

Transit Riders' Alliance

In-Depth — CAPITAL FUNDING

What is capital funding?

Capital investments increase the value of an asset by making it better or extending its useful life.

Capital investments go above and beyond day-to-day maintenance. For example, if you install new energy-efficient windows in your home, it's a capital investment. The windows make your house last longer, and they also make it cheaper to heat and cool. By contrast, when you put caulk around existing windows to give them a tighter seal, that's regular maintenance.

Of course, if you scrimp on the small day-to-day maintenance stuff, then you'll probably have do a more drastic capital investment project sooner than if you had not scrimped on maintenance.

It's worth pointing out that capital investments don't have to be boring, like new windows. For example, capital investments at home could include a fancy new kitchen or an addition to your house.

The same logic applies to transit systems. Capital investments are necessary in order to extend the system's useful life (the necessary but unexciting stuff) as well as make the system better, nicer, or larger—the exciting stuff.

The following table provides examples of some of the capital investments that could improve Chicagoland's transit system...

Examples of capital projects needed for Chicagoland transit

| | | |
|---|--|--|
| Unexciting, but essential | Update signal systems | <i>Keep trains running quickly, efficiently, reliably, and safely</i> |
| | Revamp power delivery systems | <i>Ensure most efficient use of energy, improve train speed</i> |
| | New communication systems | <i>Ensure passenger safety and security, efficient operation</i> |
| | Overhaul tacks and ties | <i>Eliminate and prevent slow zones, improve train speed</i> |
| | ... | |
| | Rebuild train yards and bus garages | <i>Cut operating costs, improve efficiency</i> |
| | ... | |
| | Install new switches and interlocking | <i>Provide additional operating flexibility, boost reliability</i> |
| | ... | |
| | New security systems | <i>Prevent crime, terrorism</i> |
| | ... | |
| | Grade separation where commuter trains meet roads | <i>Save lives, improve reliability</i> |
| | ... | |
| | New buses | <i>Provide more comfortable space, improve reliability, reduce operating costs on maintenance and fuel</i> |
| | ... | |
| New train cars | <i>Provide more comfortable space, improve reliability, reduce operating costs</i> | |
| ... | | |
| Rehabilitate train stations | <i>Improve passenger experience, provide disabled access, improve safety</i> | |
| ... | | |
| Arrival-time passenger information systems | <i>Provide accurate arrival estimates to passengers, boost ridership</i> | |
| ... | | |
| New fare collection equipment & universal fare card | <i>Allow easy transfers between all agencies, boost ridership</i> | |
| ... | | |
| ... | | |
| Exciting expansions | Bus Rapid Transit and dedicated bus lanes | <i>Improve speed and reliability of bus system, boost ridership</i> |
| | New stations on existing lines | <i>Improve access, boost ridership</i> |
| | Add additional tracks to commuter lines | <i>Boost capacity, improve reverse-commute options</i> |
| | New transit lines and extensions to existing lines | <i>Accommodate regional growth, boost ridership</i> |

Where does capital funding come from?

The distinction between capital and operating money is not an artificial or academic one. Transit receives funding from a handful of sources, each of which comes with its own restrictions on how it can be spent. The primary sources of capital funding for transit include:

- Federal “New Starts”. This is a pot of money administered by the Federal Transit Administration (FTA) for big projects like new rail lines or major overhaul projects (the exciting stuff). Transit agencies around the country compete for these dollars, which are divvied up based on the merit of each project as well as how successful local Congressmen are at getting funds earmarked for them. New Starts grant money must be used for the project for which it was assigned.
- Federal formula funds. Formula funds are part of an annual appropriation that is divided up based on a “formula”—basically in proportion to the size and ridership of the transit system. Formula funds usually go for smaller projects like new buses and train cars. In general, formula funds cannot pay for daily operating expenses, although they can be applied to preventative maintenance (which is generally considered an operating expense).
- State and local (“matching”) funds. States and/or local governments are required to pay their share of capital projects in order to secure Federal funding. They often provide additional funds above and beyond what is required to “match” the Federal grant.

Often these funds are provided by the proceeds from issuing bonds; basically, money is borrowed to pay for capital projects. Much in the same way most people don't buy a house with cash but instead borrow via a mortgage, transit agencies don't pay for new stations and lines out of cash-on-hand. This is because capital improvements are long-term investments that should be paid for over the long term—in accounting terms, the investment should be “amortized” over time. But it is necessary to have enough cash each year to pay the principal and interest on the mortgage, or in transit's case, the “debt service” on the bonds.

Restrictions on the use of state funds are generally less than for federal funds. Sometimes, they are “transferred” to the operating budget in order to cover daily expenses when times are lean. But this is a bad idea. Extending the consumer analogy, this is like taking out a second mortgage to pay your grocery bills. It is borrowing from the future to pay for current needs. Furthermore, it reduces the amount of money you have to do necessary capital projects. It only delays them to the future when they'll inevitably be more expensive due to inflation and increasing construction costs.

The capital funding “cycle”

Federal legislative muscle must be flexed to get New Starts and other federal dollars. As a result, funding for such projects comes in big, infrequent packages referred to as “Federal transportation bills,” which also include money for roads. States then typically respond with necessary matching funding. This creates a capital funding cycle for transit that repeats essentially every five years:

| | | |
|--------|--|--------|
| Year 1 | Federal transportation bill | |
| Year 2 | Companion state capital bill | Invest |
| Year 3 | | Invest |
| Year 4 | | Invest |
| Year 5 | | Invest |
| Year 6 | New federal transportation bill negotiated | Invest |

TEA-21, SAFTEA-LU, Illinois FIRST, Oh My!

The most recent federal transportation bill was signed into law by President Bush on August 10, 2005. Although burdened with a mouthful of a title, the *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFTEA-LU)* guaranteed \$52.6 billion for mass transit programs nationally. This represents a 46% increase over transit funding provided in the previous federal transportation bill—the Transportation Equity Act for the 21st Century (TEA-21)—which passed in 1998.

In our state, the TEA-21 was followed by the *Illinois Fund for Infrastructure, Roads, Schools, and Transit, or Illinois FIRST*. Signed by Governor Ryan in May 1999, Illinois FIRST issued bonds to provide \$6.3 billion in state funds to match \$5.7 billion in federal and local contributions for capital investments in roads, school buildings, and public transit. Debt service on the bonds is paid by a revenue stream from increased vehicle registration fees and liquor taxes.

Illinois FIRST: A Summary

| | State | Local | National | Totals |
|----------------------|----------------------|----------------------|----------------------|---------------------|
| Schools | \$1.1 billion | \$1.1 billion | \$0 | \$2.2 billion |
| Public Transit | \$2.1 billion | \$0 | \$2 billion | \$4.1 billion |
| Roads | \$1.5 billion | \$0 | \$2.6 billion | \$4.1 billion |
| Other Infrastructure | \$1.6 billion | \$0 | \$0 | \$1.6 billion |
| Totals | \$6.3 billion | \$1.1 billion | \$4.6 billion | \$12 billion |

Illinois FIRST expired in 2004. Since then, the governor and the legislature have been unable to agree on a replacement plan, even though the new federal transportation bill was passed in 2005.

Chicagoland Transit is Capital-Starved

Essentially, the state has failed to live up to its part of the bargain in the capital funding cycle.

The result is that Chicago area transit agencies now face a serious capital funding crisis. The lack of a new state capital bill has slowed the three agencies’ investments in stations and track, and nearly halted purchases of buses and trains. It also jeopardizes funds specifically identified for Chicagoland by the SAFTEA-LU legislation. Our representatives in the U.S. Congress worked hard to secure those dollars, but without a state capital bill, they could disappear.

The impact of insufficient capital investment on the CTA has been the most widely publicized, with wide press coverage of slow zones and delays in the press. But riders on all three of Chicagoland's transit agencies experience the consequences insufficient capital funding on a daily basis. For example:

- Metra riders on the Southwest Service are frequently delayed up to 30 minutes simply because an inefficient track layout means that freight trains are always in the way.
- Metra Electric riders must endure their commutes without access to a bathroom. Cash-strapped Metra recently delayed its order for new, bathroom-equipped train cars to replace its current fleet, which is more than 30-years old.
- Dozens of motorists are killed every year by Metra trains because there is not enough money to build bridges and underpasses to separate trains from roads.
- Pace, up until just a couple of months ago, used school buses—that's right, rickety big yellow school buses—on a number of its routes, particularly those in Naperville, because it could not afford to buy new transit buses. This practice may have just ended, but it shows how thinly stretched their fleet has been, because there has been little funding to replace its fleet.

And these problems are just the tip of the iceberg. Equipment breakdowns and poor track conditions can all be expected as our infrastructure ages. We will not be able to sustain or improve the functionality of our existing system, let alone expand it to serve growing communities and emerging transportation needs.

A new state capital bill must be passed this year in order to secure the federal transportation dollars designed for Illinois by SAFTEA-LU. But it should be bigger than what is needed to secure federal monies, if area transit agencies are to overcome years of deferred capital investment.

Moving Beyond Under-Investment

The Regional Transportation Authority (RTA), the oversight agency for CTA, Metra, and Pace, has developed a capital plan for the three agencies as a part of its Moving Beyond Congestion (<http://www.movingbeyondcongestion.org>) campaign. RTA, in conjunction with the three agencies, has identified a capital need of \$16.1 billion over the next 5 years. Of this,

- \$10.3 billion is needed to maintain and sustain existing service;
- \$1.1 billion is requested to enhance existing service;
- and \$4.7 billion is requested to expand and extend services.

The following chart details the RTA's capital request for each transit agency and the share of which is currently funded:

| | | 5-year plan | | | Share Funded | | |
|--------------------------------------|--|--------------------|----------------|--------------|-------------------|------------|------------|
| | | CTA | Metra | Pace | CTA | Metra | Pace |
| <i>examples</i> | | <i>in millions</i> | | | <i>in percent</i> | | |
| Invest to Maintain | | | | | | | |
| Rolling stock | mid-life overhauls or replacements of buses and railcars, locomotives, & paratransit vans | \$1,400 | \$1,300 | \$157 | 61% | 14% | 66% |
| Track & structure | replace or overhaul rail, ballast, & ties; replace bridges; overhaul structures | \$1,300 | \$795 | - | 5% | 30% | - |
| Signals, electrical, & communication | replace/upgrade signals & power distribution systems; new substations; new radio systems | \$1,000 | \$307 | \$20 | 11% | 60% | 91% |
| Support facilities & equipment | new support vehicles; bus garages and turnarounds; major rail yard rebuilds; farebox replacement | \$754 | \$1,100 | \$111 | 14% | 22% | 56% |
| Passenger facilities | reconstruct/replace stations; station parking | \$881 | \$131 | - | 15% | 50% | - |
| Complete ongoing projects | CTA Brown Line capacity expansion | \$219 | - | - | 100% | - | - |
| Miscellaneous | homeland security; administration & engineering; project & program management; training facilities | \$722 | \$122 | \$5 | 53% | 96% | 27% |
| Invest to Enhance | | | | | | | |
| Rolling stock | new buses and railcars to accommodate service enhancements & ridership growth | \$179 | \$70 | \$105 | 0% | 0% | 0% |
| Support facilities & equipment | new bus garages & training facilities; enhancements to bus-priority lanes | \$150 | - | \$138 | 0% | - | 0% |
| Track & structure | crossover upgrades; grade separations; reduction of freight train interference | - | \$277 | - | - | 0% | - |
| Signals, electrical, & communication | new traffic signal bus priority systems; new signals and substations to increase service frequency | - | \$59 | \$30 | - | 0% | 0% |
| Passenger facilities | park & rides; bus shelters; bus transfer centers | - | - | \$76 | - | - | 0% |
| Invest to Expand | | | | | | | |
| New services | extensions, new lines, bus rapid transit | \$655 | \$4,000 | \$70 | 0% | 0% | 0% |
| TOTALS | | \$7,259 | \$8,161 | \$711 | 26% | 13% | 26% |

Source: Regional Transportation Authority

Only 19% of the money needed to fund this ambitious but necessary capital plan is currently identified. That means that an additional \$13 billion is needed. RTA is asking the state to provide \$10 billion toward this total as a part of a sorely-needed statewide capital bill. The rest is expected to be made up with federal and local sources.

Support Capital Funding for Chicagoland Transit

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