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 30, 2016 at 9:05 a.m., in Suite 1650, 175 West Jackson Blvd., Chicago, Illinois, pursuant to notice.

Committee Chairman Magalis presided.

ROLL CALL

Committee members present (4): Coulson, DeWitte, Lewis, Melvin, and Magalis
Committee members absent (3): Anderson, Buchanan, and Troiani
Other Board members present: Frega, Fuentes, Hobson, and Chairman Dillard

Presentations and discussion of 2017 budgets with the CTA, Metra and Pace

Ms. Bea Reyna-Hickey provided opening remarks about the budget process and introduced the CEOs and CFOs of each Service Board. Below is a summary of the presentations and the Q&A portion of the meeting as recorded by members of the RTA Finance department budget staff.

Pace Budget and Capital Program

Pace Deputy Executive Director Terry Brannon stated that 2017 Suburban Service ridership is expected to grow by 3.9%, due entirely to service expansion. Pace's 2017 Suburban Service budget reflects $2.6 million operating revenue growth over 2016, with $1.3 million of the increase due to higher State Reduced Fare Reimbursement than 2016, and another $1.3 million of fare revenue from the new services. Expenses are projected to grow by 6.1% over 2016, with 4% due to service expansions and the remaining 2% split equally between fuel growth and ongoing Oracle upgrades. For ADA Paratransit, expenses are projected to increase by 7.3%, driven by 3.4% ridership growth, 2.7% contractual price increases, and higher fuel expense. Pace's 2017 capital program totals $61.0 million, with 83% of the expenditures programmed for rolling stock.

Director Magalis asked for a summary of the Pace public budget hearings. Mr. Brannon said that public attendance was minimal due to stable fares and no service reductions. Most of the public testimony supported the budget. Mr. Brannon said that in addition to the 13 public budget hearings, Pace conducts an outreach campaign including 50 to 60 other meetings with various organizations and units of government.

Director Magalis asked if the proposed Pace headcount increase of 118 was entirely due to Pace's service expansion. Mr. Brannon responded that about 90% of the headcount increase was related to the new services. The remaining 12 positions are administrative, with some required due to new DBE/EEO requirements.

Director Magalis noted that Pace's close-in fuel purchasing strategy has been very successful and asked if Pace would ever see the need to lock in fuel farther in advance. Mr. Brannon cited independent studies that suggest many transit agencies overpay for fuel. Terry stated that Pace's philosophy has been float-to-market so as to not overpay. Mr. Brannon estimated that this strategy has resulted in savings of $49 million since 2002. Any savings relative to budget will drop to positive budget variance which could be viewed as a reserve in any future rising fuel price environment.

Director Lewis noted that Pace has some routes in more sparsely populated areas of the region, and asked how Pace determines which routes do or do not make sense. Mr. Brannon said that Pace has minimum performance standards for four different route categories. If a route is not meeting those standards, it is monitored and potentially discontinued.

Director Lewis asked if Pace was being impacted by ridesharing services like Uber and Lyft. Mr. Brannon said that Pace suspects those services are hurting Pace ridership, but Pace does not have any hard data to quantify the impact.

Director Lewis asked if Pace surveys non-users in order to understand why they don't ride. Mr. Brannon said that Pace's marketing department does periodically survey users and non-users to determine the best marketing strategy.

Director Hobson asked if each of the Service Boards develops their budgets using the same underlying assumptions, other than fuel price. Ms. Reyna-Hickey responded that the Service Boards use the same assumptions for funding because they are required to adhere to the adopted funding amounts. Fuel price is the only major assumption which differs across the Service Boards because they each have different fuel types and purchasing strategies.

Director Hobson noted that the regional recovery ratio has steadily declined from 56% in 2012 to 50.2% in the 2017 budget. He asked if we have a contingency plan in place since there is no cushion above the 50% requirement. Ms. Reyna-Hickey noted that a small recovery ratio increase had been negotiated at the time of the funding amounts in order to remain above 50%. She acknowledged that the recovery ratio will be tight, but said that the Service Boards have controlled expenses well, which should keep us above 50%.

Director Hobson asked for an action plan at the December Board meeting to protect the recovery ratio for 2017 and increase the recovery ratio for the 2018-2019 timeframe to rebuild some cushion above 50%. Ms. Reyna-Hickey agreed to discuss this with the Service Boards.

Director Hobson expressed skepticism of Pace's 3.9% ridership growth assumption for 2017 and noted that Pace had made a similar assumption for 2016, which he had also questioned, and that ridership had actually declined in 2016. He asked if the new services could be broken out to show what the existing base ridership assumption looks like. Terry responded that Pace's base ridership on existing services is assumed to decrease by 0.2% in 2017, and thus all of the projected ridership growth is attributable to the new routes and frequencies being added. Mr. Brannon defended the stability in base ridership by noting that two major fare events, the mid-2014 discontinuation of cash transfers and the January 2016 cash fare increase of 25 cents, are behind Pace now, and that customers have probably fully adjusted to those changes.

Director Hobson followed up by saying that any ridership shortfall could lead to a recovery ratio problem, and he wants to have a contingency plan. Mr. Brannon said that Pace will monitor ridership results early in the year and that all of the Service Boards would need to react with contingencies to protect the budget.

Director Magalis and Ms. Reyna-Hickey both interjected that the quarterly certification of financial results is the mechanism, which identifies and addresses any emerging recovery ratio problem. Director Magalis then asked about the impact that loss of State reimbursements could have on Pace's 2017 budgets. Mr. Brannon said that Suburban Service would take a $2.6 million hit to operating revenue if the State reduced fare reimbursement were discontinued, and this in turn would decrease Pace's recovery ratio because that funding is counted as operating revenue. If State ADA Paratransit funding of $8.5 million were lost, the ADA reserve fund would help in the short term.

Director Magalis pointed out that while Pace is responsible for the integrity of the Suburban Service budget, the RTA Board is required by state law to fully fund the ADA Paratransit budget and react to any potential reduction in the critical $8.5 million of funding provided by the State. Mr. Brannon said that Pace would continue to keep the RTA staff abreast of any developments that could require a funding adjustment for ADA Paratransit.

Chairman Dillard noted that ADA Paratransit service is mandated by federal law, but not funded by the federal government. He asked Pace to keep the lines of communications open with other agencies to ensure all potential funding sources are being utilized, such as Medicaid. Mr. Brannon replied that Pace is already receiving about $1.5 million a year in Medicaid reimbursements for eligible ADA Paratransit trips. Although the process is archaic and the funding comes in irregularly, it has been a successful funding initiative.

Chairman Dillard observed that the new I-90 services and Milwaukee Avenue ART require significant financial resources and asked if any other services have been scaled back in order to lessen the budget impact. Mr. Brannon replied that the I-90 services are funded by CMAQ grants for two years, and thus the budget impact won't be fully felt until the grants expire in 2019.

Chairman Dillard asked each of the Service Boards to come up with a comprehensive list of projects that have not been accomplished due to the lack of a state capital program. He emphasized that this would help legislators understand the urgency of the need for capital funding. Ms. Reyna-Hickey said that a Project Management Oversight (PMO) presentation will be given at the December Board meeting. This will cover active projects and projects suspended due to lack of state capital. A new section on desired projects has been added to this year's briefing.

Director Melvin asked why ADA Paratransit ridership growth in the City of Chicago service area has fallen short of expectations. Mr. Brannon responded that Pace believes that budget cuts at social services agencies have crimped demand for ADA Paratransit in the City.

Director Lewis asked about MBE/DBE participation at Pace. Mr. Brannon said that Pace has a lot of construction projects, both ongoing and future, and that these types of projects have been a good area for setting and meeting DBE goals.

Director Magalis asked for the status of Pace's collective bargaining agreements. Mr. Brannon said that one CBA (West Division) is currently being negotiated. The rest are closed.

Director Magalis asked Pace what the biggest challenge will be for the 2017 budget year. Pace Executive Director T.J. Ross said he believes Pace will have a good year. Mr. Ross noted that there is a direct relationship between fuel prices and ridership; any increase in fuel prices and fuel expense would be somewhat offset by higher ridership caused by the higher cost of driving. Mr. Ross remains concerned about the lack of capital funding. Pace would like to buy buses for I-55 service and also add more park-n-ride spaces to support express-type services. Mr. Ross closed by noting that the retirements of Terry, Roman, and Rosemarie will also pose a challenge due to the loss of their collective wisdom and experience.

Metra Budget and Capital Program

Metra Executive Director Don Orseno reported that Metra's 2017 operating budget of $781.2 million represents 5.2% expense growth over the 2016 estimate. The budget is balanced and contains a fare increase averaging 5.8%, which is less than the 8.5% originally anticipated in the modernization plan, due to fuel savings and other realized efficiencies. Metra has committed all of the increased fare revenue to the Farebox Capital Program to help fund capital needs. Even after this fare increase, Metra's fares will still be among the lowest of its peers as fares continue to lag CPI growth. Service levels will be stable, with added express services on the Rock Island District and Heritage Corridor lines. Metra's five-year capital program of $1.206 billion is focused on the purchase and rehabilitation of railcars and locomotives and the installation of the federally mandated Positive Train Control (PTC) system. In the modernization plan, PTC has an estimated capital cost of $400 million with $15 million - $20 million of annual operating cost.

Director Magalis asked for a summary of the Metra public budget hearings. Mr. Orseno replied that Metra had received a total of 188 comments. Most were opposed to the fare increase without better equipment and service in return. Mr. Orseno was not satisfied with the light turnout at the hearings, and believes that people are simply too busy to attend.

Director Lewis asked for the status of Metra's Wi-Fi project. Mr. Orseno said that Metra completed an initial pilot project on sixteen railcars, and expanded that in 2016. Metra is still looking for a partner to help minimize the cost impact. Mr. Orseno believes that customers would like to see Metra spend money on priorities other than Wi-Fi.

Director Lewis asked if Metra was being impacted by ridesharing services like Uber and Lyft. Mr. Orseno feels that ridesharing services will be a major, but positive, issue for Metra. Mr. Orseno would like to pursue partnerships with such services to help solve the first/last mile problem.

Director Lewis asked about MBE/DBE participation at Metra. Mr. Orseno pulled up some stats which showed $41.5 million of Metra contract participation from 295 DBEs. He said it is a growing program under the leadership of Janice Thomas.

Director Hobson noted that Metra's on-time performance is based on the industry standard of no more than 6 minutes late. He asked if Metra would consider surveying its customers to gain an understanding of their definition of on-time. Mr. Orseno replied that Metra could include this type of question in a future survey.

Director Hobson asked why fuel consumption was budgeted to increase if service levels were stable. CFO Tom Farmer replied that the increase was due to a higher provision for idling during severe winter weather.

Director Melvin asked what it would cost to make Metra's desired improvements to the 49th Street facility, and also where Metra stood on issuing bonds to raise money for capital. Mr. Orseno said $3 million to $4 million for 49th Street. Metra has a consultant on board looking at whether Metra should issue debt, and if so, how much. He noted that Metra may have other financing options in lieu of bonding.

Director Coulson commended Metra for raising fares to raise money for capital, and reiterated that Metra should produce a wish list for capital projects. He asked if there was any hope for adding weekend service on the North Central line. Mr. Orseno on said that the North Central line is constrained by both labor and freight train issues which limit the number of weekly trains Metra can run.

Director Frega commented that customers will tolerate fare increases as long as they lead to better on-time performance, cleanliness, and reliability.

Director Melvin asked about the railcar order that was referred to in the presentation. Mr. Orseno said that Metra had worked with Virginia Railway Express (VRE) to take over the terms of a Nippon Sharyo order for 21 railcars that VRE had cancelled. Chairman Dillard asked where those VRE cars would be utilized and Don said that wherever the replacement need was greatest, probably the BNSF line.

Director Magalis asked about the status of Metra's collective bargaining agreements. Mr. Orseno replied that all CBA's were settled except one.

Director Magalis asked Metra what the biggest challenge will be for the 2017 budget year. Mr. Orseno replied that he feels good about the operating budget, but capital funding is his biggest worry since Metra is just fixing the minimum required to operate safely. Metra needs funding to update its equipment.

Chairman Dillard asked what percentage of Metra riders use the mobile app. Ms. Lynnette Ciavarella replied that 23% of tickets in January 2016 were sold via the mobile app and that usage has grown over the year to 30% of tickets in October.

CTA Budget and Capital Program

CTA Chief Financial Officer Jeremy Fine opened by highlighting that revenue is expected to be just over $1.5 billion in 2017. CTA's $1.524 billion 2017 expense budget is balanced with no fare increases or service reductions. Ridership is projected to decline by 0.7% in 2017. CTA is evaluating factors that are having an effect on ridership, such as low gas prices and shared mobility services. Expenses are projected to grow a little over 3% compared to 2016, with the increases split equally between service improvements and pension payments. The $3.5 billion capital program will include the purchase of new railcars and buses, station improvements, Your New Blue (YNB) development, ADA accessibility and wider stations, and the Red Line extension. The Red-Purple Modernization (RPM) Project phase one will be funded through a new TIFIA loan, which makes up 18% of the five-year capital funding.

Director Magalis asked for a summary of the CTA public budget hearing. Mr. Fine replied that attendees were supportive of the budget and appreciated that CTA had kept fares affordable and had used ICE funding to improve service on the South Side.

Director Magalis asked about the TIF district boundaries. Mr. Fine replied that the TIF was a half mile on either side of the Red Line from North Avenue to Devon, and would enable 18% of CTA's five-year capital program.

Director Magalis noted that the planned CTA bond issuances deferred principal payments until 2041 and asked for the logic behind that amortization. Mr. Fine replied that one has to view CTA's debt structure from a global perspective. There is no state capital program, and the debt profile is similar to how you would do laddering in the personal finance industry. The deferred principal will wrap with the end of the POB payments to produce level debt service. Mr. Fine stated that this structure is relatively common in the municipal marketplace, and he expects it will be well received by investors.

Director Magalis noted that CTA has not raised base fares in eight years, and asked if CTA had considered raising fares as a way to increase revenue to pay off those bonds sooner. Mr. Fine replied that CTA's philosophy is to raise fares only when needed, in order to remain economical and committed to its customers.

Director Lewis asked if all of the $1.4 billion in planned issuances was being used for capital. Mr. Fine said yes, all for capital purposes.

Director Lewis asked if CTA was being impacted by ridesharing services like Uber and Lyft. Mr. Fine said CTA continues to evaluate the impact with both internal surveys and outside analysis. CTA is also examining the impact of recent low gas prices, and continues to promote the RTA Transit Benefit program.

Director Lewis asked about MBE/DBE participation at CTA. Mr. Fine stated that CTA's three year DBE program target was 25%, and that 27.2% was achieved. He also mentioned that a recent bond issuance had 67.5% WMBE participation.

Director Hobson asked about the projected 6.7% increase in power expense for 2017 and noted that the RTA Board had approved funding for a battery storage project which was supposed to reduce expense. Mr. Fine responded that commodity prices have been very low so some increase is inevitable. Mr. Fine stated that CTA will be monitoring the impact of the battery storage project closely. He went on to state that CTA had locked in prices for 80% of the 2017 fuel requirements.

Director Hobson asked about the projected 8% increase in security expense for 2017 and wondered if this would be mitigated by less fare evasion. Mr. Fine said that fare evasion will be mitigated somewhat, but that the primary reason for security spending is to make customers feel safe beyond the turnstile with a good camera system and onboard security.

Director Hobson noted that CTA plays the largest role in the regional recovery ratio and asked if CTA has a contingency plan if there are recovery ratio issues. Mr. Fine said that CTA will help and respond in any way that it can. He noted that CTA has a high recovery ratio relative to peers like NYC.

Director Hobson asked if CTA could produce a chart, like Metra's, showing average fare versus CPI and peers. Mr. Fine said that he would provide such a chart.

Director Coulson noted that the TIF assumes that property values will increase, so there is some risk involved, which is why the TIFIA is also secured by sales tax. Mr. Fine said that the TIF increment is not based on a tax increase. CTA's consultants remain confident that their TIF estimate is conservative. The TIF increment will cover the debt service on the TIFIA loan. Since the federal DOT is not familiar with TIF finances, they also wanted farebox, not sales tax, pledged as backup.

Director Coulson noted that over 20% of CTA's $3.5 billion capital program is for debt service on previously issued bonds and asked if this level is too high. Mr. Fine would prefer a state capital program, but in the absence of that, CTA has to produce some of its own capital funding.

Director Coulson noted that CTA's average fare is relatively low at $1.16 and asked if CTA had considered reducing the discounts it offers on fares and passes, or increasing fares to raise money for capital. Mr. Fine responded that federal and state mandated programs for free and reduced fare rides depress CTA's average fare, and reiterated that CTA will only raise fares when needed.

Director Melvin commented that not raising CTA fares is the right thing to do, since not all areas served have benefitted from the economic recovery. He also believes that CTA's bond structure is acceptable and smart, and that the ultimate verdict will be from the bond market.

Director DeWitte asked if any of the TIF finds would be expended on projects outside of the TIF boundaries. Mr. Fine said no, that the TIF funds will only be used for RPM phase I within the TIF district.

Chairman Dillard noted that the Civic Federation had called CTA's budget "sensible", which gives him a comfort level. He also commented that borrowing plans would be different if we had a state capital program.

Director Magalis asked about the status of CTA's collective bargaining agreements. Mr. Fine said that negotiations with Amalgamated Transit Union (ATU) were ongoing but could be concluded soon.

ADJOURNMENT

There being no further business to come before the meeting of the Finance Committee, Director DeWitte moved, and Director Coulson seconded that the meeting adjourn. The meeting adjourned.

5 Ayes: Directors Coulson, DeWitte, Lewis, Melvin, and Magalis
3 Absent: Director Anderson, Buchanan, and Troiani

The meeting ended at 12:00 p.m.

Audrey Maclennan
AUDREY MACLENNAN
Secretary of the Authority