ROUGH ROADS AHEAD: Update 2006

a white paper from the
Transportation for Illinois Coalition

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Transportation for Illinois Coalition White Paper

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The **Transportation for Illinois Coalition** is a diverse group of business and organized labor interests 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.

ROUGH ROADS AHEAD: Update 2006

Transportation for Illinois Coalition White Paper

A robust road network is critical to the economic well-being and safety of Illinois and its citizens.

Good, safe roads are an essential part of our personal mobility, providing access to work, school, shopping, recreation and myriad other activities. Good roads are also pivotal to consumers, permitting them to shop for a wider array of goods, from more distant locations, at lower prices. Virtually every product in our homes, from furniture to food, spent some time on the highway network.

Good, safe roads are essential to businesses, too, permitting the distribution of products and services to local, regional, state, national and international markets. A strong highway network is a key asset in attracting and retaining businesses. For manufacturing, especially, highways have been a critical link in productivity gains as companies focus on inventory management and just-in-time delivery.

Roads that are in bad repair or are congested drive up vehicle operating costs, while undercutting a company's ability to deliver goods reliably and on time. A congested highway or rough and unsafe road or bridge with weight limit restrictions can be a major impediment to productivity. In sum, an efficient and effective highway network is indispensable to Illinois' ability to compete in the global marketplace.

The state highway system, at just under 16,500 miles, carried more than 70 billion miles of travel in 2004, an increase of 66 percent since 1983. With a replacement cost estimated at greater than $150 billion, these roads represent the state's single largest capital investment. The state's road assets are pivotal to commerce, jobs, safety, and ultimately to consumer pocketbooks.

Yet Illinois is not investing adequately to protect and improve its $150 billion highway investment. The state's highway improvement program for FY2006 totals $1.7 billion; this is well below the annual

The economy relies on good roads for:

- *Safe access to work, school, health care, shopping and recreation.*
- *Distribution of products to markets, ranging from local to international.*
- *Attracting and retaining businesses and jobs.*

Deteriorated roads:

- ***Drive up the cost of freight shipments and, ultimately, consumer goods.***
- ***Cost each motorist an extra $275 a year in additional vehicle repairs and operating costs.***

$2.6 billion to $4.1 billion range of program needs identified by the Illinois Department of Transportation (IDOT) in 2003. The summer 2005 enactment of the federal multi-year highway authorization bill (SAFETEA-LU)* will provide significant funding increases to Illinois. But, even with the federal funding increases, IDOT estimates that Illinois' annual highway improvement program will average only $1.8 billion. At that level, the state cannot begin to address its $3 billion plus Interstate reconstruction and modernization need; cannot undertake new projects to reduce highway congestion which is already costing motorists an estimated $4.3 billion a year; cannot build the new four-lane roads critical to economic prosperity downstate; and does not have sufficient state funding to take full advantage of the $1.2 billion in federal funds earmarked for Illinois in SAFETEA-LU.

**SAFETEA-LU is the acronym for the Safe, Accountable, Flexible, Efficient Transportation Equity Act - A Legacy For Users*

The Illinois highway funding outlook is further complicated by three difficult issues:

- Uncertain growth for Motor Fuel Tax (MFT) revenues due to record-high gasoline prices — Close to one-half of state-generated user fee revenues come from the MFT. MFT revenues normally grow about one to two percent a year. This year they have dropped well below that growth rate.
- Rapid inflation in highway construction costs — Construction industry costs have risen nearly 13 percent since December 2003.
- Continued diversion of state highway user fee revenues to non-transportation purposes — Nearly $700 million was diverted in FY2005. That is the equivalent of 11.5 cents of the 19-cent-a-gallon state gas tax.

Highway users pay for the roads through their gas tax and license plate fees, but increasingly these dollars are being siphoned off to other uses. In FY2005:

- ***Nearly 25% of state user fee revenues – $692 million – was diverted from the roads.***
- ***The diverted amount of gas tax and license plate fees was equivalent to 11.5 cents of the 19-cent-a-gallon state gas tax.***

At the federal level, even with SAFETEA-LU, challenges remain. With the record federal budget deficits, there are pressures to reduce the funding authorized in SAFETEA-LU. Additionally, federal user fee revenues, like state user fee revenues, do not grow with inflation. As a result, the Highway Account of the federal Highway Trust Fund is expected to be drawn down to a zero cash balance in 2009, or possibly as early as 2008.

These state and federal funding issues mean rough roads ahead for Illinois.

An efficient modern highway network is vital to the state's economy. To provide such a network, TFIC believes the state's highway improvement program would have to be nearly doubled. To achieve that target, TFIC recommends several actions.

At the state level, TFIC recommends:

- Eliminating the diversion of state user fee revenues for unrelated purposes.
- Quantifying the amount of additional resources needed for highway capital improvements and identifying potential funding alternatives to generate such resources.

At the federal level, TFIC recommends:

- Full funding for SAFETEA-LU as authorized.
- Beginning the dialogue on, and development of, alternatives for funding the federal highway program after SAFETEA-LU.

This TFIC white paper:

- Discusses the growing deferral of Illinois highway reconstruction, modernization and expansion needs.
- Illustrates the importance of a robust road network to the Illinois economy and the safety of our motorists.
- Explains how diversions and inflation have reduced the user fee revenue available for the Illinois road program.
- Outlines the actions necessary to restore the vitality of the Illinois road program.

GROWING NEEDS – TOUGH CHOICES

With limited dollars available to fund growing needs, Illinois highways are at a crossroads, with tough choices ahead.

Illinois faces a number of important but competing needs for scarce state highway resources: keeping existing roads and bridges in good repair; reconstructing and modernizing the Interstate system; adding projects for relieving congestion; building new four-lane roads downstate for economic development; and providing funding to fully utilize the federal earmarks in SAFETEA-LU.

Constrained by insufficient revenues to meet all needs, the state's FY2006-2011 Proposed Highway Improvement Program concentrates on keeping the existing system in good repair. As a result, the percent of roads and bridges in acceptable condition is expected to hold constant during the six-year period.[1] Unfortunately, state dollars are not sufficient to go beyond the cost of funding repair needs on the existing system. There is virtually no opportunity to add projects to meet other system goals.

Local governments also face growing road repair and modernization needs, with inadequate revenue to fund necessary improvements. Exacerbating the revenue shortfall is the rising inflation rate (nearly 13 percent since 2003) in the construction industry, which means that scarce dollars accomplish less work.[2] The highway improvement needs, which are currently being deferred, will not go away; but they will cost more when at last they are addressed. Following is a more detailed discussion of these needs.

Interstate Reconstruction and Modernization – Billions in Interstate reconstruction needs are unfunded. The Interstate is the workhorse of Illinois' highway system, carrying nearly 30 percent of all traffic in the state.[3] Illinois' Interstate system is one of the most extensive, and oldest, in the nation.

Approximately 85 percent of Illinois' Interstate mileage is more than 20 years old.[4] During the early years of an Interstate, repair needs can be met through simple resurfacing. But after repeated resurfacings – at ever more frequent intervals – it becomes necessary to reconstruct. This is a costly undertaking since work must be

done under traffic and often includes adding lanes and other safety features to bring the road up to current design standards. For example, IDOT is currently reconstructing 8.5 miles of the Dan Ryan Expressway in Chicago at a cost of more than $800 million and 8.3 miles of I-74 in Peoria at a cost of $482 million.

Yet, given the constrained revenues, Illinois cannot provide the investment needed to keep up with Interstate reconstruction needs in the future. Even with SAFETEA-LU, federal funds for Interstate reconstruction are far short of Illinois' needs. (See chart below.)

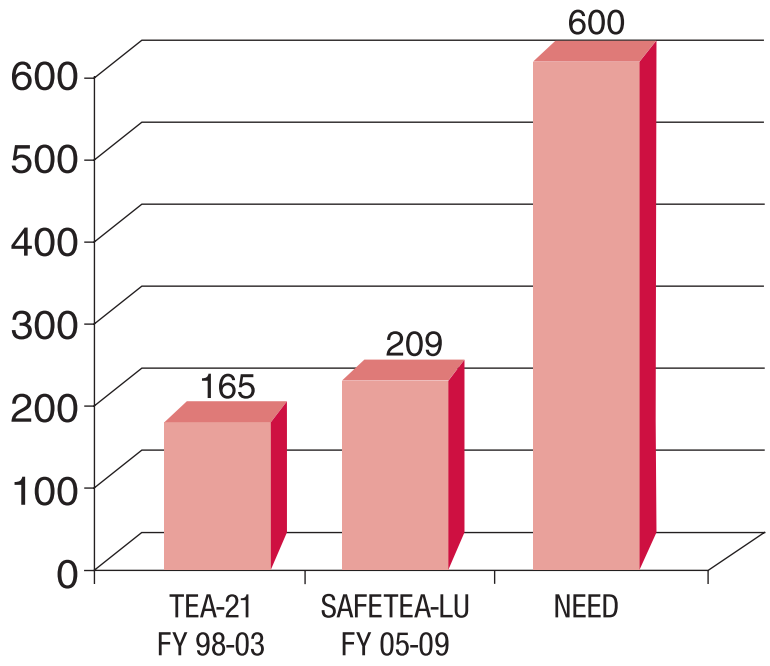
Interstate Facts:

- *Illinois Interstates carry nearly 30% of all traffic on the state highway system.*
- *85% of the Interstate system is older than 20 years.*
- *Unfunded Interstate reconstruction needs total more than $3 billion.*

In the FY2000-2004 highway program, the state committed funding for reconstructing around 100 miles of Interstate at a cost of well over

INTERSTATE RECONSTRUCTION

Estimated Average Annual Federal Funding (in $ Million)



*Source: Federal Highway Administration and IDOT

Illinois' investment in highways is falling short:

- ***The annual construction program required to meet our needs is $2.6 billion to $4.1 billion.***
- ***Illinois' FY2006 construction program is $1.7 billion.***
- ***Even with SAFETEA-LU, the estimated average annual state construction program through FY2009 is only $1.8 billion.***

$1 billion dollars. IDOT has stated that in the 2005 to 2009 time frame, another 250 miles of Interstate need to be reconstructed. That work is likely to cost more than $3 billion. IDOT's six-year program contains less than $10 million in construction funding for it.

The Illinois State Toll Highway Authority (ISTHA) faces similar reconstruction needs on its Interstate mileage. However, Governor Blagojevich announced and the ISTHA Board approved a $5.3 billion 10-year plan to improve nearly 255 miles of ISTHA's 274 mile Interstate system, including reconstructing 130 miles.

This is a positive step toward improving the state's road system, but the Tollway effort represents only a small proportion of the highway miles. IDOT is responsible for nearly 1,900 miles of Interstate. To assure a highway system adequate to support the economy, IDOT will need to undertake an Interstate reconstruction program similar to ISTHA's in the coming years.

Congestion Relief — Due to funding constraints in the late 1990's, the state added almost no congestion relief projects to its highway programs. With increased user fees in 2000, the FY2000-2004 program included more than $1.3 billion for congestion relief, particularly in northeast and southwest Illinois. Faced again with insufficient revenues, the FY2006-2011 program includes no new funding to build additional lanes to relieve congestion.

New Roads — While access to modern, four-lane roads is not the only factor in a company's decision to locate or expand, the lack of access to such roads can be a serious economic disadvantage for communities. IDOT has studies, engineering and partial construction underway on numerous new downstate roads, with several billion dollars worth

Illinois' annual investment in highway construction has dropped dramatically, from $2.3 billion in FY03 to $1.7 billion in FY06 . . . and that translates into 28,500 fewer jobs.

of unfunded construction costs. With the increased user fees in 2000, the FY2000-2004 highway program was able to include $770 million for new roads. With today's revenue constraints, the FY2006-2011 program added less than $18 million in construction funding for new roads.

Federal Earmarks — SAFETEA-LU contains more than $1.2 billion in special earmarked funds for Illinois projects. Unfortunately, for many of the projects, the earmarks are insufficient (even when the required non-federal 20 percent match is included) to complete a useable segment. IDOT estimates that the total shortfall for the earmarked projects is greater than $5 billion. IDOT is continuing to review these projects, but has indicated that the state may not be able to use all its earmarked dollars unless it can find a way to fund the shortfall. Because each of these projects is specified in federal law, their federal funding cannot be simply transferred to other Illinois projects.

In April 2003, IDOT identified future funding needs on the state system.[5] Meeting these needs (adjusted for inflation since 2003) would require a $2.6 to $4.1 billion annual program. At that level, the repair needs of the existing roads and bridges would be met, as they are in IDOT's current multi-year program. However, additional needs would also be met: Interstate reconstruction and modernization would be addressed and as much as $1.7 billion a year would be available for congestion mitigation, new four-lane roads and funding federally earmarked projects.

Unfortunately, the total FY2006 program is only $1.7 billion. Even with SAFETEA-LU, IDOT expects the highway programs through FY2009 to average only $1.8 billion.[6] The costs of the deferred highway improvements will continue to grow with inflation; so, too, will the costs to Illinois' economic vitality as we make-do with aging, congested and inadequate roadway facilities.

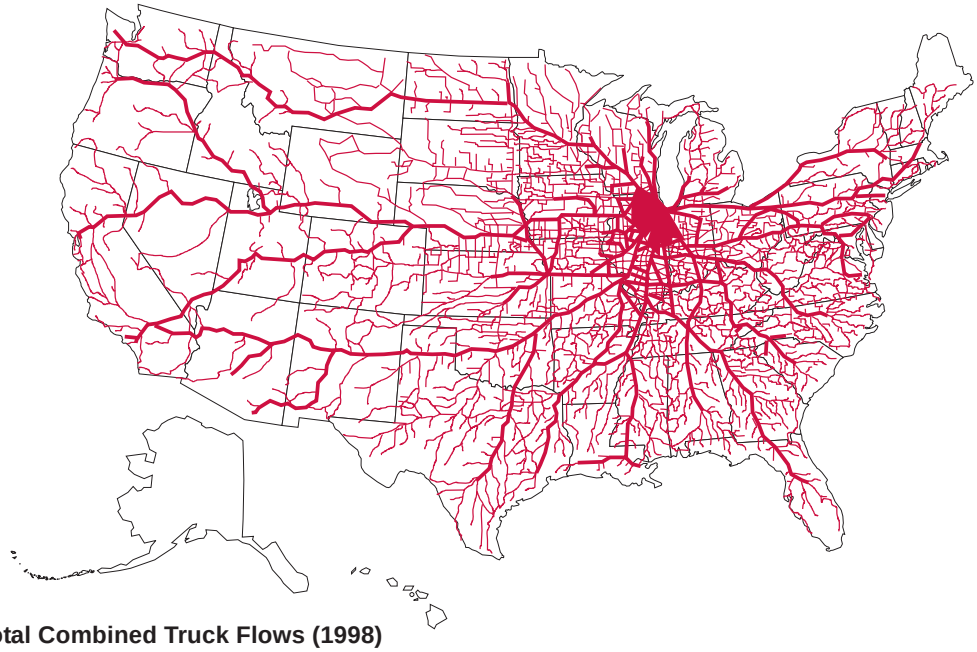
TRANSPORTATION: DRIVING THE ECONOMY

A robust road network is critical to the economic well-being and safety of Illinois and its citizens.

Illinois' state highway system, at just under 16,500 miles, carried more than 70 billion miles of travel in 2004, an increase of 66 percent since 1983.[7] With a replacement cost estimated at greater than $150 billion, these roads represent the state's single largest capital investment.[8] The state's road assets are pivotal to commerce, jobs, safety, and ultimately to consumer pocketbooks.

Commerce – Efficient, safe, reliable and timely freight movement has assumed critical importance as the economy has moved from push logistics (inventory-based, manufacture to supply) to pull logistics (replenishment-based, manufacture to order). According to the U.S. Department of Transportation (U.S. DOT), freight shipments in the U.S. reached nearly 16 billion tons in 2002, with a value of $11 trillion.[9] The largest portion of the nation's commercial freight – an estimated

ILLINOIS TRUCK TRAVEL



ILLINOIS Total Combined Truck Flows (1998)
Source: U.S. Department of Transportation
Federal Highway Administration
Office of Freight Management and Operations
Operations Core Business Unit

71 percent of total tonnage and 81 percent of total value – moved by truck.[10]

With its central location, Illinois is a transportation hub for the nation. The highway network is critical to moving freight in Illinois.

The map on page 9 illustrates truck travel through Illinois and demonstrates the key role Illinois plays in moving the nation's freight.

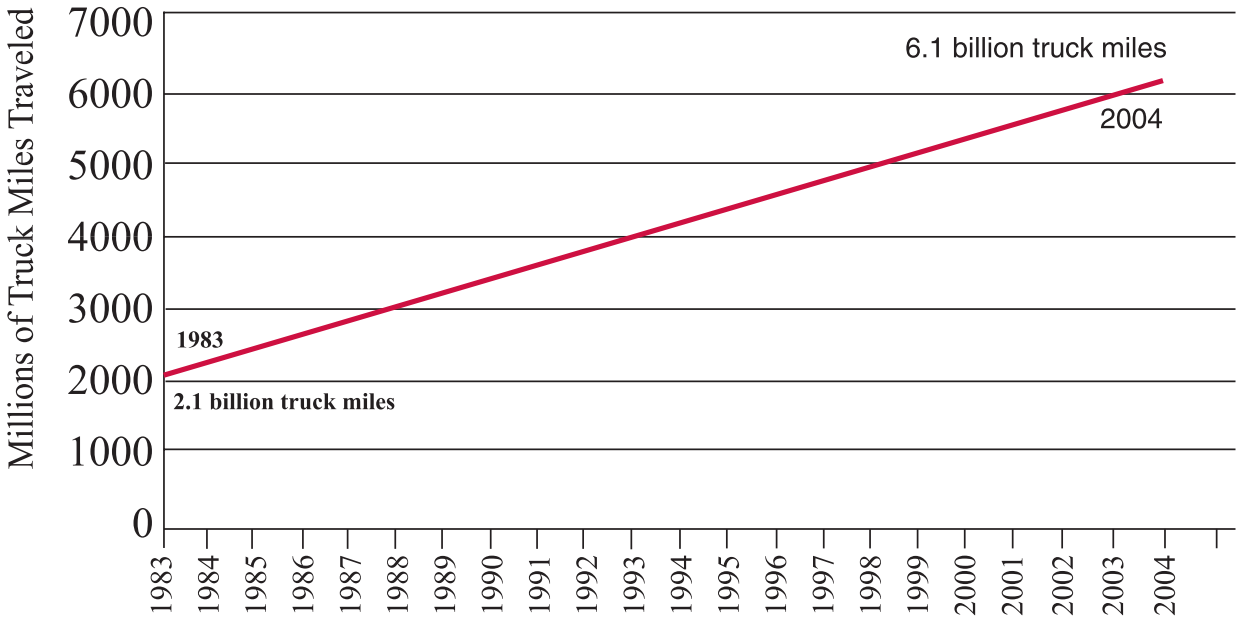
Truck miles traveled on Illinois' Interstate system have tripled since 1983, growing from two billion to six billion in 2004.[11] The graph below illustrates this growth.

Illinois ranked fourth among the states in terms of tonnage of materials moved by truck in 2003 – 768 million tons.[12] That is a 17 percent increase over the 658 million tons moved just five years ago.[13] By 2020, freight shipments to, from and within Illinois are expected to rise to 1,119 million tons, a 46 percent increase over the 2003 level.[14] A quality road network is critical to sustain modern logistics with its reliance on timeliness and reliability of shipments.

Jobs – In Illinois, transportation and transportation-related industries (excluding highway construction) employ more than 369,000 people.[15]

In addition, thousands of Illinoisans are employed in highway construction. According to the federal government, 47,500 jobs – direct, indirect and induced – are created or sustained for every $1 billion of highway construction.[16] Illinois' annual investment in highway construction has dropped dramatically, from $2.3 billion in FY2003 to $1.7 billion in FY2006. Using

GROWTH IN TRUCK TRAVEL ON ILLINOIS INTERSTATES



**Source: IDOT's Illinois Travel Statistics*

the federal figures, that translates to 109,250 jobs sustained by the FY2003 program and 80,750 jobs by the FY2006 program – or 28,500 fewer jobs. (IDOT generally calculates only the direct and indirect jobs supported by the highway construction program, using the figure of 24 jobs supported per $1 million. Under the IDOT computation, there are 14,400 fewer direct and indirect jobs supported by the FY2006 program.)

Finally, access to quality transportation is a must for many businesses in their decision to locate or expand in Illinois. Timely and reliable transportation is a linchpin of productivity and global competitiveness.

Safety – Inadequate roads cause injuries and loss of life. Nearly a third of all crashes each year are caused by substandard road conditions and roadside hazards.[17] These include such factors as inadequate intersections, poor sight distances, unimproved shoulders and narrow bridges. According to U.S. DOT, motor vehicle crashes nationwide cost about $820 a year per resident for medical expenses, lost productivity, travel delay, work place costs, insurance costs and legal costs.[18] For Illinois' 12.5 million residents, that means a collective annual cost of $10.25 billion.

According to the American Road and Transportation Builders Association, every one dollar invested in highway improvements over the past 40 years has helped save two dollars in health care, insurance, lost wages and productivity.[19]

According to an analysis of federal data by The Road Information Program (TRIP), every $100 million invested in highway safety improvements will result in approximately 145 fewer traffic fatalities over a ten-year period.[20]

In 2004, there were 1,356 people who lost their lives in traffic accidents in Illinois.[21]

Consumer Pocketbooks – The condition of the state's roads and bridges ultimately affects consumer pocketbooks, both in terms of their personal transportation costs and in terms of the availability and cost of consumer goods. In fact, the *Journal of Commerce* estimates that American households have saved an average of one thousand dollars annually since 1980 because of reductions in freight logistics costs.[22] The increases in freight productivity have enabled consumers to enjoy a wider diversity of products and lower costs. But two factors are pressuring transportation costs upwards: congestion and worn out roads.

- ***Nearly one-third of all crashes are caused by substandard road conditions and roadside hazards.***
- ***Vehicle crashes cost Illinois residents an estimated $10.25 billion a year.***
- ***Every dollar in highway improvement saved $2 in health care, insurance, lost wages and productivity.***

In 2003, congestion in the Chicago area:

- ***Cost nearly $4.3 billion, or $526 per person.***
- ***Wasted 151 million gallons of gasoline.***

Congestion – According to the Texas Transportation Institute (TTI) 2005 Urban Mobility Study, congestion costs motorists nationally about $65 billion a year in wasted time and fuel.[23] According to the same study, in the Chicago area, the annual cost of congestion in 2003 was nearly $4.3 billion, or $526 per person. That is up from $234 per person ten years ago. In the St. Louis urban area, which includes Missouri and Illinois, the 2003 annual cost was $675 million, or $326 per person, up from $220 per person 10 years earlier.

In 2003, persons in the Chicago area spent 31 hours a year sitting in traffic, up from 17 hours in 1994. For the St. Louis urban area, the numbers are 19 hours of delay a year per person, up from 16 hours in 1994. Finally, according to TTI, some 151 million gallons of excess fuel were consumed in northeast Illinois and 26 million gallons in the St. Louis urban area, due to congestion. At a fuel cost of $2 per gallon, that amounts to $354 million a year in fuel wasted in congested traffic.

Besides the costs to the individual motorist, the economy as a whole suffers as freight productivity is eroded by congestion. In its 2002 report *"The Freight Story: A National Perspective on Enhancing Freight Transportation,"* U.S. DOT cites congestion as a key freight transportation challenge, noting that: "Unpredictability (in transit times due to congestion) can hamper just-in-time inventory management and hinder some production processes. As a result, shippers and carriers assign a value to increases in travel time, ranging from $25 to almost $200 per hour depending on the product carried. The value of reliability… for trucks is another 50 percent to 250 percent higher."[24]

A 2002 report by the Transportation Research Board found that a metropolitan area's ability to address freight congestion has a significant impact on whether jobs would be created within that area or moved elsewhere, including from the U.S. to other countries.[25]

Deteriorated Roads – Worn out roads drive up the costs of owning and operating a vehicle. For example, rough roads accelerate vehicle depreciation and the need for automotive repairs. They also increase the wear on tires and fuel consumption. All this translates into higher costs for the individual. According to TRIP, driving on roads in need of repair costs an annual additional $275 per motorist in extra vehicle repairs and operating costs.[26] Again, these costs also fall on freight movement, ultimately impacting the cost of consumer goods.

Finally, when roads are repaired on a timely basis, the work is less extensive and cheaper; but when roads are neglected, it takes more extensive and expensive work to restore them. In fact, deferring timely repairs can drive up the ultimate cost of the work by as much as three times.

HIGHWAY FUNDING: FAIR PAY – FAIR PLAY

Highway users pay to build, operate and maintain the road network through gas taxes and license plate fees. They pay those taxes with the expectation that the taxes and fees will be used as promised – to maintain and improve Illinois roads. That is fair pay (if you don't use it, you don't pay the user-based tax), fair play.

Dedicated user fees have long been the accepted method of road finance in Illinois and across the nation for two key reasons. First, a user fee means an individual pays in accord with how much he/she uses. Second, a dedicated fee provides the predictability and stability needed to efficiently plan, manage and implement multi-year capital projects.

Highway users pay for the roads through their gas tax and license plate fees, but increasingly these dollars are being siphoned off to other uses. In FY2005:

- ***Nearly 25% of state user fee revenues - $692 million – was diverted from the roads.***
- ***The diverted amount was equivalent to 11.5 cents of the 19 cent-a-gallon state gas tax.***

Highway user fees are imposed at both the federal and the state levels.

Federal user fee revenues come mainly from an 18.4 cent a gallon motor fuel tax. In 2005, Illinois received a total of $1,050 million in federal highway formula funds and allocations. A portion of these dollars are used for highway planning and research. The majority are for the design, repair, and construction of roads and bridges by IDOT and local governments.

At the state level, highway funding is provided through a flat motor fuel tax of 19 cents a gallon, a $78 annual license plate fee and related vehicle/motorist fees. These state fees generated a total of nearly $2.9 billion in FY2005. Of that amount, nearly $1.5 billion went to IDOT; about $680 million was distributed to local governments through statutory formulas for local roads; and the remaining $692 million was diverted to other uses. In 2004, the General Assembly eliminated one diversion, the Governor's Office of Management and Budget transfer which had cost $118 million. In addition, the General Assembly did not repeat the one-time transfer of $50 million from the Road Fund to the General Fund that had occurred in FY2004. The tables and charts on the next two

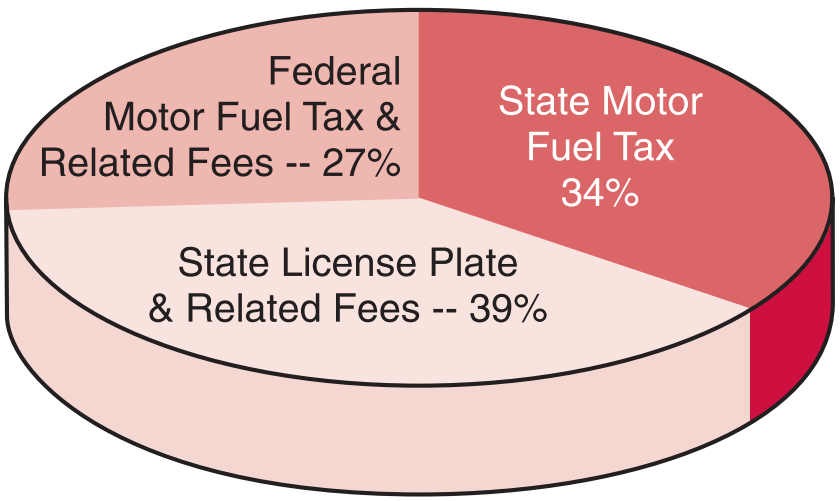
pages illustrate the user fee revenues raised and user fee revenue uses. (Note: In addition to the 19-cent-a-gallon motor fuel tax, a state sales tax and some local ad valorem sales taxes are imposed on gasoline. However, none of the sales tax revenue is dedicated to the state highway system.)

In addition to these user fees, another source of highway funding in Illinois is tolls. The Illinois State Toll Highway Authority operates 274 miles of toll roads in Northern Illinois. These roads are funded solely through toll collections and do not receive any of the federal or state user fee revenues.

In fall 2004, the ISTHA Board approved its first systemwide toll increase in 21 years, although motorists who pay electronically through I-PASS will not face higher tolls. The additional toll

HIGHWAY USER FEES FOR FY2005*

User Fee	Rate	Dollars
Federal Motor Fuel Tax & Related Fees	18.4 cents/gallon	$ 1,050 million [1]
State Motor Fuel Tax	19 cents/gallon	$ 1,317 million
State License Plates	$78/car; higher for trucks	$ 1,068 million
Certificates of Title	$65/vehicle	$ 210 million
Commercial Distribution Fee	36% surcharge on certain truck fees in FY04; lower in subsequent years	$ 120 million
Drivers Licenses	$10 for drivers license; $ 60 for commercial drivers license	$ 83 million
Other	Misc. driver/vehicle fees collected by Secretary of State	$ 58 million
	TOTAL	**$ 3,906 million**



[1] *2005 federal highway funding to Illinois.*

**Source: Websites of the State Comptroller* and the Federal Highway Administration

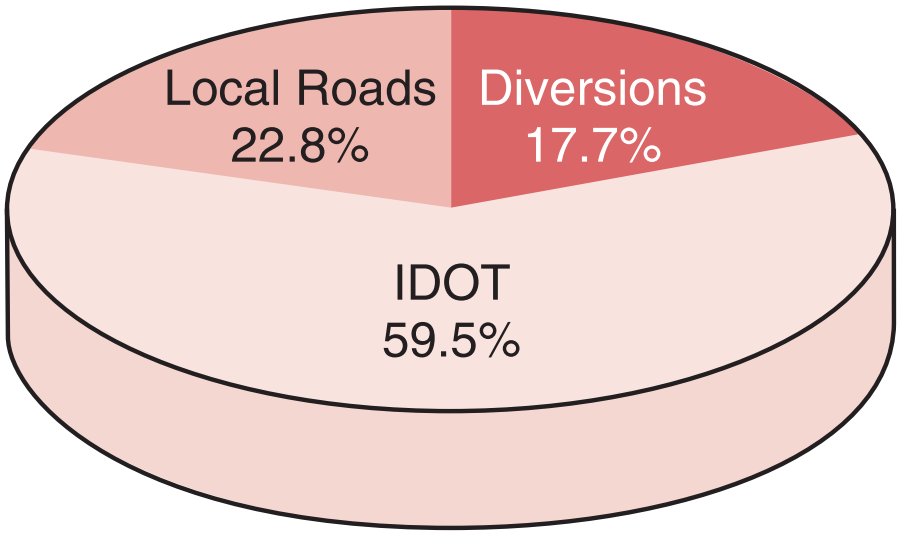
revenue will be used on a program starting in 2004 and lasting through 2014 to modernize, widen and rebuild the toll road system as well as to construct the 12.5 mile I-355 South Extension.

Federal Funding Status – The last multi-year federal highway bill, approved by Congress in 1996, expired on September 30, 2003.

In summer 2005, Congress passed the Safe, Accountable, Flexible, Efficient Transportation Equity Act—A Legacy For Users. Known as SAFETEA-LU, this act authorizes highway funding for federal FY's 2005 to 2009. The majority of the SAFETEA-LU funds are apportioned to states for program categories, such as Interstate Maintenance, National Highway System, Bridge Replacement and Rehabilitation, Congestion Mitigation/Air Quality, Safety, and Equity Bonus. States and/or local governments select the projects to be funded with these federal dollars. Other federal funds are earmarked in SAFETEA-LU for specific projects. Under SAFETEA-LU, Illinois' estimated formula funds total nearly $5.6 billion, or an average of more than $1.1 billion a year; Illinois' earmarked funds

DISTRIBUTION OF HIGHWAY USER FEE REVENUES FOR FY2005*

User Fee Recipient	FY2005 Amount
IDOT	$ 2,323 million
Local Roads	$ 891 million [1]
Diversions	$ 692 million
Total	$3,906 million



[1] *These include the state gas tax revenues distributed by statute to local governments, plus approximately 20 percent of the federal highway funding to Illinois.*

**Source: Websites of the State Comptroller* and the Federal Highway Administration*

total more than $1.25 billion, or an average of more than $250 million a year. In total, SAFETEA-LU funding authorized for Illinois averages nearly $1.37 billion a year, compared to around $930 million a year under the previous federal bill.

Despite the success of SAFETEA-LU, challenges remain at the federal level. First, the actual funding available for use by Illinois each year will be less than that authorized. That is because SAFETEA-LU includes "obligation ceilings" which limit states to using (or "obligating") only 85 to 90 percent of the funds they receive each year. Under these ceilings, the average annual federal funding to Illinois is estimated to drop to $1.23 billion, still well above the $930 million that the state averaged under the previous federal bill. Budget pressures at the federal level, however, could lead to additional cuts in the future.

Second, the federal Highway Trust Fund is running out of revenues and will not be able to support a new federal authorization bill after SAFETEA-LU. In fact, some predict that the Highway Account of the Highway Trust Fund (the account from which federal highway spending is financed) will have a zero cash balance in 2008. A major reason for this revenue drawdown is that the growth in federal motor fuel tax revenues does not keep pace with inflation. The federal gas tax was last raised in 1993. Since that time, revenues from the gas tax have lost about one-third of their purchasing power. This situation will be exacerbated in the future with the growing use of more fuel-efficient vehicles and alternative fuel sources (such as hybrid cars, electric cars, etc.).

Compounding the impact of stagnant revenue growth is the fact that user fee revenues being diverted to assist in financing the rest of state government have increased substantially in recent years.

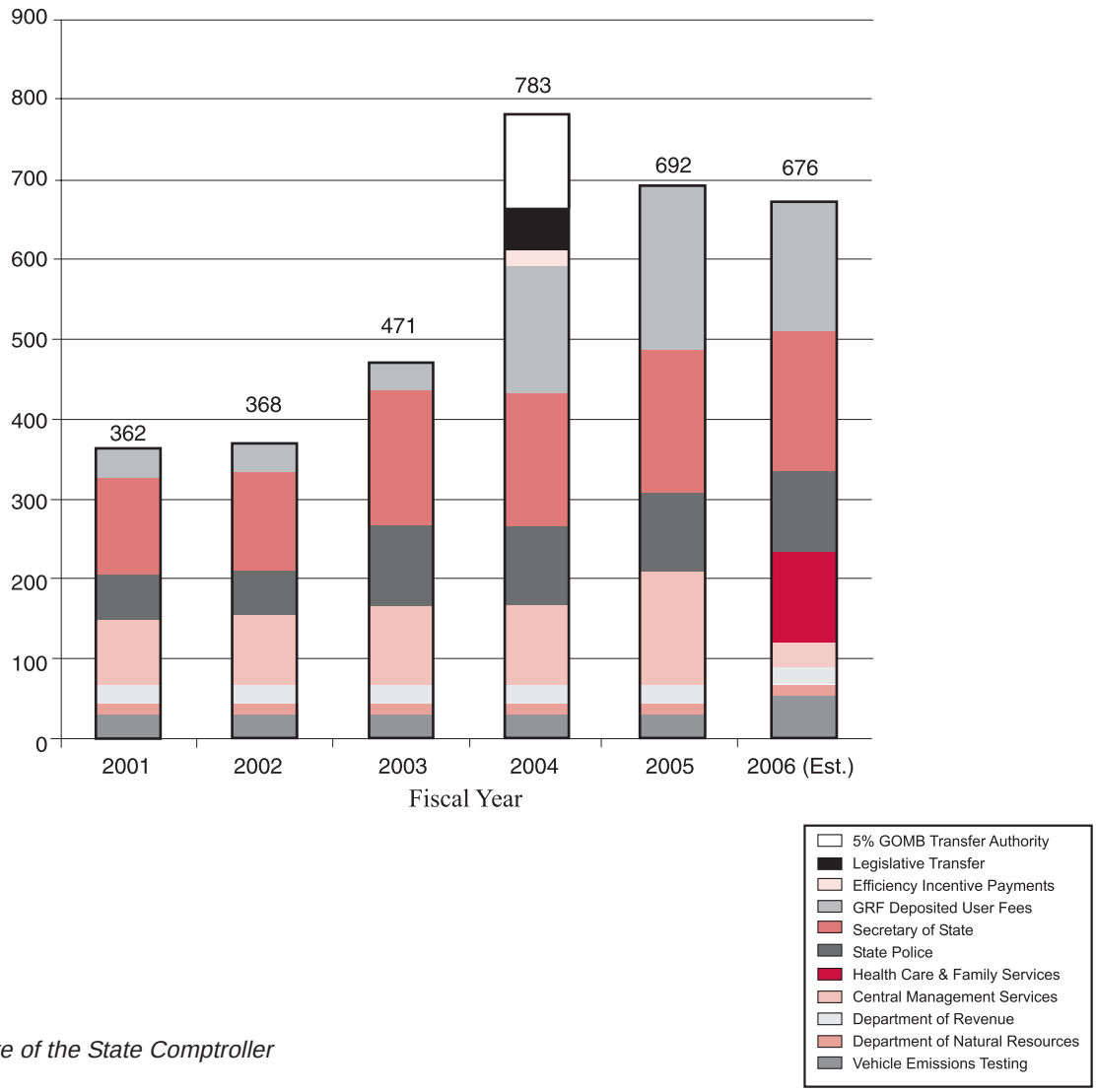
State Funding Status – As discussed above, highway funding at the state level is provided through a flat motor fuel tax of 19 cents a gallon, a $78 annual license plate fee and related vehicle/motorist fees. While predictable, these sources grow at only about one to two percent a year and do not keep up with inflation. As a result, funding for road improvements at both the state and local levels erodes as inflation outstrips the growth in user fee revenues. License plate fees were raised in 2000, but the motor fuel tax has not been adjusted since 1990. Over time as costs grow, the fees need to be adjusted to keep pace.

Of particular concern is the impact of gasoline price hikes on state motor fuel tax revenues. Through September 2005, MFT revenues had only grown one-tenth of one percent over the same period last year. It appears that MFT revenues have recovered somewhat since then, but it is unclear whether they will be able to reach historic growth rates, given the volatility of gasoline prices.

State highway user fee income is being diverted at an alarming rate from the road purposes for which the fees were collected.

Compounding the impact of stagnant revenue growth is the fact that user fee revenues continue to be diverted to assist in financing the rest of state government. Diversions in user fee revenues have been a long-standing practice, but in recent years they have risen dramatically. In FY2001, $362 million, or about 14 percent, of state user fees revenues were diverted. By FY2005, the diverted amount had nearly doubled, rising to $692 million, or nearly 25 percent of user fee revenues.[27] The chart below illustrates this growth in diversions. (TFIC considers a diversion to be any appropriation of highway user fees to an agency other than IDOT for uses not directly associated with road construction, repair, maintenance or other improvements.)

DIVERSIONS OF HIGHWAY USER FEES*



Source: Website of the State Comptroller

The FY2005 diversion amount is equivalent to 11.5 cents of the state's 19 cent gas tax going to nonroad uses. Because of these diversions, highway user fee revenues to IDOT have actually declined. FY2005 user fee revenues available to IDOT dropped 8 percent below the FY2002 level.

Of particular concern are a series of diversions that have removed funding that had been committed for highway purposes under the Illinois FIRST program.

That construction program, enacted in 1999, added nearly $4 billion to the state's five-year highway improvement program beginning in FY2000. It also increased funding for local roads by 17 percent. Illinois FIRST was financed by a $30 increase in car license plate fees and a 25 percent increase in truck license plate fees; a $52 increase in certificate of title fees; limitations on diversions of Road Fund revenues to the Secretary of State and State Police; and a $2 billion bond authorization that was made possible by increased user fees. These bonds are now fully committed. Annual debt service on bonds, which is paid from the user fee revenues, is expected to peak in 2006 at an estimated $270 million. The table below gives a snapshot of that bonding.

There have been several subsequent changes to the Illinois FIRST funding package. The allocation of $4 of the certificate of title fees to the Secretary of State's office, which was supposed to last for five years, has been made permanent, costing highways $13 million a year. Additionally, for FY's 2003, 2004, 2005 and 2006, the limitation on Road Fund dollars going to the Secretary of State and to the State Police was raised, costing state highways $506 million.

Inflation-driven cost increases further erode the dollars available for maintaining and repairing roads. Chicago Metropolis 2020, in its December 2004 report entitled *"The Metropolis Freight Plan: Delivering the Goods,"* noted, "State motor fuel taxes have not kept up with inflation and have lagged increased highway use by 20 percent since 1994."[28]

Illinois Highway Bonds

Total Authorization: $2 billion for FY2001-2004; periodic previous authorizations, most recently in 1989 for $1 billion.

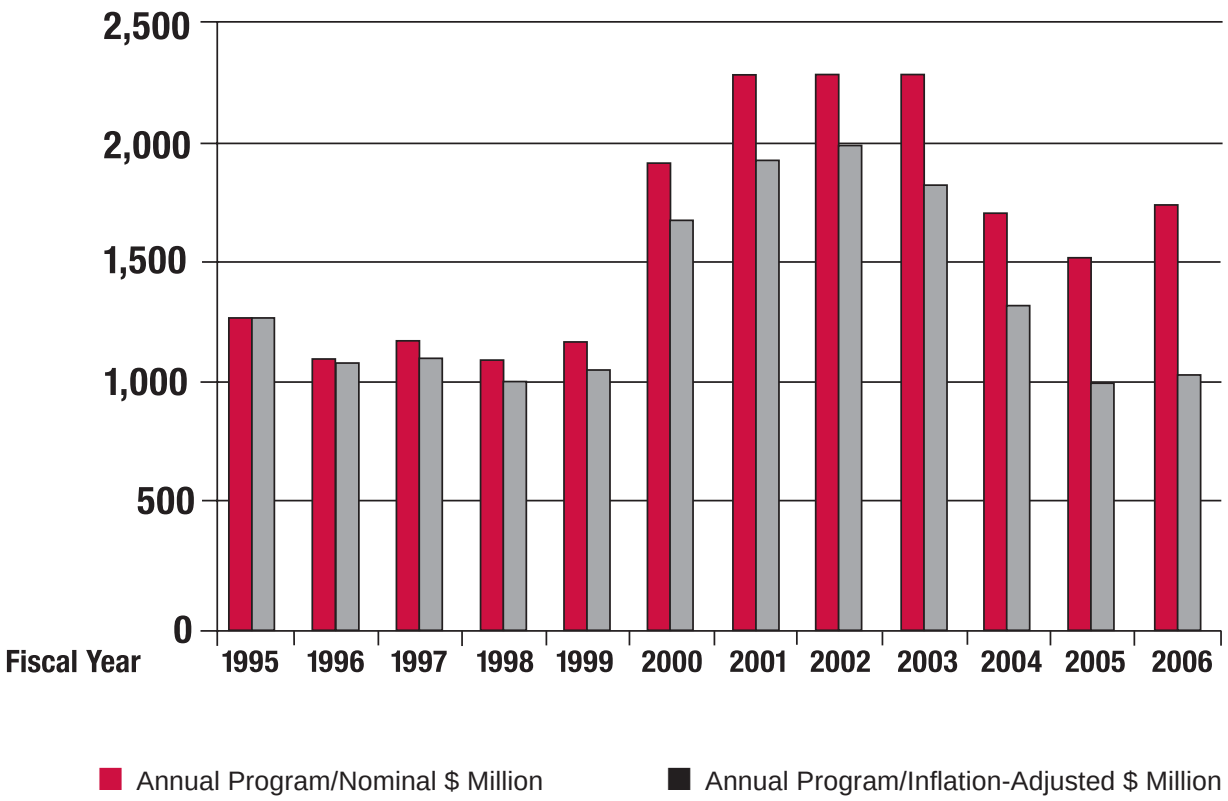
Status: Fully committed to highway projects

	FY2001	FY2006 Est.	FY2011 Est.
Debt Service	$192 million	$270 million	$248 million
% State Road Funds Revenues for Debt Service	11%	17%	14%

Note: Annual debt service on bonds yet to be sold estimated at 8% of amount of bonds being sold. This is based on the former rule of thumb of 10% per year, reduced to 8% to reflect improved rates.

According to *Engineering News Record*, construction costs rose by more than 40 percent since the end of 1994.[29] The construction industry has been particularly hard hit in the past two years, as construction costs rose nearly 13 percent between December 2003 and December 2005.[30] During the FY1995-2005 time frame, the state's highway program, in nominal dollars, peaked at $2.3 billion per year in FY's 2001-2003; the program dropped to $1.7 billion in FY2004, to $1.5 billion in FY2005, and $1.7 billion in FY2006. Adjusting for the inflation that has occurred since FY1995, the FY 2006 program is only $1,025 million, while the FY2005 program was only $992 million, the lowest level during the FY1995-2006 period. The chart below compares the FY's 1995 to 2006 annual

INFLATION-ADJUSTED HIGHWAY PROGRAMS



Base Year: FY1995 = 100
Source: ENR Construction Cost Index for December of each year

program year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nominal $ million	1,300	1,130	1,200	1,085	1,145	1,950	2,300	2,300	2,300	1,713	1,511	1,725
Inflation-adjusted	1,300	1,112	1,133	1,001	1,029	1,703	1,943	1,989	1,825	1,290	992	1,025

**Source: IDOT's Proposed Multi-Year Highway Improvement Programs*

highway programs in nominal and inflation-adjusted dollars.

Recognizing this problem, the General Assembly ended one diversion, the GOMB transfer authority, which had cost $118 million in FY2004. In addition, they did not repeat the one-time legislative transfer of $50 million from the Road Fund to General Revenue, as had occurred in FY2004.

Finally, the General Assembly ended the transfer of Efficiency Incentive Payments to the state's General Revenue Fund and instead directed such payments to be used for highway construction purposes. That still leaves an estimated $676 million in diversions in FY2006. (See Appendix for list of diversions.) These diversions, coupled with essentially flat revenues from state user fees and the loss of purchasing power due to inflation, mean rough roads ahead for Illinois.

CONCLUSION: A TRANSPORTATION CRISIS IS LOOMING , WITH THE STATE'S ECONOMY AT STAKE

Good roads cost money.
Bad roads cost more.

An efficient and effective transportation network is essential for a healthy economy – in terms of freight movement, jobs, business expansion/retention, safety and costs to the individual consumer for personal transportation and for consumer goods.

Investment in the transportation system pays real economic dividends. According to a U.S. DOT study, every dollar invested in the nation's highway system yields $5.40 in economic benefits due to reduced delays, improved safety and reduced vehicle operating costs.[31]

Yet current and projected highway capital investment levels in Illinois are woefully inadequate. In the 2003 report *"Driving the Illinois Economy,"* IDOT identified state highway funding needs of $12.1 to $20.3 billion through FY2009.[32]

A transportation crisis is looming, with the state's economy at stake.

TFIC View - There are serious questions about the future of Illinois' highway system given the lack of adequate state funding, the continuation of diversions and the impact of inflation on stagnant highway user fees. IDOT has directed its scarce revenues to keeping the existing highway system in its current condition of good repair for as long as possible.

This has resulted in dwindling opportunity to undertake necessary new projects for relieving congestion or expanding roads for economic development. Further, as the funding situation worsens over time, eventually the state will be unable to prevent a decline in the condition of the existing system.

While TFIC recognizes that the tasks ahead are challenging, we cannot afford to let the state's roads and bridges crumble. Our economic future is riding on them.

To avert this crisis:

At the state level, TFIC recommends:

- Eliminating the diversion of state user fee revenues for unrelated purposes.
- Quantifying the amount of additional resources needed for highway capital improvements and identifying potential funding alternatives to generate such resources.

At the federal level, TFIC recommends:

- Full funding for SAFETEA-LU as authorized.
- Beginning the dialogue on, and development of, alternatives for funding the federal highway program after SAFETEA-LU.

END NOTES

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Appendix

User Fee Revenues & Their Uses

$ Million

	FY01	FY02	FY03	FY04	FY05	Y06Est.
State User Fee Revenues	2,575	2,640	2,592	2,778	2,856	2,847
State User Fee Revenues to IDOT	1,578	1,618	1,458	1,329	1,483	1,479
Motor Fuel Tax Allocations	635	654	663	666	681	692
Diversions of User Fees						
GRF Deposited User Fees (Off-the-Top)	34	34	33	159	212	164
Efficiency Incentive Payments (Road Fund)	0	0	0	21	0.2	0
FY04 GRF Transfer (Road Fund)	0	0	0	50	0	0
FY04 GRF Transfer (Motor Fuel Tax)	0	0	0	1.5	0	0
5% GOMB Transfer Authority (Road Funds)	0	0	0	118	0	0
Subtotal	**34**	**34**	**33**	**349.5**	**212**	**164**
Secretary of State Replating (Off-the-Top)	12	12	12	12	13	13
SOS Ops (Off-the-Top & MFT)	33	33	35	33	34	34
Secretary of State (Road Fund)	79	78	127	124	126	129
Subtotal	**124**	**123**	**174**	**169**	**173**	**176**
State Police Ops (Off-the-Top)	2	2	2	2	2	2
State Police Ops (Road Fund)	53	53	97	94	97	97
Subtotal	**55**	**55**	**99**	**96**	**99**	**99**
Central Management Services (Road Fund)	84	91	100	104	121	0
Dept. of Health Care & Family Serv. (RF)	0	0	0	0	0	126
CMS Prof. Services Fund (RF & MFT)	0	0	0	0	6	5
CMS Workers Comp. Fund (RF & MFT)	0	0	0	0	18	26
Subtotal	**84**	**91**	**100**	**104**	**145**	**157**
Dept. of Revenue (Motor Fuel Tax)	**24**	**24**	**24**	**23**	**22**	**22**
Dept. of Natural Resources (Off-the-Top)	6	6	6	6	6	6
Dept. of Natural Resources (Motor Fuel Tax)	5	5	5	5	5	5
Subtotal	**11**	**11**	**11**	**11**	**11**	**11**
Vehicle Emissions Testing (Motor Fuel Tax)	30	30	30	30	30	30
Vehicle Emissions Testing (Road Fund)	0	0	0	0	0	17
Subtotal	**30**	**30**	**30**	**30**	**30**	**47**
Total Diversions	**362**	**368**	**471**	**783**	**692**	**676**

Transportation for Illinois Coalition Members

STEERING COMMITTEE

Statewide Organizations

American Concrete Pavement Association, IL Chapter
American Council of Engineering Companies of Illinois
Associated General Contractors of Illinois
Illinois AFL-CIO
Illinois Asphalt Pavement Association
Illinois Association of Aggregate Producers
Illinois Municipal League
Illinois Road & Transportation Builders Association
Illinois State Council of Operating Engineers
Illinois State Chamber of Commerce
Laborers-Employers Cooperation and Education Trust (LECET)
Precast/Prestressed Producers of Illinois & Wisconsin
Underground Contractors Association

Local/Regional Organizations

Champaign County Chamber of Commerce
Champaign-Urbana Mass Transit
Chicago Metropolis 2020
Chicago Southland Economic Development Corp.
Chicago Transit Authority (CTA)
Corridor 67, Inc.
Egyptian Contractors Assoc.
Elgin Area Chamber of Commerce
Greater Springfield Chamber of Commerce
Metra
MetroLINK
Naperville Area Chamber of Commerce
Quincy Area Chamber of Commerce
Regional Transportation Authority (RTA)
Rockford Winnebago County Better Roads Association
Route 51 Coalition
Southern Illinois Construction Advancement Program

PARTICIPATING MEMBERS

American Civil Engineers – IL Section
Chicago Motor Club – AAA
Greater Peoria Contractors & Suppliers Association
Growth Association of Southwestern IL
Illinois Concrete Pipe Association
Illinois Construction Industry Committee
Illinois Highway Users Association
Illinois Professional Land Surveyors
Illinois Public Airports Association
Illinois Society of Professional Engineers
Illinois Valley Contractors Association
Midwest Truckers Association
Structural Engineers Association of Illinois
Township Officials of Illinois

SUPPORTING MEMBERS

Associated Equipment Distributors
Associated General Contractors of Quad Cities
Builders Association of Greater Chicago
Chamber of Commerce for Decatur & Macon Co.
Chicago Federation of Labor (AFL-CIO)
Chicago Southland Chamber of Commerce
Chicagoland Chamber of Commerce
Greater Aurora Chamber of Commerce
Illinois Association of County Engineers
Illinois Association of County Officials
Illinois Land Improvement Contractors Association
Illinois Landscape Contractors Association
Illinois Petroleum Council
Illinois Quad City Chamber of Commerce
Illinois Ready-Mix Concrete Association
Illinois Automobile Dealers Association
Leadership Council of SW Illinois
Macomb Chamber of Commerce (MACCDDC)
McLean County Chamber
Metropolitan Planning Council
Northern Illinois Ready Mix & Materials Association
Northwestern Illinois Contractors Association
Rockford Area Chamber of Commerce
Southwestern IL Building & Construction Trades Council