

**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, June 19, 2008** at 10:35 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. Tyrone Crider, Sr. Phil Fuentes J.D. Ross RTA Chairman Jim Reilly -----
Staff Participants:	Stephen Schlickman, Executive Director Joseph Costello, SDED, Finance & Administration Vida Morkunas, Manager, Grants Management

Reading and approval of minutes from the meeting held on May 15, 2008

Director Scott moved, and Director Riley seconded approval of the minutes from the meeting held on May 15, 2008. The motion carried on the following roll call vote:

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

**APPROVED BY THE FINANCE COMMITTEE
JULY 17, 2007**

Ordinance amending the 2008-2012 Capital Marks and Program

Ms. Morkunas began by explaining that the proposed amendment included two actions: revisions to the Capital Marks to reflect federal and local funding source changes, and adjustments to the CTA and Pace Capital Programs to conform to the revised marks.

On April 29, 2008, the U.S. DOT announced its designation of the City of Chicago as a Congestion Reduction Demonstration (CRD) Partner. The City of Chicago and the CTA have committed to implement an integrated program to reduce traffic congestion. \$6 million of CRD funding was added to the RTA Capital Marks in this amendment. Regarding the local funding marks, Pace requested to add \$689,000 of Service Board funds from a positive budget variance to provide the local match for prior years' federal capital grants. These funds replaced monies originally awarded by IDOT that were allowed to lapse. Simultaneously, Pace requested to reallocate \$2.8 million of the Section 5307 federal funds from various completed projects matched with previously mentioned IDOT funds.

To conform to the revised marks, a project to initiate engineering for dedicated Bus Rapid Transit (BRT) service in four corridors in the City of Chicago was added to the RTA Capital Program. BRT service is proposed to operate on Jeffery Boulevard between 67th and 87th streets, Chicago Avenue between California Avenue and Fairbanks Court, Halsted Street between North Avenue and Lake Streets and 79th Street between Ashland Avenue and State Street. In addition, future funding to purchase hybrid articulated buses will be used to provide service on these BRT routes.

Ms. Morkunas then introduced Mr. Paul Fish, VP of Capital Investment, and Mr. Jeff Ahmadian, Deputy General Counsel and BRT Project Manager, from the CTA who provided details regarding the BRT project.

Mr. Schlickman complimented the CTA and the city for taking this initiative, particularly in the Bus Rapid Transit area. BRT is becoming a very popular way to address high capacity transit demand throughout the country. Bus trips or lines are evolving into the style of transit that's very similar to rail. To the extent that we can introduce it in Chicago and show people that it can work, we can build on it and hopefully, convince people that this lower cost capital investment may be the best way to go when trying to address similar demand within the Chicago area. We are joined by IDOT, the Tollway, and Pace in a concentrated way, to look at evaluating how BRT can be used on our expressway system throughout the suburbs.

Ms. Morkunas then stated that similarly, Pace requested to increase the scope of projects in their 2008 Capital Program to add the purchase of two 30-foot buses, 15 paratransit vehicles, computers and software, and associated capital (major bus components and parts such as engines, transmissions and power packs).

She concluded her remarks by stating that the 2008 RTA Capital Program increased by \$9.5 million to \$793.6 million.

Resolutions certifying substantial operating budget compliance for each Service Board and the Region for the First Quarter 2008

Mr. Costello reported on the quarterly financial results for each Service Board and the region for the first quarter of 2008. He began by explaining that the combined net results of the Service Boards (excluding ADA paratransit services) of \$277.5 million were unfavorable to budget by \$0.8 million. Metra and Pace had favorable results in a combined amount of \$2.9 million, while the CTA was unfavorable by \$3.7 million. Combined revenues were up by \$5.2 million, while expenses were \$5.9 million unfavorable to budget.

The system-generated revenue recovery ratio for the region (excluding ADA paratransit services) of 52.1% closed 1.2 points higher than budget. Metra and Pace posted favorable results, while the CTA was within 0.3 points of its budget.

Beginning in 2008, the RTA Act as amended, provides a regional cost exclusion of \$200 million (\$50 million quarterly), which decreases annually by \$40 million over five years giving the Service Boards time to constrain costs and increase revenues to bring the regional recovery ratio to a 50% recovery ratio. Without this cost exclusion of \$50 million, the recovery ratio in the first quarter would be 46.8%. (To achieve the minimum 50% ratio would require \$33.3 million of costs to be excluded in the first quarter.) Compared to last year, the system-generated revenue recovery ratio was 4.7 points higher.

Through March, the CTA's revenues of \$129.3 million were \$2.4 million favorable to budget. Farebox revenue was \$4.5 million or 4.2% higher primarily due to higher average fare and higher ridership. Higher ridership is primarily due to one additional weekday in 2008 (leap year) compared to 2007, and the results of some service enhancements made on the west side of Chicago. Operating expenses were unfavorable to budget by \$6.1 million. Favorable power, security, and all other expenses were not able to offset higher labor and fuel expenses.

Metra's revenues were favorable to budget by \$2.7 million. Farebox revenues exceeded budget by \$3.2 million as a result of customers stockpiling 10-ride tickets in advance of the February 1st fare increase. Through March 10-ride ticket sales were up by 16.4%. Expenses were unfavorable by \$2.2 million primarily due to higher than budgeted maintenance and fuel costs.

Pace's revenues for suburban services of \$12.6 million closely matched budget. Expenses of \$41.3 million were favorable to budget by \$2.4 million. Operations, insurance & claims, and administration expenditures are favorable to budget.

Pace ADA Paratransit service revenues of \$1.7 million were \$400,000 or 17.1% below budget due to lower average fare. Expenses of \$21.9 million were favorable to budget by \$1.6 million due mainly to lower operations and administration expenditures. Net results were \$1.2 million favorable to budget. The recovery ratio of 7.9 points was unfavorable to budget and falls short of the 10% requirement of the RTA Act.

As the 10% recovery ratio for regional ADA paratransit represents a clear minimum established by the RTA Act, staff recommends the RTA Board find that ADA paratransit service is not in compliance with budget at this time. However, there is the expectation of the passage of pending legislation, which will allow the RTA Board to exempt a portion of the costs incurred in paying ADA contractors for their capital costs from the farebox recovery ratio formula, therefore providing exclusion sufficient to meet a

10% recovery ratio for the year. The RTA will continue to work cooperatively with Pace to identify and implement actions to meet the requirements of the RTA Act, which may include RTA Board action to exempt costs as allowed by legislation.

Through March, region-wide ridership, excluding Pace ADA Paratransit services, of 150.1 million was 2.3 million or 1.6% higher than budget. All Service Boards posted favorable results. The CTA, Metra and Pace are ahead of last year's figure by 1.8%, 5.7% and 0.4% respectively. These ridership gains have driven farebox revenues to a total that is \$7.8 million greater than budget. Please note that Metra's ridership, however, is somewhat overstated due to stockpiling ten-ride tickets prior to the February fare increase. Metra's ridership is calculated based on ticket sales. There is some good news in that the revenue gains from increased ridership have more than offset rising fuel costs, which are \$5.5 million over budget. CTA (\$3.2 million), Metra (\$2.0 million), and Pace (\$0.3 million).

March sales tax of \$61.6 million was \$4.4 million or 7.8% higher than budget and \$0.4 million or 0.6% lower than last year's result. Sales tax receipts through the first quarter of \$170.9 million were \$1.8 million (1.0%) unfavorable to budget and \$0.3 million, or 0.2% higher than prior year.

Director Scott asked when the Service Boards don't meet budget expectations, is it just reported and we operate at a deficit for the period. Mr. Costello explained that the finding of compliance is a judgment of the RTA Board. We are recommending that the RTA Board exercise its judgment to find ADA not in compliance; however, with the expectation that the legislation will pass or take other actions necessary, we would believe that for the year, Pace will be in compliance with the budget. For main line service, when a Service Board is unfavorable to its budget for a particular quarter, we will have discussions with the Service Board and have an understanding of what actions they are going to take in order to get to compliance by the full year.

Director Scott then asked if there were any accelerated depreciation advantages for the system based on the additional ridership from a tax perspective on the equipment from an accounting standpoint. Mr. Costello replied that in our recovery ratio, we exclude both capital costs, as well as depreciation, so it doesn't have any benefit to our recovery ratio.

Committee Chairman Magalis requested leave of the Committee to take all four resolutions in one vote. The Committee granted leave by voice vote. Director Scott moved, and Director Rosenberg seconded the recommendation of the proposed resolutions to the full Board for approval. The motion carried on the following leave for last unanimous roll call vote.

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

Ordinance providing RTA approval under Section 12c of the CTA Act

Mr. Costello explained that the recent reform legislation amended the RTA Act, but it also amended the MTA Act, which governs the CTA, specifically Section 12c, and it amended it to require approval by the RTA of any pledge of funding from the RTA. He explained that in 2006, Public Act 94-839 required that the CTA separate its pension and retiree healthcare programs into two distinct trusts and get those plans up to 90% funded by the year 2059. More recent legislation authorized the CTA to issue bonds to put

into each of these trusts. It required a deposit of no less than \$1,110,500,000 to be deposited into the retirement plan. We estimate this will bring up the retirement plan to a ratio of about 80% funded from roughly 40% funded today. That same legislation required a deposit of no less than \$528,800,000 into the retiree health care trust. The reform legislation had a number of requirements. One requirement is that the retiree health care trust must make a determination that the earnings on the deposit plus the contributions from retirees, dependents and survivors, as well as contributions from the employees will be sufficient to adequately fund the projected benefits. On the pension side, the reform legislation requires that the CTA bring in an independent advisor and that the independent advisor prepare a financial analysis that determines that the issuance of bonds results in lower costs than not issuing the bonds for the pension plan.

The reform legislation then required these two determinations, as well as some other determinations be submitted to the Auditor General, who must certify compliance before the bonds can be issued. The Auditor General found that all aspects of the bond issue comply with the law and that the structure and the assumptions were reasonable. We find that the funding provided by the CTA issuance of the bonds represents a key component of the resources and reforms needed to stabilize the long-term financial health of the CTA pension and retiree healthcare systems.

Mr. Dennis Anosike, CFO at the CTA commented that the CTA is extremely supportive of the ordinance. This is the culmination of hard work both on the CTA's part, as well as the RTA in getting the legislation approved and in trying to get the pension funds better funded. Fundamentally, this is by far the major reform of both the pension and healthcare. That part includes both contributions by retirees, as well as healthcare contributions by employees for the first time. So overall, we believe that it is the right direction.

RTA Chairman Reilly commented that when he first came to the RTA, we had the situation that had been allowed to develop over time where the CTA pension fund, which also paid for retiree healthcare, had been allowed to get into significant trouble in terms of funding. So we worked closely with the CTA. To their credit, both on the management side, particularly after Ron Huberman came on board, and the union people, agreed to include in the legislation significant increases in the contributions both from management and from labor to the point where, for the first two years of this contract, the actual take-home pay of CTA employees will go down a little bit for a good reason. This is because it will go into their pension and healthcare. This employee contribution would have stabilized the fund, but without the addition of the bond component, the fund might have gone from 42% to 45%. Then there was an issue raised by many from outside of the city in the RTA region of why should they pay for CTA pension problems. Mayor Daley and the city stepped forward and agreed to include the real estate transfer tax increase that was passed by the city and included in the bill that became law. RTA Chairman Reilly concluded his remarks by stressing these are funds the CTA, to the extent RTA funds are involved, would receive anyway. Given that our actuaries have looked at this and said it's a reasonable deal, putting our seal of approval on this is critical, but also a very good thing to do.

Director Coulson asked what the debt service is going to be on \$2 billion worth of bonds each year for the 30 years. Mr. Anosike responded that the current market projection is that the annual debt service will be approximately \$130 million a year. Mr. Coulson followed by asking what the estimates are with the real estate transfer tax. Mr. Anosike replied that as the economy provides and the real estate market improves, we expect that there will be a rebound in that. And to that extent, we expect that Chairman Reilly will be correct in terms of those aspects of the revenues being sufficient to meet those debt obligations as we go forward.

Director Coulson then asked if under the CTA's estimate of \$60 million from the transfer tax will go into the fund. Mr. Anosike replied this was correct for 2008. Director Coulson then pointed out that we need \$70 million from what otherwise would be the CTA's operating fund. Mr. Costello then added that the sales tax component is over \$600 million. So in terms of coverage, the funding coming into the CTA is about five times the amount that's needed for debt service, which is a very strong coverage ratio and has garnered the CTA bond issue a AA+ from S&P. Director Coulson commented that the trade-off is the CTA is out of the healthcare and pension business. Mr. Anosike stated this was correct. He pointed out that as Chairman Reilly indicated, the CTA previously had paid for retiree healthcare costs from the pension fund. But with this legislation, the CTA will no longer be responsible for retiree healthcare costs. The plan contains that it will be coming from both the current employee contributions, as well as retirees' contributions, which will be one of those benchmarks. RTA Chairman Reilly pointed out that the CTA will still be in the pension business, they are just not in the retiree healthcare business. The contributions go down. The analysis that was made by an independent financial advisor that we looked at without a bond deal would have to go into pension and healthcare were roughly \$188 million, and it's reduced by about \$20 million with this bond deal. Director Coulson asked who buys these bonds. Mr. Anosike answered that most of the pension obligation bonds are sold internationally. But the primary buyers are institutions.

RTA Chairman Reilly commented that one really critical point is that there's a real hammer here which is not present in any other pension system that he was aware of, including the state. The state has required contributions too, but nothing happens if they don't meet those. In this case each year, the Auditor General will do a review of both the pension fund and the retiree healthcare. If he says that the contributions are not enough to keep the fund on pace, then the CTA must, by law, and the employees must, by law, increase their contributions. That's a remarkably tough provision. Committee Chairman Magalis added that they also have to set up a separate trust and a separate board. He then thanked Chairman Reilly for the work that he did with the CTA in bringing about the reform, because there were a lot of meetings and one of the concerns that he mentioned definitely was coming from the suburban counties, that they didn't want to be forced to make up that bailout. That was a big way of getting the legislation that is on the table passed, by assuring them that it was being paid for by Chicago.

Director Troiani moved, and Director Scott seconded the recommendation of the proposed ordinance to the full Board for approval. The motion carried on the following leave for last unanimous roll call vote.

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

Ordinance authorizing a contract for a Capital Asset Condition Assessment

Ms. Gallucci explained that the first comprehensive inventory of capital assets and an age-based estimate of capital renewal requirements was completed in 1987 and updated in 1995. The OAG report recommended that the RTA prepare and adopt a ten-year financial plan reflecting the Service Boards capital replacement and rehabilitation plans, based on asset replacement standards. The report also recommended the RTA adopt a financial planning standard that requires a Service Board to demonstrate the financial capability to achieve a state of good repair for existing assets, prior to expanding services or facilities. Furthermore, key reforms of new RTA legislation require the RTA to prepare a strategic plan that includes a Capital Asset Condition Assessment and a 10-Year Financial Analysis, and the synthesis of these items to provide the basis for a more comprehensive capital development process budget evaluation.

The objectives or outcomes for the capital asset condition assessment are to set a baseline for the capital evaluation process and lay a foundation for achieving a state of good repair for the RTA transit system. The goal or output of the project is to estimate the total capital needs for each of the Service Boards based on a complete assessment of the current asset inventory and the age and condition of those assets. This project will determine the replacement, rehabilitation, and capital maintenance of all Service Board assets, and thus will need Service Board participation for data collection and access to Service Board facilities.

The scope of work for the proposed contract includes these primary elements: Information Technology Process: database design, data entry, and reporting; Create an Inventory: inventory of all assets; Create Asset Condition Tables: development of a condition rating matrix that defines levels of deterioration of the assets; and a 10-Year Needs Assessment Report: evaluation of each asset for a 10-year needs assessment based on rehabilitation, replacement or capital maintenance.

Due to the size, complexity, and various areas of specific expertise required for this project, professional services are needed. Therefore, the RTA issued a Request for Proposals for these services. An evaluation committee consisting of RTA staff evaluated URS Corporation's proposal based on a set of criteria that included the quality of the technical approach, quality of the management plan, qualifications and experience of the firm and key individuals designated for the review, and cost. Based on negotiations on level-of-effort and cost, URS Corporation is recommended by staff to provide the RTA with a Capital Asset Condition Assessment for an estimated cost of \$1,231,964. It is anticipated that the project will be completed within a year of contract execution. The URS Corporation team includes two firms that are certified disadvantaged business enterprises (DBEs). These firms are Kristine Fallon Associates, Inc, and Raul V. Bravo & Associates. At 20%, subcontracts with these two firms exceeds the DBE goal established for this contract.

Committee Chairman Magalis clarified that as far as the ongoing operation of this system to be maintained and updated, as part of the technology that's being developed, we'd have a process for keeping it up-to-date. Ms. Gallucci replied this was correct and that the asset tables that would be developed are such that we would be expected to maintain them annually for ten years and then, of course, try and redo it in ten years.

Director Ross asked if we are paying for the expertise of this company, why are we doing database design. Isn't that what we are purchasing from them. Ms. Gallucci explained that the majority of what we are purchasing from them is engineering expertise. They have assembled a team, which includes URS, as well as several subcontractors to actually review the inventory of the Service Boards and then provide a condition assessment rating. They are purchasing the information system design database in order to prepare the system Director Magalis referred to where they'd be able to store all of the data, organize it and then have us update it on a continual basis. Director Ross followed by asking if the condition rating matrix benchmarks against other systems. Ms. Gallucci responded that we have not defined entirely what that will look like. We have, however, expressed interest, and URS has made some proposals as to what it would look like. Not so much benchmarking against our peers or other transit systems, but rather benchmarking the asset or grading the asset based on the life of the asset and the remaining useful life, including if any overhauls or maintenance of the system have been done. It really will be measuring the asset for its own life.

Director Rosenberg asked if we have engaged people at the Service Boards who deal with these assets on a daily basis to get any input from them as to what we explain to the folks who answered the RFP. Ms. Gallucci answered that we have a task force, the Capital Oversight Development Task Force, and we have spoken about this at a very high level. The Service Boards were not involved in the selection of the vendor. They will, however, be involved from day one upon execution of the contract where we would meet with the Service Boards and the vendors to discuss the time line and the expectations, as well as to work out some details in relationship to the database design and/or the rating assessment. She added that Steve Schlickman has talked individually to the executive directors about the project and about their expected coordination and participation with us. Director Rosenberg commented that he was not suggesting that we ask the Service Boards to be engaged with us in making the selection of the contractor, but whether we asked the Service Boards what criteria of the matrix, the scope and the things of that nature ought to be included in the RFP up front, before we went out to solicit the responses. Ms. Gallucci responded that we developed the RFP based on what had been done at the RTA with the last two. We developed an RFP and sent a draft to the Service Boards for their comment in advance.

Director Troiani moved, and Director Riley seconded the recommendation of the proposed ordinance to the full Board for approval. The motion carried on the following leave for last unanimous roll call vote.

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

ADJOURNMENT

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

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

The meeting adjourned at 11:30 a.m.

Audrey MacLennan

AUDREY MACLENNAN
Secretary of the Authority