MINUTES OF A PUBLIC MEETING OF THE FINANCE COMMITTEE OF THE BOARD OF DIRECTORS OF THE REGIONAL TRANSPORTATION AUTHORITY

The Finance Committee of the Board of Directors of the Regional Transportation Authority met in public session on Wednesday, November 29, 2017 at 8:35 a.m., in Suite 1650, 175 West Jackson Blvd., Chicago, Illinois, pursuant to notice.

Committee Chairman Magalis presided.

ROLL CALL
Committee members present (7): Anderson (phone), Coulson, DeWitte (@ #3c-1), Kotel, Lewis, Magalis, and Melvin
Committee members absent (1): Troiani
Other Board members present: Durante (@ #3c-2), Frega, Fuentes (@4a) (phone), Higgins, Hobson, Pang, Ross, and Chairman Dillard

Approval of minutes from the meeting held on October 19, 2017
Director Melvin moved, and Director Lewis seconded that the minutes from the meeting held on October 19, 2017 be approved as submitted. The motion carried on the following roll call vote:

7 Ayes: Directors Anderson, Coulson, DeWitte, Kotel, Lewis, Melvin, and Magalis
1 Absent: Director Troiani

Presentation of the Quarterly Performance Report
Ms. Jessica Hector-Hsu, presented the Quarterly Performance Report for year-to-date third Quarter, 2017. The report showed a reduction in regional ridership of 3.3%. Comparing ridership by mode and to national peer transit agencies, ridership changes were generally consistent with national trends. Exception was Pace Bus, which saw a 0.9% increase.

Change in Vehicle Revenue Hours, Vehicle Revenue Miles, Operating Cost per Vehicle Revenue Hour were favorable. Operating Cost per Passenger Trip and Fare Recovery Ration had negative trend.

Director Melvin asked why Pace was up, while other Chicago and national trend was a decline. Ms. Hector-Hsu responded that the increase was from new services initiated by Pace on the I-90 and I-55 corridors.

Director Higgins asked for clarification on the decline in Pace Vanpool ridership against overall Pace ridership increase. Ms. Hector-Hsu noted that although Pace Vanpool dropped by 9.7%, the total ridership of the vanpool program is relatively small and does not affect the total Pace ridership trend.

Presentation and discussion of the 2018 Budgets for the CTA, Metra and Pace

Director Magalis opened the discussion by stating that this budget cycle required the Service Boards to make some tough decisions, and the prepared budget documents indicate that they have stepped up to that challenge with reasonable fare increases and some service reductions. Ms. Bea Reyna-Hickey clarified that a vote is not required today, and she thanked the Service Board and RTA staffs for another cooperative budget season. Ms. Reyna-Hickey noted that the fare increases were necessary for the region to meet the statutorily required 50% recovery ratio.

Mr. Don Orseno, outgoing Metra CEO, and Mr. Jim Derwinski, incoming CEO, presented the Metra 2018 budget and five-year capital program. Mr. Orseno noted that for the first time in Metra's history, some service reductions were being implemented in response to the funding reduction. Metra ridership is expected to decrease by 1.5% to 77.8 million in 2018 due to a proposed fare increase averaging 6.8% and continued low gas prices. Operating revenues are projected at $411.1 million, an increase of 4.3% over the 2017 estimate. Operating expenses are projected at $797.2 million, an increase of 4.2% over the 2017 estimate, but a lesser increase of 2.0% versus the 2017 budget. Total public funding for Metra is $411.3 million, in accordance with the operating funding amounts approved by the RTA Board in August and resulting in a balanced budget. Metra's public funding includes $2.5 million from the Joint Self-Insurance Fund (JSIF) reserve and a Homeland Security Grant of $1.5 million.

Metra's 2018-2022 Capital Program totals $1.158 billion and includes investments to bring its system to a State of Good Repair (SGR) while improving service reliability and comfort for Metra customers. Metra does not plan to issue bonds. Metra's largest area of investment, $603.2 million, is for modernization of its fleet including the rehabilitation of locomotives and rail cars, as well as the purchase of new locomotives and rail cars. A total of $175.1 million has been proposed for track and structure projects to improve the riding quality and speed of the trains and help eliminate the need for slow orders. Metra is also continuing its investment in the implementation of the federally mandated Positive Train Control (PTC) system to improve the operational safety of commuter and freight trains.

Mr. Orseno closed by noting that the current RTA funding formula is unsustainable for Metra due to the increase in online sales and the growth in ADA Paratransit funding.

Chairman Magalis asked what sort of public feedback Metra received at their budget hearings. Ms. Lynnette Ciavarella replied that Metra had held 8 hearings and 39 citizens had provided testimony with another 304 comments received via other channels. Input included concerns about the proposed service reductions, questions about on-time performance, requests to upgrade stations and platforms, and statements that the fare increase should be accompanied by improved service. Some also expressed appreciation that Metra had discarded an earlier proposal to eliminate reduced fare monthly passes and make reduced fares time-of-day dependent.

Director Lewis asked for Metra's view on alternative funding sources. Mr. Orseno stressed the development of non-fare, ancillary revenue, but said that advertising opportunities were limited in the outer zones and that Metra does not own many of its stations. He said that express services could generate new revenue but are very costly to implement. For example, 10 miles of third, express track on the UP-West line will cost $100 million.

Director Lewis asked about DBE participation in Metra's capital projects. Mr. Orseno replied that Metra's DBE pool is growing. Metra conducts workshops and events to encourage DBE participation. Metra also uses set-asides for contracts.

Director Higgins noted that Metra's 2018 expense growth is budgeted at 4.2%, twice the rate of inflation. Mr. Tom Farmer, CFO, noted that the 4.2% was versus the 2017 estimate, and that budget-to-budget expense growth was 1.9%, near the inflation level. Don noted that Positive Train Control expenses and keeping car rehabilitation work in-house were part of the reason for the continued expense growth.

Director Coulson noted that Metra's capital program is debt free. Mr. Farmer confirmed that Metra has no current plans to borrow or issue bonds.

Director Coulson asked about Metra's review of its reduced fare programs and increasing weekend service on some lines to meet demand. Ms. Ciavarella reiterated that Metra had backed away from an earlier proposal to make reduced fares eligible off-peak only, due to public input. Don noted that Metra's budget is contingent upon the State 10% PTF cut being temporary. If it becomes permanent, Metra will have to revisit service reductions and fare adjustments.

Chairman Dillard asked how many positions needed to be added due to Positive Train Control. Mr. Derwinski said that is TBD but assumed to be about 50 additional employees and $20 million to $25 million in annual operating expense.

Chairman Dillard told Metra that the more they communicate about the benefits of the Transit Benefit Program, the better. He also noted that car ownership costs about $11,000 per year, so residents can potentially avoid that cost by taking transit.

Chairman Dillard noted that Metra's older equipment has higher operating costs and needs new funding. The gas tax in Illinois has been untouched since 1990 and is in the bottom 10 of all states with respect to supporting infrastructure improvements. Adjacent states have increased their gas taxes responsibly.

Chairman Magalis commended Metra for transferring some operating revenue for much-needed capital funding, and noted that none of the Service Boards is using capital funding for operations anymore. He then asked how Metra would react if there were further loss of funding in 2018 such as the reduced fare reimbursement and PTF.

Mr. Orseno stated that Metra would have to reduce service and/or raise fares, and that they have already begun to look at contingencies that they could implement quickly if needed.

Mr. Dorval Carter, President of CTA, noted that this was the CTA's most challenging budget in many years. The budget is balanced and reasonable, with significant expense reductions. Jeremy Fine, CFO, noted that the CTA has implemented over $300 million of cost savings and non-fare revenue increases since 2011. CTA ridership is expected to decrease by 3.7% to 462.1 million in 2018. A fare increase of 25 cents on one-way tickets and $5.00 on 30-day passes is incorporated, as well as increases to reduced fares. As a result, operating revenues are projected to increase by 8.7% over the 2017 estimate, to $707.6 million. Operating expenses are projected at $1.514 billion, an increase of 3.2% over the 2017 estimate, but a decrease of 0.6% from the 2017 budget. Total public funding for the CTA is $806.9 million, in accordance with the operating funding amounts approved by the RTA Board in August and resulting in a balanced budget.

The CTA's 2018-2022 Capital Program totals $2.702 billion (including payment of debt service on bonds) and includes investments to modernize, add capacity, and address State of Good Repair (SGR) needs of the bus and rail system. The CTA plans to issue bonds to produce $466 million in funding for the five-year capital program. Phase I of the Red and Purple Modernization (RPM) Project continues to be the most significant project in the CTA's capital program with funding of $912 million over five years. This project will increase capacity, improve station access, and modernize the structural system for the North Red Line and Purple Line corridor. Rolling stock investments totaling $357.5 million will fund the purchase of new rail cars and new buses including articulated-hybrid buses. The CTA will also invest $230.2 million in track and structure improvements to eliminate slow zones and improve travel times.

Chairman Magalis asked what sort of public feedback CTA received at their budget hearings. Mr. Carter replied that CTA's public hearing has been delayed until December 12th due to external factors holding up the budget process.

Chairman Magalis noted that the CTA had done a good job thinking outside the box for funding sources including the TIF district and the new ride-hailing fee.

Director Lewis asked for the CTA's view on alternative funding sources. Mr. Carter stressed promotion of the Transit Benefit Program to bolster ridership and fare revenue. He noted that customers like choices, and suggested integration of bike sharing or ride hailing into Ventra could work. He said that advertising and concession revenue would continue to be pursued and that station renovations will lead to higher leasing revenue.

Director Lewis asked about DBE participation in the CTA's capital projects. Mr. Carter said that the CTA aggressively pursues DBE participation and requires contractors to include DBE plans in their proposals. Many contractors exceed the original DBE goals.

Director Hobson asked about the CTA's strategy on reduced fares and the funding thereof. Mr. Carter replied that reduced fares and free rides amount to a mandate, which exceeds $100 million per year in foregone revenue. The State has partially funded this at $28 million, but lately has not been able to meet even that funding level. The CTA has proposed legislative fixes for this issue but they have not gained traction. The CTA's best approach is strict enforcement to prevent fraudulent usage of free and reduced fare passes.

Director Hobson noted that the CTA was implementing its first fare increase since 2009 and asked if regular fare increases consistent with the rate of inflation would be a better approach than an occasional, larger increase. Mr. Carter responded that there have been discussions about the different approaches and that the CTA Board has strong opinions against regular increases. Mr. Carter stated that a fare increase should be viewed as a last resort after all other avenues have been exhausted.

Director Higgins noted that Other Expenses were budgeted to increase by 9% in 2018 and asked what is included in that category. Mr. Fine said the category includes primarily debt service and contracts such as professional services. Although the category is increasing versus the 2017 estimate, it is actually $4 million lower than the 2017 budget.

Chairman Magalis noted that some of the CTA's funding such as the reduced fare reimbursement is at risk and that the ride-hailing fee is a new source. He asked how solid the ride-hailing revenue estimate of $16 million was. Mr. Carter said that he considered the $16 million in ride-hailing revenue to be a conservative estimate given the strong growth in demand for those types of service. If the reduced fare reimbursement is not reinstated the CTA will deal with that via new efficiencies.

Chairman Magalis asked about the $17.5 million of short-term borrowing proposed to address the 2017 revenue shortfall and if the interest expense was accounted for in the 2018 budget. Mr. Fine said that the plan was to activate a $25 million line of credit but draw only the $17.5 million, which would be paid back quickly. The interest expense is included in the 2018 Other Expenses category and that the principal would be paid back via new efficiencies. Mr. Carter noted that this was not a tool that they want or intend to use again.

Director Coulson noted that the CTA does a great job moving large volumes of people and even after the fare increase is one of the world's great bargains. He noted that debt service expense was a large share of the CTA's proposed capital program and asked what the long-range debt plan was. Mr. Carter responded that CTA would prefer to issue future debt tied to direct revenue sources such as the new ride-hailing fee, but that the real solution was a reliable State capital program.

Chairman Dillard asked about the CTA's ideas for modifying reduced fare and free ride programs. Mr. Carter responded that he would like to sit down and discuss his ideas with the RTA Board. He understands the policy behind the programs but not the insufficient funding. Chairman Dillard then said that he might have to step up and talk to his former colleagues in the legislature about either fully funding or modifying the programs accordingly.

Mr. T.J. Ross, Executive Director, introduced Mr. Rocky Donahue, DED External Relations and acting DED Internal Services, who presented the budget and capital program. Pace Suburban Service 2018 ridership is expected to decrease by 0.9% to 31.1 million, as customers adjust to a 25 cent increase in one-way fares, 50 cents for premium services. Operating revenues are projected at $60.9 million, an increase of 8.7% over the 2017 estimate. Operating expenses are projected at $232.1 million, an increase of 3.4% over the 2017 estimate, but a lesser increase of 1.5% versus the 2017 budget. Total public funding for Pace Suburban Service is $172.9 million, in accordance with the operating funding amounts approved by the RTA Board in August and resulting in a balanced budget.

Pace ADA Paratransit ridership is expected to increase by 0.9% to 4.3 million in 2018 as customers adjust to a 25 cent increase in one-way fares. Taxi Access Program (TAP) fares will be unchanged at $3.00. Operating revenues are projected at $13.3 million, an increase of 9.4% over the 2017 estimate. Operating expenses are projected at $178.6 million, an increase of 2.8% over the 2017 estimate. Total public funding for Pace ADA Paratransit is $165.3 million, in accordance with the operating funding amounts approved by the RTA Board in August and resulting in a balanced budget.

Pace's Suburban Service 2018-2022 Capital Program totals $298.6 million with the largest expenditures going toward investment in support facilities and rolling stock. Pace plans to issue bonds to produce $66 million in funding for the five-year capital program. Pace's largest investment is for support facilities and equipment, including the construction of a new Northwest Division garage. Pace plans the replacement of 170 fixed-route buses, 279 paratransit buses, 93 community vehicles, and 187 vanpool vehicles. Another $23 million has been programmed to renovate passenger facilities, which will reduce maintenance costs and improve customer-waiting conditions.

Chairman Magalis asked what sort of public feedback Pace received at their budget hearings.

Mr. Donahue replied that Pace had held 13 hearings with 90 attendees, 40 of whom provided testimony. About half of the comments were service related, and half budget related, particularly regarding the ADA fare increase, which most said would be hard to absorb on fixed incomes. Customers said that if they have to pay more, they expect to see an improvement in on-time performance and service.

Director Durante asked if Pace would add service on the Elgin-O'Hare expressway. Mr. Donahue stated Pace has an excellent relationship with the Illinois Tollway and was discussing options. It would probably not be a flex lane like I-90, and service would not start in 2018.

Director Higgins asked about a vanpool ridership discrepancy and Ms. Reyna-Hickey noted that this is due to NTD timing differences. He then asked how vanpool ridership could be assumed to be flat in 2018 if 2017 was down by 7%. Mr. Donahue said that Pace has two primary vanpool programs: traditional and Advantage. The Advantage program for disabled persons was behind the loss in 2017 as State funding for social services was cut. Pace's hope is that the State cuts will stabilize in 2018. Rocky also noted that vanpool may have to look at partial month fares due to the increase in part-time telecommuting.

Director Lewis asked for Pace's view on alternative funding sources.

T.J. replied that since the State is now collecting a 2% surcharge, it should increase enforcement and look at expanding the tax base to services. He believes that developers and corporations along the I-90 corridor should pay an impact fee to support transit. Pace should be allowed to provide school service to supplement revenue, and be allowed to provide charter services. He noted that liability exposure should be limited by law to reduce excessive settlements.

Director Lewis asked about DBE participation in Pace's capital projects. Mr. Ross said that Pace had made changes in this area and hired new staff. Pace's most recent DBE goal was 11.4% and the actual participation of 15% exceeded this goal.

Director Hobson asked if Pace intended to leverage ride-sharing services or confront them. Mr. Donahue said that Pace is looking at partnering with TNC's. The main issue is FTA requirements such as drug and alcohol testing, background checks, and ADA compliance.

Director Hobson noted that online purchases are taxed only at the 6.25% state sales tax rate. Mr. Ross said that the State needs to perform better on sales tax collections now that they are taking a 2% surcharge. Remedies for the online shopping issue are being discussed with IDOR.

Chairman Magalis asked if the budgeted decrease in Medicaid reimbursements was due to cuts or delays. Mr. Donahue said that the delays have gotten so long that Pace has lost confidence in budgeting any amount higher than $250 thousand per year.

Chairman Magalis noted that some of Pace's funding such as the reduced fare reimbursement is at risk and how Pace would react to a further funding loss. Mr. Donahue said that Pace had sufficient cash reserves to absorb some funding loss but would also have to look at mid-year budget adjustments if necessary.

Chairman Dillard asked where Pace ridership ranks versus peer agencies. Mr. Donahue said that Pace's rubber-tire fleet is the fourth largest in the U.S. Pace is the largest suburban bus system and the largest bus-only agency.

Chairman Dillard asked if Pace has been working with advocacy groups to address ADA Paratransit issues. Mr. Donahue said that Pace uses the City and Suburban ADA Advisory committees to advocate against cuts in social services.

Chairman Dillard noted that there would soon be a major announcement from the State regarding Medicaid and asked Pace to work their interests into that discussion.

Presentation of the RTA 2018 Agency Budget

Mr. Bill Lachman presented an overview of the proposed 2018 RTA Agency budget. The Board will consider the 2018 RTA Agency budget for adoption in December as part of the proposed 2018 RTA consolidated regional business plan.

The total proposed 2018 RTA Agency net operating budget of $33.2 million is expected to increase by 0.4% or $122,000 from the revised 2017 budget. The 2018 Administrative net operating budget decreases by 1.1% or $178,000, and the 2018 Regional Programs net operating budget increases by 1.8% or $300,000.

Of total budgeted funding and revenue of $34.3 million, 96.9% or $33.2 million represents regional public funding from the RTA sales tax. The remaining 3.1% or $1.1 million includes grants and other revenue. Of total Agency expenses of $34.3 million, administrative costs account for 48.4% or $16.6 million, regional services account for 48.0% or $16.4 million, and grant- and RTA-funded projects account for the remaining 3.6% or $1.2 million.

The administrative budget includes expenses for personnel, professional services, information technology, facilities, and office services that support the funding, planning, and oversight mission of the RTA. In 2018, the proposed Administrative budget accounts for 48.4% of Agency expenses or $16.6 million. This amount is 33.7% below the 2018 statutory administrative cap of $25.0 million allowed by the RTA Act.

The proposed 2018 Regional Programs budget supports services provided to the public. Regional services include ADA Paratransit Certification, Mobility Management and Travel Training, the RTA Customer Service Centers, Free and Reduced Fare Programs, and the RTA Transit Benefit Program. Regional Programs also include the RTA's grant-funded projects and RTA-funded regional studies and initiatives such as transit-oriented development, access to transit improvement, and community planning assistance.

Some of the programs and projects included in the proposed 2018 RTA Agency budget include the following:

- Issue a $150 million capital bond to support the Service Board capital programs.
- Issue a $150 million two-year working cash note to help manage continued State funding delays.
- Complete the procurement and begin the implementation of an integrated Enterprise Resource Planning (or ERP) system to replace our current ERP system and various shadow and manual systems used to support RTA business processes.
- In conjunction with the CTA, Metra, Pace, IDOT and the Illinois Toll Highway Authority, host the Annual Transportation Symposium with a new format that fosters business relationships between potential prime vendors, sub-contractors, and/or joint venture partners and alerts the market to potential business opportunities with these agencies, focusing on Disadvantaged Business Enterprises.
- Recommend board adoption of the 2018-2023 Regional Transit Strategic Plan and begin work towards implementing the plan.
- Continue installing inter-agency signage in strategic locations across the region to assist riders whose transit travel involves more than one Service Board.
- Maintain and enhance the RTA Maps and Statistics data warehouse website that provides planning and financial information about our transit system and allows users to access transit and related data through interactive maps.
- Administer the Community Planning and Federal 5310 programs that assist private non-profit groups in meeting the transportation needs of older adults and people with disabilities.
- Implement a new Older Adult Travel Training Program to help seniors feel more confident riding fixed route transit service.

Chairman Magalis asked if the proposed salary increase was consistent with the Service Boards' plans. Ms. Reyna-Hickey responded that the proposed increase of 3% would be merit based and consistent with the Service Boards.

Chairman Magalis asked to confirm the budgeted headcount. Ms. Reyna-Hickey responded that the budgeted headcount for 2018 is 114, unchanged from the 2017 budget. The actual RTA headcount is currently 101.

Director Higgins commended the RTA for proposing a budget requiring only 0.4% funding growth over 2017, less than the rate of inflation.

Resolutions Certifying Financial Results – Third Quarter 2017

Ms. Reyna-Hickey provided an update on the financial results through September. She noted that revenue continues to be impacted by lower ridership, the reduction in State funding for reduced fare programs, and weak sales tax growth. She commended the Service Boards for controlling expenses such that the regional net result improved in the third quarter.

Ms. Reyna-Hickey then gave an update on the 2017 reforecast process. She stated that the three Service Boards submitted their revised 2017 spending plans in October. In response to the 3.9% reduction in funding, the Service Boards collectively reduced operating revenue by 3.2% and operating expenses by 2.9%. The Metra, Pace, and Pace ADA reforecasts were balanced. The CTA was hit more heavily by the reduction in reduced fare funding and therefore intends to use a portion of its $40 million short-term borrowing authority to address the shortfall. Ms. Reyna-Hickey showed the dashboard results relative to their forecast to demonstrate that all three Service Boards are tracking with the reforecast

She also noted that the 2% sales tax surcharge went into effect in May, two months earlier than RTA anticipated. The 10% PTF reduction went into effect in July when RTA expected it to kick in in October. This amounts to $14 million less funding in 2017 than was expected.

Ms. Reyna-Hickey returned to the third quarter results versus the original budget, noting that operating revenue and public funding are unfavorable through September but the good news is that operating expenses are very favorable. The regional net result is still $4.6 million unfavorable to budget but improved by $17 million from the second quarter report. The regional recovery ratio has also improved and is now above the 50% mark for the year.

Ms. Reyna-Hickey closed by stating that she recommends the Board find all Service Boards in substantial accordance with budget through the third quarter.

Chairman Magalis asked about the 2% surcharge and reduction in PTF funding going into effect sooner than anticipated. He asked what is in the State law. Ms. Reyna-Hickey replied that she has never seen this before. Nadine Lacombe, RTA General Counsel, added that the RTA receives this funding from the State on a delay but the Department of Revenue does not consider these surcharges to be retroactive – they started taking the surcharge when they process the funds. The RTA is currently considering what actions to take to challenge.

Chairman Lewis asked how the Service Boards will meet the 50% recovery ratio in 2018, and why they are growing relative to 2017, when the Service Boards all reduced their expenses in their 2018 budgets. Ms. Reyna-Hickey replied that all three Service Boards are instituting a fare increase – more revenue and lower expenses means a higher recovery ratio.

Director Lewis moved, and Director Melvin seconded that the proposed resolutions be recommended to the full Board for approval. The motion carried on the following roll call vote:

7 Ayes: Directors Anderson, Coulson DeWitte, Kotel, Lewis, Melvin, and Magalis
1 Absent: Director Troiani

ADJOURNMENT
There being no further business to come before the meeting of the Finance Committee, Director Lewis moved, and Director Melvin seconded that the meeting adjourn. The motion carried on the following voice vote.

7 Ayes: Directors Anderson, Coulson DeWitte, Kotel, Lewis, Melvin, and Magalis
1 Absent: Director Troiani

The meeting ended at 11:30 a.m.

Audrey Maclennan
AUDREY MACLENNAN
Secretary of the Authority