CAPITAL FUNDING FOR TRANSPORTATION

AN ANALYSIS OF THE 2009 CAPITAL PROGRAM

Transportation for Illinois Coalition

White Paper

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The **Transportation for Illinois Coalition** is a diverse group of statewide and regional business, organized labor, industry, governmental and not-for-profit organizations that has joined together in a united and focused effort to support a strong transportation alliance for Illinois. The coalition takes a comprehensive approach and seeks to speak with one voice for all of Illinois regarding transportation funding needs at both the state and federal levels. The coalition believes that transportation is critical to the economy of Illinois. This comprehensive approach involves all modes of transportation, including rail, air, water, highways and mass transit.

Capital Funding for Transportation
What Is In the Package

In 2009, for the first time in 10 years, a major state capital funding package was enacted. For transportation, the package is to provide a total of $9.5 billion in bonds to undertake capital improvements over the next five years. The transportation bonds were authorized in two packages:

- Jump Start Program
  - Enacted in April 2009
  - $3 billion in bonds -- $2 billion for state roads and $1 billion for transit
  - Debt service on highway bonds paid from Road Fund
  - Debt service on transit bonds paid from General Revenue Fund
  - To be implemented over a three to four-year period, with highway program beginning in FY2009

- Illinois Jobs Now Program
  - Enacted in July 2009
  - $6.5 billion in bonds
  - Debt service paid from new Capital Projects Fund
  - To be implemented over a five-year period, beginning in FY2010

Below is a table summarizing the funding provided by each of these packages.

New Capital Funding for Transportation
(In $ Million)

Program	Jump Start	Jobs Now	Total
State Roads	2,000	3,054	5,054
Local Roads		500	500
NE IL Transit	900	1,800	2,700
Downstate Transit	100	200	300
Passenger Rail -- High Speed -- Intercity Rail		550 -- 400 -- 150	550 -- 400 -- 150
CREATE		300	300
Airports		120	120
Total	**$3,000**	**$6,524**	**$9,524**

In order to fund the Jobs Now bonds (both the $6.5 billion for transportation and the approximately $6.5 billion for other types of capital improvements), the state created a Capital Projects Fund. Revenue to the fund is to come from the following sources:

Capital Projects Fund

Revenue Source	Estimated Revenue Per Year (In $ Million)
Video Gaming	288 to 534*
Lottery	150
Sales/Use Tax Expansion	65
Liquor Tax	108
Increased Motor Vehicle Fees	332
-- Vehicle Title/Transfer	-- 114
-- Driver's License	-- 37
-- License Plate	-- 181
Total	**$943 to $1,189**

**Video gaming is estimated to generate $345-641 million in revenue, but one-sixth of that amount (approximately $57.5-106.8 million) would go to the Local Government Video Gaming Distributive Fund for allocation among municipalities and counties, which have not prohibited video gaming.*

The Capital Projects Fund can only be used for capital projects and for payment of debt service on bonds issued for capital projects, with one exception: **Each year a total of $245 million is to be transferred from the capital fund to the General Revenue Fund**. This transfer offsets the cost to the GRF from reduced Road Fund diversions, which were also part of the legislation -- some $245 million in State Police and Secretary of State operations, previously paid from the Road Fund, were switched to the GRF.

Revenues to the Capital Projects Fund have lagged during FY2010 and will yield only a portion of the estimated annual total of $943-$1,189 million. This is due to the fact that none of the increased fees went into effect at the beginning of FY2010. Rather, the increased fees had various start-up dates through the course of FY2010. The video gaming component has been affected by lengthy start-up delays as the administrative mechanisms are put in place. Also affecting the video gaming component is the fact that some local governments have exercised the "opt-out" provision which allows them to ban video gaming within their jurisdictions. As of Jan. 29, 2009, revenues to the Capital Projects Fund totaled less than $40 million. During the veto session, legislation was adopted which provided that debt service on bonds issued before Jan.1, 2012 for state and local road projects could be paid from the Road Fund if there were insufficient dollars available in the Capital Projects Fund.

Capital Funding for Transportation
What Are Its Shortcomings

Timely Implementation

Through January 2010, **none of the transit funding had been made available** to RTA or to downstate transit properties. Due to the slow start-up for many of the revenue sources, especially for video gaming, revenues in the Capital Projects Fund are currently insufficient to make the scheduled transfers to GRF, much less to support the issuance of bonds. However, **the Jump Start bonds for transit, which are supported by GRF, could (and should) be issued**. Delaying implementation of the Jump Start program for transit means facilities and equipment continue to deteriorate while capital costs continue to rise; operating costs are hit by expensive upkeep on outdated equipment; and transit riders suffer through diminished system performance and reliability.

Finally, state and local road projects should also proceed since their bonds are to be paid from the Road Fund (with the provision that Road Fund payments for Jobs Now bonds are to be paid back once the revenues in the Capital Projects Fund are sufficient).

Insufficient Authorizations

While bonds for the full amount of the Jump Start program have been authorized, the bond authorizations for the transportation component of the Jobs Now program are nearly $5 billion less than the amount appropriated. The table below compares authorizations with appropriations. To ensure that the Jobs Now program is implemented during the envisioned five-year time period, additional authorizations will need to be approved by the General Assembly. Further, all the Jobs Now transportation programs are lumped together into three comprehensive authorizations, that is, all transit and rail programs in one authorization, all highway programs in another authorization, and all airport programs in another authorization. Annual funding distribution within the various transportation authorizations is at the discretion of the governor. Currently, there is no guidance as to which programs will be funded or how much they will receive on an annual basis. Particularly for local roads and for transit providers, this makes capital planning extremely difficult and can lead to inefficient use of scarce resources.

Transportation Authorization Vs. Appropriations

(In $ Million)

Program	Bond Authorization	Appropriations
Highways -- State Roads -- Local Roads	1,015	3,554 -- 3,054 -- 500
Transit & Rail -- RTA -- Downstate Trans. -- High Speed Rail -- Intercity Rail -- CREATE	600.4	2,850 -- 1,800 -- 200 -- 400 -- 150 -- 300
Airports	20	120
Total	**1635.4**	**6,524**

No Ongoing Revenue Stream for State Highways

Unlike previous highway capital funding packages, this package provides no ongoing revenue stream to IDOT. Instead, for the first time, motorist user fees are being deposited in a general capital fund which will be used to support all types of construction in Illinois – roads, schools, office buildings, prisons, etc. This lack of ongoing, predictable revenues to IDOT poses several problems: potential for large highway user fee diversions; uncertainty for multi-year programming; and boom-or-bust construction cycles. **The fact is that of the more than $3 billion a year collected in highway user fee revenues, the amount going to the state highway program has dropped from more than $1 billion in FY2003 to only $162 million in FY2010.** And it should be noted that even with the Jump Start and Jobs Now bonds, the FY2010-15 average annual highway program, adjusted for inflation, is less than even the FY1999 pre-Illinois First program level. (See attached charts for highway program comparisons.)

- **Highway User Fee Diversions**
  The revenue portion of the capital package includes $332 million per year in increased highway user fees (vehicle title/transfer fees, driver's license fees and vehicle registration fees). Unlike previous capital packages, this package does not put any of the highway user fee increases into the Road Fund, but co-mingles them with all other revenue sources in the Capital Projects Fund. Thus, highway user fees potentially could be used to build schools, repair state buildings, etc. With the changes adopted during the veto session allowing the Jobs Now highway bonds issued before January 2012 to be paid from the Road Fund, it is even more likely that the user fee increases will not be spent for highway purposes. While the veto changes do provide for eventual repayment to the Road Fund from the Capital Projects Fund (if it has sufficient revenue), the language is such that repayment

would be made at a time when the Capital Projects Fund would be least likely to have sufficient revenues, that is, the day after debt service payments had been transferred out for all the other bonds issued against the Capital Projects Fund. This raises the real possibility that the Road Fund would never be repaid. If the Capital Projects Fund did not repay the Road Fund, then the impact would be to shift the cost of more than $900 million in bonds from the Capital Projects Fund to the Road Fund, assuming that bonds for highway projects were issued at the historic spending level. If the highway program were accelerated, debt service costs from the Road Fund could be well over one billion dollars.

- **Uncertainty for Multi-Year Programming**
  Retaining the highway user fees in the Capital Projects Fund could limit IDOT's ability to do multi-year programming since IDOT will no longer have a dedicated revenue stream for capital; instead IDOT will compete with all other Illinois capital needs financed from the Capital Projects Fund. Most highway projects are multi-year in nature; and solid multi-year funding estimates are essential to ensure that planning, engineering, environmental and other pre-construction activities are properly scheduled and that their costs are not wasted due to annual funding uncertainties.

- **Boom-or-Bust Construction Cycles**
  Because the new capital program is funded exclusively through bonds, it will drop precipitously in FY2015 when the bonds are fully committed and with no ongoing revenue increase to pick up the slack.

  - The FY2010-14 program averages an estimated $2.538 billion. The FY2015 program is estimated at only $1.625 billion, a 36% drop. At that point, state funding for the highway program will be so limited that the state will find it difficult to match regular federal formula funds, much less any new earmarks which the upcoming federal reauthorization might provide.

  - Adjusted to FY2000 constant dollars, the FY2015 program is estimated at less than $800 million, the lowest program level in purchasing power since the early 1980s, a time when nearly 20% of Illinois roads were in a state of disrepair.

  - Boom/bust cycles are particularly hard on the construction industry – resulting in large job losses and leading to business failures during bust times which in turn translate into less competition (and higher prices) during boom times. Based on Federal Highway Administration estimates, Illinois' annual highway program between FY2010 and 2014 will support an average of 70,600 jobs. The FY2015 program, when the bonds are depleted, will support only 45,200 jobs – that is, 25,000 fewer jobs supported by the annual highway program.

The financial condition of the Road Fund has been hard hit during the last decade. Highway user fee diversions which averaged $400 million between FY2001-03 jumped to an annual average of $709 million between FY2004-09; and motor fuel tax revenues, which used to grow at an average of one and one-half to two percent a year, have shown virtually no growth for the past several years. Complicating this decline in state funding available for highway improvements has been the steep increase in the cost of highway construction. According to the federal Producer Price Index for Highway and Street Construction, from FY1999-2009 costs grew by nearly 75%. Given these Road Fund issues, it is particularly disturbing that none of the new highway user fees are being deposited in the Road Fund.

No Ongoing Revenue Stream, No Dedicated Portion of Increased User Fees, Inadequate Revenues for Local Roads

Between FY2000 and FY2008, ongoing maintenance costs for local roads grew nine times faster than the state motor fuel tax revenues distributed to local governments. The Jobs Now program does not provide the increased ongoing revenue stream needed for routine road and bridge repair and maintenance; nor does it address the large cost increases anticipated as a result of the increase in local road vehicle weight limits included in the capital package.

- **No Ongoing Revenue Stream**
  Local government is responsible for 88% of the public road mileage in Illinois, carrying 44% of all traffic. Virtually every vehicle trip begins or ends on a local road or street. To assist local governments in maintaining their roads and bridges, the state distributes to locals, by statutory formula, 54.4% of state motor fuel tax revenues. Local governments do not receive any of the motorist user fees paid to the Secretary of State. The Jobs Now program increases the user fees paid to the Secretary of State, places all proceeds in the Capital Projects Fund and provides for a single appropriation to local roads but no ongoing revenue stream. As a result, the state will continue to collect the increased user fee revenue stream in the future but will return none of it to local roads after FY2014. This is a major departure from past capital packages, which provided local roads with an ongoing increased revenue stream from the increased user fees.

- **No Portion of Increased User Fees Dedicated for Local Roads**
  In past capital packages, both state and local roads have received approximately the same percentage increase in base revenues resulting

from user fee increases, whether those increases were in the form of higher MFT or increased fees related to drivers and vehicles. (Since the locals receive all their user fees through MFT, past capital packages adjusted the local percentage of MFT revenues as necessary to ensure locals received base revenue increases equivalent to that of the state.) With the Jobs Now program, the state will be collecting 100% of the increased user fees but will not be adjusting the local share of MFT to reflect the increased user fee revenues.

- **<u>Inadequate Funding for Local Roads</u>**
  Last adjusted in FY2000, the local MFT revenues rose a total of 10% between FY2000 and FY2008. Actual ongoing maintenance costs for local roads rose by 90% -- or nine times faster -- during that same timeframe. It would have taken an additional $1.971 billion in FY2008 just to restore local MFT funds to the FY2000 purchasing power. The situation was worse in FY2009 when MFT revenues to locals actually dropped 7%. The Jobs Now program provides a temporary 17% increase above the FY2009 funding levels, but ends after FY2014.

  Exacerbating the local road funding shortfall is the fact that the Jobs Now capital package raised the statutory legal limit on local roads to 80,000 pounds, but targeted no funding to pay for accommodating the heavier vehicles. A study called for by House Resolution 190 of the 92nd General Assembly concluded that the cost to upgrade Illinois' rural local highways to accommodate 80,000-lb. trucks was an estimated $60 billion in 2001 dollars. A 2006 study by the Illinois Association of County Engineers concluded the cost to accommodate increased size and weight would be $4.303 billion annually.

Inadequate Funding for RTA

During the next five years, it will take more than $10 billion just to maintain transit capital facilities in northeast Illinois; this number does not include the nearly $6 billion it will take if enhancements and expansions are to be constructed. To deal with this projected five-year capital need of more than $16 billion, RTA is receiving a total of $2.7 billion in state assistance. When combined with federal and local resources, five-year capital resources are anticipated to total just over $5 billion, leaving an annual shortfall of nearly $2.2 billion. TFIC had recommended a total of $5.2 billion in state funding for RTA, still less than RTA capital needs, but 90% greater than the amount enacted.

Capital Funding for Transportation
Recommended Actions to Fix Shortcomings

Act Now To Implement the Program

It has been 10 years since Illinois last adopted a major capital program. Combined with the current economic problems, the result is high unemployment and struggling businesses in the transportation construction industry; deteriorating conditions and postponed improvements for the transportation infrastructure. The workers are ready to go; the projects are ready to go. It is critical to move forward **now** with those programs, whose bonds are not paid from the Capital Projects Fund.

- **Award to RTA and to downstate transit properties their Jump Start funding**. We are more than half-way through the second year of this four-year program and not one cent of funding has been awarded, despite a five-year total of more than $11 billion in unfunded transit capital needs and more than $500 million in ready-to-go projects.

- **Distribute to local governments their share of the FY2010 Jobs Now road funding**. The overall five-year appropriation for local roads is $500 million. Assuming the funding is distributed equally per year, the FY2010 share is $100 million.

- **Move forward with the $825 million in Jump Start and Jobs Now construction projects included in IDOT's FY2010 highway program**. By mid-November, only $30 million of this work had actually been awarded. However, our expectation is that the full amount will be committed in FY2010, in accord with IDOT's published highway program.

Increase Authorizations to Match Appropriations

While appropriations have been enacted for the full five-year Jobs Now program, the bond authorization only amounts to one year's funding. Authorizations need to be increased this spring to cover at least the FY2011 program.

Assure Equitable and Predictable Annual Funding Among Programs

While the full five-year amount has been appropriated for each Jobs Now transportation program, the authorizations are in three lump sums: one covering both state and local roads; one covering transit, high-speed rail, intercity rail and CREATE; and one covering all airport programs. The annual funding needs to be distributed equitably. Particularly for RTA and for local roads, with numerous ready-to-go projects, at least 20% ($540 million for RTA and $100 million for local roads) of the appropriations should be available during each of the five-years. A funding schedule should be developed which would show how much bonding would be available for each transportation program on an annual basis. Such a schedule is needed to guide planning decisions because it typically takes several years to move a transportation project from the planning to the construction phase (pre-construction activities include environmental studies and permits, engineering, land acquisition, etc.). Funding predictability is essential to assure that a project moves through these phases in a timely fashion, that planning investments are not wasted, and that funding is available when the project is ready to be let and when bills are due to be paid.

Deposit Increased Motorist User Fees In Road Fund

Motorist user fees were increased by some $332 million a year in order to fund the new capital program. Instead of depositing these increased revenues in the Road Fund, they are currently going into the Capital Projects Fund, which will finance non-transportation improvements in addition to highway and bridge work. The aggregation of all revenues into a single capital fund is a major policy change that jeopardizes funding for future transportation needs. These user fee revenues should be deposited directly in the Road Fund, like other motorist user fees. To assure that the revenues are used only for capital purposes, they could be placed within the Road Fund's Construction Account -- which by statute can be used only for construction purposes.

- The other funding sources to the Capital Projects Fund are projected to raise $611 to $857 million a year – adequate to fund the non-transportation programs.

- Without these ongoing revenues, the highway construction program is projected to drop by more than one-third in FY2015, with less than $200 million of the more than $3 billion generated annually by state highway user fees available for highway capital improvements.

- The current structure of the Capital Projects Fund hampers the multi-year planning necessary for highway projects and sets the stage for annual competition for funding between highways, schools, and all other infrastructure improvements.

- The ongoing deposit of motorist user fee revenues to the Capital Projects Fund holds the potential for the single largest diversion of user fees ever -- $332 million a year.

Provide Ongoing Revenue Stream and Increased Funding For Local Roads

Local governments, dependent on Motor Fuel Tax (MFT) receipts, have been particularly squeezed by the combination of diminishing gas tax revenues and higher costs for road maintenance and repair activities. The statutory increase to 80,000 pound vehicles will exacerbate the local funding shortfall as the rate of deterioration on local roads and bridges increases under the heavier vehicle loads. The temporary nature of the Jobs Now program does not allow the locals to build any reliable funding increase into their base. At the end of the program, funding to locals will drop by $100 million a year, a 17% drop from the FY2010 level, while maintenance and repair costs are likely to have risen by as much as 25% due to inflation. This is in addition to the FY2008 annual funding shortfall of $6.274 billion identified by the Illinois Association of County Engineers -- $1.971 billion to restore the FY2008 local MFT funds to their FY2000 purchasing power plus $4.303 billion to accommodate increased size and weight limits on local roads. That is a $31.37 billion local road funding shortfall over five years. To assist with this problem, local governments need increased ongoing revenues distributed through the MFT formula. Additionally, meaningful funding should be dedicated to system-wide improvements on the local road system to accommodate 80,000 pound vehicles.

Increase Capital Funding for RTA and Permit RTA to Issue the Bonds

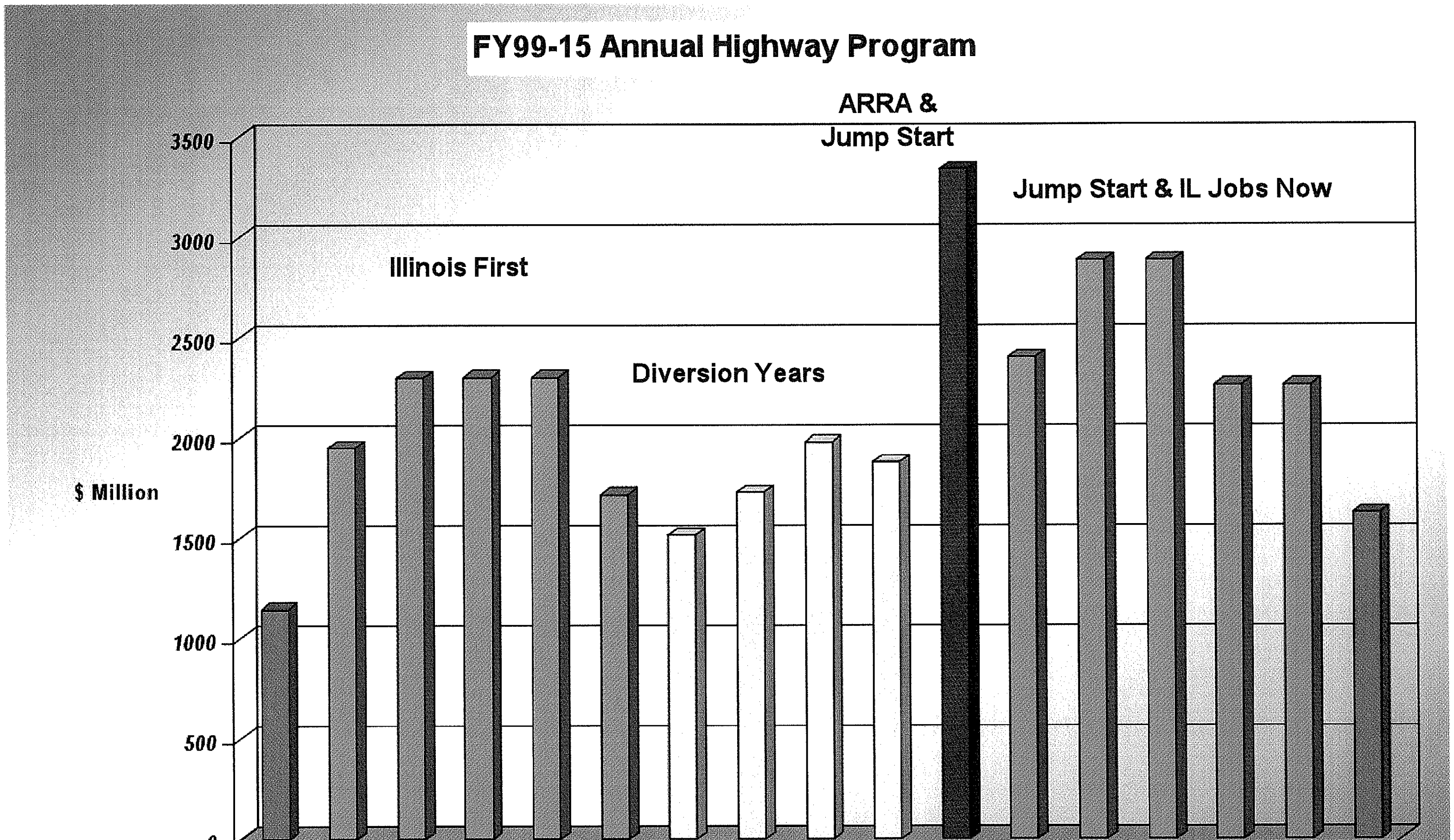
Between FY2000 and FY2004, state capital funding to RTA averaged more than $350 million a year. Between FY2005 and FY2009, it totaled zero. This loss of state funding has left northeast Illinois transit systems with a large backlog of deferred maintenance plus little to no ability to provide service enhancements or expansions to retain and attract riders in the state's most populous and congested region. Further, with a new federal authorization bill under development, inadequate state funding will make it more difficult for northeast Illinois transit providers to compete for scarce federal dollars. It is critical that the bond funding appropriated for northeast Illinois transit be fully awarded during the next five years.

Further, as the funding to the Capital Projects Fund permits, priority should be given to increasing state capital assistance to northeast Illinois transit, with RTA given the authority to issue the bonds associated with increased capital assistance. Giving RTA this authority would follow the model of previous capital packages, under which RTA issued Strategic Capital Improvement Program bonds (SCIP), with the state paying RTA for the debt service on the bonds. This approach provided several benefits: the state saved administrative costs as RTA provided the necessary oversight for transit capital projects; the bonds no longer counted as state general obligation bonds, allowing the state to use GO bonds for other purposes and/or to limit the amount of GO bonds it issued; and RTA could closely monitor cash flow needs to make sure bonds were issued on a timely basis. An additional consideration is the fact that RTA currently has a better bond rating (AA+) than the state (AA-) which could mean lower interest costs for the bonds.

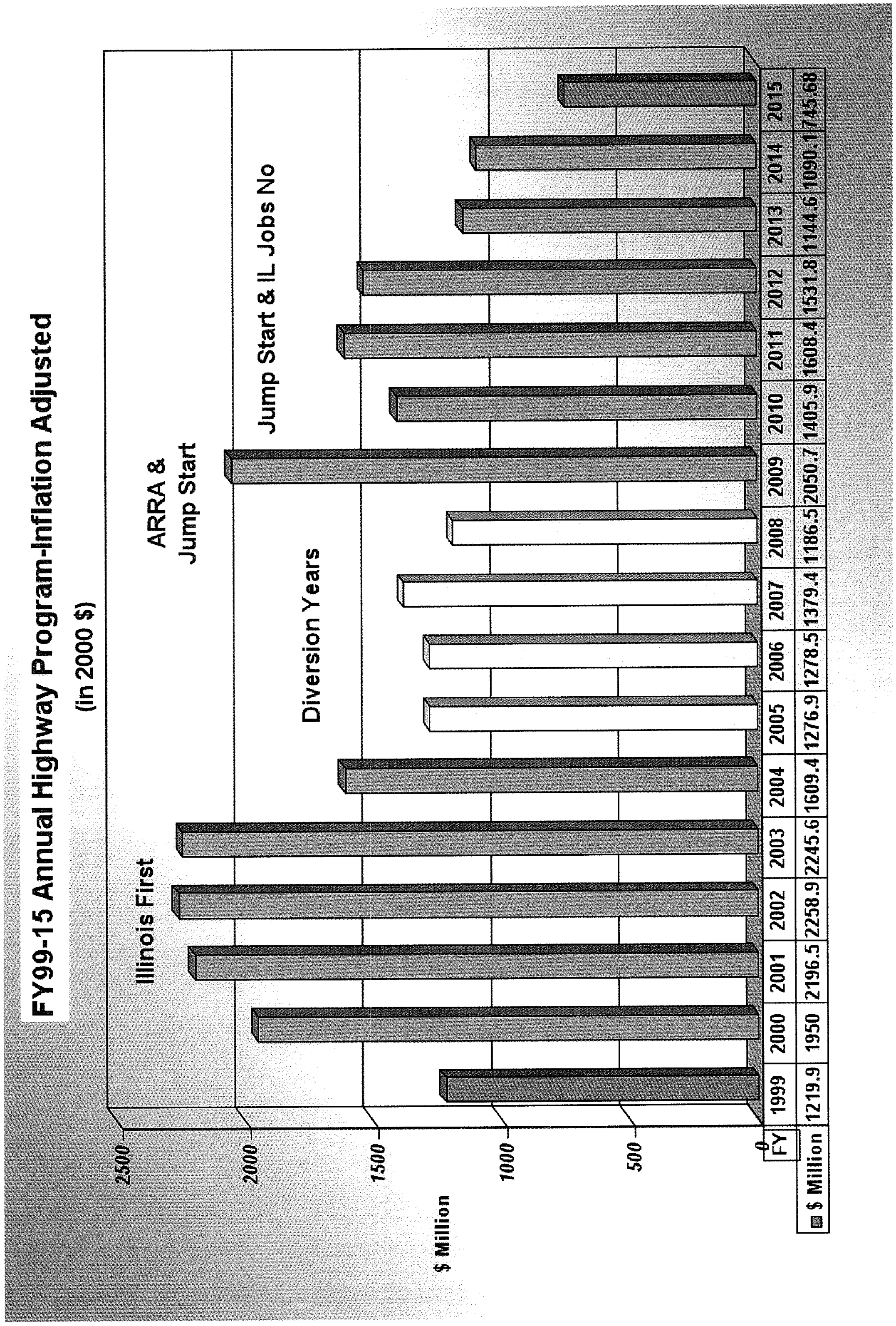
Capital Funding for Transportation

Conclusion

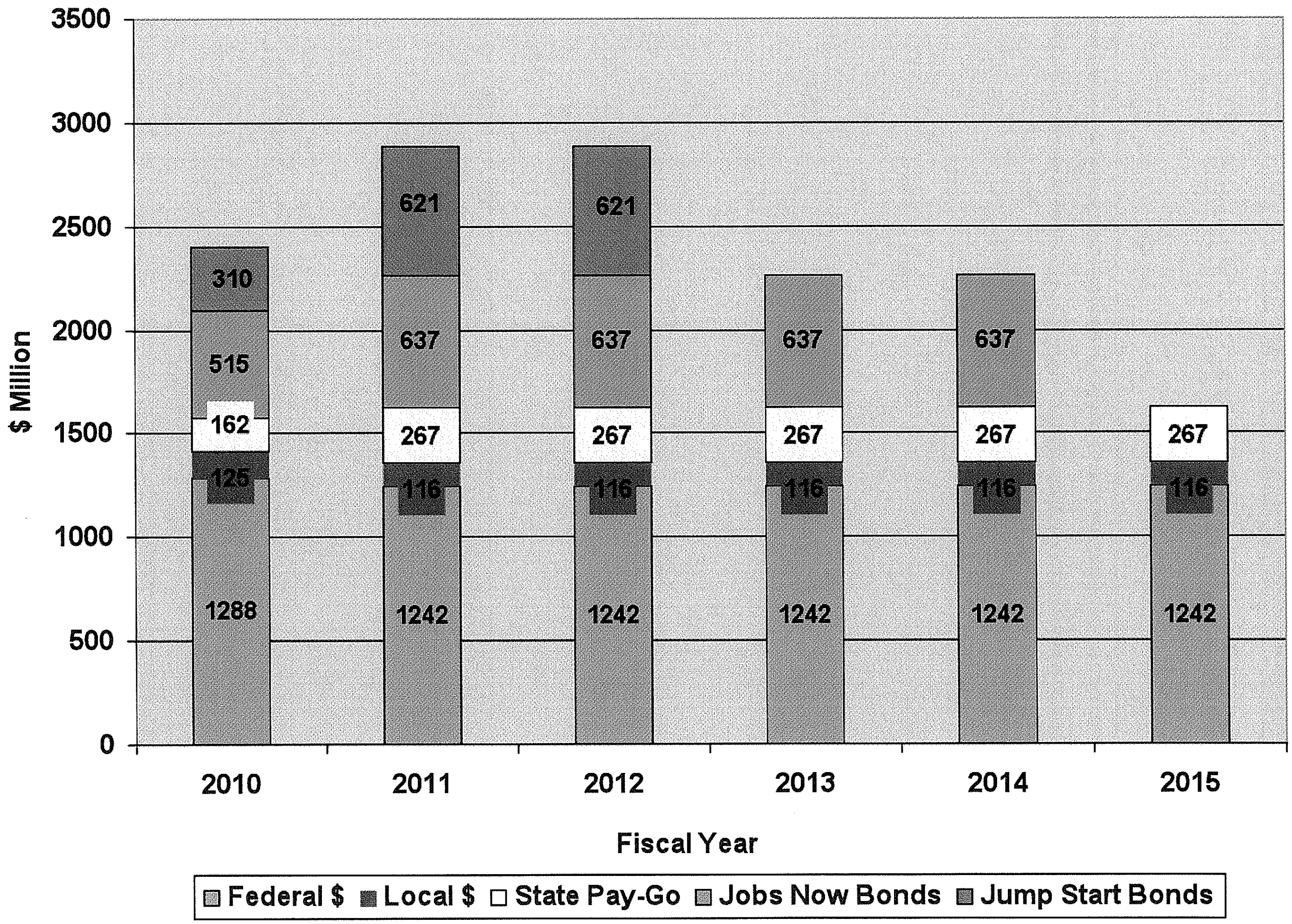
In summary, the state took major steps in enacting Illinois' first comprehensive capital program since 1999. Important as that accomplishment is, the new capital program has significant problems which **must** be addressed in order to realize the program's full benefits -- infrastructure repaired and improved, jobs supported, and enhanced mobility and economic opportunity for the people of Illinois. Because the capital package relies solely on bonds, which will be fully committed by FY2015 and does not provide an ongoing revenue stream dedicated to transportation improvements, it is time now to begin planning how to address transportation needs in FY2015 and beyond. During 2009, TFIC had recommended a minimal five-year capital funding increase for transportation of $13.462 billion. The package enacted in FY2009 provides only $9.424 billion, only 70% of the minimal recommendation. Thus, it will be critical to enact the next capital funding package by the beginning of FY2015 -- to fund additional improvements which could not be covered by the current package and to provide continuity in funding rather than the ten-year funding drought, which Jump Start and Jobs Now finally ended.

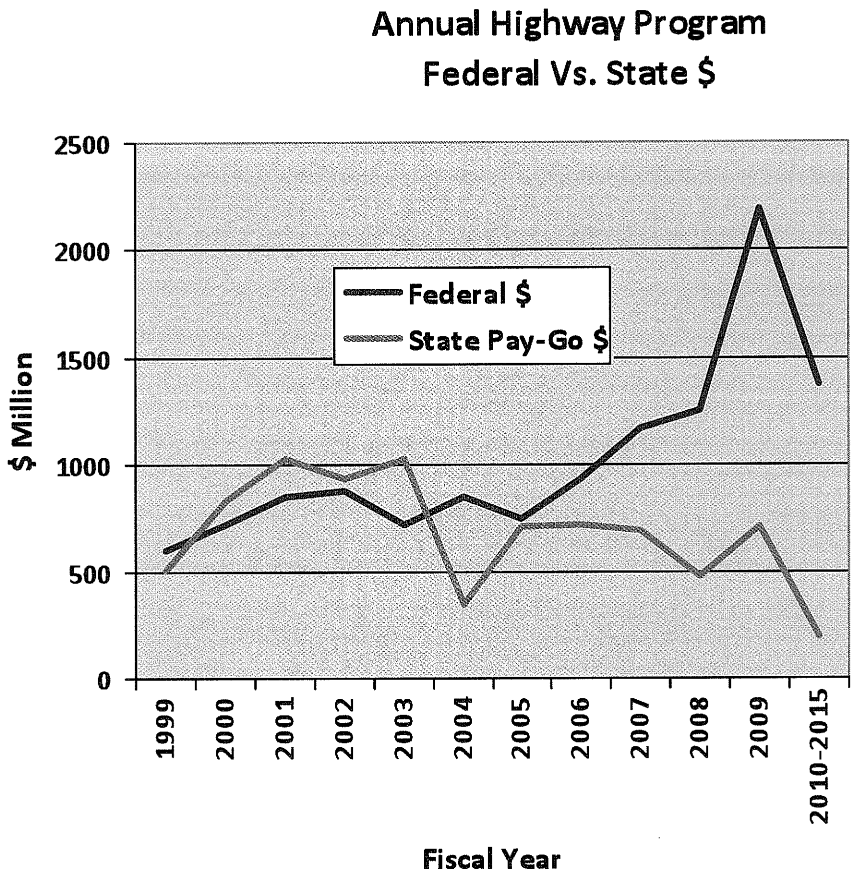


FY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
$ Million	1145	1950	2298	2300	2300	1713	1511	1725	1975	1875	3334	2400	2883	2883	2262	2262	1625


FY99-15 Annual Highway Program-Inflation Adjusted
(in 2000 $)
$ Million
2500
2000
1500
1000
500
0
Illinois First
Diversion Years
ARRA &
Jump Start
Jump Start & IL Jobs No
FY
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
$ Million
1219.9 1950 2196.5 2258.9 2245.6 1609.4 1276.9 1278.5 1379.4 1186.5 2050.7 1405.9 1608.4 1531.8 1144.6 1090.1 745.68

FY10-15 Annual Highway Program

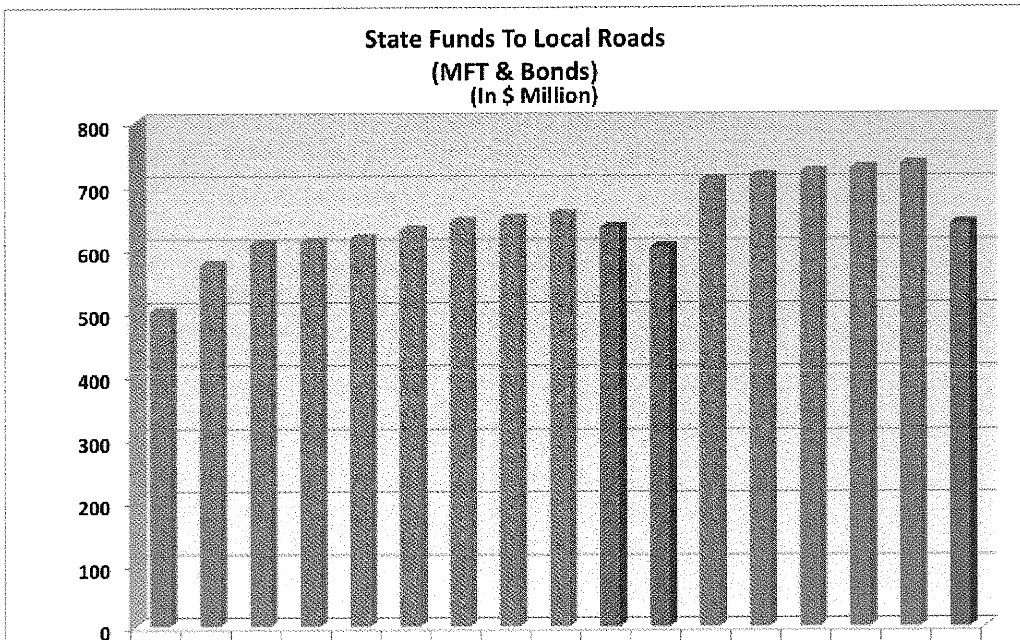




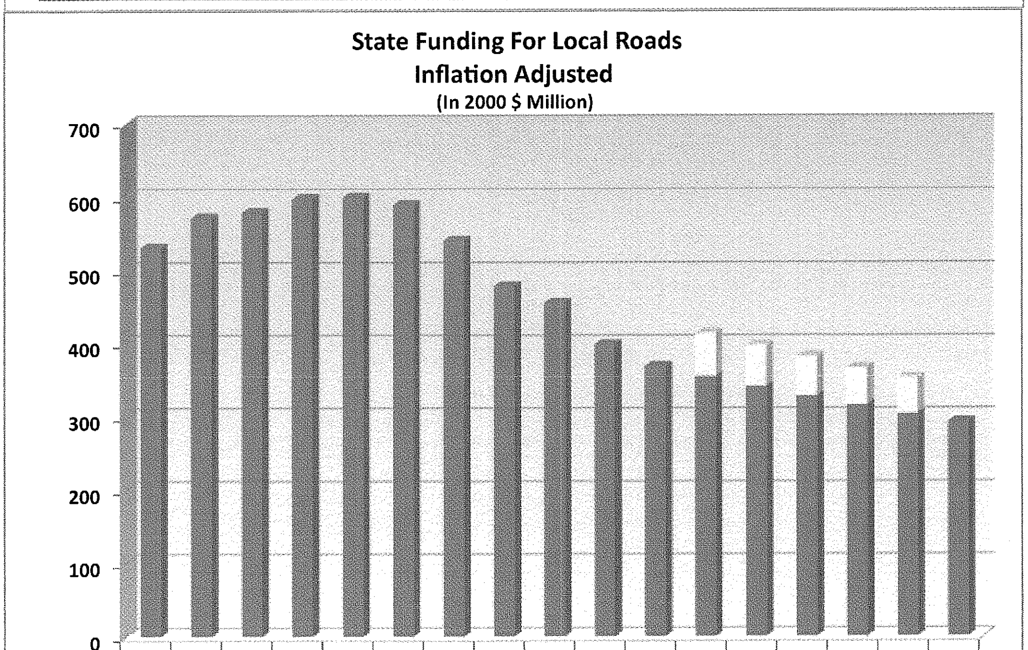
FY2010-15 state pay-go funding in IDOT's Annual Highway Program is at a low point -- despite the fact that highway user fees will generate more than $3 billion a year. This is the lowest level of state pay-go funding in more than 20 years.

State Funds to Local Roads

(In $ Millions)



	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Series1	499	573	606	609	615	628	641	646	653	632	601	707	713	719	725	732	638



	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Bonds												58.59	55.79	53.14	50.62	48.2	
MFT	531.4	572.5	579.6	598.2	600.7	590.1	541.3	479	456.1	399.8	369.3	355.7	342	329	316.4	304.6	292.8

State Funding for Transit Capital

(In $ Millions)