Chicago Metropolitan Agency for Planning

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October 17, 2013

Ms. Kathy Tholin
Mr. Raul Raymundo
Co-chairs, System Performance Working Group
Northeastern Illinois Public Transit Task Force

Dear Ms. Tholin and Mr. Raymundo:

I would like to thank you for the opportunity to address the System Performance Working Group on October 2, 2013. As mentioned in my testimony, GO TO 2040 emphasizes the importance of public transit and one of the plan's 12 recommendation areas, *Increase Commitment to Public Transit,* outlines a series of implementation actions to increase commitment to public transit.

In response to my testimony, the working group asked CMAP to offer recommendations for funding strategies for transit capital. New regional transportation funds for transit could come from a number of sources, ranging from traditional transportation user fees like the motor fuel tax or motor vehicle registration fees to project-specific funding sources such as value capture and congestion pricing. Enclosed is a brief white paper that describes these potential regional funding alternatives for transit capital.

We hope this document is helpful for your research and final report to the Illinois General Assembly. Should you need additional information, please contact, CMAP director of government relations Gordon Smith at 312-386-8739.

Sincerely,

Randall S. Blankenhorn
Executive Director

RSB/stk
enclosure

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Potential regional funding alternatives for transit capital investment

New regional transportation funds for transit could come from a number of sources, ranging from traditional transportation user fees like the motor fuel tax or motor vehicle registration fees to project-specific funding sources such as value capture and congestion pricing.

Motor fuel tax

The motor fuel tax (MFT) has been the backbone of federal and state transportation funding for decades. A portion of the federal MFT has historically been used to help fund the federal transit program. The MFT is levied as a flat per-gallon rate, with the federal government imposing an MFT of 18.4 cents per gallon and the State of Illinois imposing an MFT of 19 cents per gallon plus an additional 2.5 cents per gallon for diesel. Further, Cook, DuPage, Kane, and McHenry counties also impose a local MFT, as do several municipalities in the metropolitan area. If an 8-cent regional motor fuel tax were implemented in the 7-county CMAP region, first year revenues would total an estimated $235 million.

The design of the motor fuel tax leaves it vulnerable to inflation and rising fuel economy. Because it is levied on a flat, per-gallon basis, it does not rise with other costs in the economy. Despite these shortcomings, the MFT remains one of the most viable options for a new regional revenue source for transit. An MFT can raise substantial revenues from a modest increased rate. Indexing the MFT to an inflationary measure would help to address its declining purchasing power.

Motor vehicle registration fees

Along with the motor fuel tax, vehicle registration fees are a key transportation revenue source. The State of Illinois imposes a $101 annual fee for passenger vehicles along with higher rates for trucks. In addition, several municipalities in the region impose their own registration fees. Historically, the State has raised motor vehicle fees to help finance its bond programs, which have provided funding for both highway and transit projects. CMAP estimates that an annual $10 fee imposed on all motor vehicles registered in the 7-county CMAP region would generate $60 million in the first year.

While Illinois has the highest vehicle registration fees among the 22 states that levy flat fees, for some vehicles the fees can be less than in states that charge variable fees based on characteristics such as vehicle weight, value, and age.[1] A regional motor vehicle registration fee has the advantages of stability and a broad base. There are a total of 6.3 million vehicles in the Chicago region, so even a small increase in the fee would generate substantial revenues at minimal household burden.[2] The number of vehicles in the region is fairly stable, which provides a predictable, and thus bondable, revenue stream.

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[1] Illinois Legislative Research Unit. "Illinois Tax Handbook for Legislators, 28th Edition." April 2012.
[2] CMAP analysis of Illinois Secretary of State data.

Value capture

This strategy assumes that nearby property owners benefit from the construction of a new transit facility, such as a new line or station, through increased rents, sales, and land values, and seeks to "capture" a portion of these benefits to help pay for the cost of the facility. These tools have been successfully used across the country to generate funding for transportation projects. Value capture mechanisms vary and can include tax increment financing (TIF) districts and special service areas (SSAs).

In general, TIFs generate substantially more revenue than SSAs: SSAs place a relatively small tax on property value, while TIFs receive revenues from the full tax rate applied to an expanding property value increment. A TIF for transportation would need to accommodate the region's many existing TIFs because pre-existing TIFs could limit the revenues available to a TIF for transportation. In addition, some areas with low property values are less suited to value capture because they would produce minimal incremental revenue.[3]

Congestion pricing

Congestion pricing applies the logic of supply and demand to reduce traffic congestion. Prices rise when demand is high, such as during the morning rush hour, but fall when demand is low. Higher prices discourage drivers from entering the congestion-priced facility, while low prices have the opposite effect. Thus, the toll rate manages traffic demand while generating revenues.[4] Further, congestion pricing could be implemented in tandem with express bus service, which could enjoy preferential access to free-flow facilities.

CMAP recently analyzed the impacts of congestion pricing on five expressway facilities recommended in GO TO 2040. Congestion pricing on these five facilities would raise an estimated $74 million in gross annual revenues in 2016. These revenue estimates include passenger vehicles only. While express lanes are unlikely to allow trucks, fully congestion-priced facilities would allow trucks, suggesting that actual revenues would likely be higher than those estimated here.

Congestion pricing is primarily a traffic management tool, not a revenue generator. While fully pricing the entire expressway network – currently not permitted under federal law – could raise substantial revenues, smaller-scale projects on new lanes or freeways would be unlikely to cover upfront capital costs.

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[3] CMAP, 2012. Transportation Value Capture Analysis for the CMAP Region, http://tinyurl.com/k2zmxpd.

[4] For more information, visit: http://www.cmap.illinois.gov/congestion-pricing.