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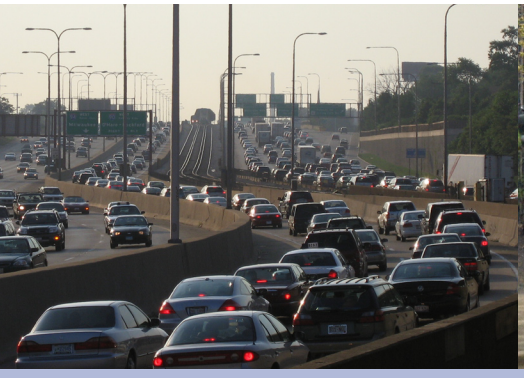
Finding Solutions To Fund Transit

Combining Accountability & New Resources For World-Class Public Transportation



Illinois PIRG
Standing Up
To Powerful Interests

Finding Solutions To Fund Transit

Combining Accountability & New Resources For Worald-Class Public Transportation

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The authors alone bear responsibility for any factual errors.

Illinois PIRG Education Fund is a 501 (c)3 non-profit that conducts public interest research and education on issues of public health, consumer protection, governmental and corporate accountability and other issues affecting Illinois residents. We work to provide an independent, articulate voice on behalf of the public interest while also educating and activating citizens to participate in forums where public policies are decided.

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I. Executive Summary

Northeastern Illinois is home to the nation's second largest transit system. Hundreds of thousands of riders use CTA, Pace, and Metra every day, a testament to the value of transit in moving the region's goods, services and people where they need to go. Northeastern Illinois' transit network directly reduces traffic congestion and air pollution while increasing mobility for those residents that lack transportation choices.

Looking to the future, the region is expected to accommodate 2.3 billion additional annual travel trips by 2030. Efficient well-functioning transit will only become more critical to what makes the region attractive to residents, visitors and businesses.

Unfortunately, the future of public transit is endangered in Northeastern Illinois. Rising transit agency costs for energy, security and employee benefits have grown while funding—from an uneven and outdated apportionment of sales taxes across the six-county region—has not kept pace with needs. The outdated funding formula has created a transit budget shortfall that grows each year.

In recent years commuters have felt the effects of dwindling transit funding. Increased fares, less frequent bus and train service, and worsening delays have become the norm as the bus fleet ages and deteriorating train infrastructure necessitates designated slow zones on many rail lines.

In March 2007, the Illinois Auditor General released a study of the fiscal management of the region's transit systems. While the report identified several areas for greater efficiency, the report also stated that even if fares were doubled, resources would still be inadequate to maintain the current system in good working order. In other words, management can be improved with fewer layers of bureaucracy, but those reforms must be combined with a major infusion of new resources.

The growing budget hole has now reached crisis proportions. The public agency responsible for managing these activities, the Regional Transportation Authority (RTA), estimates the three transit service boards, the Chicago Transit Authority (CTA), Metra and Pace, face a combined $226 million shortfall for the second half of 2007.

Without a permanent funding solution authorized by state lawmakers, the short-term consequence of these shortfalls will be dramatic service cuts and increased fares. Service cuts would not only harm the millions of transit riders who currently depend on the RTA. Cutbacks would also increase traffic congestion for those who drive to work, and decrease economic output of the region as a whole as more time is wasted in traffic congestion and commuters are less able to access parts of the region where jobs are plentiful.

While the consequences of inaction are grave, solutions are within reach. "Finding Solutions to Fund Transit" highlights basic principles for evaluating potential revenue sources and considers several funding options available to state lawmakers to create a sustainable funding system for supporting the growing public transportation needs of Northeastern Illinois.

II. The Value Of Public Transit In Northeastern Illinois

Northeastern Illinois stands out nationwide as a dynamic, desirable place to live and do business. Our continued population and job growth is evidence. But growth puts pressure on public services. Even under current conditions, roadways and public transport networks are buckling: the greater Chicago area is notable not just for its quality of life, but also for its traffic congestion—third worst in the country.

To maintain our fertile business environment, strong job market, clean air and livable communities, the region must invest in its transportation network. A key component of that system is a strong and healthy public transportation system.

As the nation's second largest transit operator, the Regional Transportation Authority (RTA) carries nearly 1.9 million riders on an average weekday. The region's business centers could not function as engines of productivity and investment if public transit did not relieve traffic and the needs for additional roads and parking.

In addition to the intrinsic value of swift, reliable transit service, Northeastern Illinois also benefits from the impact transit use has on traffic congestion, economic development, a clean environment, public health, and reduced dependence on oil.

Congestion Reduction:

Congestion is a worsening problem on Illinois roads, wasting both time and fuel. As the region continues to grow and people increasingly work far from home, traffic congestion will pose an increasing threat to residents' most limited resource: their own time. In 1970, only one in eight commuters crossed a county line to travel to work. By 2000, it was more than one in four.[1] According to the last Decennial Census, from 1990-2000, travel times grew in all six collar counties. The median time grew most in Will County, where it reached 32 minutes.

Northeastern Illinois has the 3rd worst traffic congestion in the U.S.[2] That means each year we waste 253 million additional hours and burn 151 million additional gallons of gas because of traffic jams. According to the U.S. Department of Transportation, each person in Northeastern Illinois paid an average of $976 in wasted time and fuel as a result of road congestion.

Transit reduces congestion. According to estimates by the Texas Transportation Institute, which produces the gold standard in congestion data, if transit passengers were part of the general traffic flow, then total congestion would increase 29 percent. As a result, this would create about one billion hours in additional lost time nationally. [3]

Nationwide congestion wasted an estimated 2.3 billion gallons of gasoline in 2003.[4] By reducing driving, transit has a triple benefit for energy-savings. To start with, bus and rail travel is more fuel-efficient than driving. Add to that the fact that reduced congestion makes automobile travel more fuel-efficient. Congested driving, particularly stop-and-go-style travel during peak periods, greatly reduces vehicle fuel economy. Finally, to the extent that communities are served by transit, they become more walkable and require less space for road lanes and parking lots—reducing the driving needs of all.

Ensuring Mobility for Everyone:

The most obvious benefit associated with transit is mobility for people without access to automobiles. This includes any household with a car in the shop, an injury that temporarily makes driving difficult, or those who for economic reasons choose not to own a car. On a daily basis, some of society's most vulnerable people depend most on transit.

According to the Federal Transit Agency (FTA), in 1998, 24 million disabled Americans were dependent on transit.[5] An analysis by the FTA on 1995 data estimated that transit provided 2.6 billion trips that year for people who were either too impoverished to own a car, too young to drive, or over 74

1. University of Illinois at Chicago Urban Transportation Center, "Commuting in the Chicago Area: Emerging Trends" - 2003
2. Texas Transportation Institute Study, 2003
3. David Schrank and Tim Lomax, The 2005 Urban Mobility Study (College Station, TX: Texas Transportation Institute (2005).
4. David Schrank and Tim Lomax, The 2004 Urban Mobility Study College Station, TX: Texas Transportation Institute, (2005).

years of age. These trips comprised 40 percent of the total for transit. [6]

Economic benefits:

Public transportation is an important contributor to Chicago's economy. Without well functioning public transit, Northeastern Illinois would not be a hub for state investment and innovation. Employers often choose to locate in the region because of proximity and ease of access to other businesses, markets, and skilled workers. Locations served by transit, moreover, show increased property values compared to similar locations not served by transit. [7]

Transit agencies are also an important contributor to the economy in their own right. Cambridge Systematics, a private transportation planning firm, estimated the economic benefits to the regional economy to include 23,200 jobs created due to 2005 transit capital expenditures and $5.58 billion increase in business sales due to 2006 transit operating expenditures. The study also found savings in transportation costs to both highway and transit users due to reduced congestion to total $3.72 billion. Overall, the RTA system directly and indirectly provides at least $12 billion in economic benefits to the region and 120,000 jobs.[8]

Environmental and health benefits:

The United States Environmental Protection Agency has declared that all six counties in Northeastern Illinois fail to meet air-quality standards for ozone or fine particulate matter.

Mass transit has a critical role in keeping vehicle-source emissions at bay. According to an analysis by the RTA, public transit reduces the emissions of volatile organic compounds (VOCs) by 1,840 tons, nitrous oxide by 750 tons and fine particulate matter by 10 tons every year. [9]

For many residents, polluted air is not an abstract issue or simply a "green" cause. Particulate matter and nitrous oxides are poisonous to respiratory health, especially for children, seniors, and others with breathing difficulty. Exposure to VOCs is linked strongly with many types of cancer. These pollutants are also principally responsible for global warming. Raised temperatures overall mean longer, hotter summers that further exacerbate the danger for those with breathing problems.

Reduction in Oil Dependence:

Transit also reduces America's dependence on oil. The region's 3.65 billion annual vehicle miles directly saved as a result of transit, translates into a system-wide savings of 150 million gallons of gasoline consumption per year. [10]

As the energy sector becomes more volatile, and consumers pay greater out-of-pocket expenses at the pump, these savings will only become more substantial. If, as many anticipate, the price of gasoline continues to rise steeply, the region will have an additional competitive advantage by reducing the exposure to driving costs.

5. William W. Millar, Testimony of the American Public Transit Association Before the Labor Health and Human Services, Education and Related Agencies Subcommittee of the House Appropriations Committee, Feb. 5, 1998, 1998 WL 8991781.

6. "A Public Choice Policy Analysis," Transit Benefits 2000 Working papers, FTA Policy Paper (Office of Policy Development, FTA, 2000), chapter 1. Their share of net transit subsidies after subtracting for fares, however, was only 29 percent of the total. By contrast, among working-age transit users with above poverty incomes, those who did not own an automobile comprised 25 percent of all trips with 15 percent of public subsidies, and transit passengers who did own one or more automobiles comprised 35 percent of the total trips while incurring 56 percent of net subsidies. These numbers should not be treated as precise since 21 percent of costs could not be allocated between passenger groups.

7. Based on controlled comparisons of a sample of 2,842 commercial property sales in Washington, D.C., an FTA study found that proximity to a Metro station corresponds to higher property values. For every thousand feet closer to a Metro station, properties gained $70,000 in value. Measured differently, for every 3 blocks closer to a Metro station, properties gained $2.3 per square foot. See "A Public Choice Policy Analysis," Transit Benefits 2000 Working papers, FTA Policy Paper (Office of Policy Development, FTA, 2000) , chapter 5. Similarly, a U.S. Department of Transportation study of Massachusetts commuter rail found that single-family homes located within a half mile of rail stations were worth 10 percent more than similar homes in similar communities further from a station. See Robert J. Armstrong (U.S. Department of Transportation) and Daniel Rodríquez (Department of City and Regional Planning, University of North Carolina, Chapel Hill) Transportation, 33:1 (January 2006).

8. RTA Situation Analysis Key Findings, Oct. 2006, http://movingbeyondcongestion.org/moving-beyond-congestion-documents/situation-analysis-key-findings.html

9. Based on 3.65 billion annual passenger miles by the RTA system . See RTA Situation Analysis Key Findings, Oct. 2006, http://movingbeyondcongestion.org/moving-beyond-congestion-documents/situation-analysis-key-findings.html

10. Assuming an average fleet fuel efficiency of 20 miles per gallon.

DEFINITION: CAPITAL VERSUS OPERATING FUNDS

Transit agency budgets are divided into two parts: capital and operating funds.

Capital funds consist of money for new projects. Rail stations, track and structure rehabilitation, bus and rail car purchases, and rail extensions are all part of this category. Capital funds pay for expansions in the RTA's capacity to move passengers—and 80 percent of this money comes from federal grants. Congress and the US Department of Transportation are ultimately responsible for these multi-year, merit-based outlays of money. Washington is typically willing to fund such a large proportion of new project expenses only when a local transit agency demonstrates its fiscal commitment to maintaining operation of what already exists.

Operational funds are the dollars that keep the RTA moving day to day. Operational expenses include outlays for such things as utility bills, small repairs and maintenance, staff salaries, and lease payments for plant and equipment. At the RTA, operational funds are raised mostly from fares (about 50 percent), advertising revenues, and local sales taxes.

III. Inadequate funding structure threatens the future of transit

As the needs for transit have grown over the years and will grow enormously in the future, the region's transit system should be expanding service and launching new projects.

The Regional Transit Authority, through an extensive process of eliciting input from communities and stakeholders around the region, produced a strategic plan entitled, "Moving Beyond Congestion." The RTA's first strategic plan in 15 years, the study put a price tag on future needs at $400 million a year in additional operating costs for the Chicago Transit Authority, Metra and Pace bus system, plus $10 billion in capital investments over the next five years.

Unfortunately, the region is currently moving in the wrong direction. The Regional Transportation Authority's combined $226 million budget shortfall in 2007 is part of larger structural problems. The regional funding formula is woefully obsolete, based on trends that have changed drastically over the generation since it was created. Transit agency costs have risen faster than inflation for reasons largely outside of their control. Years of forced cost-cutting through deferred maintenance and failure to replace outdated equipment has created a backlog of unmet needs that will lead to a vicious cycle of degraded service and reduced ridership that further reduces revenues. A recent Inspector General's report also highlights areas where cost cutting is possible; but the report concluded that these must be accompanied by major changes in how transit agencies are funded.

The Regional Funding Formula

The RTA's funding sources and division among the local transit agencies that make up the RTA are a holdover from what was meant to be a temporary solution in an earlier era. The 1983 RTA Act, an amendment to the 1973 Act that created the RTA to provide coordination among the three transit agencies in the region, directed 1 percent of the local sales tax in the City of Chicago and suburban Cook County and 0.25 percent of the local sales tax in the 5-county "collar" region to fund RTA operation.

The financing contributions of jurisdictions in the formula are not connected to where transit trips take place or the levels of service demanded across the region. In taxing Cook County more heavily than collar counties the existing system presumes that the large number of in-city transit trips provide services for Chicago residents. The sales-tax funding structure thus ignores the fact that users travel to counties other than their own point of origin.

In fact, over 80 percent of Metra and Pace riders with trip origin points in the collar counties connect to CTA service once they have arrived in Chicago to get to their final destinations. Collar county residents have been enjoying transit service that is increasingly subsidized by Chicago and suburban Cook residents.

When collar counties were relatively sparely populated, this imbalance in the funding formula may have been acceptable. But population has grown

11. Office of the Auditor General, Performance Audit: Mass Transit Agencies of Northeastern Illinois (March 2007). Cook County population data for 1985 was estimated by averaging data for 1984 and 1986.

substantially in the suburbs relative to the city. According to Census data, the population of Cook County increased only 2 percent between 1985 and 2005, while the population of the six collar counties skyrocketed by an average of 56 percent. As a result, suburban use of public transit has increased, including the number of collar community residents who travel within the City of Chicago. Metra's commuter rail passengers, for instance, increased from 62 million in 1985 to 69 million in 2005. [11]

To some extent, the shortcomings of the regional funding formula can be understood as a victim of the system's success. The region's transit system made it possible for collar counties to grow as more residential extensions of Chicago's hub of investment and innovation. That growth, however, has made the initial funding formula no longer appropriate for the current population and commuting patterns.

Continued population growth outside the city limits of Chicago—and indeed permanent relocation of Chicago residents to the collar suburbs—is sharpening the effects of this trend.

Moreover, the sales tax was intended to fund transit, but this revenue base has eroded at the same time that transit needs have increased. Sales taxes are the primary means for financing transit operating, but sales tax growth has fallen behind inflation and can be expected to fall further behind in the future.

Twenty five years ago when the funding formula for the transit agencies was last set lawmakers expected that sales taxes would provide a steady stream of revenue. They could not grasp how the portion of transactions in the economy covered by sales taxes would shrink in future decades and the mostly-service-intensive part of the economy exempt from sales taxes would grow. Much less could lawmakers a generation ago have anticipated the rise of internet commerce and catalog sales, both of which are exempt from sales taxes. Due to these unforeseen trends, sales taxes have not produced the steady growth of revenue that was anticipated.

The current funding formula was the State's response to dire fiscal instability at the time, but it was only ever intended to be a temporary solution—perhaps 5 years of relief before something better could be created.

More than two decades later, Northeastern Illinois still waits for that solution. Without a meaningful change in how the RTA's operations are funded, the total available sales tax revenues and distribution under the 1983 formula does not meet the needs of even current ridership—to say nothing about the burden it places on future expansion plans and capital projects that should be built. CTA, Metra, and Pace all stand to lose revenue and ridership.

The State could remedy the fiscal gap by applying a fair funding formula across the service region to ensure that RTA revenues correspond to service provided. The solution cannot be a simple reshuffling of proportions of the RTA "pie"; benefiting one service board at the expense of another. This will only shift the size of the fiscal gap from one transit agency to another.

Expenses Have Increased

Regardless of the funding structure, over the course of the last 25 years, all transit service agencies have been forced to try doing more with less. Chiefly due to circumstances outside of transit-authority control, security costs have risen, pension obligations have grown, and fuel costs have skyrocketed. Examples of these increased expenses include:[12]

- Over the last several years, CTA has experienced dramatic increases in security costs that now from $7.2 million to $34.8 million per year. Homeland security concerns have prompted heightened levels of security for major public infrastructure such as mass transit.
- CTA, Metra and Pace fuel costs have tripled since 2002.
- Metra health insurance expenditures are projected to increase from $48.5 million in 2004 to $58.5 million in 2008.
- Recent legislation requires the CTA to make annual payments to its pension fund. Even with pension restructuring, this is estimated to be well over $100 million per year drain on CTA finances that will begin in 2009

As a result, all three transit agencies in the region are facing critical shortfalls in both the capital funds used

12. Regional Transportation Strategic Plan Final Report, Regional Transportation Authority, February 8, 2007

to maintain and expand the system as well as in the operating funds used to provide reliable service.

The Auditor General's Report

Inefficiency and bureaucratic waste is a common criticism of the region's transit agencies. Like any agency, especially one with rising costs, it is legitimate to ask whether the same or better public transit services could be provided at a lower cost. In direct response to emergency dollars from state lawmakers to fix budget holes in the CTA budget, in 2005 lawmakers requested a formal audit of the transit agency.

In response, the Illinois Auditor General conducted an extensive, year-long audit of the RTA and all three transit boards. The final 500 page report, released in March 2007, was direct in its assessment of the current funding for transit, stating:

"While we identified some opportunities to improve efficiency and effectiveness through increased coordination, decreased redundancy and improved operations, these savings are relatively minor—in the tens of millions of dollars—compared to the current funding deficit and unmet future needs–which are in the hundreds of millions of dollars."

Thus, any attempt to improve transit finances through increased efficiency can only be effective if paired alongside major infusions of new resources.

Minor though the efficiency gains may be, they are still worthwhile. For example, coordination of schedules, routes, and payment systems between agencies could improve service for riders who transfer between lines operated by different agencies. The new head of the CTA, Ron Huberman, has moved to cut $12.5 million in administrative costs, as well as overtime and free travel expenses for employees. Increased accountability and efficiency can also help ensure public trust in transit agencies and the expanded service they must provide. High absenteeism, at the CTA incur costs found to be $46 million per year, some of which should provide an opportunity for cost savings.

Similarly, the on-time-performance, ridership, and average speed of each line should be regularly updated and posted on-line. Doing so, would jump start productive conversations about why particular routes underperform others, highlight best practices that should be adopted more widely, and bring attention to resource bottlenecks that prevent better performance.

The report stated that even if fares were doubled for the CTA, Metra and Pace, there still wouldn't be enough resources to maintain the current system in good working order.

Capital Funding

Inadequate capital funding does not just mean that new rail and bus projects to meet expanding needs and opportunities can not be launched. Lack of funds also mean neglect of basic upkeep and repairs of the existing system, which translate into slower, less reliable service.

The RTA's capital program for the next 5 years will differ substantially from that of the recent past. Average yearly capital investment will be reduced from $944 million in 2002-2006 to about $606 million in 2007-2011. The capital budget for 2007 is the lowest since 1998, and a full 50 percent less than what was available in 2004.[13] This leaves Northeastern Illinois with a slate of capital investment needs in the regional transit system that simply cannot be paid for. Examples of these include CTA bus and rail car replacement and rehabilitation, station and bus stop rehabilitation, rail and tie replacement for CTA and Metra and Pace bus garage expansion and improvements.

This unmet upkeep takes place in the context of increased population growth and growing demand for transit. The Chicago region is expected to add about 2 million additional people and 1.2 million jobs by the year 2030. This translates into 2.3 billion additional trips yearly—from home to somewhere, or from somewhere to home—than are made in the region currently.[14] Clearly our transit system as it stands today—and certainly as it is funded today—is not equipped to handle such activity. We need bold new ideas for how to fund the transit maintenance and expansion that our region will demand in the coming decades.

13. Regional Transportation Authority 2007 Proposed Budget, Two-Year Financial Plan and Five-Year Capital Program Todd Goldman and Martin Wachs, "A Quiet Revolution in Transportation: The Rise in Local Option Transportation Taxes," Transportation Quarterly, 57, 1 (Winter 2003), pp. 19-32.

14. Regional Transportation Authority Situation Analysis Key Findings, Oct. 2006, Page 36

WHAT IS WORLD CLASS TRANSIT? A VISION FOR ILLINOIS TRANSIT

A wise long-term plan for the future of transportation in Northeastern Illinois and a fair transit funding allocation is critical to maintain the region's economy and quality of life. Such a plan would provide public transit choices that link centers of population growth to areas where jobs are plentiful with affordable, reliable, on-time commutes. It would preserve access to open space and natural resources. A fair, adequate funding structure for the region would ensure future financial viability of transit service while providing the means for expanded capital investment. It would enhance riders' experience across a seamless public transportation system. It would increase the ease of use of transit for medical, shopping, recreational and educational trips as well as increase accessibility for a growing senior population where before such trips have necessarily been made by automobile. It would, in short, provide a world-class transit network for a region that deserves one, and on whose prosperity it increasingly relies.

IV. Seven Principals For Funding Transit

Typically, the biggest obstacle to improving public transportation is how to pay for it. However, not all revenue sources are equal. This section describes the basic principles that should underlay consideration of alternative funding mechanisms. Ideally, mechanisms for funding transit would have all the qualities listed below. In practice, some taxes or fees may be strong in some ways but weak in others.

1. Enhance market efficiency

Markets work best when the costs individuals face accurately reflect societal costs. In economists' jargon, total social welfare is improved when external costs get internalized for decision makers. Automobile drivers bear some of the costs they generate, but do not fully cover social costs. Taxes and fees that discourage vehicle trips by requiring drivers to consider those external costs are therefore market correcting. Fees that prompt drivers that impose higher-than-average external costs on society to pay higher fees are even more market correcting, and therefore do an even better job of improving market efficiency. Similarly, social welfare is improved when developers must pay the otherwise-invisible social costs of sprawl. Taxes and fees that help accurately reflect the true cost of driving and sprawling development is a preferable way to support transit.

2. Low collection costs

As is the case with all government funding sources, the costs incurred by collecting, monitoring, and enforcing taxes and fees are a drain that should be minimized. Revenue that is easier and cheaper to collect is preferable to those that require elaborate and costly mechanisms to implement.

3. Reliability

Transit agencies require reliable funding in order to plan long term. Doing so allows public transit to grow as the economy grows while also reducing traffic congestion.

Public service agencies are often subject to fluctuations in budget outlays that correspond to shifts in the political winds. Public transportation, though, is too important to leave to this ebb and flow. The public good that transit provides benefits users and non-users alike, and weaves together some of the very foundations of northern Illinois' quality of life: a healthy environment and a robust economy. With so much at stake, lawmakers must fight to ensure that transit funding receives guaranteed, stable, and sufficient funding from sources that do not require annual allocations from the state.

4. Diverse Funding

Having multiple sources of funding for transit is preferable to just one large source. Diversifying agency revenue sources protects transit systems from fluctuations in the economy that might hit one particular revenue source harder than others.

5. Fare increases are self defeating

Passenger fares do not advance transit goals. They are not akin to user fees for socially costly activities such as polluter fines to fund environmental cleanup. Transit ridership is a public good, and increasing the price of fares discourages riders. It makes poor economic sense to operate expensive transit systems but then discourage ridership through high fares. The net social benefits of additional transit riders tend to outweigh whatever additional fares might be paid.

Transit systems therefore should not have designated minimum farebox recovery ratios. Transportation officials should not approach fare policy from the perspective of, "What can we recoup at the fare box?" Instead, they should ask "What can we charge before we loose significant numbers of riders?"

That doesn't mean transit should be free. Even if transit ridership produces a net social benefit to society, fares that do not significantly discourage ridership are nonetheless justifiable because riders enjoy disproportionate benefits from the service.

Larger transit systems with high ridership can generate enough fares to cover a significant portion of operating expenses. On average, fares from transit agencies across the country cover a third of operating expenses for transit systems. More extensive systems tend to cover more of their costs through fares because they benefit from economies of scale and tend to be located in denser communities where commuters more prefer transit over the congestion and parking hassles of driving.

6. Budget Accountability

Funding should not be a blank check. Transit agencies should be held accountable for funding and service decisions. Transparency and accountability must be the norm for all transit agencies in our region. There must be open, accessible public oversight into the administration and operation of transit service in order to ensure that safety, security, fairness, and quality of service are always part of what is provided to the end-users of transit.

7. Community Participation

Finally, funding decisions should include community participation in decision-making. Planners, politicians, and decision makers should never forget for whose ultimate use and benefit public transport is developed. Every effort should be made to involve the voices, ideas, and concerns of citizen users of transit. Residents of local communities have the most to gain or lose from transit planning and funding decisions. It is incumbent on our leaders to always keep this in mind and to go to them when questions arise. As a result of community participation and involvement we can expect better decisions that reflect the needs and values of the community.

SHOULD TRANSIT BE FREE?

Free transit might seem like the most efficient and equitable pricing strategy. That way no money would be taken from low-income riders and no riders would be discouraged by fares. Moreover current spending wasted on selling tokens or enforcing fare collection could be eliminated. Transit vehicles could also board more swiftly without by using all doors for entry and letting riders board without stopping to fumble for payment.[1]

Free service exists in a number of smaller-city bus systems or for certain limited groups, routes, or times in larger systems.[2] Among larger transit systems, two notable fare-free experiments were conducted during off-peak hours in Denver, Colorado and Trenton, New Jersey, during the late 1970s. Both were discontinued after approximately one year in spite of increased ridership. The only other system-wide experiment with free fares in a large transit system was conducted in Austin, Texas from October 1989 until December 1990. In June and July of 2006, on a more limited basis, California's Metropolitan Transportation Commission eliminated bus, train, and ferry fares when officials announced "Spare the Air" alerts on hot, smoggy days.[3] The program cost $13.3 million, including advertisement for the program and prevented 8 tons of smog. Critics noted that this cost was far higher than alternative programs to reduce smog, such as replacing the aging diesel engines of old school buses. The Bay Area's BART system has requested to curtail the program due to increased vandals, garbage, and homeless riders.

The experiments with free-fare service have shown that free fares do not entice more drivers to leave their cars. Instead, free-fare entry to the transit system attracted groups of joy riders and homeless occupants. Increased numbers of riders who previously walked, biked, or carpooled also led to overcrowding. The incidence of vandalism and graffiti increased substantially, escalating maintenance costs and arguably discouraging commuters from leaving their cars. Increased numbers of homeless people rode around on buses, perhaps discouraging some commuters.

Instead of free fares, increased ridership might be created with passes for the elderly or students, or pre-paid passes from employers and social service agencies. In this vein, the U.K. Department for Transportation (DfT) has announced that beginning in April 2008 a new program will allow people more than 60 years of age and people with disabilities to travel for free during off-peak hours on any local bus across England.

1. Jennifer S. Perone, "Advantages and Disadvantages of Fare-Free Transit Policy," National Center for Transit Research, Report Number: NCTR-473-133, BC137-38 (October 2002). See also, Hodge, D.C., Orrell III, J.D., & Strauss, T.R. (1994). Fare-free Policy: Costs, Impacts on Transit Service and Attainment of Transit System Goals. Report Number WA-RD 277.1. Washington State Department of Transportation.

2. For instance, in Seattle, WA, Ann Arbor, MI, and Cache Valley, UT.

3. http://www.mercurynews.com/mld/mercurynews/news/15155463.htm?source=rss

V. Potential Revenue Options

Across the country, funding for transit comes from a variety of sources. State legislatures can choose to appropriate operating and capital funds in each yearly budget, they can commit to use federal transportation funds for transit, and they can dedicate revenue streams from particular funding sources. The best dedicated funding sources are those that accomplish more than just raise revenue because they improve market efficiency by solving market failures or better allocating costs to those who receive benefits. More specifically, the best revenue sources correct market failures by discouraging pollution and sprawl or drawing revenues from those who will most benefit from the reduced congestion brought about by transit.

Among the 25 largest transit agencies in the nation, the federal General Accountability Office (GAO) reports that a total of 23 received funds from dedicated funding sources. Moreover, according to the GAO these dedicated funds averaged 70 percent of the total state and local share of transit revenues.[15] Two or more sources of dedicated funding were reported in 18 of these transit systems. As the GAO reports, using a diverse basket of revenue sources protects transit systems from fluctuations in the economy that might hit one particular revenue source harder than others.

Cities, counties, and transportation districts increasingly fund new transportation projects through taxes or fees that apply only in their own local jurisdiction.[16] Fifteen states authorize local-option fuel taxes, though these tend to be used for road maintenance. Communities in many states levy local impact fees on developers or local real-estate transfer fees. Thirty-three states authorize some sort of local license or registration tax, which are assessed based on vehicle weight in Hawaii and parts of Virginia, and based on fuel efficiency in New Jersey. Local or county sales taxes exist in 33 states. These sales taxes have often been designated for new transit projects.[17]

Local-option taxes have benefits and drawbacks. Residents tend to be more supportive of paying for services in their own area. The disadvantage of localized taxation is the narrow base for these taxes makes it more difficult to raise significant revenue without high rates. These high rates can prompt taxpayers to cross local jurisdictions when making purchases to avoid the tax.

Below is a list of funding options that could be considered to address the current funding shortfall for transit in Northeastern Illinois and help alleviate future shortfalls. The revenues discussed below could be applied either state-wide or only in the jurisdictions near transit.

SALES TAXES

Sales taxes are the most common form of dedicated transit revenues for transit agencies. A GAO study of the nation's 25 largest transit systems found 15 systems received dedicated sales tax funds, totaling $4.5 billion in 2003, or 43 percent of dedicated funds for these systems. Among a broader sample, sales taxes have a similar though slightly smaller role. The National Transit Database of approximately 600 transit agencies reporting to the Federal Transit Administration shows that, after federal funds, sales taxes comprised the largest source of revenues for capital spending (38 percent) and the second largest source of operating expenses (27 percent) after fares (32 percent). [18]

Sales taxes are often more politically popular than other broad taxes such as income or business taxes. Despite the fact that these taxes fall harder on lower-income residents who tend to spend a greater portion of their income on taxable consumption goods, the simplicity of sales taxes gives citizens confidence that they will be collected fairly.[19]

Sales taxes comprise a relatively stable but declining source of revenue. People decrease their purchase of consumer goods relatively little during a reces-

15. Government Accountability Office, Mass Transit: Issues Related to Providing Dedicated Funding for the Washington Area Metropolitan Transit Authority (May 2006), GAO-06-516

16. Todd Goldman and Martin Wachs, "A Quiet Revolution in Transportation: The Rise in Local Option Transportation Taxes," Transportation Quarterly, 57, 1 (Winter 2003), pp. 19-32.

17. Fifteen states authorize local payroll or income taxes. One city in Ohio voluntarily earmarks a portion of its local-option income taxes for transit and localities in four states designate local-option payroll taxes for transit.

18. All data are from 2002. See the Central Broward East-West Transit Analysis, Financial Feasibility Study, Appendix.

19. The net effect of using new sales taxes to increase transit is nonetheless progressive because the benefits of transit tend to be more concentrated in lower-income groups than the incidence of sales taxes. Even using sales taxes to fund transit for relatively affluent suburban commuters also extends the transit networks into more affluent suburbs, thereby widening the political base of support. Targeted fees on gas guzzlers could be mildly progressive because high-income people tend to drive less fuel-efficient vehicles and drive significantly longer distances.

20. US DOT, Survey of State Funding for Public Transportation (2004). See also http://www.fhwa.dot.gov/ohim/hwytaxes/2001/tab6_toc.htm

sion compared to other taxes on capital gains, real estate, income, or payroll. On the other hand, sales taxes are unlikely to keep pace with the economy over the long term because sales taxes typically apply to most goods and few services. Goods represent a shrinking portion of the economy compared to services. Sales taxes also do not apply to the growing portion of transactions conducted through mail-order catalogs and online orders.

TAXES ON DRIVING

Taxes on driving to finance transit make double sense. Such taxes or fees directly discourage driving and also help fund alternatives to driving.

Gas taxes

Gas taxes are the staple of transportation spending in most states but are restricted to highway and road purposes in 30 states, 22 of which by constitutional restriction. Gas tax funds contribute to transit funding in 15 states.[20] According to GAO analysis of the 25 largest transit systems in 2003, dedicated gas taxes contribute to transit in only 7 of these systems, providing only about 3 percent of dedicated funds in those 25 systems. Gas taxes completely fund transit systems in Rhode Island, South Carolina, and Tennessee. Although gas taxes have declined in purchasing power over time, higher pre-tax gas prices have made the prospect of additional gas taxes less popular.

The advantage of gas taxes are that they are a relatively fair "user fee" that discourages driving.[21] One problem with funding transit with gas taxes is that while rising gas prices are likely to increase future demand for transit, they simultaneously reduce this source of revenue. More fuel-efficient cars will also decrease the revenue available for transit.

"The gas tax," actually includes several types of motor vehicle fuel taxes on different types of fuel. Oregon became the first state to establish a gas tax in 1919 and other states all followed suit during the next ten years. States vary in the way they tax diesel and gasohol, and they vary about which point in the distribution chain they impose the tax (importation into state, fuel distribution, into storage tanks, etc). Illinois is one of nine states that also levy sales taxes on gasoline – California, Delaware, Georgia, Hawaii, Indiana, Michigan, New York, and West Virginia being the others. The federal gas tax was created temporarily in 1932 and became permanent in 1956 as part of formation of the Federal Highway Trust Fund.

Gas taxes are far higher in other countries than in the United States. Gas taxes exceed three or four dollars per gallon in the United Kingdom and much of Continental Europe, compared to about 40 cents in the United States.

In America the value of gas taxes erodes over time because it is not indexed to inflation. Since 1993, the federal gas tax has remained unchanged at 18.4 cents per gallon, 2.86 cents of which is allocated to mass transit.[22] States' own gas taxes also have not kept up with inflation, losing 43 percent of their value during the 1970s, 80s, and 90s.[23] State gasoline taxes averaged 20.3 cents per gallon among the fifty states, ranging from a low of 7.5 cents per gallon in Georgia to a high of 30 cents per gallon in Rhode Island.[24] Statewide, Illinois' 20.1 cent gas tax falls just below the national average. Like a few other states, Illinois also has local gas taxes of 5 cents in Chicago and 6 cents in Cook County.

Taking state and federal gas taxes together on a per-mile basis, their inflation-adjusted value have declined by about 40 percent since 1960. The failure of nominal gas tax rates to keep pace with inflation is responsible for half this decline, with fuel-economy improvements during the 1970s and 1980s responsible for the other half.[25] Some have called for indexing gas taxes to inflation or pegging gas taxes to a constant portion of gas prices. Seven states have some variability in their rate linked to inflation.[26]

21. In a technical sense, gas taxes are not a direct user fee because the tax is levied on the first distributor, wholesaler, or refiner, who then passes the cost onto consumers who indirectly bear the tax.
22. The federal gas tax is distributed back to states based on various formulas. Some states receive more federal gas tax revenue than they collect while others are net donors. The Mass Transit Account was created within the Highway Trust Fund in 1983 when Congress increased the tax from 5 cents to 9 cents per gallon.
23. Robert Puentes and Ryan Prince, Fueling Transportation Finance: A Primer on the Gas Tax (Brookings Institute, March 2003).
24. From Martin Wachs, A Dozen Reasons for Raising the Gasoline Tax," Institute of Transportation Studies, University of California at Berkeley, Research Report UCB-ITS-RR-2003-1 (2003).
25. Ian W. H. Parry, Margaret Walls and Winston Harrington, "Automobile Externalities and Policies," Resources for the Future discussion papers DP-06-26 (June 2006).
26. FL, IA, KY, ME, NE, NY, NC.

GAS TAXES BY STATE [27]

State	Total state gas tax	State	Total state gas tax
Washington	34	***Average State Tax***	20.3
Wisconsin	32.9	Illinois	20.1
West Virginia	31.5	Louisiana	20
Pennsylvania	31.2	Minnesota	20
Rhode Island	31	Texas	20
North Carolina	30.15	Vermont	20
Nebraska	28	Kentucky	19.7
Ohio	28	New Hampshire	19.625
Montana	27	Michigan	19
Maine	26.8	New Mexico	18.875
Connecticut	25	Mississippi	18.4
Idaho	25	Alabama	18
Nevada	24.805	Arizona	18
New York	24.6	California	18
Utah	24.5	Indiana	18
Kansas	24	Missouri	17.55
Oregon	24	Virginia	17.5
Maryland	23.5	Oklahoma	17
Delaware	23	Hawaii	16
North Dakota	23	South Carolina	16
Colorado	22	Florida	15.3
South Dakota	22	Georgia	15.2
Arkansas	21.5	New Jersey	14.5
Tennessee	21.4	Wyoming	14
Iowa	21	Alaska	8
Massachusetts	21		

Rental car tax

Thirty-eight states levy taxes on rentals of motor vehicles. Rental car taxes are largely paid by out-of-staters, which has some political appeal. The levy also makes economic sense because visitors in rental cars would not otherwise pay the property taxes and registration, license or title fees that in-state drivers pay to help defray the costs of driving. Those fees are described below.

License, registration or title fees

All states require vehicle owners to pay for the privilege of driving within a state. Local governments in at least 34 states assess vehicle license and regis-

27. From the Federation of Tax Administrators, as of January 1, 2007, available at http://www.taxadmin.org/FTA/rate/motor_fl.html . Listed taxes are in some cases officially called inspection or environmental fees. In a few states localities also levy taxes on gasoline. These are: Alabama, 1 - 3 cents; Hawaii, 8.8 to 18.0 cents; Illinois, 5 cents in Chicago and 6 cents in Cook county; Nevada, 4.0 to 9.0 cents; Oregon, 1 to 3 cents; South Dakota and Tennessee, one cent; and Virginia 2 percent. Florida local taxes for gasoline and gasohol vary from 10.2 cents to 18.2 cents, plus a 2.07 cent-per-gallon pollution tax. Calculations for Kentucky and North Carolina are based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9 percent; and NC, 17.5 cents plus 7 percent. In Virginia, large trucks pay an additional 3.5 cents. Idaho rate assumes maximum blended ethanol of 10 percent, which reduces rate.

tration taxes; 20 have a state-level version of these taxes dedicated for transit.[28] Collectively, states license over 200 million drivers. Fees commonly differ according to the type or class of license issued, and sometimes the age of driver or other factors. Increasing these fees can provide a dependable source of revenue. Most states also charge fees to register a vehicle's certificate of title. These fees, which are relatively unaffected by economic downturns, also provide highly reliable revenue sources.[29]

Title fees are transaction fees imposed on the cost of processing changes in vehicle title. They are a user fee on the state system of record keeping and administration. Most states impose these fees as a flat charge from as little as $2 to as much as $33 per transaction. Though such fees are typically collected by states to enhance administrative efficiency, they are generally used by county and municipal governments as general revenue.

Additional registration or title fees can be assessed on vehicle owners according to how much those vehicles are driven and how much each model type pollutes. Pollution fees create an incentive to reduce pollution by internalizing some of the costs imposed on society by gas guzzlers and those who drive a lot.

Since July 2006, new car dealers in New Jersey have paid a 0.4 percent surcharge on the sale or lease of vehicles with an EPA fuel efficiency rating of less than 19 miles per gallon. Since 1978 the federal government has levied a "gas guzzler tax" on inefficient new cars based on a sliding scale of how far they fail to reach combined fuel efficiency of 22.5 miles per gallon. That tax was created at a time when SUVs, pickups, and minivans were a small portion of the market, and it still exempts these vehicles.[30]

Pollution fees create an incentive to reduce pollution by internalizing some of the costs imposed on society by gas guzzlers and those who drive a lot. Future fees could alternately be placed, for instance, on vehicles according to how much their fuel efficiency falls below the state's fleet average. That way incentives and revenues would remain strong as fuel standards continue in the future.

Tire tax

Some states place a tax on the sale of new tires. It can be administered either as a percentage or flat fee on sales. This tax makes sense because tires clog public landfills and the bottom of our waterways. Proper disposal of tires in government waste sites is also expensive. The federal government imposes its own tax on the purchase of tires over 40 pounds.

These fees also make sense as a kind of transportation user charge because people who drive more must change their tires more frequently. Although no state does so presently, the fee could be waived for high-efficiency tires. Such tires come on new cars to improve fuel efficiency but have not yet become commercially available as replacement tires.

Weight-based vehicle sales taxes

Most states impose a sales tax on new vehicles purchased in the state or on vehicles imported into the state for sale. Indexing these sales taxes upward by weight would make pure economic sense because heavier vehicles put more stress on roads and bridges. Heavier cars are also typically less fuel efficient. To better target an environmental incentive, the tax increase could be indexed by fuel efficiency. The message from such a policy would be: if you buy a heavier, more polluting car into the state, then you will have to pay more to offset those costs.

Vehicle battery tax

As with tires, this tax is a kind of disposal fee. The acid-lead batteries used in cars, trucks, boats, and aircraft are toxic and expensive to dispose of. Florida levies $1.50 per new or remanufactured vehicle battery.

Weight-mile truck fee

Germany uses Global Positioning Systems (GPS) to levy fees on trucks for using the national motorway system. In America there is currently a system that charges trucks exceeding 26 thousand pounds a fee according to their weight and distance traveled in the state. These factors are typically already recorded at weigh stations for trucks beyond this weight threshold.

The economic logic behind this tax is that it precisely targets heavy vehicles that put the most wear on roads. If such a charge ends up discouraging long-

28. Todd Goldman, Sam Corbett, and Martin Wachs, Local Option Transportation Taxes in the United States (Berkeley, Calif: Institute of Transportation Studies, UCal Berkeley, March 2001)
29. Fees should not be so high, however, as to encourage low-income drivers from avoiding the licensing process.
30. http://www.epa.gov/fueleconomy/guzzler/420f06042.htm

distance trucking, then it will also have air-quality benefits, reduce congestion, and encourage locally produced goods.

Toll roads and congestion pricing

Tolls have advantages and disadvantages over gas taxes, and some of the disadvantages can perhaps be eliminated with the proper technology and incentives. Tolls are a reliable revenue source for charging drivers for road use. For new capacity at least, they are less unpopular than gas taxes. When combined with congestion-pricing, they encourage drivers to see the costs of driving and congestion; and they provide a framework in which excess congestion can be managed. States' income from road tolls totaled $5.9 billion in 2005, up from $4.1 billion in 1998. Ten additional states have begun the process of adding tolls on new or existing roads.[31]

Unfortunately tolls have a number of disadvantages. Traditionally, tolls require drivers to slow down and the costs of collection are high. Even new electronic tolling technologies such as I – PASS have significant costs to maintain and operate and require cars to slow down at toll booths.[32] Another problem with toll charges is that because they are only levied on some roads, drivers may be prompted to take less efficient routes as a way to avoid paying tolls.

Another problem with tolls is that, unlike gas taxes, fuel-efficient cars pay no less than gas guzzlers. Per-gallon gas taxes help make it cheaper to drive more fuel-efficient vehicles. Road pricing technologies do not necessarily include any of these beneficial forms of variable pricing. New road-pricing technologies such as GPS-based road fees could perversely eliminate some existing incentives for fuel efficiency.

New tolling technologies could be adjusted to include environmental and anti-congestion incentives. The federal ISTEA law created pilot programs to explore congestion-pricing options that would charge drivers different amounts for using roads at different times. The concept is similar to airlines charging higher fares during peak-travel times, a practice which encourages travelers to fly at off-peak times and reduces airport congestion.[33] Econometric studies suggest that drivers notice electronic tolling less than traditional toll payments. As a result, governments seem to find it politically easier to raise electronic toll rates, but drivers also find electronic tolls less of a disincentive for driving.[34]

Some projects such as the SR-91 project in Southern California have introduced new tolling by creating new premium-price lanes or roads with separate premium-price lanes that would require a large(r) toll but would allow drivers paying more to face less congestion. These arrangements might simply make congestion problems less pressing for higher-income drivers who drive in "Lexus lanes." A more favorable variant of this approach, as in SR-91, makes the new lanes free to high-occupancy vehicles (HOVs). Travel in these lanes is permitted for single drivers who pay a premium that is adjusted continually according to real-time demand to ensure that HOV drivers still enjoy less congestion.[35] Money from tolls could, as in San Diego, be used to fund transit in the travel corridor.[36] Transit can also benefit if public buses utilize the HOV lanes that single-occupancy drivers can only use at a premium price.

One variant of tolling is to charge vehicles for their daily or monthly use of especially congested downtown areas. Following the successful examples of London, Singapore, and Scandinavian countries, New York Mayor Michael Bloomberg proposed a plan to charge $8 per day to drive during peak hours in downtown Manhattan and to use the money to support transit service. In London, fees for entering the central business district have reduced traffic by 30 percent, increased traffic speed by almost 40 percent, and financed a large increase in transit ridership. The New York plan has received approval from Governor Spitzer and is eligible among nine finalists for $1.1 billion in special federal aid for anti-congestion measures in urban areas.

FEES ON DEVELOPMENT

Linking development fees to transit makes sense

31. "Fuel Efficient Cars Dent States' Road Budgets," Wall Street Journal, April 25, 2007.
32. "Innovative Toll Collection System Pays Off for Motorists and Agencies." Prepared by the National Associations Working Group for the USDOT, Report No. FHWA-SA-97-088. Washington, D.C.
33. There are numerous experiments in road-pricing underway. The Presidents 2007 budget proposal requested up to $100 to involve up to five states in evaluating road-pricing options. Oregon created has created a pilot program using GPS technology to meter road use as an alternative to gas taxes. Some New York City Bridges and the New Jersey Turnpike increase tolls during peak congestion hours.
34. Amy Finkelstein, "EZ-Tax: Tax Salience and Tax Rates," National Bureau of Economic Research, NBER Working Papers No. 12924 (February 2007), available at http://papers.nber.org/papers/W12924 .
35. For extended discussion of road pricing, see FHWA conference proceedings http://knowledge.fhwa.dot.gov/cops/hcx.nsf/All+Documents/9C1501C3320F3FE485257067004941E3/$FILE/TRB%20CP34%20Road%20Pricing.pdf .
36. New toll lanes in Minnesota will also dedicate half of net revenue to transit.

because of the close relationships between land-use patterns and transit use. Development near transit stops increases ridership on transit lines, and the property value of real estate benefits from proximity to transit infrastructure.

Development impact fees

Impact fees are charges paid by developers for the "impact" their new development places on a community.[37] Impact fees are quite common. A GAO study found that 59 percent of local communities over 25,000 used these fees.[38] These charges can be assessed locally or on a state-wide basis. Properly targeted, impact fees can internalize the burdens that developers place on the road system to accommodate increased traffic flow or to offset the infrastructure requirements of increased sprawl. Fee exemptions can also be used to encourage smarter growth near public transit.

The San Joaquin Valley Air Pollution Control District in California introduced environmental construction fees in March 2005. The district requires developers to use energy-efficiency and traffic reduces techniques and to pay into a pool for pollution control as a way to offset the effect of their construction on emissions and congestion.[39] The fees are reduced if builders make design changes to reduce the project's effect on air quality. For residential development, for instance, reductions are granted for features such as bike paths, sidewalks on both sides of each street, higher density, greater energy efficiency, and location near jobs and retail. The building industry has sued against the measure.

Another approach would be to require large-scale developers and employers to either provide private shuttle service, contribute to a larger pool for private shuttle service, or to offset their burden on the state transportation system by contributing to a state fund for public transportation.[40] Such an approach would mimic the Massachusetts approach to health care reform. It starts with the fact that employers both gain from public transportation infrastructure and place a burden on that infrastructure. It then gives employers the choice of shouldering that burden themselves or contributing to public provision of those services.

Storm-water fees

These are special charges applied to impervious surfaces (pavement and buildings) to fund storm-water management systems. Unlike gardens, yards, and undeveloped land, impervious surfaces prevent rain water from returning to the water table. These surfaces therefore impose costs on the public by creating the need for infrastructure such as drainage systems and treatment facilities. This is a major environmental cost of sprawl that is normally pushed onto the general taxpaying public. Such fees exist in many cities and range from about $5 to $20 per 1,000 square feet, or about $1-7 annually per off-street parking space.[41]

Real-estate transfer tax

Real estate transfer taxes require the purchase of stamps based on the value of the property to be attached to the transfer document for almost any real estate transfer except wills or trusts. These taxes exist in almost all states at different rates.[42]

In Illinois, the current real-estate transfer tax rate is 50 cents for each $500 of value on real estate transactions or 0.1 percent of the sale price. Only Colorado has a lower rate on sale price than Illinois.[43] Counties may impose their own tax of 25 cents per $500 of value. Home rule municipalities may impose an additional real estate transfer tax.

New York and New Jersey provide an example on how this form of taxation can generate funding for transit while ensuring that additional costs for real estate deals do not impinge on low- and moderate-income Illinoisans' ability to buy a home. To fund transit, these states impose an additional one percent real-estate transfer tax only on personal residences valued at more than $1 million.

37. For a review of their effects, see http://www.brookings.edu/es/urban/publications/nelsonimpactfees.htm

38. General Accounting Office. 2000. Local Growth Issues—Federal Opportunities and Challenges.Washington, DC: U.S. Government Printing Office. For a primer on impact fees, see http://www.huduser.org/periodicals/cityscpe/vol8num1/ch4.pdf

39. Exempted from the fee are residential developments of fewer than 50 units, commercial buildings under 2,000 square feet and office space of less than 50,000 square feet.

40. See Mafruza Khan, Missing the Bus: How States Fail to Connect Economic Development with Public Transit (Good Jobs First, Sept. 2003), available at http://www.goodjobsfirst.org/pdf/bus.pdf .

41. For a list, see http://www.vtpi.org/parking_tax.pdf page 8.

42. http://www.taxadmin.org/fta/rate/Realtytransfer.html#Table

43. Federation of Tax Administrators, available at http://www.taxadmin.org/fta/rate/Realtytransfer.html#Table with detailed description. States without a tax are not listed. In some states these fees can raise very substantial revenues. Four states receive over $100 per capita annually from these fees, and the District of Columbia collects almost $485 per capital. Data on Illinois revenues are not strictly comparable because they are collected through a patchwork of different jurisdictions.

STATE REAL ESTATE TRANSFER/DEED RECORDATION TAXES[43]

State	Description	Rate in Percent
Alabama	$.50 per $500 of property conveyed	0.10%
Arizona	$2 per deed required to be recorded	NA
Arkansas	$3.30 per $1,000 of consideration in excess of $100	0.33%
California	Local taxes only	
Colorado	$.01 per $100 of consideration in excess of $500	0.01%
Connecticut	1.25 percent of consideration paid if consideration exceeds $2,000 -- Other rates for commercial transfers	1.25%
Delaware	2-3 percent (depending on local tax) on transfers in excess of $100; 1 percent on contracts for improvements to realty in excess of $10,000	2.0-3.0%
D.C.	2.2 percent of consideration or fair market value	2.20%
Florida	$.70 per $100 of consideration except in Miami-Dade County where it is $.60 per $100	0.70%
Georgia	$1 for first $1,000 of consideration plus $.10 per $100 of additional consideration	0.10%
Hawaii	$.10 per $100 of consideration	0.10%
Illinois	$.50 per each $500 of value or fraction of $50	0.10%
Iowa	$.80 per $500 paid for the real property transferred	0.16%
Kansas	0.26 percent of debt or obligation secured by real estate	0.26%
Kentucky	$.50 per $500 of value conveyed in deed	0.10%
Louisiana	Local taxes only	
Maine	$2.20 per $500 of value conveyed - Split between grantor and grantee	0.44%
Maryland	0.5 percent of consideration paid for realty -- Also local deed recordation taxes ranging from $2.20-$5.00 per $500 of value and local transfer taxes ranging up to 1.5 percent of consideration paid	Variable depending on local rates
Massachusetts	$4.56 per $1,000 of consideration	0.456%
Michigan	$3.75 per $500 of value for property being transferred plus local taxes of $.55 - $.75 per $500 of value	0.75%
Minnesota	$1.65 plus .33 percent of value in excess of $500 plus .23 percent of debt secured by real estate for mortgage registry	0.56%
Nebraska	$2.25 per $1,000 of value transferred	0.225%
Nevada	$1.95 - $2.55 per $500 of consideration depending on population of county	0.255% max.
New Hampshire	$1.50 per $100 of consideration split equally between buyer and seller	1.50%
New Jersey	Four transfer fees -- Basic is $1.25 state and $.50 county each $500 of consideration; additional fees range from $.25 - $4.30 per $500 of consideration; a fifth fee of 1 percent is imposed on buyers for an entire consideration in excess of $1 million for certain residential and farmland property	1.21% max. if less than $1 million
New York	$2.00 per $500 of consideration. An additional 1 percent on transfers of a personal residence of more than $1 million	0.4% on the basic tax plus and additional 1.0% on residence > $1 million

44. Federation of Tax Administrators, FTA Bulletin, February 16, 2006, http://www.taxadmin.org/fta/rate/Realtytransfer.html

State	Description	Rate in Percent
North Carolina	$1 per $500 of consideration or value transferred with 51 percent of revenue retained at local level	0.20%
Ohio	Local taxes only ranging from $.10 -$.40 per $100 of value	0.4% max.
Oklahoma	$.75 per $500 of consideration	0.15%
Pennsylvania	1 percent of consideration or fair market value with local transfer taxes of 1 - 3 percent	4.0% max.
Rhode Island	$2 per $500 of consideration	0.40%
South Carolina	$1.85 per $500 of value with $.55 per $500 retained at the local level	0.37%
South Dakota	$.50 per $500 of consideration payable by grantor	0.10%
Tennessee	$.37 per $100 of consideration plus a mortgage tax of $.115 per $100 of indebtedness in excess of $2,000	0.485%
Vermont	1.25 percent of value of property transferred; lower rates on certain homes and farms	1.25% max.
Virginia	$.25 per $100 of conveyance plus $.50 per $500 of consideration for transfer of realty	0.35%
Washington	1.28 percent of selling price plus local tax of 0.3-0.5 percent	1.33$% max.
West Virginia	$1.10 per $500 of consideration plus local taxes that may run to another $1.10 per $500	0.44% max.
Wisconsin	$.30 per $100 of value	0.30%

Parking tax

Local fees on paid parking or on physical parking spaces have limited revenue-raising potential, but would also encourage use of public transit. Parking taxes fall on drivers who live in, commute to, or visit urban areas. These individuals are also those who directly benefit from the congestion-reducing effects of transit. Parking taxes can be levied as a percent surcharge on parking transactions or as a flat fee for hourly/daily/monthly rates.

One promising approach would be to combine a fee on parking spaces with programs for employers to purchase reduced-rate transit passes for their employees. Employers that currently provide parking will want to reduce the number of parking spots they provide and will therefore be more eager to participate in the transit program.

Parking taxes tend to be levied by large cities rather than entire states. The city of Pittsburgh imposes a 50 percent tax on parking; the city of San Francisco has a 25 percent tax on commercial residential off-street parking. New York, Miami, Los Angeles, and Chicago have their own versions, the last of which is a flat tax.[45] Levies on non-residential parking spaces imposed on each parking space or per-volume of parking area exist in three Australian cities and Vancouver, British Columbia.[46]

Northeastern Illinois needs its transit system to regain world-class status. It needs a public transportation system that benefits the citizens and the economy of the entire region and provides a bridge to our transportation future. The existing transit funding arrangement is clearly obsolete and unable to meet the needs of the region.

45. http://www.vtpi.org/parking_tax.pdf
46. http://www.vtpi.org/parking_tax.pdf

VI. Recommendations

Fortunately, we do have options. Lawmakers face a variety of possible revenue choices that can provide expanding transit ridership with dependable and adequate funding. The Illinois Auditor General's report on transit agency funding also identifies promising ways to improve transit services and governance in ways that will attract greater ridership and deliver greater results. Illinois PIRG recommends three policy steps be taken to achieve these goals and permanently solve the mounting budget shortfalls that have plagued transit systems and kept them from realizing their potential.

1. Expand the current funding base

Illinois should build on transit's current funding source, the sales tax, with dedicated funding to operate and expand the regional transit system. The present funding mechanism is already in place, and easy to implement. The dedicated source of revenue stays in the region, rather than contributes to the general fund.

Raising the sales tax by a quarter of a cent would raise an estimated $280 million in its first year. Doing so would leverage another $70 million match from the state Public Transportation Fund.

In addition to raising the sales tax, it should be applied more broadly. All states exempt certain goods and services from sales taxes but there are important differences between how states apply these exemptions. Each exemption of a particular type of good or service shifts the overall burden onto a narrower set of transactions within the economy. Some of these exemptions make sense. Groceries and health care, for instance, are ordinarily exempt from sales taxes because these items are regarded as extraordinary necessities. Other exemptions lack a clear rationale, especially for services. For example, fur storage, yacht cleaning, travel-agent fees, dating services, pet grooming, tanning parlors, dry cleaning, golf lessons, tuxedo rental, car waxing, membership to private clubs, attorney fees, limousine service, chartered airplane flights, debt collection, lobbying, pool cleaning, advertising, management consulting, telemarketing and financial services are all exempted in Illinois from the sales tax.[47] These exemptions add up.

Policy makers should expand the sales tax base to include additional goods and services that are currently exempt. Illinois extends the sales tax to only 17 of the 168 services that states can tax, well under the 49 services covered by state sales taxes on average.[48] Six states tax over 100 types of services; neighboring Wisconsin's sales tax extends to 74 types of services; Minnesota's to 67.

2. Diversify the funding base

The sales tax should not remain the only dedicated source of transit revenue. As recent years have proven, growth in sales taxes is not reliable. Diversifying dedicated funding sources, moreover, better ensures stability. Fluctuations in the economy that might greatly reduce one particular revenue source may leave other revenue sources relatively stable or even increased.

This report has laid out a menu of potentials dedicated revenue sources. Some, like a small disposal fee on tires or batteries, would raise relatively few funds. Others, like an increase in the gas tax, could be a large revenue source. Introduction of a dedicated real estate transfer tax for transit is a particularly suitable option. Transit after all promotes development. And without its transit system, the northeast region would not command such high real estate values. As this report explains, many transit agencies around the country states rely on real estate transfer taxes.

3. Reform the Regional Transportation Authority

Regardless of the additional funding mechanisms that will be introduced, public dollars should not be a blank check. For this reason, new funding should be linked to the passage of new accountability measures and efficiency-enhancing reforms that ensure greater coordination between transit agencies in the region.

State policy makers should consider ways to strengthen the original intent of the Regional Transportation Authority Act when it was created in 1974: to promote comprehensive and coordinated regional public transportation. As recommended in the Auditor General's audit, policies must also be implemented to increase transparency and reporting on benchmarks of transit agency progress in achieving

47. Federation of Tax Administrators Survey (2004), available at http://www.taxadmin.org/fta/pub/services/online/service_state.taf?_function=list
48. http://www.taxadmin.org/fta/pub/services/services04.html#summary

regional goals, objectives and performance standards.

Accountability and efficiency policies should go hand in hand with new funding. The public needs to know that additional funds will be wisely spent and well accounted for. Accountability and transparency improve decisions about how to spend public dollars and build new transit in the future. Likewise, increased transit efficiency eliminates duplicative services, cuts down on transit bureaucracy and keeps management efficient. Doing so will make the system run better, save money, and help ensure public support.

Taking action on these recommendations will mean a more reliable and efficient transit system in Northeastern Illinois. Achieving that will mean greater prosperity for Illinois residents, less congestion on our roads, and a healthy economy and environment.

Illinois PIRG

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