presents a promising option for fair and equitable transportation pricing in the long term.

11.0 Summary and Conclusion

One of the realities affecting any plan is that transportation needs tend to outpace available funding. One factor is the primary funding source for highways—federal and state taxes on motor fuels. Because motor fuel consumption typically grows very slowly and traffic historically has grown much faster, the growth in revenues fails to keep pace with the wear and tear on highways and increased congestion. This disparity has created new challenges for meeting highway repair and improvement needs. Other transportation modes such as public transit and rail passenger service, rely primarily on general fund revenues. These modes face competition from non-transportation interests for scarce resources.

To address these modal funding gaps, the Department must thoughtfully consider potential strategies for increased revenue. Most of these will require approval by the Illinois General Assembly. Among such strategies are potential increases to existing user fees and taxes. Other innovative strategies discussed in this report are becoming increasingly viable on a national level.

Ultimately, the Department must work with the Governor and the General Assembly to determine what funding levels are appropriate for addressing transportation needs in the future and what combination and structure of user fees, taxes, and other funding methods should be employed to provide adequate resources for the modal programs.