

**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, May 21, 2009** at 10:30 a.m., in Suite 1550, 175 West Jackson Blvd., Chicago, Illinois, pursuant to notice.

Committee Chairman Dwight A. Magalis presided.

ROLL CALL

Committee Members:	James Buchanan Patrick J. Durante Al Jourdan Dwight A. Magalis Patrick V. Riley, Jr. Michael Rosenberg Michael Scott Judy Baar Topinka Douglas M. Troiani
Other Board Members:	Jan Carlson William R. Coulson Rev. L. Tyrone Crider, Sr. Phil Fuentes J.D. Ross Bishop Horace E. Smith, M.D. RTA Chairman Jim Reilly -----
Staff Participants:	Stephen Schlickman, Executive Director Joseph Costello, SDED, Finance & Administration Vida Morkunas, Mgr., Grants & Capital Programs

Reading and approval of minutes from the meeting held on April 2, 2009

Director Riley moved, and Director Troiani seconded approval of the minutes from the meeting held on April 2, 2009. The motion carried on the following roll call vote:

9 Ayes Directors Buchanan, Durante, Jourdan, Magalis, Riley, Rosenberg, Scott,
Topinka, Troiani

**APPROVED BY THE FINANCE COMMITTEE
JUNE 25, 2009**

Report on operating financial results for February 2009

Mr. Costello stated that the operating financial results through February are based on the budget adopted by ordinance 2008-83 in December.

The CTA's net results compare favorably to budget by \$12.9 million. Farebox revenue was \$4.3 million favorable to budget. The CTA increased fares in January 2009. Labor expenses were favorable to budget by \$1.5 million, and miscellaneous expenses were favorable by \$7.0 million. The proposed amendment to the CTA budget reflects deficit reduction actions totaling \$18 million.

Metra's favorable net results of \$12.1 million reflect favorable fuel and operations expenses of \$2.6 million and \$9.2 million, respectively. The proposed amendment to the Metra budget reflects cost savings of \$46 million.

Pace's net results were favorable to budget by \$5.9 million. Pace increased fares in January 2009. Fuel expenditures were \$2.9 million favorable. The proposed amendment to the Pace budget reflects deficit reduction actions totaling \$15 million.

The system-generated revenue recovery ratio for the region of 52.4% was 5.9 percentage points greater than budget and was 1.2 percentage points lower than prior year. The CTA's recovery ratio of 46.8% closely matched budget, while Metra's and Pace's recovery ratio was favorable to budget by 4.8 and 7.5 percentage points respectively.

ADA paratransit service net results of \$17.1 million were \$0.6 million or 3.8% unfavorable to budget, and the recovery ratio of 8.2% was 1.8 percentage points less than the budget of 10.0%.

Regional ridership of 99.0 million was 0.7 million or 0.7% greater than budget and 0.2 million or 0.2% greater than prior year. The CTA's ridership was 1.2 million greater than budget, while Pace's ridership was even with budget. Both Service Boards increased their base fares in 2009. Metra's ridership shows a decline of 0.6 million to budget and 0.7 million to prior year. However, Metra's prior year ridership reflects the stockpiling the 10-ride tickets in January 2008 prior to the fare increase effective February 1, 2008.

February year-to-date sales tax of \$128.7 million is 17% less than budget. State sales tax figures through April portend a decrease from prior year of 11% while the RTA 2009 budget reflects a 6% decrease. Each percent represents approximately \$9 million, so a 5% further decline would equate to a shortfall of approximately \$50 million in sales tax accompanied by a drop in PTF of \$15 million. Through April, the RTA real estate transfer tax totals \$6.3 million, which is \$3.7 million or 36.7% below budget. The RTA will continue to monitor closely monthly tax revenue results.

RTA Chairman Reilly reiterated his point that the RTA and the Service Boards need to do an evaluation of where we stand at the end of June and, if necessary, bring it back to the Board at the July meeting. We should either affirm that we are right on track at the July meeting, or do whatever we have to do to conform to reality, however grim that reality may be.

Finance Committee Chairman Magalis concurred with RTA Chairman Reilly. He added that if we are looking at a swing of \$45-\$50 million that we could be over-projected, we have got to come up with the money. June is not too early to start that because the Service Boards need time to readjust their budgets if that has to happen.

Ordinance amending the Service Boards' 2009-2011 budgets and financial plans

This item was deferred to a later date.

Ordinance amending the 2009-2013 Capital Marks and Program

Ms. Morkunas reported that with the adoption of the 2009 federal budget as signed by President Obama on March 11th, and the enactment of the American Recovery and Reinvestment Act of 2009, as signed by the President on February 17th, various changes have been made to the RTA federal marks.

The federal Section 5309 New Start marks increased by \$29.4 million. This includes \$5.9 million for the CTA's Circle Line, a reduction of \$304,774 for the CTA's Brown Line capacity expansion and \$23.8 million for four proposed Metra New Start projects: the STAR Line, Southeast Service, Union Pacific West Line and Union Pacific Northwest Line. The funds for the CTA's Circle Line and Metra's New Start projects are only for preliminary engineering and planning purposes.

In addition, small changes were made to the previous estimates for various federal programs, including flexible funds.

On April 8th, the Department of Homeland Security Federal Emergency Management Agency announced the final allocations for 2009 Preparedness Grants for 10 federal grant programs totaling nearly \$970 million of which, the Service Boards will receive \$24.9 million from the Transit Security Grant Program to protect critical transit infrastructure.

On April 3rd, 2009, Governor Pat Quinn signed House Bill 289 to jumpstart Illinois' economy and create thousands of jobs. This milestone legislation grants the State \$3 billion in bond authorization to make critical improvements to roads, bridges and mass transit. The Jump Start Capital Plan includes \$900 million for public transportation in Northeastern Illinois as follows: \$495.9 million for the CTA, \$290.7 million for Metra and \$113.4 million for Pace that includes \$45 million for ADA rolling stock and support equipment.

In order to balance their operating budget necessitated by public funding reductions related to the economic recession, the CTA has requested to transfer to operations \$128.5 million for preventive maintenance activities. RTA Ordinance 2007-48, as adopted on September 14, 2007, requires that federal capital funds shall not be used by a Service Board to fund operating expenses unless the RTA Board determines, based on adequate information supplied by the Service Board, that such use will not have a materially adverse impact on the state of repair of such Service Board's capital assets. Due to the fact that in 2009 the RTA region is receiving \$412.2 million in economic recovery funds and \$900 million in new state funds, the RTA staff is able to recommend this transfer. This request by the CTA is consistent with their operating budget as adopted by their Board on May 13th. This action will be incorporated in a future amendment to the RTA's operating budget.

The RTA had previously assumed a new \$3 billion capital program over the years 2010-2014. Since the state has already appropriated \$900 million for grants to the RTA in its fiscal year 2009, the RTA is redistributing the balance of the \$3 billion in the multi-year marks that occurs in 2010-2013. These 2010-2013 allocations are for planning purposes and not a commitment for the future distribution. The distribution is subject to change based on the implementation of a new capital program development process.

Regarding the capital program, none of the Service Boards have finalized their project lists to utilize the new state funds. The RTA expects to amend the Capital Program in June. At this time, the CTA is requesting to add projects and make various budget revisions and funding changes. Using Economic Stimulus funds, the CTA is requesting to increase funding for bus procurements by \$50 million to purchase an additional 58 hybrid articulated buses. The CTA is also requesting to use these funds to add funding of \$81.5 million to repair track in the Dearborn Subway of the Blue Line, \$19.9 million to improve facilities systemwide and \$12.5 million to reconstruct rail stations.

Similarly, Metra is requesting to add new projects and make various budget revisions and funding changes. Using Economic Stimulus funds, Metra is proposing to rebuild 40 locomotives for \$71 million, replace bridges on the Union Pacific North Line for \$40 million and construct or rehabilitate rail stations and parking for \$18 million.

Consistent with the revised federal marks, Pace is requesting to make various budget revisions to their 2009-2013 Capital Program. These revisions include using Economic Stimulus funds to purchase 58 fixed route accessible buses for \$18 million and 190 paratransit vehicles for \$13.2 million.

In conclusion, the 2009 RTA Capital Program increased by \$345.3 million to \$831.1 million.

Director Scott asked for confirmation that the proposed action does not suggest firm decisions in relationship to how 5307 funds are spent on a permanent basis. Mr. Schlickman responded that the action relates to 5307 funds that might relate to ADA apply to 2010 here, not 2009. This is 2009 action.

Director Coulson commented that it is obvious we are living on borrowed money. We are borrowing from capital; we are borrowing from 2009 for 2008; we are borrowing from banks. We are being asked to make a finding that this transfer of \$128 million of federal capital funds for the CTA will not have a materially adverse impact on the state of repair of the CTA's capital assets. He then asked what the factual basis was for asking the Board to make this finding, especially in light of all the other borrowing we have done. Mr. Costello replied that the finding being recommended is because the funds that are being shifted out of the capital program for operations represent money that we had not anticipated previously, that we are not taking from projects that were in the capital program previously. In that respect, we are not having an adverse impact. This is new federal money. Mr. Schlickman added that he likens the stimulus to found money. We did not start this year expecting that we would get that money, and it has given some flexibility to the CTA to address a very serious financial problem without impinging on their capital program.

Director Riley moved, and Director Rosenberg seconded recommending the proposed ordinance to the full Board for approval. The motion carried on the following roll call vote:

9 Ayes Directors Buchanan, Durante, Jourdan, Magalis, Riley, Rosenberg, Scott, Topinka,
and Troiani

Ordinance approving working cash borrowing

Mr. Costello explained that the action being requested would authorize the RTA to issue up to \$260 million in working cash notes, as permitted by Section 4.04 of the RTA Act. This amount addresses three conditions: 1) timing lag in funding for ADA paratransit service, 2) lower-than-estimated 2009 funding for Service Board operations, and 3) intermittent delays in funding from the State.

The RTA funding and reform legislation (Public Act 95-0708) required the RTA to establish an initial \$100 million fund for ADA paratransit service. However, there is a three-month lag from the time taxes are paid and when the RTA receives the funds. Consequently, we need to bridge this mismatch in timing through the use of a working cash borrowing. In 2007, the RTA borrowed \$40 million to provide funding for this service in advance of receiving public funding, and has found there remains an ongoing cash flow borrowing need.

While the tax revenues for 2009 show an increase over 2008 reflecting the tax increases authorized by the new legislation, the severe decline in the economy beginning at the end of 2008 have resulted in tax revenues projections which are significantly short of previous estimates. A portion of the proceeds of the working cash notes addresses the lowered 2009 funding estimate for the CTA, with \$56.1 million of the borrowing loaned to the CTA to mitigate the impact of the lower funding estimates for 2009.

The economic downturn has had an impact on the State financial condition as well. The remaining portion of the proceeds from the proposed working cash notes addresses the occasional need for the RTA to have funds for the Service Boards' operations during a time when the State has not remitted Public Transportation Funds, Additional State Assistance, or Additional Financial Assistance. In recent months the State has fallen as much as six months in arrears, which at 2009 funding levels would amount to \$150 million. The bulk of this money provides operating funding to the CTA, Metra and Pace. The RTA has authority to issue and have outstanding up to \$400 million in working cash notes before July 1, 2009. On July 1, 2009, this authority drops to \$100 million.

The funding described above for ADA paratransit service and CTA operations take the form of a loan to Pace and CTA, respectively. Note that the RTA's ability to do such a borrowing is prescribed by statute, the RTA Act requires that these funds be a loan. The CTA and Pace will repay these loans as tax revenues and other funding sources improve. The use of working cash note proceeds to address state funding delinquency will use the subsequent receipt of such funding as the source of repayment. As the RTA's authority to borrow for working cash needs is limited to \$100 million from July 1, 2009, care must be taken to have any use of working cash notes beyond \$100 million, restricted to address state delinquency. The proposed ordinance establishes this as a requirement.

Finance Committee Chairman Magalis commented this is another example where, in order to just be able to continue to operate, we have to advance funds to the Service Boards until they get the state funding. This will also provide the funding that we would provide to CTA, at a level to be decided, and possibly to paratransit, to cover the overage. He then pointed out that we have to take this action at the May Board meeting due to the fact that it goes to \$100 million in July, or we wouldn't be eligible to do this.

Director Jourdan moved, and Director Scott seconded recommending the proposed ordinance to the full Board for approval. The motion carried on the following roll call vote:

9 Ayes Directors Buchanan, Durante, Jourdan, Magalis, Riley, Rosenberg, Scott, Topinka,
and Troiani

Ordinance amending and restating 2005B Series Ordinance adopted April 7, 2005

Mr. Costello explained that in 2005, the RTA issued \$148 million in variable rate bonds. The proceeds of those bonds refunded outstanding RTA bonds. This represented the completion of a transaction initiated in December 2002 to lower interest costs relating to bonds issued in 1996.

The variable interest rate paid by the RTA on the 2005B bonds has increased significantly since October 2008. The mechanism by which the interest rate on the 2005B bonds varies is a weekly reset. Each week, the current holders of the bonds have the opportunity to tender their holdings back to the RTA. The RTA has contracted with a liquidity provider – a highly rated bank that will provide the funds necessary to pay bondholders that no longer want to have the bonds – and so afford potential bondholders the confidence that they will receive payment if they want to tender the bonds.

The RTA employs a remarketing agent to find other parties interested in purchasing the bonds. If the agent cannot find interested parties, the liquidity provider will keep the bonds. Through a competitive process the RTA selected Depfa Bank as liquidity provider. Depfa had a top rating and submitted the lowest cost bid. Last October, Depfa's rating was lowered due to concerns that it no longer had access to the capital necessary to provide liquidity. This caused a loss of confidence in the bondholder community and resulted in all the RTA bonds being tendered – with no success in remarketing. In such a circumstance, the RTA paid an interest rate of 9% – significantly higher than the 1.85% average rate paid previously. In recent months, the bonds have been remarketed, but still at a relatively high rate ranging from 5.25% to 7.5%.

The RTA contacted a number of financial institutions regarding replacing Depfa as liquidity provider. The costs quoted by those financial institutions interested in providing liquidity were significantly higher than the approach authorized by the proposed ordinance.

This approach is to restructure the 2005 Bonds as Extendible Reset Securities or ERS. The key feature of ERS is that the RTA has the right to extend the mandatory tender by 12 months in the event the bonds cannot be remarketed. This is instead of the bondholders having the right to tender the bonds weekly – in which case there needs to be a liquidity provider to provide the necessary funds. The proposed structure removes Depfa Bank as liquidity provider.

The extendible feature gives the RTA 12 months to find new bondholders or otherwise obtain the funds necessary to repurchase the bonds. In the Indenture of Trust, the RTA covenants to make commercially reasonable efforts commencing not later than 90 days prior to the expiration of any extension period to refund the bonds, establish a liquidity facility, or otherwise establish a structure that allows the bondholders to tender their bonds. The potential bondholders – primarily money market funds – would look to the strong RTA rating and the 12-month time period for the RTA to access the financial markets.

Initially, the bonds will operate as they currently do – but with a monthly, rather than weekly – interest rate reset. The expected interest rates will be within 10 to 15 basis points of that seen for weekly variable rate bonds with strong liquidity providers. At today's rates, that would be a rate of about 0.6%.

Morgan Stanley, the financial institution that developed this structure, will act as remarketing agent. Again, if the bonds cannot be remarketed, the RTA has the right to extend the bondholders' right to tender by 12 months. Morgan Stanley would continue to make efforts to remarket the bonds during this time.

Under the proposed structure, the RTA assumes the risk of finding – through its remarketing agent – new bondholders, or otherwise securing the funds necessary to repurchase the bonds, in the event the bonds cannot be remarketed. Again, the key feature of ERS is that the RTA has the right to extend the mandatory tender by 12 months in such circumstances. Please understand that the interest rate during the extended period is higher, and if the RTA's rating goes down, that extended rate could end up being back up to the 9% we saw when Depfa was downgraded. We would be back in the situation of looking for an economical way to refinance at the end of the extended rate period.

Interest paid on these bonds should be lower than the RTA is currently paying, resulting in a savings of more than \$6 million annually, declining over time as the bonds mature.

Finance Committee Chairman Magalis asked if at the end of the 12 months as well as during, we have a right to try to resell them. If we don't resell them, we need to come up with a means of recovering that cost. Mr. Costello indicated this was correct. He then commented that there is a trade-off between risk and reward. If we assume that risk, our reward is a much lower interest rate. If we don't want to assume that risk, we would need to keep the current structure and find a liquidity provider, which would cost us about \$6 million more per year.

Director Rosenberg commented that for financial reporting purposes, we are taking on a risk that we didn't have before. When our auditors come in and look at our balance sheet, this new liability is going to pop up as a potential for X amount of money. And if we have to do the 12-month extension, we can't remarket. We have that time bomb lying out there. Is there any sense as to what impact that would have, if any, on our rating. Mr. Costello explained that we have been talking to the rating agencies, as have our financial team, including Morgan Stanley, explaining the structure. In discussions to date, we believe that the rating agencies are comfortable that the RTA's strong rating would remain.

Director Scott moved, and Director Troiani seconded recommending the proposed ordinance to the full Board for approval. The motion carried on the following roll call vote:

9 Ayes Directors Buchanan, Durante, Jourdan, Magalis, Riley, Rosenberg, Scott, Topinka,
and Troiani

Discussion on Capital Planning and Programming

This item was deferred to a later date.

ADJOURNMENT

There being no further business to come before the meeting of the Finance Committee, Director Riley moved, and Director Topinka seconded that the meeting adjourn. The motion carried by the following voice vote.

9 Ayes Directors Buchanan, Durante, Jourdan, Magalis, Riley, Rosenberg, Scott, Troiani,
and Topinka

The meeting adjourned at 11:05 a.m.

Audrey MacLennan

AUDREY MACLENNAN
Secretary of the Authority