ILEPI Economic Commentary #8 May 6, 2014

OFF-ROADING?

Analyzing Diversions from Illinois' Road Fund

A Higher Road for a Better Tomorrow

ILLINOIS ECONOMIC POLICY INSTITUTE

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INTRODUCTION

As the primary fund used to pay for the state's road construction projects, the Illinois Road Fund is a driver of infrastructure investment and economic development. Unfortunately, billions of dollars have been diverted from the fund to finance other government operations in Illinois. A May 2013 audit of the Road Fund by the Illinois Office of the Auditor General found that less than half of the fund's expenditures actually went for *direct* road construction costs.[1] Direct construction costs included "payments for highway construction and improvements, architectural and engineering fees, and repair and maintenance of highways." The Auditor General classified non-direct costs as state employees' salaries, related labor costs, and "other costs." This ILEPI Economic Commentary investigates the Auditor General's claim and discusses how much money has actually been diverted from the Road Fund.

ROAD FUND EXPENDITURES

From 2002 to 2012, an average of 72.9 percent of Road Fund expenditures was spent on "transportation," according to Illinois' Comprehensive Annual Financial Reports (CAFRs).[2] The "transportation" line item is defined as "support for building and maintaining infrastructure capital assets owned by the State and owned by local governments of the State which is administered mostly by the Department of Transportation" (Figure 1). Transportation expenditures fell from 2010 to 2012, mostly the result of diminishing funds from the American Recovery and Reinvestment Act by the federal government.

Figure 1: Road Fund Expenditures on "Transportation" Line-Item, 2002-2012

Year	Transportation Expenditures (in millions)	Percentage of Total Expenditures
2002	$1,368.60	80.7%
2003	$1,429.90	73.7%
2004	$1,025.60	64.9%
2005	$950.30	72.3%
2006	$1,109.40	71.0%
2007	$1,343.50	56.0%
2008	$1,513.60	67.5%
2009	$1,686.50	76.5%
2010	$2,152.50	78.9%
2011	$2,041.40	82.9%
2012	$1,785.80	77.1%

Source: Comprehensive Annual Financial Reports, 2002-2012.

ISSUES WITH THE AUDITOR GENERAL'S REPORT

The audit of the Road Fund by the Office of the Auditor General showed that IDOT's use of the Road Fund has been for expenditures that are within the approved use of the fund. One problem with the Auditor General's report is that many of the "non-direct" road construction expenditures are for activities that have to occur before, during, and after contractors are paid in order to keep construction projects going. Projects must be planned and programmed, lettings must be organized and awarded, contracts must be agreed upon, and bills must be submitted to the Federal Highway Administration (FHWA) for reimbursement. Although these activities are presented as non-construction expenditures, direct construction expenditures could not occur without them.

This problem materialized at least twice in the report, as debt service payments on Transportation Series A Bonds and transportation grants were both classified as "non-direct" costs. The bonds, however, are used to pay for direct road construction while grants are used to plan for construction. From a policy perspective, the non-direct classification given to bonds is absurd. It is analogous to a family taking out a thirty-year mortgage on a home, the family living in the house and making payments, but then suggesting that no money from their paychecks is going to "directly" pay for the house. As long as the bonds pay for highway construction and improvements, architectural and engineering fees, and repair and maintenance of highways, they should be classified as direct road construction costs. Over the 10-year audit period, bonds amounted to $2.7 billion. Likewise, many transportation grants are awarded to nonprofits, businesses, and universities to plan for construction or understand the impact of a particular project. If both of these payments are included, then direct road construction costs account for 60 to 70 percent of all Road Fund expenditures. In 2012, for example, the $419.3 million spent on the Transportation Bond Series A Fund alone brings the direct road construction expenditures up to $1.8 million, or 61.3 percent of total costs.

The remainder of the Road Fund's expenditures has been spent on State employees' salaries and retirement funds, group health insurance, and other costs or diverted away toward other government functions (Figure 2). From 2002 to 2012, an estimated $2.6 billion was in some fashion diverted away from highway construction and related costs toward financing other government operations. From 2002 to 2009, a portion of the Road Fund was used to pay for expenditures at the Illinois State Police and at the Secretary of State. On average, each year the State Police received $105.7 million and the Secretary of State's office was granted $181.4 million during this time.

Figure 2: List of Diversions from the Road Fund to Other Functions, 2002-2012

Diversion	Per-Year Average	Years
General government: Secretary of State	$181.36 million	2002-2009
Public protection and justice: State Police	$105.66 million	2002-2009
Health Insurance Overcharge	$78.3 million	2010-2011
Workers' Compensation Overcharge	$18.1 million	2010-2012
National Passenger Rail Company (Amtrak)	$26.0 million	2012
Regional Transportation Authority (RTA)	$17.6 million	2012
State Construction Account Fund	$46.4 million	2012

Source: Illinois Office of the Auditor General, 2013.

In 2010, the State Police and Secretary of State diversions ceased, but other expenditures to non-road construction functions partially took their place (Figure 2). Even though the total labor costs of regular position salaries decreased by 33 percent in 2010 when the State Police and the Secretary of State positions were taken off the Road Fund's books, "there was not a commensurate decrease in Group Health Insurance costs." Instead, the employer contributions continued to increase because the fund was charged based on a percentage increase from the previous year rather than on a per-employee basis. Accordingly, the Road Fund was overcharged by $156.6 million for group health insurance in 2010 and 2011. Additionally, transfers from the Road Fund to the Workers' Compensation Revolving Fund were above the fund's actual liability by $54.2 million over three years, due to a cap on the amount of General Revenue Fund dollars allowed to go toward the workers' comp fund. The General Revenue Fund's actual workers' compensation liability was $87.2 million in 2011, but the Governor's Office of Management and Budget set a $55 million transfer limit for the General Revenue fund to the Workers' Compensation Revolving Fund. To help make up that shortfall, the Road Fund was charged an additional $25.6 million in 2011.

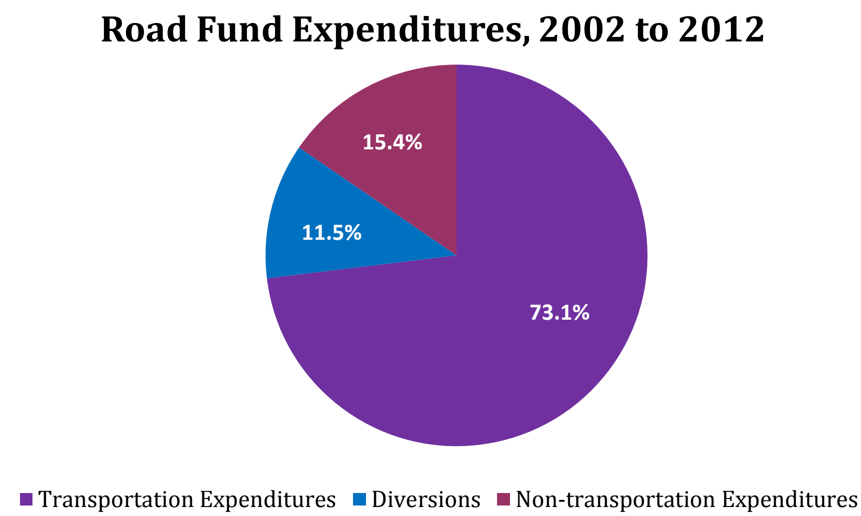
Both before and since the Auditor General's report, the Illinois Department of Transportation has been working with other agencies to address these concerns. The Road Fund workers' comp transfer is projected to be just $20.7 million in 2015. The group insurance appropriation is predicted to be $120.7 million in 2015, down from $131.3 million for 2014. Both adjustments bring Road Fund costs into line with the amounts charged against other funds.

Aside from the overpayments, FY2012 saw three new diversions of Road Fund money (Figure 2). Two of the diversions were considered "new uses" of the fund's expenditures that were statutorily required by 30 ILCS 105/8.3 of the State Finance Act but were previously expenditures of the General Revenue Fund. First, $26.0 million was transferred to Amtrak for Illinois' intercity rail passenger service and other expenditures for program improvements. Second, $17.6 million was disbursed to the Regional Transportation Authority in Chicagoland toward the provision of reduced fares on mass transportation for students, persons with disabilities, and the elderly. Finally, the Illinois Vehicle Code statutorily requires that $48 of each certificate of title be deposited into the Road Fund. 37 percent ($46.4 million in total) of this revenue, though, was instead transferred from the Secretary of State to the State Construction Account Fund. However, these dollars still went for road construction purposes.

CONCLUSIONS

Overall, from 2002 to 2012, $2.6 billion was actually diverted away from the Road Fund, most of which was not used on infrastructure investment. Total Road Fund expenditures totaled $22.4 billion over that time, meaning that diversions represented 11.5 percent of all of the fund's expenditures (Figure 3). Direct expenditures on transportation summed to $16.4 billion (73.1 percent of all expenditures).

Figure 3: General Social Survey Respondents by Survey Year, Nationwide, 2000-2012



Source: Comprehensive Annual Financial Reports, 2002-2012; Illinois Office of the Auditor General, 2013.

IDOT has taken steps to minimize Road Fund diversions. In 2012, $90.0 million was diverted from the Road Fund, but $46.4 million of that was transferred to the State Construction Account Fund and ended up going toward road construction purposes. Thus, in 2012, just $43.6 million (or 2.4 percent) of the $1.8 billion worth of Road Fund expenditures were diverted away to other government functions. Overpayments for workers' compensation and for group insurance have also been eliminated.

Ultimately, addressing the per-year average of $236.4 million in diversions has meant that more money is available for infrastructure investment in Illinois. The long-run growth and stability of the Road Fund, however, is fragile, as motor fuel tax revenues have begun to decline with cars becoming more fuel-efficient and as federal government contributions have dropped. Since the Road Fund is already facing these significant revenue challenges, steps must be taken to "lockbox" the Road Fund from future diversions and encroachments. Illinois needs to choose the path of Road Fund stabilization and growth to promote the long-term success of the economy.

SOURCES

[1] William Holland, Auditor General. (May 2013). "Summary Report Digest: Road Fund Revenue and Expenditures." Illinois Office of the Auditor General. Available at http://www.auditor.illinois.gov/Audit-Reports/Performance-Special-Multi/Performance-Audits/2013%20Releases/13-Road-Fund-Expend-Mgmt-Audit-Digest.pdf, p. i.

[2] State of Illinois Comptroller (2002-2013). *Comprehensive Annual Financial Report* for each of the 11 years of analysis. Available at http://www.ioc.state.il.us/index.cfm/resources/reports/cafr/.