

National Scan of State Transportation Revenue Studies and Actions

Washington Long Term Transportation Financing Study

Findings:

- Bond proceeds comprise 45% on transportation capital funding
- By the end of the 2011 to 2013 biennium, debt service may comprise over 50 percent of WSDOT's operating budget.
- Regardless of future gas prices (4.409 and 6.079 were modeled as year 2030 prices), the loss of purchasing power over time will be a greater impact. In constant 2005 dollars, the analysis sustained revenue increases over the base year for 13 years before purchasing power fell below that of the base year. The last year, 2030, showed a 23% loss in purchasing power by 2030.
- Bonding against future revenue will not yield as much as equity participation through public private partnerships
- Most of the potential tolling projects examined create net funding liabilities for the State that will require additional funding from non-toll sources to fully fund projects.
- Widespread mileage-based user fees are 10-15 years away; technology, equipment, and administrative and financial audit mechanisms must be in place.

Recommendations:

Index State Motor Fuel Taxes to blunt effect of declining purchasing power. Tax would reach 59.2 cents per gallon by 2030 to maintain 32 cents per gallon rate in today's dollars.

Sales Taxes on Motor Fuel (at 6.5%) to replace some share of the fixed rate fuel excise tax. This approach would yield almost double what indexing would yield.

Container Charges, applied as a flat fee of \$50.00 and indexed to inflation, estimated to generate \$8 billion between 2010 and 2030.

Tolling Specific Corridors for specific high-cost/high-need projects that have potential to generate partial funding for some portion of their cost.

Other Actions:

2003 - 2005: \$7.7B in general obligation bonds secured by motor vehicle fuel tax revenue

2003 - 2005: \$349 M in general obligation bonds to be paid by vehicle sales tax, car rental receipts

'2005 Partnership' increased fuel tax 9.5 cents (to 37.5 cents) by 7/08

Iowa's Current Road Use Funds and Future Maintenance and Construction Needs

(DOT Report to Legislature)

Findings:

- Iowa is facing a \$27.7 billion shortfall in the next 20 years.
- The minimum amount of new funding needed today to meet the most critical needs to sustain and enhance Iowa's economy is \$200 million per year

- Absent additional revenue for the public roadway system, Iowans can expect:
 - o a dramatic decrease in pavement and bridge conditions in the coming years;
 - o significantly higher congestion in and around urban areas and along much of the interstate (rural and urban); and
 - o corridor improvements on the CIN [Iowa's primary commercial network] will not be addressed
- Even with the minimum funding, lower volume roads and bridges will not keep up with repairs. More bridge weight restrictions and closings can be expected.

Recommendations:

- Establish a \$200 million fund
- Channel revenue from existing sources into existing funds and distribute with existing formula
- New revenue should be placed in the new fund and distributed through a new formula focused on enhancing and sustaining Iowa's economy.
 - o Statewide, new funding should be on interstate and a state-designated system of highways essential to the state's economy
 - o At the county level, new funds will address critical bridges
 - o Cities will prioritize their needs after system maintenance is accomplished
- * Phase implementation of funding increases over two years to better manage the impact on users.
- Any additional new revenue generated beyond \$200 million should be distributed through the existing RUTF distribution formula.
- Continue evaluation of alternative funding mechanisms
- Re-evaluate needs and revenue every 5 years

Iowa TIME-21 Transportation Funding Study Committee (Legislative Committee formed to address findings and recommendations of above report)

Findings:

When surveyed, people overestimate the amount of fuel taxes, both federal and state, that a person pays in a year

Fuel tax is progressive for low to middle income levels, but is regressive when seen from middle to high income levels.

Registration fees, if such fees are based upon the valuation of the vehicle, are progressive in nature.

Recommendations:

- \$200 million each fiscal year should be available with the amount being phased in over two to three years
- Continue to consider all revenue sources, except the fuel tax, to capitalize the TIME-21 Fund.
- Change the use tax on motor vehicles to incur at the time of registration to make the revenues constitutionally protected.
- Research authority of the Governor and Executive Council to use General Fund money for road and bridge purposes in emergency situations

- Removed fuel tax increase from recommendations for lack of support in both legislative caucuses and Governor.

Colorado Finance and Implementation Panel

A Report to Colorado
Executive Summary

Findings:

Colorado faces a \$163 B transportation funding shortfall 2008-2030; \$90 B is just to maintain what they have.

Recommendations:

The panel considered 39 alternatives for generating more revenue for transportation, evaluating each on 16 criteria, such as administrative burden, flexibility, and whether the revenue source was stable. The Panel recommended five primary revenue sources.

Revenue Source	Incremental Fee or Tax	Revenue Generated	Voter Approval Required
Highway Maintenance Fee	Average fee increase \$100	\$ 500 M	No
Motor Fuel Tax	13 cents/gallon increase	\$351 M	Yes
New Visitor Fee	\$6/day	\$240 M	No
Sales & Use Tax	0.35% increase	\$312 M	Yes
Severance Tax	1.7% effective increase	\$96 M	Yes

Highway Maintenance Fee

Specifics: Add a new annual “State Highway Maintenance Fee” to the cost of registering a motor vehicle. All proceeds, after the cost of administration, would be dedicated to maintenance operations for the state highway system.

Rationale: A well-maintained highway system is essential for motor vehicles to be driven safely, expeditiously and without incurring damage.

Motor Fuel Tax Increase

Specifics: Increase excise tax on motor fuels. The taxes either would be indexed to inflation or the ballot measure would include a schedule of future incremental rate changes.

Rationale: Colorado historically has relied on motor fuel taxes to finance public roads, and this revenue source is consistent with the concept of having users pay for transportation.

Visitor Fee

Specifics: Establish a fee for renting a car and staying in a hotel or motel. The revenue would go to transportation related projects.

Rationale: Visitors to Colorado, either for tourism or business reasons, benefit from the state's transportation system. While they may pay some fuel taxes, adding a visitor fee would provide another way to make sure they contribute to construction and maintenance.

Sales & Use Tax Increase

Specifics: Increase state taxes on the sale of retail items to individuals and the use of items purchased by businesses. The revenue would be dedicated to transportation.

Rationale: Because revenue from vehicle fees and fuel taxes must, under the state Constitution, only be used for state highways, an additional revenue source is needed to pay for transit and other transportation needs. Many local governments have used sales taxes to subsidize transit programs, and there is a precedent for using state sales tax proceeds for transportation.

Severance Tax Increase

Specifics: Increase severance tax rates on oil and gas income and dedicate the money for transportation. The current tax rate ranges from 2 percent to 5 percent.

Rationale: An increase in severance tax rates would help offset the impact of expanded oil and gas exploration on the state highway system. A recent study shows the tax burden of the energy industry in Colorado is low compared to neighboring states with significant natural resources.

Massachusetts: Building a Sustainable Transportation Financing System:

Recommendations of the Massachusetts Transportation Finance Commission

09/17/2007

Findings:

1. Virtually every transportation agency in the State is running structural deficits and resorting to short-term quick fixes that hide systemic financial problems;
2. The condition of our roads, bridges, and transit systems are all in broad decline;
3. Revenue is being squeezed from all sides; and
4. We have no money for transit or highway enhancements or expansions without further sacrificing our existing systems and exacerbating our problems.

The Commission conservatively estimated a funding gap of \$15 billion to \$19 billion over the next 20 years, which only includes maintaining the present system without enhancements or expansions.

Recommendations:

The measures described below and in further detail in the remainder of this report fall into two categories: reform of the way we do business today, and revitalization of the revenue sources.

Savings and Revenues
First Principle: Expected Savings from Reform \$2,450
Second Principle: Expected Revenue from Revitalization \$18,730
Total Savings and Revenue \$21,180

REFORM RECOMMENDATIONSSavings

Billions
1 Road and bridge investments should be selected and advanced based on rational and transparent criteria + 2 The Executive Office of Transportation and Public Works (EOTPW) should utilize alternative procurement methods and public private partnerships (P3) + 3 The use of private flagmen should be allowed on road and bridge projects \$100 4 Responsibility for the Department of Conservation and Recreation's (DCR) parkways and bridges should be transferred to MassHighway + 5 Maintenance Responsibilities of I-395, I-84 and I-291 should be transferred to the Massachusetts Turnpike Authority \$60 6 EOTPW should establish the position of Private Project Ombudsman + 7 The Commonwealth should end the practice of using bonded funds for operating personnel and expenses \$825 8 The Commonwealth should improve the predictability of highway funding and coordination of projects funded by multiple entities + 9 The rate of growth of MBTA fringe benefits costs should be reduced \$1,100 10 The unnecessary constraints on MBTA management should be removed + 11 The MBTA needs to fully fund its state of good repair program. This goal can and should be achieved by the Commonwealth assuming the debt from Central Artery/Tunnel transit commitments + 12 The Commonwealth should pay for all MBTA capital expansions, and before committing to a project, the MBTA should demonstrate that adequate revenues are in place to operate and maintain the expansions + 13 Regional Transit Authorities (RTAs) should be forward-funded + 14 The RTA's 2.5 percent per year cap in operating cost growth should be eliminated + 15 RTAs should be allowed to borrow with the full faith and credit of the Commonwealth \$65 16 The Secretary of Transportation should exercise a stronger coordinating role with respect to RTAs + 17 The Secretary of Transportation should have the authority to coordinate all aspects of the Commonwealth's transportation network + 18 The CEO of each Massachusetts transportation agency should institute a rigorous performance evaluation process \$200 19 All Massachusetts transportation agencies should have the same

\$100,000 tort liability limit as municipalities \$100 20 The vast majority of our funds for the foreseeable future should be devoted to maintenance and rehabilitation + 21 The Tobin Bridge should be transferred from Massport to the Metropolitan Highway System + 22 Transportation user fees must be dedicated to transportation uses + Reform Subtotal \$2,450+ + Recommendations with this symbol are important to the overall effort to reform and revitalize the Massachusetts transportation system, but savings arising from their implementation have not been quantified.

REVITALIZATION RECOMMENDATIONSSavings

Billions23 The gas tax should be increased by 11.5 cents and indexed to inflation \$10,500 24 The Massachusetts Turnpike should develop a balanced operating budget for the Western Turnpike that does not rely upon spending down its reserve fund \$300 25 Fares should remain a meaningful source of revenue for the MBTA, through regular and predictable increases to keep pace with inflation \$1,900 26 Toll increases on the Turnpike Extension and Harbor Tunnels must be carried out \$530 27 The Commonwealth should move to a system of direct road user fees as the principal source of transportation funding using modern technology (5 cents per mile user fee on all interstate roads on top of gas tax.)\$5,500 28 The Commonwealth should investigate whether public private partnerships are appropriate for the development and/or funding of our transportation infrastructure + Revitalization Subtotal \$18,730 + Recommendations with this symbol are important to the overall effort to reform and revitalize the Massachusetts transportation system, but have not been quantified, or are not quantifiable

Oregon

Current financing options include:

Rail Funding: Corporate income tax on private rail operators dedicated to:

- The Oregon Railroad Fund, which provides grants and loans for passenger and freight railroad improvements.
- The State Rail Rehabilitation Fund for rehabilitation and preservation of rail service in Oregon.
- The Grade Crossing Protection Account for construction, relocation or maintenance of grade separated crossings.
- The Grade Crossing Safety Improvement Fund for improving grade crossings.
- The Short Line Credit Premium Account Program, which provides funding in the form of grants for short line operators to enable them to receive a loan under RRIF.
- Public Private partnerships

Transit Operating Funding: Ongoing operating revenues for Oregon's transit agencies

include the following funding sources:

- Payroll taxes applied in the Portland and Eugene areas accounted for 53 percent of the operating budgets for the two transit agencies during Fiscal Year 2003.
- The state assesses state agency payrolls in-lieu of the payroll tax and provides monies from the assessments to transit operators.
- Local property taxes provide most local funding for the Salem-Keizer and Rogue Valley Transportation Districts.
- Passenger fares are typically the second largest source of operating revenue for transit agencies providing scheduled service.

- The Federal Transit Administration (FTA) provides grants to transit agencies for maintenance, rehabilitation and planning.
- Federal STP funds have been flexed to fund transit programs including community transportation and mass transit vehicle replacement.

State funding sources for public transportation, which primarily go toward paratransit services and services in rural areas, include:

- State cigarette taxes.
- Revenue from the Driver and Motor Vehicle Services.
- Motor fuel taxes collected from non-highway users.
- Grants from the state Department of Human Resources also fund local paratransit services throughout Oregon.
- Appropriations from the general funds of Oregon's cities and counties fund small portions of transit operating budgets. Transit agencies generate revenue through other sources such as advertising on bus shelters, at stations and inside transit vehicles, and through interest on operating and capital reserves.

There are several sources of capital revenues for public transit providers:

- The FTA's New Starts program
- Federal STP and CMAQ grants provide funding for capital equipment purchases and construction of transit infrastructure.
- Other federal grant programs such as Transportation Enhancement funds are available for unique projects that do not conform to other funding programs.
- State lottery revenue bonds have been used to fund light rail, commuter rail and other transit projects in Oregon.

Roads and Highways

- Motor fuel tax - \$.24/gallon
- Administrative fees - Title fees, driver's license fees, registration fees and other transportation-related fees for all types of vehicles
- Weight-mile tax for heavy vehicles in lieu of other taxes on trucks and other heavy vehicles generates 12 percent of ODOT's revenues
- Federal, state and local user fees provide 45 percent of the funding for county roads and 44 percent of total revenues for city streets in Oregon.
- Bonding to repair and replace state and local bridges, increase lane capacity, improve interchanges and preserve road pavements.

Other sources of funding for local roads and streets include:

- U.S. Forest Service and Bureau of Land Management allocations
- Property taxes and other non-user taxes, which fund 13 percent and 17 percent of county and city roads, respectively.
- Impact fees and system development charges, which have grown in use in recent years.

- Other federal funds, real estate transfer fees, private developer contributions, interest income and components of other local revenue sources.

Characteristics of an Optimal Transportation Funding Package

- Diverse
- Flexible
- Bondable
- Adjustable
- Efficient
- Linked to Statewide Goals and Policies

New Ideas to replace the gas tax.

- Replace the gas tax with a mileage-based fee based on miles driven in Oregon and collected at fueling stations; and
- Use this system to collect congestion charges.

Pilot study was completed that demonstrated both concepts were feasible in Oregon.

Kansas –

Average Annual Revenue by Funding Source: 2000 - 2009

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Transportation Funding Sources and Uses

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Objectives related to funding mechanisms

- adequate in terms of generating significant additional funding,
- stable and reliable
- efficient in the sense of holding down administration costs relative to revenues delivered consistent with a user-fee approach
- equitable in their impact on different categories of individuals or businesses
- inflation-neutral in the sense that revenues generated track construction-related inflation
- diverse in the sources from which state transportation funds are generated, and
- viable because of limited legal, political or organizational barriers to implementation

Future Funding Recommendations

- Increase overall transportation funding
- Increase core funding - motor fuels taxes, vehicle registration fees and sales taxes

- Protect revenues from inflation - index motor fuels taxes and/or vehicle registration fees to inflation.
- Make local/private sector transportation investment easier Expand State Transportation Revolving Fund (TRF) and the Rail Service Improvement Fund) loan programs.
- Consider additional tolling and use of public/private partnerships
- Promote partnerships - Explore incentives to make cost-sharing and other forms of collaboration more workable and attractive.
- Use bonding responsibly to solve problems sooner

New York The New York State Advisory Panel on Transportation Policy for 2025

Findings and Recommendations

FINDING #1: The transportation system is under stress, and conditions will worsen, unless New York State dramatically changes the planning, investing, managing, and institutional relationships that drive the system.

- Current transportation infrastructure, after years of improvement, is starting to deteriorate again and conditions will worsen quickly without significant new investment.
- Restoring and maintaining our existing infrastructure is not enough. New infrastructure and system-wide improvements are also needed in order to keep up with increased demands.
- Revenues for transportation operations and capital improvements are currently insufficient and will certainly not meet future needs.
- The needs of an aging population and physically challenged individuals is placing stress on the transportation system and must be met with new approaches and standards.
- Providing a secure transportation system in a post 9/11 world has increased safety and security expectations for the transportation system that must be met.
- Institutional relationships are impeding the State's ability to address transportation challenges and seize opportunities both across modes and jurisdictions. Changes are required to take advantage of the opportunities that technology offers to substantially improve customer service, mobility, and reliability, system-wide efficiency, safety and security.

FINDING #2: The New York State Department of Transportation (NYSDOT), as the only statewide multimodal transportation agency, must lead a comprehensive effort to optimize the transportation system in New York State. The multiple transportation operations in the State must be integrated to form a seamless system that delivers significantly improved service while enhancing the environment.

- New York State must expand its newly established federation of transportation agencies and consider agency consolidation where it makes the most sense.
- NYSDOT must work closely with, and help strengthen, local transportation agencies and Metropolitan Planning Organizations (MPO's).
- NYSDOT must take the lead in developing and implementing solutions that improve freight movement.
- NYSDOT must assume a leadership role in achieving the State's environmental and energy goals.

- NYSDOT must lead the effort to link land use and transportation decisions to ensure quality communities with effective transportation systems.
- NYSDOT must develop and implement solutions to manage demands.
- NYSDOT must develop a State Transportation Master Plan that integrates the transportation system physically and operationally to achieve performance goals for mobility & reliability, safety, security, economic competitiveness and environmental improvement.
- NYSDOT must educate the public, legislators and the media about the risks to the transportation system and the rewards to be gained by overcoming the challenges faced.

FINDING #3: New York State must develop a new strategy that provides substantial, sustainable and predictable funding dedicated to transportation investments. This strategy must reinforce the goals of mobility & reliability, safety, security, economic competitiveness and environmental enhancement; strike a balance between payments by beneficiaries and the benefits received; and provide for financial transparency and accountability to ensure continued confidence in the financing strategy.

- New York State and local transportation agencies and authorities must take steps to continuously hold down costs, but this alone will not come close to providing the revenue necessary to meet our transportation needs.
- New York State must examine all possible sources of revenue for transportation investments, including user fees, taxes, tolls, and private investment.
- New York State must consider tolling for congestion management and revenue generation.

Public Private Partnerships – Transportation Development Partnerships have the potential to reap great rewards for the traveling public by ensuring critical transportation links are built and adequately maintained. Partnerships accelerate the construction of new capacity projects that otherwise might be delayed considerably or not built at all. Private sector payment for concession rights may also provide additional funding that can be used on other projects. Legislative authority should be granted to allow the New York State Department of Transportation, New York State Thruway Authority, and Metropolitan Transportation Authority to pursue the innovative financing and contracting opportunities provided by Transportation Development Partnerships.

Legislation not yet enacted.

New Jersey

Specifically, reforming the Transportation Trust Fund (TTF) will include the following actions:

Make progress towards recapturing and dedicating funds that were originally intended to fund TTF, but have been diverted over the last decade to the general fund.

Freeze the level of TTF funds used for capitalized maintenance projects, which are projects that have a useful life of five years or more.

Create an Independent Financial Policy Oversight Board charged with the responsibility to ensure TTF fiscal discipline and public accountability.

NJDOT and NJ TRANSIT must maintain a pay-as-you-go program to ensure that some projects are financed using existing revenue

Pennsylvania Funding and Reform Commission Report – 11/2006

Findings:

The Commission confirmed that Pennsylvania's public transportation and highway and bridge systems are in crisis, both in terms of inadequate funding for operations, capital improvements, and maintenance, as well as decaying physical conditions. The Commission believes that this funding crisis needs to be addressed before the condition of our system further deteriorates.

With regard to highways and bridges, the state's dedicated funding sources are not keeping pace with construction cost increases, and the growth in federal funding in recent years has not been as robust for Pennsylvania as it has for most other states. The Commission believes an annual increased investment of \$1.013 billion is needed with a heavy focus on system preservation and targeted capital investments.

the Commission

also focused on identifying opportunities for reform and spending efficiencies and determined that approximately \$120 million in cost reductions could be generated. Therefore, the Commission recommends that the Commonwealth:

Provide additional funding for state-owned highways and bridges in the amount of \$900 million per year.

The transit funding crisis has been caused by a complex set of issues. It has been building for the last 10 years and has become acute over the past four (4) years. **Stopgap funding for transit over the last 18 months has avoided sharp fare increases and extensive service cuts. However, this temporary transit funding runs out at the end of December 2006.**

The loss of federal operating funding, the reliance on limited state revenue sources, and the impact of inflation have resulted in operating shortfalls. The effects of these revenue shortfalls have been exacerbated by the long-term dramatic growth in costs for items such as fuel and healthcare, and financial market conditions that have reduced interest income and increased pension costs.

Similarly, shortfalls in transit capital improvement funding have produced an investment backlog.

The Commission, in consideration of its Guiding Principles and the financial audits, determined that additional funding in the amount of **\$820 million** would sustain and improve the transit system in the following ways: Of this amount, \$60 million could come from reforms and the balance in new funding.

Public Transportation Key Funding Recommendations

- Establish a new dedicated transit trust fund.

- Replace the existing public transportation program.
- Generate additional state dedicated funding for public transportation programs by increasing the Realty Transfer Tax.
- Enact local enabling legislation to raise additional local dedicated revenues.

Highway and Bridge Key Funding Recommendations

- Raise approximately \$750 million through enactment of an 11.5-cent liquid fuels tax.
- Raise approximately \$150 million by increasing vehicle and driver licensing fees.
- Provide an increase of \$65 million for local governments by increasing the liquid fuels tax by 1 cent.

Highway Reform Recommendations

With the Smart Transportation initiative, the Commission believes that public involvement in new and innovative ways is necessary to determine community needs and to ensure that communities are receiving improvements that last long into the future.

Implement more disciplined asset management practices by performing preventative maintenance and preservation treatments to avoid more costly reconstruction.

Accelerate implementation of Smart Transportation and right-sizing initiatives to deliver cost-effective transportation solutions in the context of community needs driven by public input and within fiscal constraint.

Streamline the project delivery process by actively engaging resource and regulatory agencies in performing preliminary impact studies and narrowing alternatives in the planning process. This would reduce overall project delivery duration and costs.

Reduce capital costs and delivery duration by greater use of the design/build delivery method and aggressively exploring Public-private Partnerships. For example, design/build projects can allow construction to begin sooner and also produce cost savings by matching specific designs with contractor strengths.

ES-7

Link land use and transportation through the implementation of Smart Transportation practices and preconditioning major capacity improvements on a community land use/transportation vision to complement community vision and provide sustainable investments.

investments. Therefore, the Commission recommends that PennDOT: **Develop an incentive based funding program** to link land use and multimodal community investments through collaboration with partners including municipalities, Metropolitan Planning Organizations, Rural Planning Organizations and other interested parties. This program should encourage investment in existing and emerging town centers and regionally significant corridors. Consideration of pedestrian and bicycle use should be included for transportation investments that promote sustainable development. Capital improvements funded through this program would be predicated upon local implementation of necessary land use policy/

ordinance changes to support established investment goals.

Funding Recommendations

Raise approximately \$750 million by adjusting the Oil Company Franchise Tax wholesale price floor and ceiling to a rate reflective of current prices and/or adjusting the millage rate. This would translate to an increase of approximately 11.5 cents per gallon.

Raise approximately \$150 million by increasing various motor vehicle and driver licensing fees.

Aggressively explore the use of P3s as a way to reduce the need for increasing taxes.

Provide an increase of \$65 million annually for county and municipally owned highways and bridges. If the Oil Company Franchise Tax were used for this source of funds, an increase of an additional one cent per gallon would be required.

Transit Reform Recommendations would increase funding by \$60 million.

The Commission finds that the complete replacement of the Class 1 – 4 program and major restructuring of the remaining program is necessary. The Commission also finds that local communities should have additional taxing powers to finance transit. Fare and service choices should be left to local communities.

Program Structure Reforms

The Commission recommends that the state's public transportation program structure be reformed in four (4) ways:

- Consolidating all programs into one operating program (including asset maintenance) and one capital program; movement of funds between capital and operating must be approved by PennDOT.
- Providing a hold harmless level of operating funding based on dollars received today and a limited phase-in period to allow transit providers time to meet new performance criteria.
- Integrating the Free Transit Lottery program into the new transit operating program, eliminating the current fare reimbursement mechanism.
- Require each transit provider to meet basic performance standards established by PennDOT, such as subsidy per passenger, passengers per vehicle hour, revenue per vehicle hour and costs per vehicle hour, to earn the full amount of operating funds available.
- Distribute operating funds based on a formula using passengers (performance) and vehicle hours (need), and provide incentives for increasing ridership, improving financial efficiency and increasing local contribution.

- Provide for the discretionary distribution of capital funds (a) pursuant to multi-year plans; (b) focusing on safety, asset replacement and state-of-good-repair investment and priority new initiatives; and (c) requiring Return on Investment (ROI) and life-cycle financial analysis.

Establish New Dedicated Transit Trust Fund

Include all current state transit funding sources to ensure stable transit funding is provided annually (similar to the Motor License Fund for highways and bridges).

Streamline Transit Funding Structure

Repeal applicable current legislation and create new legislation to streamline the complicated transit funding structure by:

ES-13

Link Transit Funding to Need and Performance

Link transit funding to need and performance through changes in the conditions for and distribution of funds as follows:

- A transition program is envisioned for the new operating and capital programs. This transition will be developed in consultation with transit agencies and planning partners.
- Create PennDOT oversight and management controls to hold transit agencies accountable to performance standards.
- Shifting performance review responsibility from transit agencies to PennDOT.
- Distributing results of review and audit findings.
- Incorporating in annual agency financial audit reports and periodic performance reviews accounting standards, meaningful performance measures, validation of key data and new reporting requirements.

Business Practice Improvements

In parallel to the program structural changes, a series of reforms that encourage sound business practices has been identified. Transit business practices are the result of a number of factors including internal management practices, government administrative requirements and legislation. The Commission has determined that improved efficiencies are possible with changes in each of these areas:

- **Adjusting system service to reflect market demand** which may include restructuring and/or eliminating poor performing routes.
- **Reducing labor/management costs** with the use of technology, analysis and improved labor productivity.
- **Increasing revenues by instituting regular fare policies** that mirror inflation, with an allowance for incremental local contribution, above the local match requirement, which could be substituted for fare increases.

Strengthen Transit Accountability

Strengthen the state's role in the audit and performance review of transit agencies and provide for increased accountability on the part of transit agencies and local governments by:

Transit Agency Actions

The transit audits revealed actions that can be taken across the state by all transit agencies to improve financial efficiency. These actions include:

Implementing Smart Transportation principles in transit projects. Transit systems should work with local governments to develop land use plans that are supportive of transit stations and intermodal centers/hubs. In addition,

the systems should provide regional leadership on creating transit friendly development patterns. Transit systems are also encouraged to consider Transit Revitalization Investment District (TRID) opportunities and other related financing mechanisms.

• **Evaluating competitive contracting, as well as insourcing opportunities,** for transit system operations. The Commission reviewed existing practice and found that private competitive contracting has produced cost efficiencies in some but not all cases. The Commission recommends that SEPTA and PAAC be required, and other transit agencies be encouraged, to evaluate competitive contracting opportunities through a formal procurement process at least once every four years and/or at the expiration of a contract, whichever is shorter. The assessment must consider the system's labor costs compared to the private marketplace and provide opportunity for existing labor union bargaining units to participate in the competitive process in a fair and equitable manner. No advantages should be given to either the private marketplace or the existing bargaining unit in making the assessment. Should a transit agency elect to use a private contractor, any displacement of existing represented employees should be by attrition. To receive state funds, a transit system may not have labor agreements that preclude competitive contracting of revenue service. When transit agencies have developed unique skills (such as vehicle overhauls) and could provide these services to other public sector agencies, insourcing opportunities should be considered. Insourcing opportunities should be analyzed to ensure that both the provider and recipient of services financially gain in the arrangement and that costs are fully allocated.

Agency-specific efficiency opportunities and anomalies were also identified.

SEPTA – reduce costs by improving average system speed. In addition, SEPTA should streamline and simplify fare structures, including implementation of an electronic fare box system.

PAAC – right-size routes and the system and improve labor productivity. The Commission also notes that the PAAC has the highest wage rates in the country when adjusted for cost of living and an extraordinarily high expense structure for healthcare and pension. In fact, retirees (who outnumber active employees) receive lifetime medical coverage and

PENNSYLVANIA TRANSPORTATION FUNDING AND REFORM COMMISSION REPORT

Executive Summary

vote on union leadership, making it difficult to change the benefit structure at PAAC. These legacy costs, unless constrained, will grow faster than inflation and erode potential network savings.

Class 3 and 4 – improve labor productivity including part-time labor and fare restructuring.

The following bullets highlight key legislative changes recommended by the Commission:

- Enable project delivery alternatives, such as P3s, “Design-Build” and “Design-Build-Operate-Maintain,” to reduce capital project delivery times and decrease capital investment costs.
- Eliminate labor protection for non-represented SEPTA employees to improve operational productivity.
- Modify SEPTA enabling legislation to remove state fare hearing

requirements to make SEPTA consistent with federal requirements.

- Prohibit benefit double-dipping, such as pension and workers compensation, to reduce labor related costs.
- Eliminate historical performance bond requirements for goods and materials to encourage vendor competition and reduce operating and capital costs.
- Eliminate local match waivers for transit systems. For both the capital and operating funding, local governments currently have the ability to self declare or to use legislative remedies to avoid some of their local match responsibilities. The Commission believes this practice should be eliminated and that a consistent local match program should be put into place.

ES-16

State Administrative Action

Expand opportunities for transit participation in state purchasing pools including transit vehicles.

State Legislative Actions

By amending existing law and creating new legislation, productivity can be increased, costs decreased and revenues increased.

Funding Recommendations

Replace all of the existing public transportation program funding sources, the General Fund, Public Transportation Assistance Fund and Act 3, with one broad-based dedicated tax that grows with inflation. The Commission recommends a revenue neutral swap of either the Sales Tax or Personal Income Tax to stabilize the funding base of the current transit program. For FY 2007-08, this amount is estimated to be \$589 million.

Retain existing funding sources for the Free Transit Lottery Program (\$80 million), the Shared Ride Lottery Program (\$75 million) and the Capital Bond Program (\$125 million).

Provide an additional \$760 million of state and local funding annually to:

- **Put the existing public transportation systems on sound financial footing and provide for targeted expansion.**
- **Stabilize and expand service for Programs of Statewide Significance and create a Service Stabilization program for community transportation services.**
- **Create a new Fixed Guideway initiative.**

Evaluate community transportation to improve efficiency and productivity of public and human service transportation through the coordination of service and funding for long-term stability.

Require the local transit match for additional funding to be 25 percent. When added to the aggregate local match requirement of 15 percent for Pennsylvania's current transit programs, the new aggregate local match is 20 percent.

Generate additional state dedicated funding for public transportation programs by increasing the Realty Transfer Tax.

Enact local enabling legislation for counties and/or municipalities to raise additional local dedicated revenues limited to the support of transit expenditures.

Counties and municipalities Be given the authority to generate additional local dedicated funding for public transportation programs by enacting up to 0.25 percent sales tax, 0.20 percent earned income tax, and/or 0.50 percent local realty transfer tax.

Permit use of Public-Private Partnerships (P3s) for transit, as well as highways and bridges.

Explore the use of debt financing for capital projects as a way to reduce the immediate need for increasing taxes.

New Mexico – Sustainable Funding Strategies Report – 10-2007

New Mexico's Technical Transportation Committee was tasked with finding funding options for preserving and improving the State's highways, bridges, and public transportation opportunities for the residents of New Mexico. The condition of New Mexico's transportation infrastructure has been deteriorating over the past 20 years. At the current time, approximately 15 percent of New Mexico's state maintained highways and 16 percent of the state's bridges are in poor condition. From a safety perspective, the human and economic cost of vehicle crashes in New Mexico is estimated at over \$3 billion per year. Traditional funding has been well below the actual system needs. When nominal dollars are adjusted for inflation and the increases in driving from the growing population (i.e., vehicle-miles traveled (VMT)), the total purchasing power of state transportation revenue in New Mexico is 23 percent lower now than it was in 1987. In other words, the total state transportation revenue has not been sufficient to keep up with inflation and the growing demand on the transportation system. The Committee found that without an increase in revenues, the future transportation system will be smaller, more congested, and less safe.

Committee Recommendations:

Short Term Options (1-4 years) for additional transportation revenues:

1. Redirect existing revenues that are derived from transportation sources, and improve compliance with weight distance fees on commercial trucking; and
 - a. Full dedication of motor vehicle excise tax to transportation
 - b. Dedication of gross receipts tax (GRT) on transportation construction activities to transportation
 - c. Improving compliance with weight-distance tax and trip tax
2. Consider adding revenues by either increasing the tax rate of existing transportation sources or increasing the tax rate of a non-transportation sources and dedicating the additional revenue to transportation expenditures. These include:
 - a. **Increase the GRT tax**
 - b. **Charge a 5 percent GRT on gasoline sales**
 - c. **Charge a 5 percent GRT on special fuel sales**
 - d. **Increase vehicle registration and transaction fees**
 - e. **Authorizing increases in local sources**
 - f. **Index gasoline tax**
 - g. **Index special fuels tax**
 - h. **Index existing vehicle registration and transaction fees**
 - i. **Index weight-distance tax and trip tax**

If all nine of these existing sources were enacted and dedicated to state transportation needs, MDOT would receive between \$577 million and \$850 million more revenue each year, or between \$11 million and \$16 billion over 19 years (2008 to 2026).

Long Term funding options (5 – 10 years)

The following long-term recommendation could be implemented as a revenue neutral transition from taxes and indirect user fees to a direct user fee:

1. A Vehicle per Mile Tax (VMT) fee could be structured to replace an equivalent amount of revenue from other revenues sources.
2. A local-option VMT fee could be added on to the statewide VMT fee as the primary source of funding for local transportation needs. This rate could be set according to local needs and voter support, but would impose very little administrative cost since the statewide collection system would be in place.

National Conference of State Legislatures – Surface Transportation Funding Options for States – May 2006

Surface Transportation Funding provides a menu of options for legislators to consider to improve transportation funding in their state. Although many new or previously untapped transportation revenue sources may be available to state lawmakers, the report finds that a variety of other options can be used to provide a more balanced approach to transportation funding. Some may be as simple as eliminating the diversion of transportation-derived revenues to non-transportation purposes. Other options can include the use of different procurement tools to speed project delivery or lower projects costs, tapping private investment through public-private partnerships, using different bond and financing mechanisms, and utilizing different matching options to better leverage funds used on federal-aid transportation projects. The report closely examines three long-term state transportation funding trends: greater use of public-private partnerships, greater reliance on financing, and exploration of funding innovations such as the vehicle mileage fee. It also provides a case study of the trend-setting deal to privatize the Chicago Skyway toll road and examines recent state legislative initiatives.

Funding Obstacles

Economics - Changing economic conditions have hindered funding for transportation projects. Of primary concern is the declining purchasing power of the gas tax. State transportation spending also has suffered from the motor fuel excise tax purchasing power decline. Another economic concern is the rising construction costs following Hurricane Katrina and other natural disasters. Changing consumer preferences may have a future effect on transportation revenue. The most significant change would be the effect of more fuel-efficient vehicles on gas tax revenue. In addition to hybrid vehicles and alternatively fueled vehicles, slower travel growth and fuel consumption also may affect transportation revenue.

Political Obstacles to Transportation Funding -

- Opposition to gas taxes
- Federal politics
- Citizen initiatives and legislative referendums
- Resistance to referendums, tolls, fare increases and motor vehicle fees
- Concerns about financing versus pay-as-you-go
- Concerns about private investment

Legal Restrictions on Transportation Funds - The use of transportation revenue by the states often is restricted by a variety of constitutional and statutory provisions. A key restriction relates to use of gas tax revenue. Thirty states restrict use of gas tax revenues to highway and road purposes only. Of these, 22 states have constitutional restrictions and eight states have statutory restrictions. These restrictions are derived from the concept that the gas tax is a user fee and, therefore, should be linked to spending on highway and road projects. The other 20 states allocate part of such revenues to other transportation spending. An unusual dedication in Texas law allocates one-fourth of gas tax revenues to the Permanent School Fund to provide aid to the public school system.

Federal Earmarking - Federal earmarks decrease the amount of flexible transportation money for states and divert money from higher priority projects.

OPTIONS FOR LEGISLATURES TO RAISE MORE MONEY OR LEVERAGE EXISTING RESOURCES

1. Eliminate transportation revenue diversions
2. Increase fuel gas tax rates
3. Eliminate all exemptions to motor fuel taxes
4. Index the gas tax
5. Index the Gas Tax to Fleet Fuel Efficiency Improvements
6. Motor fuel sales taxes
7. Local gas taxes
8. State general funds
9. Statewide general sales tax
10. Other taxes and fees
 - a. Battery tax
 - b. Bicycle fees
 - c. Drivers' license fee increases
 - d. Drive-through service fee
 - e. Electricity generated by vehicle tax (for electric/hybrid vehicles)
 - f. Emissions fees
 - g. New vehicle taxes
 - h. Parking fees
 - i. Property taxes, vehicle ownership tax, or use fees
 - j. Registration fees
 - k. Rental car tax
 - l. Road utility fees
 - m. Safety violation fee
 - n. Sales tax on transportation-related goods
 - o. Special license plate fees
 - p. Studded tire fees
 - q. System development charges or impact fees
 - r. Temporary visitor access fee
 - s. Tire tax
 - t. Title fees
 - u. Transportation impact fee
 - v. Use fuel tax increases
 - w. Vehicle impact fee (transportation access fee)
 - x. Weight-mile truck tax
11. Congestion pricing
12. Facility tolling
13. Privatizing transportation facilities
14. Mileage fee (vehicle miles of travel (VMT))
15. Innovative fare programs for transit
16. Advertising revenue
17. Concessions (e.g. rest areas, transit stations)
18. Naming rights
19. Shared resource agreements

20. State procurement tools - mechanisms that states can use to save money or accelerate projects
21. Special purpose agencies (to develop a single project)
22. Special transportation districts
23. Development agreements
24. Design-build and design-build-operate-maintain contracts
25. Long-term warranties
26. Outsourcing
27. Tax increment financing
28. Public-private partnerships
29. Bonding and finance tools
 - a. Bonds
 - i. Municipal and public bonds
 1. General obligation bonds
 2. Anticipation notes
 3. Revenue bonds
 - ii. Limited and special tax bonds
 - iii. Hybrid bonds
 - iv. Certificates of participation
 - v. Private bonds
 - vi. Private activity bonds
 - b. Federal credit programs

Florida

Long Range Objectives

- a) Provide sufficient resources to reduce the identified backlog in transportation needs and meet growth needs at the state, regional and local levels by:
 - i) Maximizing the return of federal funds for all modes;
 - ii) Providing greater choices and flexibility for raising sustainable local and regional transportation resources that keep up with inflation;
 - iii) Providing state, local and private sector incentives to encourage joint funding;
 - iv) Encouraging the use of tolls; user fees; and “market choices” such as express lanes, express buses and innovative transit options, consistent with local government comprehensive plans; and
 - v) Seeking alternative revenue sources to reduce the reliance on traditional sources that may be negatively affected by changes in technology or increasing costs.
- b) Establish transportation investment priorities recognizing that the SIS meets a strategic and essential state interest, and that regional and local systems must be adequately funded.
- c) Reduce the cost of providing and operating transportation facilities by:
 - i) Addressing increasing right of way costs through corridor planning, corridor management, advance acquisition and improvements to the statutory framework for the acquisition process, and
 - ii) Continuing to implement technological improvements that increase efficiency for planning, design and construction; intelligent transportation systems; and toll facilities operations.
- d) Document the gap between funding resources and needs across all levels (local, regional, state and federal) and all modes in a consistent and compatible format.

B. Offer Greater Choices and Flexibility for Raising and Investing Sustainable Local and Regional Resources

Background

While Florida law provides several local option revenue sources to local governments, such as local motor fuel and sales taxes, many local governments have found the laws too restrictive and inflexible to put in place. Most optional revenue sources have referendum requirements and some require a supermajority vote of the local governing body. Some options, such as the Charter County Transit System Surtax, are limited to just a few counties. Local option fuel tax rates are not indexed to keep up with inflation; in addition, they generate such small amounts in many rural counties that the proceeds cannot begin to address the shortfall in maintenance and improvement needs. In their roles as representatives of their constituents, many local elected officials strongly believe that they should be given more flexibility to adopt revenue sources tailored to the specific needs of their jurisdictions and regions and are willing to be held accountable for their decisions by their constituents.

1. The state should enable local governments to have more flexibility in adopting revenue

sources to meet local transportation needs. Because local conditions vary across the state, local governments should have access to a “menu” of revenue sources so that they can meet specific local needs with the most appropriate revenue sources. Rural and emerging urban areas, in particular, should have flexibility and access to broad-based revenue sources that provide reasonable levels of funding to meet their needs.

2. The state should enable local governments to adopt new revenue sources to fund projects identified in regional plans.

3. The Florida Transportation Plan should encourage the provision of “market choices” for users of the transportation system, such as the use of tolls, variable pricing (e.g., congestion pricing), express buses, etc. This has the added benefit of supplementing revenue sources from taxes and fees than are needed to fund other transportation facilities and services.

4. The Florida Transportation Plan should encourage the use of tolls for new roads on new right of way, particularly when new roads substantially improve mobility and provide relief to transportation facilities supported by traditional revenue sources. The state and toll authorities should continue to implement and refine technological improvements such as SunPass and open road tolling to increase the efficiency of toll facilities.

5. The Florida Transportation Plan should ensure that the state continues to explore alternatives to traditional methods of collecting revenues and regularly inform the public and policy makers of the consequences of technological change or significant increases in vehicle operating costs and the potential impact to funding improvements to transportation facilities and services in the future.

SIS Funding Strategy

The finance plan also will consider the feasibility of innovative finance sources, including the following:

- **Expand use of direct user fees** such as tolls and freight or passenger surcharges where appropriate, including advanced technologies and operational strategies for fee collection and use.
 - **Increase opportunities for joint funding** of SIS projects by public and private partners, building upon legislation passed in 2004 that enables FDOT to enter into agreement with a private partner to accelerate specific projects in its work program.
 - **Establish participatory funding strategies** to encourage multimodal projects and partnerships. FDOT will look for opportunities to stretch its funding further through partnerships with local governments, independent authorities or private entities. As these strategies are explored, FDOT will recognize the fiscal limitations facing some partners, in particular local governments in Rural Areas of Critical Economic Concern. FDOT also will work with the Florida Transportation Commission, the Metropolitan Planning Organization Advisory Council and statewide organizations of local government officials on initiatives to provide local option funding for local participation in projects on the SIS and to help meet local transportation needs.
- In addition, FDOT will work with partners to provide flexibility in its finance strategies and processes to expedite SIS projects that are included in the Cost Feasible Plan; are anticipated to have a high economic impact; have committed regional, local, modal or private sector partners; and are otherwise ready to move forward. Efforts will be made to accelerate the planning and delivery process for all SIS projects, as well as to provide

greater flexibility to accommodate unanticipated opportunities or needs.

ILLINOIS

Funding Gap

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

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

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

30 - Year Total Annual*

Roads & Bridges \$171,408 \$6,084

Mass Transit \$64,688 \$2,456

CREATE \$1,714 \$286

Total \$237,810 \$8,826

Source: American Economic Group, Illinois Surface Transportation

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

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

9.0 Potential Funding Strategies

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

- Maintain a transportation funding structure that provides adequate and stable resources for demonstrated transportation needs, incorporating federal, state, local, and private revenue sources and providing equitable funding for all transportation

modes and jurisdictions.

- Maintain the user pay principle to transportation facilities and services, charging user fees and other beneficiaries of the transportation system in proportion to the costs they impose and benefits they derive to the maximum extent possible. Extend user - pay principles to new technologies and alternative fuels.
- Explore joint public - private partnership and private sector initiatives to provide transportation facilities and services where public expenditures can be reduced, while maintaining the quality and quantity and long - term service stability. Support joint use of transportation facilities for compatible, non - transportation activities and businesses where these are economically feasible.
- Explore innovative financing methods to fund transportation facilities and services. The strategies listed below are funding options that could help to bridge the gap between funding and needs. This list is not comprehensive and represents no commitment toward any strategy.

9.1 Traditional Funding Sources

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

9.2 Adjust Motor Fuel Tax Structure

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

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

9.3 Privatization and Outsourcing

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

9.4 Public-Private Partnerships

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

The CREATE project in Chicago is an excellent example of this approach—private railroads improve and rationalize their rail operations to realize economic efficiencies.

The state of Illinois and the city of Chicago will coordinate with investments that will reduce rail - highway traffic conflicts and thereby improve access and travel times for commuters, travelers and residents in northeastern Illinois.

9.5 Impact Fees

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

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

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

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10.0 Other Innovative Funding Strategies

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

10.1 Borrowing Mechanisms Sponsored by the Federal Government

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

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

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

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

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

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

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

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

10.2 Regional Mobility Authorities

Recently, several innovations in California, Texas, and Virginia, for example, have allowed regions, as opposed to the whole state, to take on stronger roles by allowing them to participate in decisions about what levels of service they want. One way to address this is to have regions establish regional mobility authorities (RMAs) or they can strengthen inter - municipal authorities that have toll authority in their regions. It is through the RMAs that the regions can sponsor either public or public - private partnerships for the toll roads. RMAs provide the regions with the incentive to generate local revenues and they eliminate the need to involve more stakeholders (statewide). RMAs can collect funds in a number of ways. Tolling is an often used method, but taxing and bond issues can be used as well. RMAs can levy a tax by joining with a unit of local government to tax local users of the roadway.

10.3 Tolling on New and Existing Roads

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

10.4 New Toll Pricing

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

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

10.4.1 Congestion Pricing

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

10.4.2 HOT Lanes

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

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

10.4.3 Express Lanes

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

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

10.4.4 Truck Only Lanes

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

10.5 Public-Private Partnerships

Involving private sector investors and developers in infrastructure development can present opportunities for increased available investment funds. As shown recently in the roads sector, private companies and consortiums invest their equity capital not only to purchase existing greenfield facilities but also to enter into longer - term planning and development contracts with government to facilitate longer - term corridor development projects. Illinois is well aware of the benefits that private sector participation can bring and the city of Chicago and the state continue to explore privatization opportunities. Private sector participation can come in many forms, such as long - term concession transactions, where substantial up - front payments or ongoing revenue sharing arrangements are transferred to the public owner in return for the private sector's rights to charge and collect user fees and to obtain their financing. Private sector participation can include other forms of alternative delivery mechanisms all targeted at allocating risks to the party that is best able to mitigate that risk. The most advantageous aspect of including the private sector in infrastructure development is their willingness to bring their own equity capital to the project and place their capital at - risk. In today's environment of funding shortfalls and rising costs, private sector capital can help bridge the funding gap to deliver needed investments.

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

10.6 Vehicle Miles of Travel User Fees

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

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

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

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

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