

Ten-Year Financial Plan



**Regional
Transportation
Authority**

Department of Finance and
Performance Management
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Ten-Year Financial Plan 2013-2022

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Executive Summary

Operations

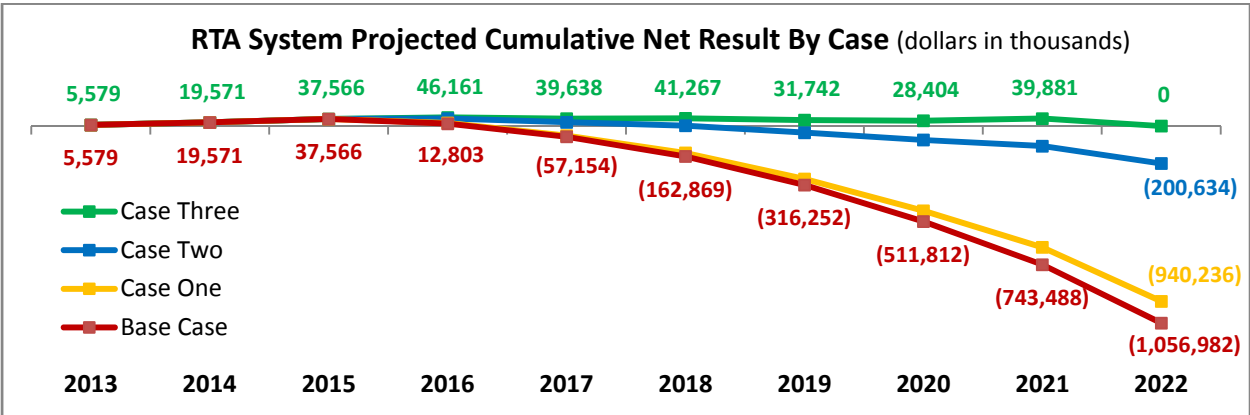
As required by the RTA Act, a ten-year assessment of the transit system’s financial condition has been completed. The first three years of the 2013-2022 plan are comprised of the 2013 Budget and Two-Year Financial Plan, with the subsequent seven years projected using operating revenue and expense assumptions developed with Service Board collaboration. This report concentrates on the expected regional net result, that is, the combined financial results of the Service Boards and RTA, including public funding, under four different revenue cases.

Base Case – Modest public funding and ridership growth, no fare increases: With nominal sales tax growth of 3.1%, modest 1% annual ridership growth, and in the absence of any fare increases, the projected RTA system annual net result turns negative after the first three years of the period, accumulating a \$1.057 billion funding shortfall through 2022.

Case One – Higher ridership growth: With the same base public funding, but more aggressive ridership growth of 2%, the projected total cumulative funding shortfall improves only marginally to \$940 million (much of the increased operating revenue is negated by added expense due to assumed service expansions required to handle increased ridership levels).

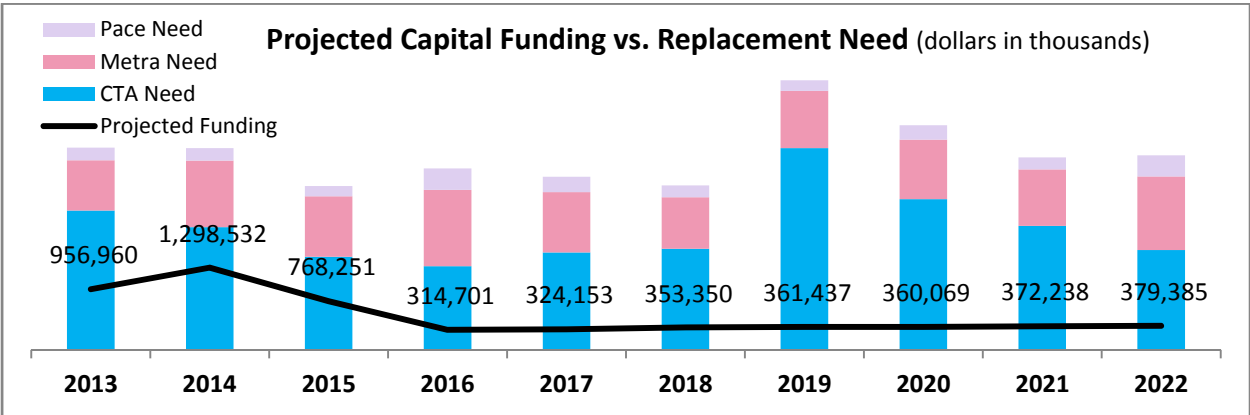
Case Two – Higher ridership growth and inflationary fare increases: With the same base public funding and 2% ridership growth, but introducing annual inflationary fare increases of about 2%, the projected total cumulative net result improves sharply to negative \$201 million.

Case Three – Higher ridership growth, inflationary fare increases, and higher sales tax growth: Leaving the annual 2% ridership and 2% fare increases in place, a more optimistic sales tax growth of 3.4% annually would be required to resolve the remaining funding shortfall and balance the operating budget at the system level.



Capital Funding

The most recent Capital Asset Condition Assessment, updated in November 2012, placed the ten-year capital requirements of the region at a total of \$31.1 billion, with CTA at \$19.1 billion, Metra at \$9.7 billion, and Pace at \$2.3 billion. These totals include \$18.7 billion of backlog. However, total capital funding over that same ten-year period, comprised of federal, state, local, RTA, and Service Board funds, is currently projected at approximately \$6.2 billion, meeting only about 20% of the need.



A failure to address capital State of Good Repair needs in a timely manner can lead to higher future operating expenses as greater expenditures are required to keep equipment in safe and reliable condition. Conversely, making strategic capital investments to move the region toward a State of Good Repair will have a positive effect on future operating expenses. The operating projections contained in this analysis do not account for additional operating expense increases related to insufficient capital funding

Conclusion

The results of this analysis indicate that, with only modest growth in sales tax and ridership, and without regular fare increases, the RTA system will likely develop a cumulative operating funding shortfall in excess of \$1 billion over the next ten years. Increased ridership alone will do little to close this gap, since historically the RTA system has been unable to add significant ridership without also expanding service and thereby increasing expenses. However, relatively small, but regular, fare increases can dramatically improve the solvency of the system. An increase in public funding caused by a more optimistic sales tax growth forecast could resolve the remaining revenue shortfall.

Only about 20% of the region’s \$31.1 billion in identified ten-year capital needs is currently expected to be met by traditional funding sources. Solving this severe capital funding shortfall is critical to the future success of our transit system and should be a primary strategic focus of the RTA and Service Boards. Addressing “transit’s significant capital backlog and insufficient capital funding” is a key recommendation of the Regional Transit Strategic Plan 2013-2018, adopted by the RTA Board in August 2013.

Building the Base Case

In the base case, for all of the Service Boards except ADA Paratransit, farebox revenue is assumed to grow at 1% annually in 2016 and beyond, driven solely by modest 1% ridership growth. For ADA Paratransit, farebox and ridership is assumed to grow at 5% annually. Other operating revenue sources for the Service Boards in 2016 and beyond are grown at rates of 2% to 3%, as projected by the Service Boards, while the State reduced fare reimbursement is assumed to grow at 1.5%, rounding out the operating revenue picture (this projection does not include the recent reduction in the State's reduced fare reimbursement funding).

For 2016 and beyond, Service Board expense categories were initially set at the same growth rates contained in the 2013 budget and two-year financial plan. Service Board feedback was then sought on these default growth rates, which were adjusted accordingly.

Finally, a 1% "step-up" was periodically applied to certain CTA, Metra, and Pace Suburban Service expense categories during the 2016-2022 timeframe to recognize that even the modest ridership growth of the base case will likely require some service expansions, driving variable costs higher. The time periods at which these variable expenses are increased were developed by examining the historical relationship between ridership growth and service expansion at each Service Board. Service increases are assumed at Metra every three years due to their high peak utilization, at CTA every five years due to their higher potential for off-peak utilization increases, and only once during the ten-year period for Pace Suburban Service due to their higher potential to increase peak utilization of existing capacity.

Public Funding

Following the 3.3% average annual sales tax growth contained in the 2013 budget and two-year financial plan, a long term sales tax growth of 3.0% was assumed in 2016 and beyond for the base case, slightly more optimistic than the latest Chicago Federal Reserve forecast, which projected 2.8% annual growth over the next decade.

Further public funding assumptions are as follows:

- The geographic source of sales tax receipts is unchanged from the 2013 budget: 33.1% from Chicago, 50.9% from Suburban Cook County, and 16.0% from the Collar Counties.
- Statutory funding continues to be distributed according to current formulas.
- All RTA obligations are funded prior to the distribution of any discretionary funds.
- The RTA fund balance is gradually restored to 5% of operating expenditures by 2018.

- Discretionary operating funding in 2016 and beyond is distributed in the same shares as the 2013 budget: 98% to CTA and 2% to Pace Suburban Service.
- ADA Paratransit projected operating deficits are fully funded from a combination of Sales Tax II / PTF II funds and \$8.5 million of annual State ADA Paratransit funding, which is assumed to continue through the period.
- No transfers from capital funding to support operations.
- ICE funds will not be used for Service Board operating needs.

CTA Expenses

Labor comprises almost 70% of CTA's operating expenses. Following the 2.4% annual growth in labor expense contained in the 2013 budget and two-year financial plan, labor expense is subsequently grown at a CTA-provided rate of 3.0%. Further CTA expense growth assumptions are as follows:

- Other expenses and material expenses are grown at CTA-provided rates of 1.5% and 2.5%, respectively.
- Fuel expense is grown at a CTA-provided rate of 2.0%, anticipating modest improvements in fuel efficiency.
- Power, insurance and claims, and purchased security expenses continue to grow at rates consistent with the 2013 budget and two-year financial plan.

CTA's variable expense categories (labor, material, fuel, and power) are also stepped-up by 1% twice, at the 5-year and 10-year points of the period, to account for potential service expansions required by the assumed 1% annual ridership growth.

The above assumptions result in a 2.93% compound annual growth rate for ten-year CTA expenses.

Metra Expenses

Metra's guidance was to generally continue to grow expenses at the same rates contained in the 2013 budget and two-year financial plan. Accordingly, Metra's two largest expense categories, transportation and maintenance, both grow at rates of around 4% in 2016 and beyond. Further Metra expense growth assumptions are as follows:

- Fuel expense is assumed to grow at 4%.

- Electricity expense growth slows to 3.5% in 2016 and beyond following a significant increase in the 2013 budget period related to the receipt of new Highliner railcars.
- Metra's remaining expense categories (insurance and claims, administration, downtown stations, and other) all grow at rates consistent with the 2013 budget and two-year financial plan.

Metra's variable expense categories (transportation, maintenance, fuel, and electricity) are also stepped-up by 1% three times, at the 4-year, 7-year, and 10-year points of the period, to account for potential service expansions required by the assumed 1% annual ridership growth.

The above assumptions result in a 4.22% compound annual growth rate for ten-year Metra expenses.

Pace Suburban Service Expenses

For most of its expense categories, Pace's guidance was to maintain the same rates of growth contained in the 2013 budget and two-year financial plan. As a result, for 2016 and beyond, Pace expects that labor, their largest expense category, will continue to grow at 3.0% and that their second-largest expense category, purchased transportation, will continue to grow at about 3.5%. Further Pace expense growth assumptions are as follows:

- Fuel expense and health insurance expense grow at 4% and 6%, respectively.
- The regional ADA support allocation is assumed to grow at a Pace-provided rate of 3.9%.
- Pace's remaining expense categories (parts/supplies, utilities, insurance, and other expenses) all continue to grow at the same rates contained in the 2013 budget and two-year financial plan.

Pace's variable expense categories (labor, material, purchased transportation, and fuel) are also stepped-up by 1% once, at the 7-year point of the period, to account for potential service expansions required by the assumed 1% annual ridership growth.

The above assumptions result in a 3.86% compound annual growth rate for ten-year Pace Suburban Service expenses.

Pace ADA Paratransit Expenses

Similar to Suburban Service, Pace maintained the same rates of growth contained in the 2013 budget and two-year financial plan for most ADA Paratransit expense categories. Purchased

transportation comprises 90% of ADA Paratransit expense, and this category continues to grow at 8.0% in 2016 and beyond, driven by a 5% ridership growth assumption with annual inflationary contract price adjustments added on top. Further Pace ADA Paratransit expense growth assumptions are as follows:

- Fuel expense and health insurance expense grow at 4% and 6%, respectively, consistent with Suburban Service.
- Labor/fringe expenses for staff are projected to grow at 2.7%.
- RTA certification trip expenses are assumed to grow at 5%, consistent with ridership.
- The regional ADA support allocation is assumed to grow at a Pace-provided rate of 3.9%.

The above assumptions result in a 7.64% compound annual growth rate for ten-year ADA Paratransit expenses. Even with continued annual State ADA Paratransit funding of \$8.5 million, fully meeting the ADA Paratransit funding requirement continues to divert an increasing amount of statutory Sales Tax II and PTF II funding away from the other Service Boards over the ten-year period.

RTA Agency and Regional Requirements

RTA agency revenue from the transit benefit program, grants for multi-year projects, and miscellaneous revenue are all assumed to grow at 3.0% in 2016 and beyond, as are agency operating expenses. As a result, the amount of non-statutory Sales Tax I / PTF I required to balance the agency budget also grows at 3.0% over the ten-year period.

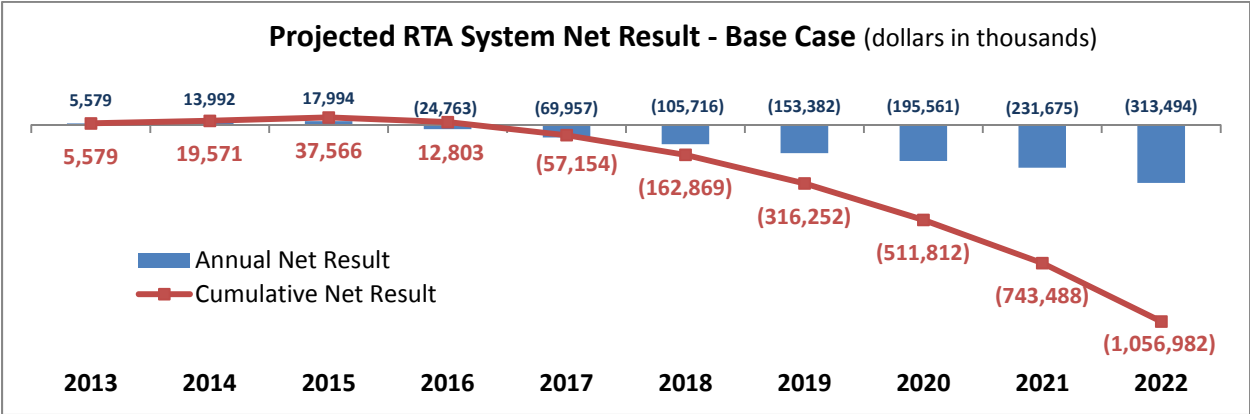
RTA regional revenue and expense assumptions outside of the agency budget are as follows:

- State Financial Assistance (ASA/AFA) continues at just over \$130 million per year.
- RTA revenue from investment income and sales tax interest is assumed to grow at 3%.
- Debt service is projected to remain level at \$220 million.
- Joint Self-Insurance Fund (JSIF) contributions increase to \$6 million in 2016 and subsequently grow at 3%.

The above assumptions result in a 0.61% compound annual growth rate for ten-year RTA regional expenses. Sufficient non-statutory Sales Tax I / PTF I is allocated to balance regional revenues and expenses, and the slow growth in regional expenses across the period means that the resulting discretionary funding available for Service Board operations grows at a faster rate than sales tax.

Base Case – No Fare Increases

In the resulting base case, total RTA system operating expenses grow at a compound annual growth rate of 3.35%, increasing from \$2.729 billion in 2013 to \$3.672 billion in 2022.



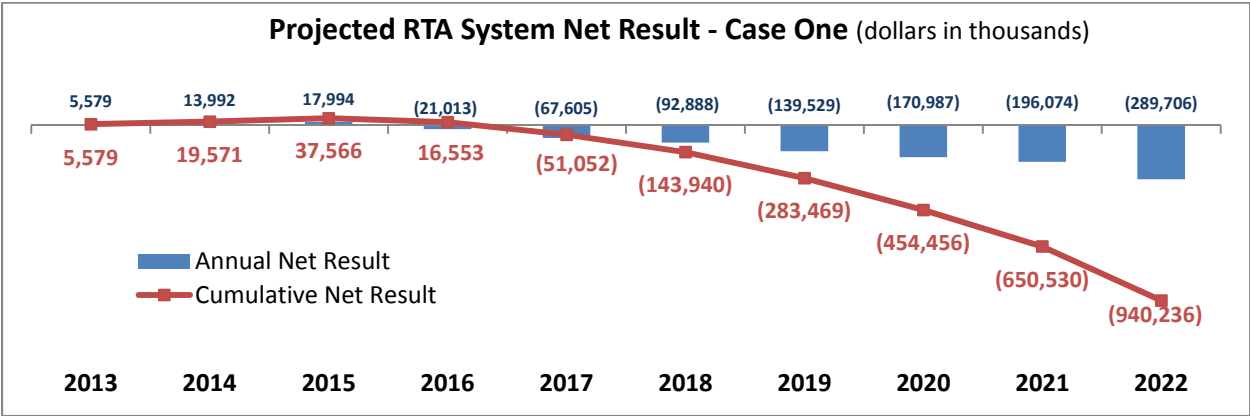
With total expenses growing at 3.35% while total revenues (operating revenues and public funding) grow at a lower rate of 2.3%, the base case, not surprisingly, immediately produces a system net result of negative \$25 million for 2016, following the three years of positive system net results in the 2013 budget. The annual net result steadily worsens to negative \$313 million by the end of the ten-year period in 2022, with a total accumulated net result of negative \$1.057 billion.

In addition, the regional system-generated revenue recovery ratio is projected to fall below the statutorily required 50% level in 2020 and finish the period at 47.7%. The recovery ratio calculation does not include public funding, but considers only operating revenue and operating expense, as well as a projection of approved inclusions and exclusions.

This base case \$1.057 billion shortfall of revenues from expenses over the ten-year period was then addressed by considering cases with increased operating revenue and/or public funding.

Case One – Higher Ridership Growth

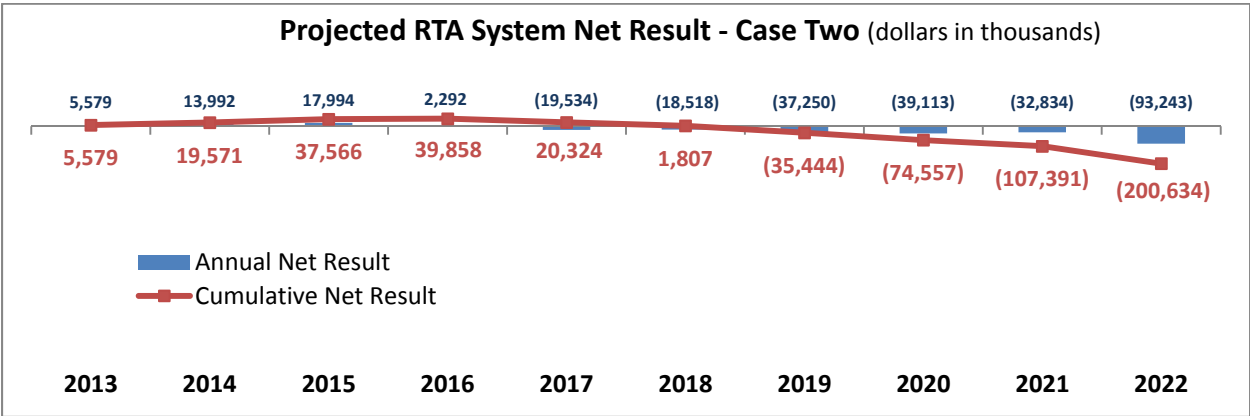
This case seeks to increase operating revenue by growing system ridership at a more aggressive 2% annual pace. This additional ridership growth is unlikely to be achieved without additional service expansions. Accordingly, the aforementioned periodic 1% “step-ups” in Service Board variable expenses are increased to 2%. As a result, the \$311 million of additional farebox revenue produced by the higher ridership over the ten-year period is partially offset by a \$194 million increase in operating expenses.



Total annual revenue growth of 2.6% over the ten-year period still significantly lags total annual operating expense growth of 3.5%, and this case produces a total accumulated net result of negative \$940 million, an improvement of only 11% from case one. The regional recovery ratio still falls below the statutorily required 50% level, finishing the period at 49.5%.

Case Two – Higher Ridership Growth and Inflationary Fare Increases

In case two, an annual inflationary fare increase of 2.2% is introduced which combines with the 2% annual ridership growth to produce annual farebox revenue growth in excess of 4%. No associated ridership loss is assumed since fare increases based on the rate of inflation and implemented at regular intervals are more likely to be accepted by the riding public. This case brings total revenue growth to 3.2%, more in line with overall expense growth of 3.5%.

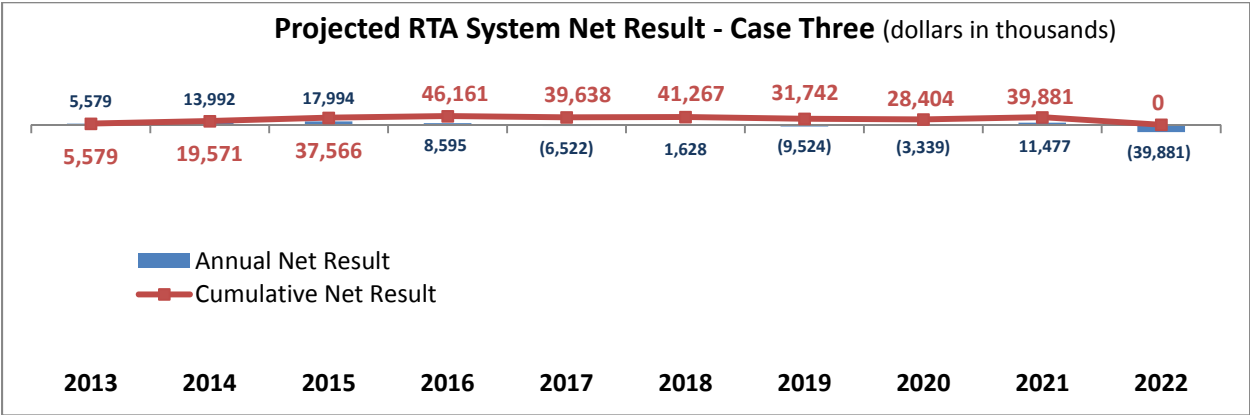


This case produces an improved system net result of positive \$2 million for 2016, which then worsens to negative \$93 million by the end of the ten-year period in 2022. The total

accumulated net result is projected at negative \$201 million, an improvement of 79% from the previous case.

The regional system-generated revenue recovery ratio is also projected to stay well above the statutorily required level, ending the period at 56.0%.

Case Three – Higher Ridership Growth, Inflationary Fare Increases, and Increased Public Funding



In cases one and two, higher ridership and fare increases still resulted in significant funding shortfalls. This final case sought to determine the public funding level required to maintain system solvency.

With the higher ridership and inflationary fare increases still in place, a more optimistic sales tax annual growth assumption of 3.44% would be required to close the remaining funding gap. This increase in public funding brings total revenue growth in line with operating expense growth, producing nominal annual net results and a balanced ten-year cumulative net result.

