

September 2012
Public Comment Draft



TRANSPORTATION FUNDING REPORT



ILLINOIS STATE TRANSPORTATION PLAN

Transforming Transportation for Tomorrow



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1.0 Introduction

A well-developed and integrated system of highways, railroads, waterways and airports is essential to a healthy economy by providing the means to distribute Illinois goods and services to local, regional, state, national and international markets. Getting people to work, schools, health care providers and shopping depends on a combination of good roads and streets as well as adequate public transportation alternatives. In many ways, the state transportation system is one the most important assets the state has to ensure a vibrant economy and the general well-being of its citizens.

The Illinois Department of Transportation (IDOT) is committed to promote and provide safe, cost-effective transportation in ways that enhance the quality of life, improve multi-modal connectivity, foster economic prosperity, and demonstrate respect for the environment. IDOT has established six 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
- Implement human capital initiatives
- Improve internal and external communications

Transportation in Illinois is provided through an 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.

User generated fees and fares make a significant contribution to financing the construction, operation, and maintenance of the transportation system. These “user fees” are often supplemented by general tax fund contributions for road improvements by local agencies and for transportation services such as transit and intercity rail passenger services.

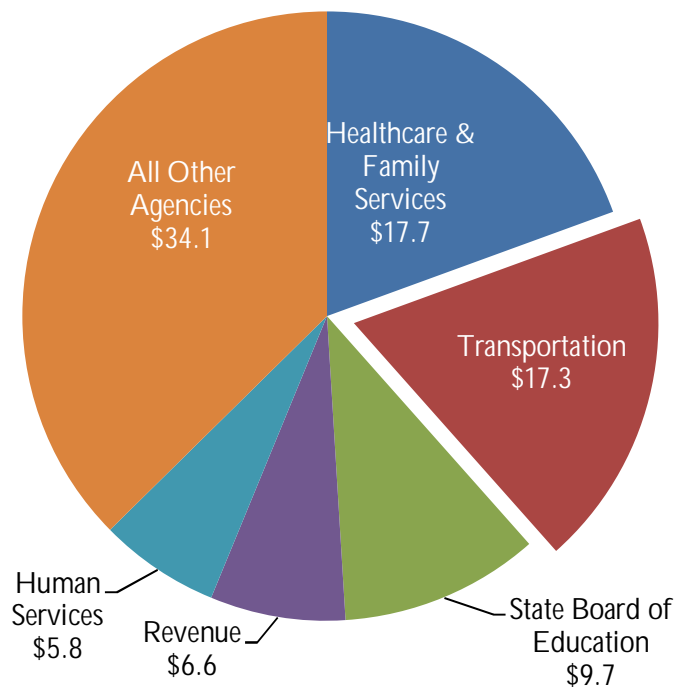
This report will discuss the financing mechanisms for the public side of the transportation system equation with a focus on state and federal funding used and distributed by IDOT. Other non-IDOT controlled public funds and private funds will be referenced as needed for context.

2.0 Transportation Funding in Illinois

2.1 Overview

IDOT is funded through a combination of federal and state resources. IDOT's ability to access those resources is provided by appropriations passed by the General Assembly and signed by the Governor. In Fiscal Year 2013 (FY 2013), IDOT received an appropriation of \$17.3 billion. Figure 2.1 and Table 2.1 below illustrate how IDOT fits into the total state appropriation.

Figure 2.1: FY 2013 State Appropriations (\$91 Billion)



Note: The transportation appropriation includes \$13 billion in re-appropriations for previously appropriated projects and purposes.

Table 2.1: FY 2013 IDOT Appropriations

All Funds - By Category		
	Billions of Dollars	Percent
Personal Services & Related	0.67	3.9%
All Other Operations	0.32	1.8%
Permanent Improvements	0.01	0.1%
New Awards & Grants *	2.02	11.7%
New Construction	1.01	5.8%
Reappropriation **	13.28	76.7%
TOTAL	\$17.31	100%

* 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 actually provide funds to spend: it simply provides the authority to spend. An appropriation is an upper limit on an agency's authority to spend the money contained in the accounts identified. Because overall needs outstrip revenue resources, the amount of appropriation requested by IDOT 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 US Department of Transportation. 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 High Speed Rail 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, Series A Bond Fund and Series D Bond Fund.

The following taxes and fees generate revenue for the road and construction funds:

- Motor fuel and diesel fuel taxes
- Driver's license fee
- Annual auto and pick-up truck registration fee
- Annual heavy truck registration fee
- Title certification fee

Portions of the above fees – except for the motor and diesel fuel taxes – are used for non-highway transportation and other non-transportation purposes.

The funds that are appropriated by the General Assembly and the federal government for IDOT to distribute for public transit, airports and rail come from the following:

- General Revenue Fund (GRF)
- Series B Bond Fund
- Public Transportation Fund (PTF)
- Downstate Public Transportation Fund (DPTF)
- Downstate Transit Improvement Fund (DTIF)
- Federal Mass Transit Fund
- Federal Local Airport Fund
- Federal Rail Freight Fund
- State Rail Freight Fund
- High Speed Rail Fund

Revenue for the General Revenue Fund (GRF) is derived from all of the tax and fee sources that are allocated to that fund. The various public transportation funds are funded through GRF transfers. Federal funds are 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.

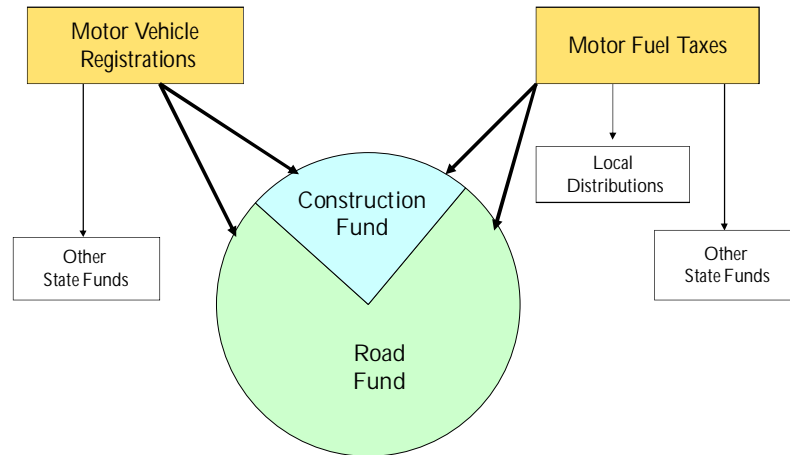
Table 2.2: IDOT Funding Sources by Major Transportation Mode

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	\$99-\$112 - automobiles, pickup trucks; \$158-\$3,191 – heavy trucks (based on weight); \$95 - 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 PTF; DPTF; DTIF	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 – HSR 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

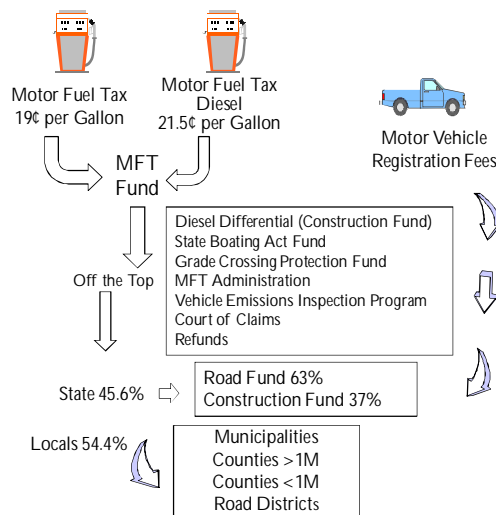
* Data not available.

Figure 2.2: Highway Funds State Source Revenue



Note: The Road Fund is used to pay debt service to the Series A Bond Fund when authorized by the General Assembly

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, railroads, bicycling and walking. The challenge for IDOT and all Illinois transportation providers and implementers is to integrate these systems into a seamless network that effectively and efficiently moves people and goods.

Currently, IDOT faces a transportation funding problem. Construction costs continue to rise while revenues are essentially flat. With the economic downturn, rising fuel prices, and more fuel efficient vehicles, conventional transportation funding sources are not keeping up with the needs of an aging

transportation infrastructure. This 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.

2.2 Highway Program Funding

The IDOT multi-year program (MYP) is the strategic capital investment plan for the State. The FY 2013-18 MYP identifies a total of \$9.2 billion of highway investments on state and local highways. Of that total, more than \$1.3 billion comes from bonds authorized by the Jump Start Capital Plan and the Illinois Jobs Now! program, which provided funding for improvements including:

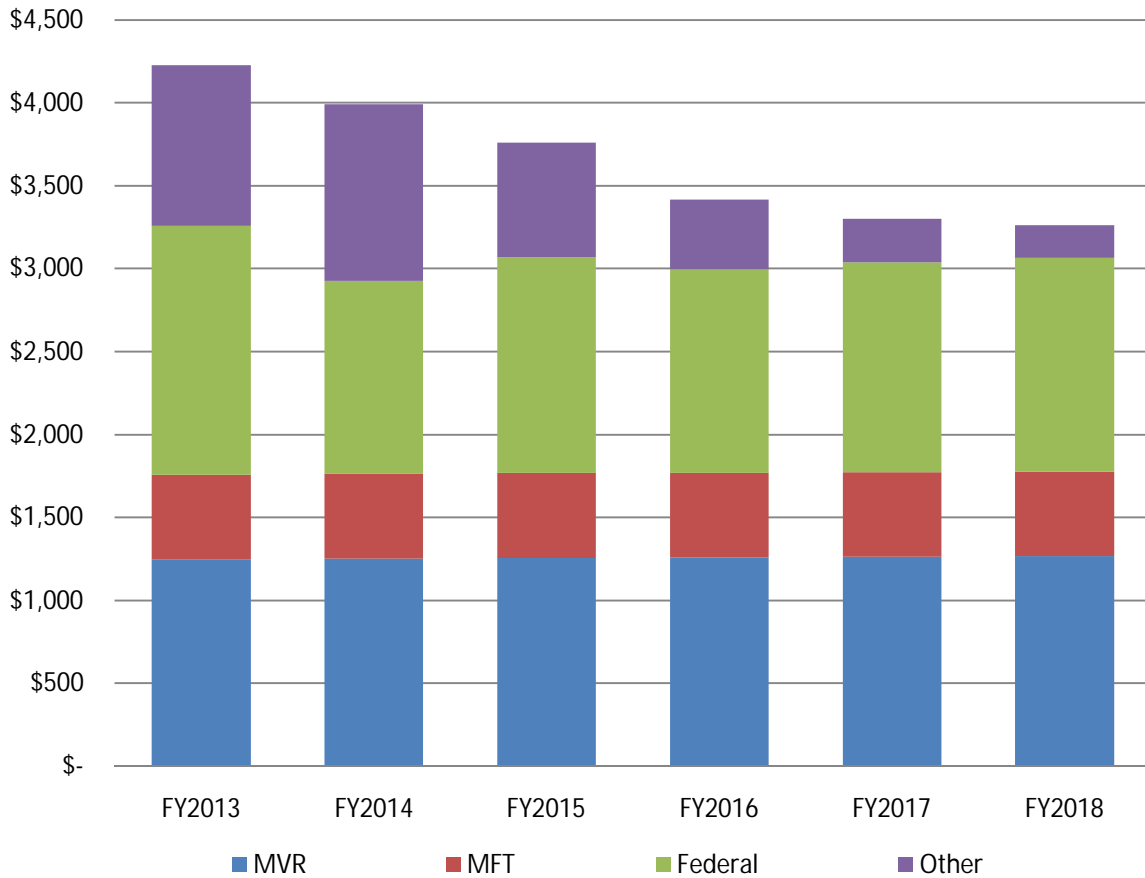
- I-55 (Stevenson Expressway) bridge rehabilitation from the Dan Ryan to Lake Shore Drive in Cook County.
- I-94 add lane/ bridge rehabilitation project from Ill 173 to the Wisconsin State line in Lake County.
- Illinois 5 (John Deere Road) add lane/ reconstruction project of from 38th Street to 70th Street in Rock Island County.
- I-57 bridge replacement/ interchange construction project at Illinois 50 in Kankakee County
- US 34 new bridge/ add lanes project at Illinois 94 in Henderson County .
- US 51 new bridge construction just north of Illinois 16 in Christian County.
- I-70 reconstruction/ bridge replacement project at I-57 in Effingham County.
- Illinois 3 relocation/ new construction project from St Clair Ave to River Park Drive in St. Clair County.
- US 45 reconstruction/ add lanes project between Illinois 141 and Illinois 142 in Saline County.

Programming objectives have been established to ensure the capital program promotes IDOT'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 transportation needs typically are greater than revenues, 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 2.4 illustrates the revenue projections made for the time frame of the FY 2013-2018 multi-year program. These projections are the starting point for developing IDOT's FY 2008 appropriation request.

Figure 2.4: Estimated Sources of Program Revenue (Millions)

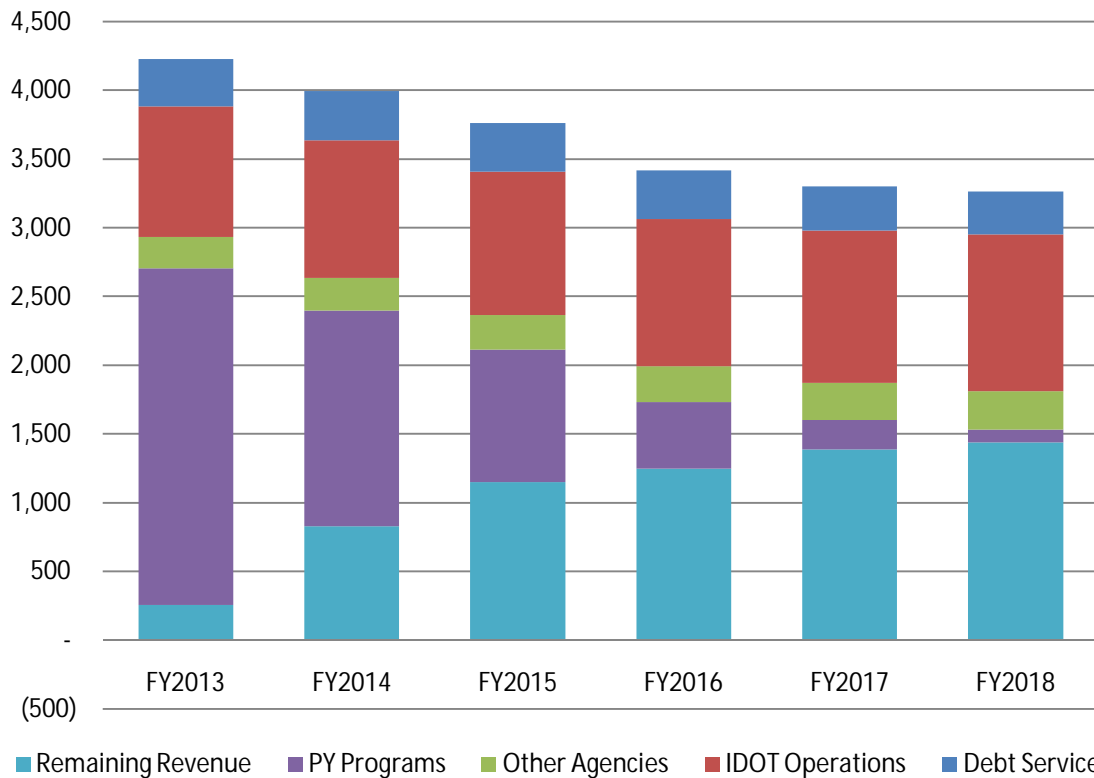


Note: "Other" includes bond sale proceeds ("A" & "D"), local reimbursements, interest income, and miscellaneous fees.

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. Debt service for Series A highway bonds, funding for current year IDOT operations, and road fund spending by other agencies (for example, Central Management Services group insurance and workers compensation) are deducted. In addition, 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 2.5 illustrates how the FY 2013-2018 revenue projections allocate funds to the multi-year capital program and to existing and non-capital obligations.

Figure 2.5: Estimated Uses of Program Revenue (Millions)



Because transportation projects typically 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. IDOT 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. Figure 2.6 illustrates how program payout rates are used to calculate the size of program that can be supported by the remaining revenue projections.

Based on the analysis of revenues, existing and non-capital obligations and the remaining bond appropriations, the size of the FY 2013-2018 multi-year program has been set at \$9.168 billion. The FY 2013 annual element is set at \$1.759 billion. Figure 2.7 illustrates the relationship between the annual element and the subsequent years of the program.

Once the size of the program is established, program objectives are used to evaluate how the program will be structured to address the identified needs. Highway improvement programs typically include a mix of projects ranging from road and bridge repair and rehabilitation to reconstruction and expansion. 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.

Figure 2.6: Typical Program Payout

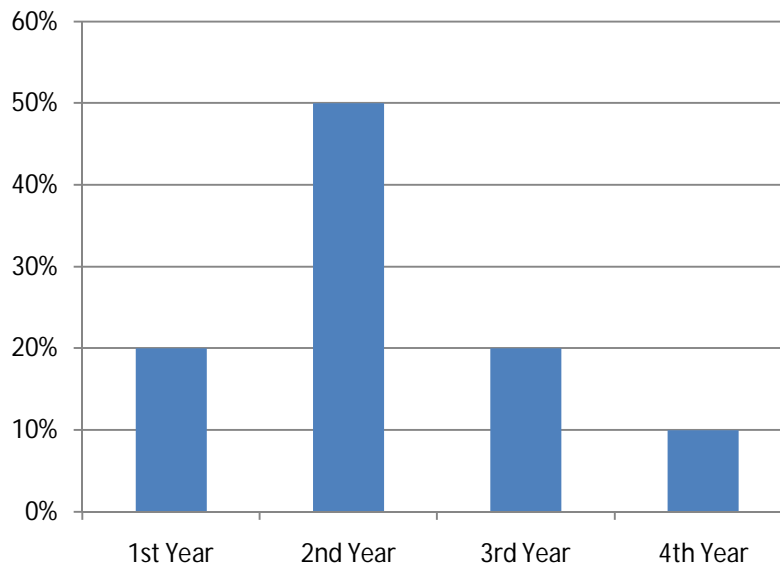
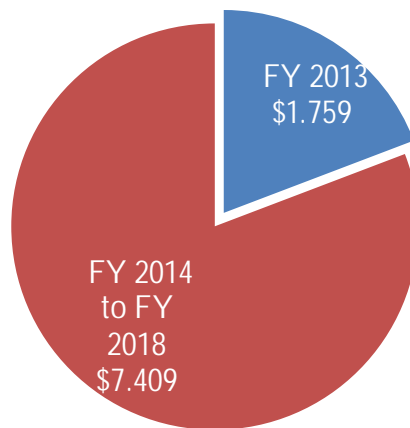


Figure 2.7: IDOT FY 2013-2018 Multi-Year Program (Billions)

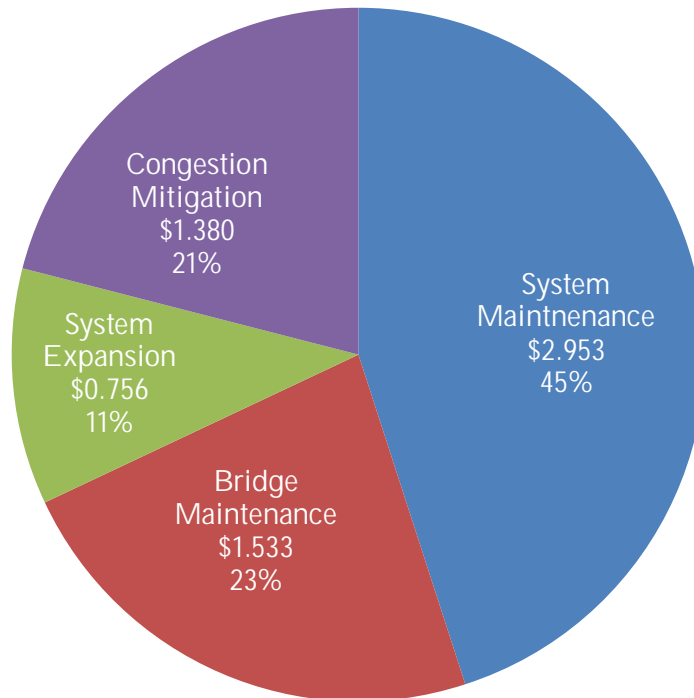


The actions taken to determine the various program objective category needs include

- Assess highway and bridge conditions on a continual basis through visual inspection and analysis by IDOT's engineering personnel
- Quantify condition data to determine existing and future needs
- Identify high crash 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 highway system needs, and resources are allocated to ensure the objectives are met. IDOT 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 2013-2018 multi-year program is in Figure 2.8.

Figure 2.8: FY 2013–2018 State Program Distributions (Billions)



Note: Excludes Local Program

The new federal transportation authorization, Moving Ahead for Progress in the 21st Century Act (MAP 21), requires state transportation agencies to develop performance measures to provide greater accountability for how tax dollars are being spent on transportation projects. It is also intended to focus federally funded transportation programs on key national priorities.

Each State is directed to institute and use a performance-based approach for transportation decision making. To accomplish this, the states must develop performance measures and establish performance targets to address those measures. Finally each state must track its progress towards attainment of its critical outcomes. IDOT already maintains extensive transportation management systems for pavement and bridge conditions, traffic safety, and travel performance and uses the outputs from these systems as input into its programming process.

2.3 Local Funding

Municipalities, counties, and townships receive a portion of the state generated MFT funds by formula, as well as the local grant component of the state's Series D Bonds from the Illinois Jobs Now! program. 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 IDOT in rural and small urban areas. Other federal funds, such as Transportation Enhancements and Safe Routes to School, have been received through a competitive statewide selection process, which will be modified under MAP-21. 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.

2.4 Illinois State Toll Highway Authority

The Illinois State Toll Highway Authority (ISHTA) operates 286 miles of roadway and 642 bridges. The primary source of revenues for ISTHA is tolls collected on the system.

ISTHA has developed a 15-year \$12 billion capital program, called *Move Illinois: The Illinois Tollway Driving the Future*, to complete the rebuilding of the 52-year-old system and to improve mobility, and relieve congestion. The program includes \$8.32 billion to fund necessary improvements to the existing toll highway system to keep the existing 286 miles in a state of good repair. In addition, the program commits \$3.83 billion to new priority projects that focus on system expansion. The 2012 to 2026 program is funded by bonds and toll revenue generated through a toll rate increase for passenger vehicles in 2012 and a previously approved increase for commercial vehicles beginning in 2015.

2.5 Bicycle and Pedestrian Programs

The Illinois Transportation Enhancement Program (ITEP) provides funding for community based projects that expand travel choices and enhance the transportation experience by improving the cultural, historic, aesthetic and environmental aspects of our transportation infrastructure. Project sponsors may receive up to 80 percent reimbursement for eligible project costs. Under ITEP, the IDOT works jointly with other state agencies, local governments, interest groups and citizens in enhancing the transportation system and building more livable communities. This program is a primary funding source for bicycle and pedestrian facilities.

The Illinois Safe Routes to School (SRTS) Program supports projects and programs that enable and encourage walking and bicycling to and from schools serving kindergarten through 8th grade students. SRTS uses a multidisciplinary approach to fund both infrastructure improvements to the physical environment as well as non-infrastructure projects. Eligible project sponsors include schools and school districts, governmental entities and non-profit organizations.

Other funding for bicycle and pedestrian infrastructure comes from IDOT's Complete Streets program and the Congestion Mitigation and Air Quality (CMAQ) program. CMAQ funding is available only to those areas of the state where the region's air quality does not meet federal air quality standards; these are called "non-attainment" areas. In Illinois, the St Louis and Chicago regions have access to CMAQ funding. Bicycle and pedestrian projects compete for CMAQ funds against other projects that are designed to improve air quality in the region. For the Complete Streets program, IDOT will construct bicycle or pedestrian infrastructure if warranted when state roads are rebuilt, repaved, widened or constructed.

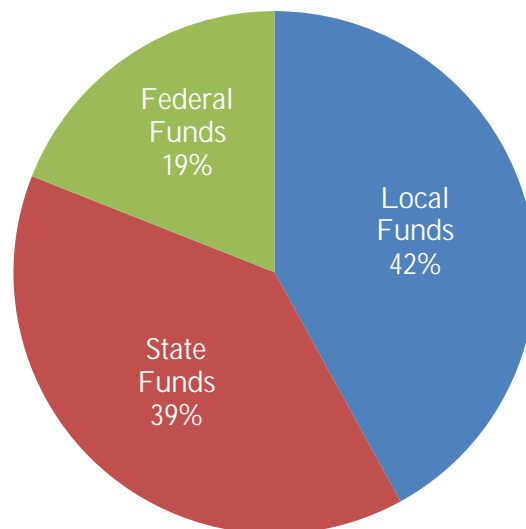
The new federal authorization, MAP-21, establishes a Transportation Alternatives program that replaces the Transportation Enhancement, Safe Routes to School, and Recreational Trail Programs and provides a new allocation of funds for this program.

2.6 Public Transit Program Funding

Public transportation in Illinois is provided by 52 public transportation grantees with an estimated aggregate budget of \$2.6 billion for FY 2013. IDOT's primary role is to provide funding and support for these agencies.

Illinois transit agencies rely on several funding sources. Statewide, local funds account for 42 percent of total funding. State funds provide approximately 39 percent and federal funds provide approximately 19 percent of total funding. Figure 2.9 summarizes Illinois transit funding.

Figure 2.9: Illinois Transit Funding Source Breakdown (FY 2013)



The state provides operating assistance to transit operators in Illinois. For the six-county northeastern Illinois region, the primary source of revenue is the RTA sales tax. The second largest revenue source is the Public Transportation Fund (PTF). The Illinois General Assembly appropriates an amount equal to 30 percent of the total RTA sales tax revenues to the PTF annually.

According to the RTA budget, an estimated \$293.7 million is expected for the PTF in FY 2013. The State also provides partial reduced fare reimbursement for discounts provided to students, the elderly, and riders with disabilities. The reduced fare reimbursement also is subject to annual appropriations by the Illinois General Assembly, with an estimated \$34.07 million estimated for FY 2013. In FY 2012 and 2013, this appropriation has been split between the General Revenue Fund (GRF) and the Road Fund; formerly all funding was allocated to the GRF.

Table 2.3 illustrates the FY 2013 Downstate Operating Assistance Program (DOAP), which provides funding for downstate transit operations. The total for downstate operating assistance is \$210,307,000.

Table 2.3: Downstate Operating Assistance Program (Millions)

Southwestern	
Madison County MTD	18.521
St. Clair County MTD	46.482
<i>Total</i>	\$65.002
Urbanized	
Bloomington-Normal PTS	7.128
Champaign-Urbana MTD	24.970
Danville (City of)	2.270
Decatur (City of)	6.241
DeKalb (City of)	2.932
East Dubuque (City of)	0.000
Greater Peoria MTD	19.336
River Valley Metro MTD	4.188
Rockford MTD	13.068
Rock Island County Metro MTD	15.744
Springfield MTD	12.708
Stateline MTD	0.333
<i>Total</i>	\$108.919

Non-Urbanized Area	Funding	Non-Urbanized Area	Funding
Bond County	0.286	Macomb (City of)	1.959
Boone County	0.110	Macon County	0.154
Bureau County	0.595	Macoupin County	0.330
Carroll County	0.132	McLean County	1.211
Cass-Schuyler Counties	0.165	Menard County	0.099
Champaign County	0.525	Monroe-Randolph MTD	0.806
Coles County	0.437	Ottawa (City of)	0.880
CRIS Rural MTD	0.615	Peoria County	0.416
DeKalb County	0.413	Piatt County	0.400
East Central Illinois MTD	0.303	Putnam County	0.055
Effingham County	0.330	Quincy (City of)	3.121
Fulton County	0.220	Rides MTD	5.784
Galesburg (City of)	1.419	Rock Island-Mercer Counties	0.253
Grundy County	0.253	Shawnee MTD	1.805
Hancock County	0.160	Shelby County	0.662
Henderson County	0.000	South Central MTD	4.744
Henry County	0.335	Stark County	0.110
Jackson County MTD	0.387	Stephenson County/Freeport (City of)	0.761
Jo Daviess County	0.459	Tazewell County	0.615
Kankakee County	0.597	Warren County	0.154
Kendall County	1.428	West Central MTD	0.895
Knox County	0.176	Whiteside County	0.545
Lee-Ogle Counties	0.660	Woodford County	0.270
Logan-Mason Counties	0.352	<i>Total</i>	\$36.386

For transit capital funding in northeastern Illinois, the state provides reimbursements for debt service for Strategic Capital Improvement Program (SCIP) Bonds. A total of \$131 million is estimated for FY 2013.

In addition, Illinois Jobs Now! provided IDOT with almost \$2 billion for statewide transit projects. In northeastern Illinois, the Illinois Jobs Now! funds will help CTA, Metra and Pace to overhaul rail cars; rehabilitate rail stations; purchase new busses, rail cars and paratransit vehicles; and implement security and communications upgrades. For the downstate transit operators, the Illinois Jobs Now! money will help purchase low floor buses and paratransit vehicles; renovate existing and build new transit facilities; upgrade dispatching systems; and develop multimodal stations.

The new federal transportation law, MAP-21, will change several of the public transit funding programs. Six new funding programs have been created, while five existing programs were repealed. Several programs were consolidated and five programs were modified. The six new programs include funding for system maintenance (State of Good Repair Grants, Asset Management, Bus and Bus Facilities), disaster damage and emergency-related support, safety, and a new pilot program (Transit Oriented Development Planning Pilot Grants) that will help transit agencies complement new and existing service with new developments that should foster the market for new transit users.

The existing Job Access Reverse Commute (JARC) program was eliminated as a stand-alone program, and its activities were incorporated into the Rural Area and Urbanized Area Formula Grants. The New Freedom Program was rolled into the Enhanced Mobility of Seniors and Individuals with Disabilities formula program. The State of Good Repair Grants essentially replaces the Fixed Guideway Modernization program, but adds two additional opportunities for fixed-guideway maintenance funding: HOV lanes with buses and a new service-based calculation. The overall funding level for federal fiscal year (FFY) 2013 remained about the same as FFY 2012.

2.7 Airport Program Funding

There are 110 public use 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. Through this fund, the FAA provides formula and discretionary funds to IDOT for distribution to Illinois airports for aviation projects.

The FAA also provides formula and discretionary funds directly to the City of Chicago for the O'Hare Modernization Program (OMP). In FY 2011, the FAA provided approximately \$85 million for the OMP.

State capital assistance is provided through the sale of Series B Bonds. The availability of these funds is determined by the General Assembly. Prior to FY 09, state funding for aviation projects, including debt service for the Series B Bonds, was appropriated from the GRF. Since FY 09, all state funding for aviation projects has been appropriated from the Road Fund. Table 2.4 delineates state appropriations for airports between 2007 and 2012.

Table 2.4: State Airport Appropriations History

Fiscal Year	Series B Bond Fund	GRF	Federal-Local Airport Fund	Series B Bonds Land Acquisition, Chicago's Third Airport	Road Fund
2007	\$2,200,000	\$350,000	\$137,000,000	\$0	\$0
2008	\$0	\$350,000	\$137,000,000	\$0	\$0
2009	\$0	\$0	\$137,000,000	\$0	\$0
2009 (ARRA)*	\$0	\$0	\$150,000,000	\$0	\$0
2010	\$20,000,000	\$0	\$137,000,000	\$110,500,000~	\$0
2011	\$0	\$0	\$0	\$0	\$1,100,000
2012	#	\$0	\$130,000,000	\$0	\$400,000

Notes: * FY 2009 ARRA appropriation of \$150,000,000 included in Federal-Local Airport Fund.

~ Includes \$10,500,000 from the Illinois FIRST authorization (1999); \$100,000,000 is Illinois Jobs Now! Forced lapse at end of FY11: Illinois Jobs Now! \$62.2 million, Illinois FIRST \$8.8 million

\$33 million new appropriation is actually an accounting entry to allow change in appropriations coding for unexpended balance of re-appropriations.

2.8 Rail Program Funding

User fees are the primary funding source for freight and passenger rail services. In support of intercity rail passenger services, the General Assembly provides funds for operating subsidies and capital improvements from the General Revenue Fund.

Passenger rail service in Illinois has recently experienced renewed attention. Ridership overall has nearly doubled since 2006 which is a testament to the program's effectiveness. Steady increases in rail usage and rising fuel prices helped convince the General Assembly to raise funding for the state's rail passenger operation in FY 2007 and increase the number of daily Chicago-Carbondale, Quincy and St. Louis trains from six to 14. The \$26.3 million rail program budget for each of the fiscal years 2011 and 2012 includes improved marketing efforts as IDOT and Amtrak inform the public about enhanced train service and its importance in the transportation system.

In the Chicago-St. Louis Amtrak corridor, IDOT is proceeding with high-speed intercity passenger rail program improvements. The initial goal is to operate trains at top speeds of 110 mph, reducing travel time from St. Louis to Chicago from 5 ½ to 4 ½ hours once complete. The high-speed trains will share track with freight trains. In support of high speed rail, the State provided \$400 million through the Illinois Jobs Now! program. Combined with the infusion of more than \$1.5 billion in federal funds through the Federal Railroad Administration's (FRA) High Speed Intercity Passenger Rail Program, the construction upgrade of the Dwight to Alton segment of the Chicago-St. Louis corridor has moved forward, and Dwight-Joliet will be completed in 2012. A demonstration of 110 mph service is expected between Dwight and Pontiac in the fall of 2012. Service over the entire Joliet to Alton segment is targeted to be operational by 2015.

Governor Quinn has also set aside \$105 million from Illinois Jobs Now! for corridor improvements that will permit the start-up of new service in two major Illinois corridors. This funding included \$60 million for improvement on the Chicago-Rockford-Dubuque line and \$45 million for corridor improvements between Chicago and Moline.

The Canadian National Railway is expected to undertake infrastructure improvements between Chicago, Rockford and Dubuque beginning in 2012 that will enable service to begin in late 2014. The \$45 million for the Chicago-Moline line is being used to match \$177 million in committed federal funds.

In terms of equipment, the FRA recently awarded Illinois, Missouri and Michigan \$268 million to purchase new equipment. For Illinois, this will mean new bi-level passenger cars for the Chicago-Carbondale, Chicago-Quincy and new Rockford/Dubuque corridors. Previously, federal funds were committed to upgrade equipment on the Chicago-St. Louis and Chicago-Milwaukee lines and provide equipment for the new Chicago-Moline line.

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 2.5 delineates proposed state appropriations for FY 2013 and Table 2.6 identifies proposed state and federal program amounts for FY 2013-2017.

Table 2.5: FY 2013 Proposed State Appropriations (\$ in Millions)

Program	Amount
Rail Freight Loan	\$0.5
Intercity Rail Passenger	\$26.3
State High Speed Rail Project	\$400.0
State Rail Freight Loan	\$0.5
Appropriation Total	\$426.8

Table 2.6: FY 2013-2017 Proposed Program Amounts (\$ in Millions)

Program	State Amount	Federal Amount
Freight (including CREATE)	\$303.0	\$100.0
Intercity Rail Passenger	\$156.0	\$465.0
High Speed Rail	\$184.0	\$1,438.0
Appropriation Total	\$643.0	\$2,003.0

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, Metra, and the Class I freight rail carriers (BNSF Railway, Canadian Pacific Railway, CN, CSX Transportation, Norfolk Southern Corporation, and Union Pacific Railroad). The proposed CREATE includes 70 rail and grade separation projects that will result in increased efficiency and reliability of rail service within the Chicago region, while also providing additional benefits to highway users through the elimination of at-grade crossing delays and other conflicts.

Illinois Jobs Now! included \$300 million for CREATE. The Association of American Railroads, representing the Class I freight carriers, has recently increased its commitment to CREATE from \$170 to \$325 million, a \$155 million additional contribution toward the \$3.6 billion program. This additional commitment, along with the passage of the Illinois Jobs Now! bond authorization ceiling increase, permits another 15 projects, valued at \$370 million, to proceed in the next 2-3 years. In addition, the City of Chicago is providing \$33 million. Lastly, in addition to other federal funds

received in the early 2000s, the program recently received \$100 million in TIGER I funding, and an additional \$10.4 million in TIGER IV funding from the federal government. In total, the program partners have pledged a total of approximately \$1.2 billion to the project.

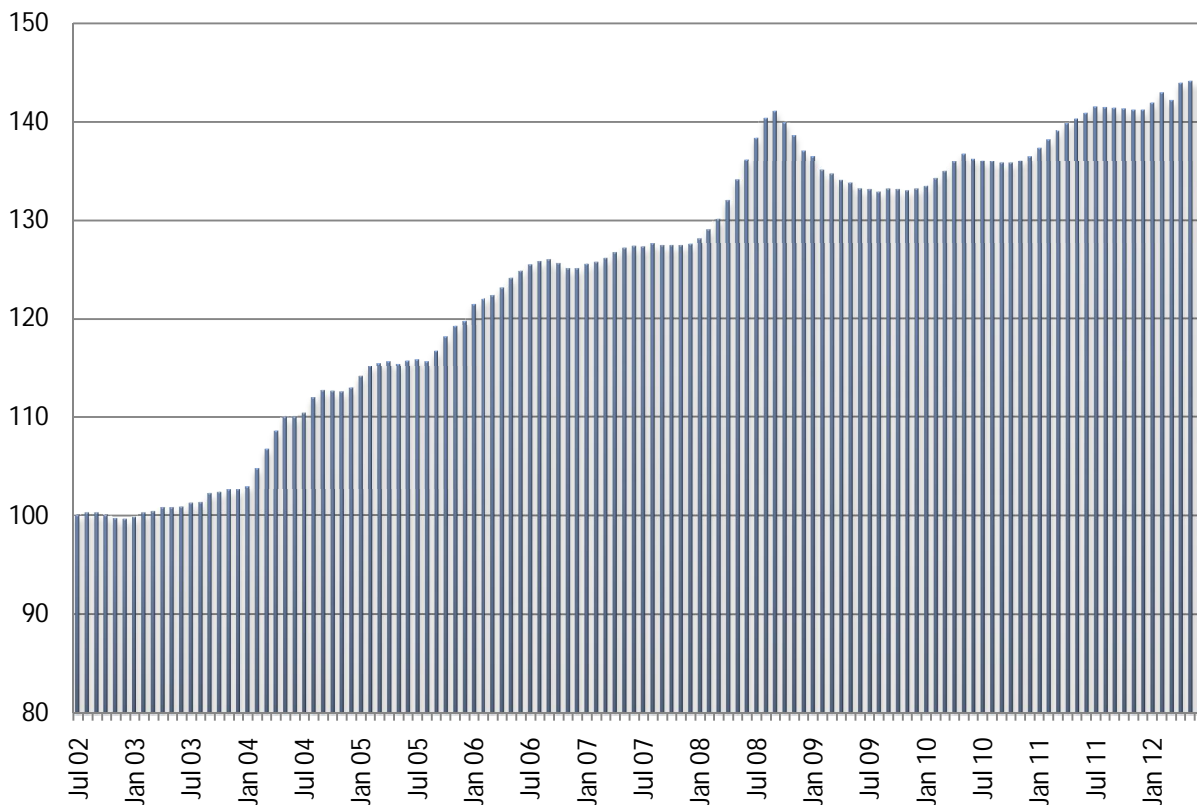
3.0 Funding Issues

3.1 Current Issues

The State's Long Range Transportation Plan must take into account the tendency that resource needs outpace available funds and the fact that maturing infrastructure requires greater investments to maintain the integrity of the system. The combination of increased costs and reduced revenues from traditional funding sources makes the challenge of balancing resources and needs even more difficult.

On the cost side, increases in fuel, material and equipment have contributed to an increase of more than 40 percent in the construction cost index in the last decade. This increase significantly outpaced inflation and has eroded the purchasing power of the transportation improvement dollar by almost one half. Figure 3.1 illustrates the 10-year growth in the construction cost index.

Figure 3.1: Construction Cost Index (Materials & Components for Construction)
July 2002 – July 2012
(July 2002 = 100)



Several factors are contributing to reduced growth of state and federal highway revenues. The combination of increased fuel efficiency and the dramatic rise in fuel prices have slowed the growth of fuel consumption. This affects revenue because traditional federal and state fuel taxes are levied by the gallon and not as a percentage of the overall sales price. While reducing fuel consumption is

a positive in terms of global economic and environmental issues, it does create downward pressure on transportation revenue and reduces the ability to address transportation system needs.

To illustrate, federal highway funds for the states are supplied primarily through the Federal Highway Trust Fund, which is funded by an 18.4 cent per gallon tax on gasoline (established in 1997), 18.4 cent per gallon tax on gasohol (established in 2005) and a 24.4 cent per gallon tax on diesel and kerosene fuel (established in 1997). Over the past several years, the reduction in fuel consumption has reduced revenues to the Trust Fund to the extent that in the last two federal fiscal years, the Highway Trust Fund has required General Fund cash transfers to meet its annual obligations to the states. The recent passage of the new federal transportation bill, MAP-21, did not provide any new revenues for the Highway Trust Fund, but is predicated on continued General Fund support of the Highway Trust Fund in order to ensure its solvency in the near term. Thus, the funding shortfall for the Highway Trust Fund still exists.

Another factor contributing to revenue reductions is the use of highway user fees for non-highway purposes. Each year during the past decade, between \$300 million and \$500 million highway user fees were allocated to non-highway agencies and activities, including funding for the Secretary of State, State Police, Employment Security, Central Management Services, and other agencies.

While the dynamics are different, transit, aviation, and rail have similar revenue growth problems. Because these modes tend to draw funds from general revenues, they must compete with a wide variety of important social services for resources. Health care, education, children's services and law enforcement are just a few of the interests competing for general funds. Since legislative priorities change from year to year, the percentage of the general fund pie available to transit, airports, and rail tends to be unpredictable.

The combination of all of these issues has produced a shrinking and unsteady revenue stream for all transportation programs that, in the best of times, provide only for maintaining the existing system. As a result, there is little money available for system enhancement or expansion. This contributes to an ever-widening gap between what can be done and what needs to be done.

3.2 Long Term Funding Gap

Illinois' network of highways, transit systems and railroads has enabled the state to establish and retain a primary role in the nation's history and economy. However, the challenge of maintaining those systems in good condition while also addressing the 21st century needs of business and industry is significant. Transportation facilities and equipment are in constant need of repair and rehabilitation as a result of age and use, yet revenues needed to keep pace are stagnating. During the next thirty years, demand on these systems is expected to double, increasing the need for both improved capacity on all systems and greater flexibility to integrate transportation services through intermodal strategies and investments.

To illustrate the scope of the problem, IDOT has estimated the funding shortfall for Illinois highway improvements over the next five years to be more than \$39.5 billion. For public transportation, intercity rail, high speed rail, CREATE and rail freight programs, the funding shortfall for the next five years is estimated to be more than \$25 billion.

The state's current revenues for transportation cannot adequately address these needs. Despite the recent one-time infusions of federal stimulus funding through the American Recovery and Reinvestment Act of 2009, and the Illinois Jobs Now! bond program, Illinois' transportation system needs continue to grow against a backdrop of declining or stagnant revenue growth. The rising cost of oil and construction materials will exacerbate the problem and erode the purchasing power of already very scarce transportation dollars.

4.0 Potential Funding Strategies

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

- Strive to 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 fund 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 and extend user-pay principles to new technologies and alternative fuels.
- Support joint public-private partnership and private sector initiatives to provide transportation facilities and services that help reduce public expenditures and maintain the quality, quantity and long-term stability of transportation facilities and services.
- Support joint use of transportation facilities and rights-of-way for compatible, non-transportation activities and businesses where these are economically feasible.
- Explore toll opportunities and innovative financing methods, including value capture pricing 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.

4.1 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. Even though the last gas tax increase in Illinois took place in 1991, the high price of fuel makes it difficult for legislators to support an increase in the Motor Fuel Tax at the present time. Similarly, the last vehicle license fee increase dedicated solely to highway construction purposes was enacted in 1999. While there have been several more recent increases in large truck, passenger vehicle, and other motor vehicle-related taxes and fees, the proceeds from these fee increases have gone to the GRF and have been used for both transportation and non-transportation purposes. These recent vehicle-related fee increases make it difficult for the legislature to propose/support additional revenue from these traditional sources as well.

4.2 Adjust Motor Fuel Tax Structure

Structural adjustments to existing motor fuel taxes could have a significant ability to increase revenues. Alternative fuel vehicles and improved fuel efficiency are affecting the growth of fuel consumption. Changes to the traditional fuel tax collection mechanisms could be considered to better maintain future revenues. For instance, basing the gas tax on a percentage of the price or indexing the flat fee per gallon to the price could help bridge the funding gap.

4.3 Vehicle Miles of Travel User Fees

Other strategies include taxing travel rather than fuel. 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.

The VMT user fee is not without challenges. The cost of outfitting vehicles and collecting and processing the mountains of data generated is significant. It will also take time and substantial cost for the technology to be developed and deployed. Finally, implementing VMT user fees raises privacy issues because individuals may be concerned about the government tracking their travel. Despite the potential consequences, the collection of mileage-based taxes rather than quantity-based fuel taxes presents a promising option for fair and equitable transportation pricing in the long term.

4.4 Public-Private Partnerships

Private sector participation can help efforts to balance available funding with program and project costs. Involving private sector investors and developers in infrastructure development presents opportunities to leverage funds from other sources. 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.

Illinois is well aware of the benefits that private sector participation can bring to a project. The Illinois “Public-Private Partnerships for Transportation Act” was developed to promote public-private partnerships by authorizing transportation agencies to enter into public-private agreements related to the development, operation, and financing of transportation facilities. Tolls or other user fee mechanisms or development rights could be used to provide a project specific revenue stream to make the public-private partnership financially feasible.

The “Public-Private Agreements for the Illiana Expressway” is a complementary statute that focuses on mechanisms that could be used to develop this specific bi-state freeway through one or more public-private partnerships. As this project moves beyond feasibility status, more information will become available on the level of private sector participation.

The CREATE project in Chicago is an excellent example of this approach. Private railroads invest in improvements that enhance their rail operations and generate 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.

The Chicago Infrastructure Trust is another example. A partnership of several private institutions will provide advantaged financing, enabling city agencies to customize a financing structure for individual projects that otherwise would not be funded. Funding will consist of taxable or tax-exempt debt, private sector equity investments and other forms of support. Each project will be

coordinated with the city and its sister agencies' long-term plan for infrastructure investments. Five financing organizations have agreed to consider the projects that the Trust is undertaking and evaluate them for investment. Collectively, they have indicated an initial investment capacity in excess of \$1 billion, depending on the specific terms of individual projects. The Trust will leverage private sector resources alongside initial capitalization, bond financings, and grants. Individual projects will repay both the Trust and the private sector investors, depending on how each project is structured.

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. The idea of private concessions is not new to Illinois nor is it restricted to transportation. The state has already issued a concession of the state run lottery to a private firm.

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. Evolving notions of private-partner concessions could ease the process of future transportation-related public-private partnerships.

4.5 Impact and Value Capture Fees

Another opportunity to leverage private funding is through impact fees. Land developers and other businesses frequently participate 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 are enforced to ensure that development is orderly and public infrastructure is built concurrently with growth.

Local governments in Illinois have other options to generate revenue to help them recover some of the costs related to the impacts of new developments on the transportation network. These options include value capture fees, such as tax increment finance districts and special service areas, which generate funds from taxes related to the added value created by the development to be used for transportation improvements.

Impact and value capture fees can create more opportunities for joint private participation in the development of transportation facilities. Identifying a clear nexus between the public necessity and private benefits enhances the opportunity for private participation. Demonstrating that infrastructure investments greatly enhance property values and the chance of success for development can motivate private developers to invest in the infrastructure project that is driving the increased value. Several municipal and county governments use impact fees and tax increment finance districts to help fund transportation and other infrastructure projects.

4.6 New Toll Pricing Strategies

Pricing decisions are critical when considering new toll projects. The form of toll collection technology (fully electronic, cash, video, transponder, etc.) and method of enforcement selected for

toll projects determine if and in what manner tolls are adjusted. 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. MAP 21 has expanded the potential use of tolling in previously restricted or limited areas.

4.7 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. One of the stated intents of “The Public-Private Partnerships for Transportation Act” is to encourage the practice of congestion pricing in connection with toll highways in Illinois by increasing toll rates during times or in locations of most congestion. The goal is to manage traffic demand through pricing activities. The Illinois Toll Highway Authority is evaluating the use of congestion pricing to help manage demand during peak periods.

4.8 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 lane pilot programs funded by FHWA and initiated a HOT lane in San Diego in July 1997. Other similar programs have been implemented in Minneapolis, Denver, Miami, and Houston. IDOT’s I-290 (Eisenhower Expressway) Phase I Study is evaluating several managed lane options including HOT lanes.

4.9 Express Lanes

Express lanes, which provide drivers with connections between major points, are often built alongside traditional freeways and have limited access to the traditional lanes and exits. This allows drivers traveling between major points to bypass entrances and exits, ideally with less congestion while drivers traveling locally use the traditional freeway. Similar to HOT lanes, 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 I-91 between Orange County and I-5. The private entity that operates these lanes is funded through toll proceeds.

4.10 Truck-Only Lanes

Truck-only lanes 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. Truck-

only toll (TOT) pricing can be set to maintain a desired level of service similar to HOT lanes. This option may be particularly appealing in highly congested areas because commercial vehicles may be more willing to pay for alternative routes in these circumstances. The I-70 Truck Lane Study and the Austin Texas area TOT Study are two examples of FHWA and State DOT efforts to evaluate truck only toll lanes.

4.11 Regional Mobility Authorities

Recently, several innovations in California, Texas, and Virginia, 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 (RMA) 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.

4.12 Funding 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” revenue sources; 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).

4.12.1 Transportation Infrastructure Finance and Innovation Act

MAP-21 increases the Transportation Infrastructure Finance and Innovation Act (TIFIA) program from \$1 billion to \$10 billion in annual credit assistance. TIFIA was enacted to improve access to capital markets, employ flexible repayment terms, offer potentially more favorable interest rates than can be found in the private capital markets, and to facilitate earlier completion of large capital intensive projects due to the market’s uncertainty over the timing of revenues. MAP-21 also increases the maximum potential TIFIA share of the project from 33 percent to 49 percent.

4.12.2 State Infrastructure Bank

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

4.12.3 Private Activity Bonds

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

4.12.4 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.

4.12.5 Grant Anticipation Revenue Vehicles

Grant Anticipation Revenue Vehicles (GARVEE) allows 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.

4.12.6 FTA Full Funding Grant Agreement

FTA Full Funding Grant Agreement (FFGAs) 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.

5.0 Summary and Conclusion

The economic vitality of Illinois has been directly tied to the development of a high quality transportation system. The creation of roads, railroads, airports and water transportation facilities led to Illinois becoming the transportation hub for the nation. However, due to the ever-increasing gap between infrastructure improvement needs and available revenues, the transportation system in Illinois is at a crossroads. The future of the well-being, vitality and participation in the global economy is at stake. Decisive action is needed now to sustain and enhance our transportation system.

A significant increase in spending on transportation infrastructure is necessary to keep Illinois competitive. The State will need to price for the use of the transportation system and additional public and private investment is needed. New and innovative ways of funding the future system must be identified and employed. Maintenance and expansion of the freight system will require more private investment and direct public funds toward projects which alleviate capacity constraints and allow for more traffic to flow across an efficient, sustainable, intermodal freight network. Chokepoints at the State's major gateways and trade corridors represent congestion and environmental hot spots and are a potential trade barrier.

In addition, Illinois will need to maintain its emphasis on public transit and intercity passenger rail. Programs to inform and encourage travelers to take public transportation or passenger rail when the option is available should be considered. The State also needs to facilitate an increased market share for freight rail, and to make significant increases in highway investment as part of developing a robust surface transportation network.

To address the funding gaps for all modes of transportation, IDOT 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, IDOT must work with the Governor, the General Assembly, and the Illinois Congressional delegation 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.