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 **Thursday, September 12, 2019** at 9:20 a.m., in Suite 1650, 175 W. Jackson Blvd., Chicago, Illinois, pursuant to notice.

Committee Chairman Melvin presided.

ROLL CALL

Committee members present (8): Coulson, Groven, Holt, Kotel, Lewis, Melvin, Sager, Troiani
Committee members absent (1): Ross
Other Board members present: Andalcio, Carey, Frega, Fuentes, Higgins, Chairman Dillard

Approval of minutes from the meeting held on August 22, 2019

Director Troiani moved, and Director Holt seconded that the minutes from the meeting held on August 22, 2019 be approved as submitted. The motion carried on the following roll call vote:

8 Ayes: Coulson, Groven, Holt, Kotel, Lewis, Melvin, Sager, Troiani
1 Absent: Ross

Presentation of Monthly Financial Results – July 2019

Ms. Eva DeLaurentiis opened by stating that while ridership and revenue are still unfavorable to budget, very good expense performance has caused the regional recovery ratio to swing favorable to budget by 0.5 percentage points, at 50.4%, one month ahead of the budgeted projection.

RTA system ridership through July was 2.1% unfavorable to budget, and 3.1% lower than prior year. Pace had the largest ridership shortfall, at 6.9%. Operating revenue was $11.8 million, or 1.7%, unfavorable to budget, with about 70% of the variance attributable to the lower level of reduced fare reimbursement (RFR) funding from the State, and the balance due to weather-related impacts on ridership. Pace Suburban Service had the largest operating revenue shortfall percentage due to unfavorable fare revenue, while CTA was most heavily impacted by the reduction in RFR funding.

Ms. DeLaurentiis stated that the public funding section of the dashboard shows a result that is 2.7% unfavorable to budget due to lagging sales tax, PTF, and RETT results. Sales tax through May was 1.2% below budget but 1.2% higher than prior year. CTA's public funding was $19.7 million unfavorable due to unfavorable sales tax and RETT results. System-wide operating expenses were $41.0 million or 2.5% favorable to budget. Metra and Pace had the most favorable expense results, at 3.4% and 4.8%, respectively.

The good expense performance offset the unfavorable public funding and operating revenue, and the year-to-date system net result was $5.4 million favorable to budget, a $5.7 million improvement from last month's result. The regional recovery ratio of 50.4% through July was 0.5 points favorable to budget, has shown steady improvement since January, and is now higher than the 50% statutorily required level.

Ordinances authorizing the quarterly amendments to the 2019-2023 Capital Program and the Innovation, Coordination, Enhancement (ICE) funded projects

Ms. Tatiana Jane presented two ordinances authorizing the quarterly amendments to the 2019-2023 Capital Program and the Innovation, Coordination, Enhancement (ICE) funded projects. The first, an amendment of the 2019-2023 Capital program incorporating changes in program revenues and expenses for CTA, Metra and Pace; and second, a time extension for implementation of CTA, Metra and Pace's Innovation, Coordination, and Enhancement (ICE) funded projects. This ordinance requests an approval for a total net funding decrease to the five-year Capital Program of ($33.03M) that affects the current year. This net decrease includes a ($46.80M) reduction in service boards bond proceeds, $10.04M of additional CMAQ funding and $3.73M of RTA and service board funds. The total net increase for CTA is $0.57M, for Metra $3.16M and for Pace a decrease of ($36.76M). The details of the funding changes are included in Capital program Schedules II-A and II-B, attached to the ordinance.

The second ordinance requests approval of the twelve-month extension for three CTA, six Metra and four Pace projects. RTA staff has reviewed these requests and found them to be justified as outlined in the ordinance request memo.

Director Groven asked with the $46M Pace bond funds being de-obligated from the capital program, will the Northwest garage in Wheeling be constructed? Ms. Jane responded it will be included with the newly available State funding.

Director Troiani moved, and Dr. Sager seconded that the proposed resolutions be recommended for Board approval. The motion carried on the following roll call vote:

8 Ayes: Coulson, Groven, Holt, Kotel, Lewis, Melvin, Sager, Troiani
1 Absent: Ross

Ordinances establishing the amounts available to the Service Boards for their 2020-2022 operating budgets, the required recovery ratios for 2020, and the preliminary 2020-2024 Capital Program funds

Ms. Bea Reyna-Hickey opened by thanking the Service Board CFOs and Chief Executives for their input and cooperation on this year's funding allocations, particularly with the extensive capital funding discussions, led by Leanne Redden, Jill Leary, and Jeremy LaMarche. Ms. Reyna-Hickey introduced Doug Anderson, Manager of Budgets and Analysis, to present the proposed operating funding

Mr. Anderson began by stating that the RTA Act requirement is to approve the funding amounts for the upcoming budget year by September 15th, and that the Service Boards' budgets and capital programs may not assume funding in excess of the adopted funding levels. Mr. Anderson said that the Chicago area unemployment rate has continued to improve, and that while sales tax growth was strong in 2018 at 4.1%, sales tax receipts in 2019 had thus far grown at only 1.2% due to the severe cold in January. Chicago tourism set another record in 2018 with 57.6 million visitors to the area. State operating funding cuts continue to cost the region about $40 million per year, with the 5% PTF reduction extended until at least June 2020, and the 1.5% sales tax surcharge continuing indefinitely.

Mr. Anderson said that discussions with the Service Board CFOs had led to a sales tax growth assumption of 3.1% for 2020 and 2.0% for the 2021 and 2022 financial planning period. The Real Estate Transfer Tax (RETT) is assumed to grow at 3.0% per year in 2020-2022, after achieving 15% growth in 2018. Mr. Anderson displayed a table with the proposed 2020 operating funding amounts, which showed budget-to-budget growth in the 3% to 4% range for each Service Board. ADA Paratransit funding growth is assumed at 4.8% due to expected ridership and contractor price increases. CTA has been allocated 52.4% of the Service Board operating funding, Metra 26.0%, Pace Suburban Service 10.7%, and ADA Paratransit 10.9%. These shares are virtually unchanged from the 2019 budget. Mr. Anderson said that the proposed 2020 Service Board recovery ratios are unchanged from 2019: CTA 54.75%, Metra 52.5%, Pace 30.3%, and ADA Paratransit 10.0%. He then turned the presentation over to Ms. Leary, Senior Deputy Executive Director of Capital Programming and Planning

Ms. Leary stated that the 2020 capital program includes funding of $1.3 billion, up almost $600 million from 2019 due in large part to the State's new Rebuild Illinois capital program. The State components of the 2020 funding include $520 million of bond proceeds, part of a larger $2.6 billion of bonds over the five-year program, and $227 million of new annual "pay-go" funding from RTA's share of the increase in the motor fuel tax. Ms. Leary noted that the RTA's *Invest in Transit* strategic plan had laid the groundwork for the allocation of future capital funding by detailing a $30 billion need over the next decade. She said that the RTA has begun a new process based on the strategic plan's three goals, the associated priority projects list, and the continued implementation of transit asset management. Ms. Leary displayed a chart that showed the positive impact of the Rebuild Illinois funding on the percent of regional assets beyond useful life, and said that we must look beyond this five-year program to seek more sustainable funding.

Ms. Leary said that the allocation discussions with the Service Boards centered around five principles: decreasing the backlog, ability to complete projects and spend in a timely manner, providing near-term funding certainty, allowing long-term adaptability, and continuing to conduct a transparent, data-driven project selection through the annual budget process.

Ms. Leary said that the state of good repair backlog percentages determined with the last Capital Asset Condition report were used to allocate the $227 million of pay-go funding for the first five years only: 62.5% to CTA, 32.5% to Metra, and 5% to Pace. Ms. Leary said that future pay-go funding allocations will be contingent upon the rate of spend down by the Service Boards, which will be monitored closely. Capital investments will be programmed to deliver projects in a timely manner, demonstrate that needs are warranted, and maximize the transparency and effectiveness of funding allocations.

Ms. Leary concluded her remarks by displaying two pie charts. The first chart showed the proposed allocations of the $1.3 billion of capital funding in 2020: CTA $708.1 million, Metra $475.9 million, and Pace $112.0 million. The second showed the funding sources over the $6.7 billion five-year program: federal formula $2.8 billion, State bonds $2.6 billion, State pay-go $1.1 billion, and RTA funding $130 million. Doug then ended the presentation by recapping the 2020 budget calendar and noting that the proposed Service Board budgets and capital programs were due to be submitted to the RTA in four weeks. The public hearing process will follow in October and November. The Service Boards will discuss their proposed budgets with the Finance Committee on November 21st and the regional budget and capital program will be considered for adoption at the December 19th RTA Board meeting.

Director Melvin congratulated the staff on reaching agreement and said that the funding increases were great news for the region.

Director Coulson said that the marks seemed to be a reasonable accommodation of the Service Board needs, with one exception. He expressed concern about the provision amending the long-standing RTA ordinance which limits the amount of federal funding which can be spent on debt service. He failed to see the wisdom or the need for increasing the limit to 60%. He recalled that the 50% limit was implemented in 2008 when funding was very lean, and that at the time he expected the limit to step down from the 50% level in the future. He noted that lifting the cap would allow CTA to move $19 million of debt service into its capital program and thus require use of funding which would otherwise go towards state of good repair. He also said that it didn't make sense to increase the cap now because the region currently had sufficient operating and capital funding. He stated that the Finance Committee's job was to monitor and restrain debt, not to feed debt, and suggested that, procedurally, the provision should not be a part of the marks, which deal with funding levels. He voiced concerned and asked that paragraph 9 be removed. Director Melvin expressed appreciation for Director Coulson's comments and noted that the $19 million incremental amount was reasonable and that the provision did expire after five years.

Director Andalcio stated that the RTA must provide oversight to hold the Service Boards accountable for utilizing the capital funding for its intended purposes, and not for operating expenses, especially when they have other options such as increasing fares. He also requested that the Service Boards have an equitable share of diversity and inclusion in their procurements, especially with respect to meeting their DBE goals.

Director Holt asked for some background on the 3% assumption for RETT growth in light of the sales tax growth assumption and what is currently happening in the City with home sales and commercial property sales. She believed that the RETT assumption was a little aggressive and wanted to understand the thinking. Ms. Reyna-Hickey noted that the RTA projection is usually based on the City forecast, which this year was released late and was conservative. She discussed the projection with CTA, and it was decided to leave the RETT at budget for 2019, although the City expected some decline. Ms. Reyna-Hickey noted that one big commercial sale can turn the RETT performance around quickly and that she would share the details of our assumption with Director Holt. Ms. Redden interjected that all of the funding projections are estimates and that the Service Boards are not funded to budget. Moreover, the Service Boards know that they will have to manage any shortfalls which may transpire, and thus they budget accordingly. Ms. Reyna-Hickey also mentioned that there is a time lag between the real estate transactions and the RETT funding receipts.

Director Sager noted that the funding allocations contain underlying assumptions, not the least of which is ridership, and asked for assurance that the assumptions are reasonable, in light of the monthly financial reports which show some shortfalls from budget. Ms. Reyna-Hickey noted that RTA works closely with the Service Boards on their ridership projections, and that the November meeting would be a good opportunity to discuss ridership concerns. She believes recent ridership projections have been much more realistic than in prior years. On the funding assumptions, Ms. Reyna-Hickey said that we have also been much more realistic and cited several examples such as budgeting the Reduced Fare Reimbursement at $17.5 million and reflecting the 1.5% sales tax surcharge and 5% PTF cut. She noted that the Service Boards have demonstrated an ability to respond with adjustments to their spending plans to maintain their required recovery ratios when ridership and revenue projections fall short.

Director Sager said that he was pleased with and would fully support the funding agreement, and he also expressed his appreciation for the efforts of the RTA staff and the Service Boards during the negotiations.

Director Lewis noted that the State capital program was great news but asked about the longer-term prospects for stable capital funding. Ms. Redden said that the RTA and Service Boards intended to play the long game by spending the currently allocated dollars quickly and efficiently. In turn, this would demonstrate proven results to the legislature and taxpayers and hopefully lead to future State bond programs which will fulfill ongoing funding needs.

Director Coulson made a motion to remove paragraph 9 from ordinance and be considered as a separate item. There was no second; therefore, the motion failed. No vote was taken.

Director Lewis then moved, and Director Holt seconded that the proposed ordinance as presented be recommended for Board approval. The motion carried on the following roll call vote:

7 Ayes: Groven, Holt, Kotel, Lewis, Melvin, Sager, Troiani
1 Nay: Coulson
1 Absent: Ross

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

8 Ayes: Coulson, Groven, Holt, Kotel, Lewis, Melvin, Sager, Troiani
1 Absent: Ross

The meeting ended at 10:05 a.m.

AUDREY MACLENNAN
Secretary of the Authority