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, August 24, 2017 at 8:40 a.m., in Suite 1650, 175 West Jackson Blvd., Chicago, Illinois, pursuant to notice.

Committee Chairman Magalis presided.

ROLL CALL

Committee members present (8): Anderson, Buchanan (phone @ #4b), Coulson, DeWitte, Lewis, Magalis, Melvin, and Troiani

Other Board members present: Durante, Fuentes, Higgins, Hobson, Pang, Ross, and Chairman Dillard

Approval of minutes from the meeting held on June 22, 2017

Director DeWitte moved, and Director Melvin seconded that the minutes from the meeting held on June 22, 2017 be approved as submitted. The motion carried on the following roll call vote:

7 Ayes: Directors Anderson, Coulson, DeWitte, Lewis, Melvin, Troiani and Magalis
1 Absent: Director Buchanan

Presentation of the Quarterly Performance Report

Ms. Jill Leary presented the quarterly performance results that reflect year-to-date performance comparisons through the second quarter 2017 versus the prior year, 2016. Ms. Leary showed regional ridership data for the past 15 years; year-to-date ridership through June was 2.7% higher compared to 2003. However, for the first half of 2017, there has been a ridership decrease of 3.9% compared to 2016, a difference of 11.7 million trips. Year-to-date ridership by mode was shown for CTA bus and rail, Metra commuter rail, Pace bus, vanpool, and ADA Paratransit service. Each mode showed lower ridership compared to the first half of 2016. CTA bus ridership was down 4.9%, which was better performance compared to its peers. CTA rail ridership was down 3.6%, close to the peer average. Metra ridership was down 1.4%, lower compared to its peer average. Pace bus showed a 1.7% ridership decrease, significantly better than its peer average of -3.9%. Vanpool ridership losses were steeper, ending the first half down 11.6% compared to a peer average of -2.9%. ADA Paratransit ridership decreased 3.2%, while its peer average was equal to 2016.

A chart showing RTA regional ridership compared to the other top nine metropolitan regions puts the Chicago region in 7th place; only Houston had ridership growth at 1.3% and each other region showed ridership losses compared to 2016. There was an increase in service provided to customers, as noted by the increases in vehicle revenue hours and vehicle revenue miles favorable results. Regional operating costs, after being adjusted for inflation, were up 2.1%, which was nearly entirely offset by the increase in vehicle hours, resulting in basically, no change for the measure operating cost per vehicle revenue hour. Since ridership was down, however, the operating cost per passenger trip rose by 6.2%, an unfavorable result. Fare revenue per passenger trip was up 2.9%, seemingly a positive result; however, fare revenue was actually $5.3 million (or 1.1%) lower compared to 2016 and ridership was down 3.9%, creating a favorable result. The fare recovery ratio was 1.8 percentage points lower compared to 2016, resulting from increased operating cost and reduced passenger fares.

APPROVED BY THE FINANCE COMMITTEE
OCTOBER 19, 2017

Director Hobson asked whether any of the Service Boards have attributed the decrease in ridership to any specific factor(s). Ms. Leary responded that there has not been any official cause cited by any of the Service Boards. Lower gas prices, the general state of the economy, and competition from TNC's (e.g., Uber, Lyft) certainly affect ridership and will be addressed in the development of the strategic plan.

Resolutions certifying financial results – Second Quarter 2017

Ms. Bea Reyna-Hickey provided a summary of the Service Board financial results through June. Ms. Reyna-Hickey opened by stating that revenue continues to be impacted by lower ridership, an official reduction in State funding for reduced fare programs, and weakening sales tax growth. The Service Boards have been able to control expenses, but that alone has not been enough to achieve a favorable net result for the region. The good news is that the regional recovery ratio has improved since the first quarter and the region as a whole is now in substantial accordance with budget. Staff initially found ADA Paratransit to be out of substantial accordance with budget due to an unfavorable operating deficit variance of 4.9%.

Regional unemployment decreased to 4.3% during the second quarter, which was 0.1 percentage points below the national average. RTA system ridership through June was 3.1% unfavorable to budget and down 3.8% from prior year. System operating revenue was $12.5 million unfavorable to budget, the result of unfavorable fare revenue and the lower level of reduced fare reimbursement appropriated in the State budget. Public funding was unfavorable to budget by 4.4% through the second quarter due to unfavorable sales tax, PTF, and RETT results. In contrast, regional operating expenses were favorable to budget by $23.2 million or 1.7% through June. The system net result was $21.4 million unfavorable to budget, as good expense performance could not offset unfavorable operating revenue and public funding. The regional recovery ratio of 48.5% was 0.1 percentage point favorable to budget. Metra's recovery ratio was favorable while the CTA, Pace, and ADA Paratransit each had unfavorable variances. ADA Paratransit was the only area to post an unfavorable operating deficit through June. Staff originally found ADA Paratransit to not be in substantial accordance with budget through the second quarter; however, Pace has supplied a reasonable action plan that outlines the corrective measures they will take to improve performance and return to substantial accordance. As a result, staff recommended the Board find the CTA, Metra, Pace, and ADA Paratransit in substantial accordance with budget for the second quarter results.

Chairman Magalis noted that the Service Boards have very tight budgets and have worked hard to stay in compliance despite the cuts in State funding. He said that the impact of the cuts is particularly visible for ADA Paratransit, which is a federally mandated program. He said it makes one wonder why ADA Paratransit is even required to have a recovery ratio and suggested that getting the 10% requirement reduced or removed is something the RTA should work on.

Director Hobson asked how long ADA Paratransit will have to show that it is following its action plan and that its operating deficit is improving. Ms. Reyna-Hickey replied that she will be reporting on their results regularly, but that it will not be until the third quarter that the Board formally votes on whether they are back in compliance with budget. Chairman Magalis added that part of the ADA Paratransit action plan requires the use of the ADA Paratransit reserve.

Director Lewis noted that the regional recovery ratio through June was at 48.5%. He said that he thought it was statutorily required to be at 50%. Ms. Reyna-Hickey answered that there are seasonal variations in the recovery ratios so the relevant comparison is actual to budgeted recovery ratio. It is required to be at 50% at year-end, and the regional recovery ratio through the second quarter was actually 0.1 percentage points above budget. She noted it will be very tight but is currently on a trend to meet 50% for the year.

Director Lewis then asked if there has been any analysis done to quantify the impacts of new ridership incentives on total ridership results, such as the new Bus-on-Shoulder service implemented this year. Both Ms. Reyna-Hickey and Ms. Redden agreed that this is something they would ask the Service Boards to produce as part of their budget presentation. It will be an opportunity for the Board to inquire about their ridership results and what they have done to stem losses, and grow ridership in certain markets.

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

7 Ayes: Directors Anderson, Coulson, DeWitte, Lewis, Melvin, Troiani and Magalis
1 Absent: Director Buchanan

Director Buchanan joined the meeting at this time by phone.

Ordinance adopting reforecasting of 2017 funding allocations

Ms. Reyna-Hickey asked the Board to consider an amendment of the 2017 operating funding levels due to slowing sales tax growth and actions taken in the State FY 2018 budget. Ms. Reyna-Hickey explained that sales tax grew by only 1.4% in 2016 and that slower growth has continued in 2017. The approved State 2018 budget instituted a permanent 2% surcharge on sales tax receipts and a temporary 10% PTF cut, which will reduce 2017 funding by $12 million and $10 million, respectively. The State budget also lowered the level of reduced fare reimbursement by $16.5 million, and the State 2017 stop-gap spending plan reduced 2017 ADA Paratransit funding by $4.7 million. Ms. Reyna-Hickey further explained that the slowdown in sales tax growth is attributable to lower gasoline prices, increased online sales, a drop in vehicle sales, and recent population losses in the region.

The total impact on 2017 operating funding to the Service Boards is $94.8 million. Due to the reduction in State funding for 2017, Pace staff has requested the Board to authorize use of $5.7 million from the ADA Paratransit reserve to balance the ADA Paratransit budget. Using the reserve, comprised of prior year ADA Paratransit positive budget variances, will avoid further funding impacts to the mainline Service Boards. The ordinance reduces the CTA's available 2017 operating funding by $38.9 million, Metra's by $20.9 million, and Pace Suburban Bus services by $8.1 million. The RTA's 2017 funding will also be reduced by $2.0 million. The Service Boards and RTA will have 60 days to submit revised spending plans that conform to the amended funding amounts.

Chairman Dillard asked if staff could quantify how much sales tax revenue is being lost to online purchases through websites such as Amazon. Ms. Reyna-Hickey stated that she could not quantify the impact. , The Chairman then suggested that Jeremy LaMarche meet with the IDOR to gain an understanding of how the State collects on-line sales taxes.

Director Hobson stated that 60 days seems like a long of a period to wait for the Service Boards to respond with revised plans, especially since the year is more than half over. Ms. Reyna-Hickey said that the Service Boards had already begun to respond, as evidenced by their favorable YTD expense performance, and that she believed that 60 days for additional actions was reasonable, because of the difficult challenges they are facing and the need to discuss with their leadership and boards, which of course, is subject to RTA Board approval.

Director Coulson pointed out that the Service Boards continue to offer discretionary reduced fare and free ride programs that they should consider scaling back or eliminating as part of their action plans, rather than cutting service. Ms. Reyna-Hickey did not disagree, and said that the Service Boards will have to look at everything. Ms. Redden pointed out that such changes may require public notification procedures, which is why the Service Boards need the 60-day response period.

Chairman Dillard asked if we had engaged any of our downstate counterparts such as Peoria, the Quad Cities, and Champaign-Urbana who are in the same funding predicament. Mr. LaMarche responded that the downstate agencies have generally been hit with even greater funding reductions than the RTA.

Director Lewis pointed out that the RTA is tapped out on both long-term and short-term borrowing capacity, and asked if the Service Boards could do any borrowing as a contingency. Ms. Reyna-Hickey said that short-term borrowing is used exclusively to buffer funding delays by the State, and is maxed out at $400 million. PTF is flowing from the State, although it is over 11 months delayed. For the long-term borrowing, the Service Boards agreed that the RTA should borrow to its full capacity to produce capital funding. Each of the Service Boards has long-term borrowing capacity: Metra $1 billion, Pace $100 million, and the CTA subject to certain tests and constraints. Ms. Reyna-Hickey stated she was hopeful the RTA can pay down some of the short-term debt if the State funding flow improves.

Director DeWitte asked if the State funding flow is expected to improve now that a State budget is in place. Ms. Redden responded that the funding flow from the State has already improved, although the backlog is still large.

Director DeWitte then asked if there is any way the Board can strongly recommend that the Service Boards curtail some of the mandatory reduced fare programs in light of the reduction in State funding for such programs. Chairman Dillard suggested that the RTA Board send a letter to the Service Boards asking them to take a hard look at all of their reduced fare programs. Ms. Redden indicated a letter would be drafted that would come from the Chairman Dillard and Finance Committee Chairman Magalis.

Director Anderson questioned why the RTA is taking on more debt in the face of declining ridership and the ongoing extraordinary issues with the State. He suggested that structural change is what may be needed, rather than more debt. Director Magalis pointed out that the capital dollars produced by RTA bonding are needed to maintain safety and a State of Good Repair. Ms. Reyna-Hickey said that RTA staff is open to alternatives to issuing the upcoming $150 million of debt, but that funding has already been programmed and Service Board capital initiatives would be impacted. Director Magalis stressed that the Service Boards know that the debt service on RTA issuances comes off the top of operating funding and thus the Service Boards have already approved this approach. Ms. Reyna-Hickey clarified that the 2017 ordinance does not include any actions on long-term borrowing, but that the subsequent item on 2018 funding does. Director Magalis suggested adding Director Anderson's concerns on additional debt to the letter to the Service Boards regarding reduced fare programs. Chairman Dillard stressed that capital investment is critical to maintaining reliability and safety, which is critical to retaining ridership.

Director Melvin moved, and Director Coulson seconded that the proposed ordinance be recommended to the full Board for approval. The motion carried on the following roll call vote:

8 Ayes: Directors Anderson, Buchanan, Coulson, DeWitte, Lewis, Melvin, Troiani and Magalis

Ordinance establishing estimates of amounts available to the Service Boards for theier 2018-2020 operating budgets, the required recovery ratio for 2018, and the preliminary 2018-2022 capital program funds

Mr. Doug Anderson presented the 2018 operating funding and capital amounts, noting that for the third straight year the RTA Board is poised to adopt the funding amounts well in advance of the September 15th statutory deadline. To develop the sales tax forecast, economic conditions were examined in collaboration with the Service Boards. The unemployment rate has improved for the region, and tourism continues to be strong, but sales tax growth has slowed, and State budget actions have further impacted funding levels. The sales tax growth assumption for 2018 is 3.8%, in between the Moody's and Chicago Federal Reserve custom forecasts. Mr. Anderson noted that the State FY 2018 budget did restore the State ADA Paratransit funding to its traditional level of $8.5 million.

The resulting 2018 funding amounts adhere to the funding framework established in 2014 and reflect budget-to-budget operating funding decreases of 4.3% for the CTA, 3.4% for Metra, 3.1% for Pace, and 3.8% for the RTA Agency. Funding for ADA Paratransit is projected at $167.5 million, an increase of 4.3% from the 2017 budget. As a share of total operating funding to the Service Boards, the CTA is proposed to receive 52.0%, Metra 26.4%, and Pace Suburban Service and ADA Paratransit 10.8% each, shares that are little changed from 2017. The Service Board recovery ratios are proposed to remain unchanged at 54.75% for the CTA, 52.5% for Metra, and 30.3% for Pace Suburban Service.

Mr. Anderson then reviewed the preliminary capital funding for 2018. A total of $980.3 million is anticipated, with more than half coming from federal formula funds. Service Board funds comprise more than one-third of the 2018 capital funding, with both the CTA and Pace planning to issue bonds. Regarding the allocation of capital funding, the CTA is expected to receive 72% due to a significant bond issuance, Metra 21% and Pace about 6%. Mr. Anderson closed by reviewing the 2018 business plan calendar and noted that Service Board budgets are due to the RTA in seven weeks.

Chairman Magalis noted that the funding documents have been thoroughly reviewed by the Service Boards and that the cuts that would be required are difficult. The capital projections in the ordinance schedules include the bond issuance discussed during the previous 2017 funding agenda item. He also noted that he had asked Ms. Reyna-Hickey to look at the different limitations on the Service Boards, established by ordinance, on the amount of debt they can issue, and that each Service Board is well within those Board-imposed limits.

Director Higgins expressed skepticism regarding the 3.8% sales tax growth assumption for 2018, in light of recent growth, and asked about the reasoning behind that forecast and the consequences of a miss. Mr. Anderson responded that the custom forecasts anticipate the onset of price inflation in 2018, which has largely been in check during the current business cycle. He also noted that the 2018 growth assumption is off of the adjusted 2017 base, so the 2018 levels do recognize the recent slowdown in sales tax growth in that way. He estimated that a 1.3 point miss in the 2018 sales tax assumption would result in a $20 million shortfall in sales tax and PTF for the Service Boards. Director Magalis shared Director Higgins' concern and said that he had reviewed the Moody's report and wasn't totally comfortable with their analysis. He said that the Service Boards have bought into the 2018 assumption and that funding would have to be amended if sales tax fell short, as the Board just did for 2017. Ms. Reyna-Hickey and Ms. Redden noted that the 2018 ordinance contained requirements for the Service Boards to have action plans if the sales tax and/or reduced fare reimbursement came in under budget.

Director Lewis asked if the sales tax assumption would be considered a worst case scenario. Ms. Reyna-Hickey responded that she believed that 3.8% was a conservative estimate, in light of the 4% plus growth of past years.

Director Lewis then asked if the 50% recovery ratio estimate was at risk if the sales tax didn't perform in 2018. Mr. Anderson responded that the recovery ratio calculation is largely independent of sales tax performance, since the recovery ratio is simply operating revenue over operating expenses.

Director Lewis asked if the CTA TIF district revenue is included in their operating funding. Ms. Reyna-Hickey responded that the CTA's TIF produces revenue for their capital program only.

Director DeWitte asked how much new debt was included in the $980 million shown for 2018 capital funding. Ms. Reyna-Hickey responded that most of the $980 million was not new debt, but rather federal funding. She pointed out that the CTA and Pace do plan to issue bonds in 2018, and that the RTA still plans to issue the $150 million of bonds contained in the 2017 capital program.

Director DeWitte asked how the $150 million would be allocated. Ms. Reyna-Hickey responded that it would be the traditional split; 50/45/5 for CTA/Metra/Pace.

Director Coulson asked what the basis was for assuming the State would provide $34 million of reduced fare reimbursement when they have provided half of that level for the last three fiscal years. He noted that this assumption introduces a lot of risk for hitting the 50% recovery ratio requirement. Ms. Reyna-Hickey responded that this assumption continues the approach of not self-cutting. The ordinance requires the Service Boards to have a plan if the $34 million doesn't materialize. Ms. Redden noted that the Service Boards know the funding is at risk, and that may give the RTA some leverage for the conversation in Springfield to get the funding reinstated or get a recovery ratio credit for the amount of the reduction. Director Magalis said that he believes 2018 should be the last year for assuming the $34 million level.

Director Anderson asked if the Board was voting on this item and if it included the debt service on the $150 million bond issuance. Ms. Reyna-Hickey clarified that the $150 million issuance had already been included when the 2017 budget and capital program was approved last December, but that specific authorization for the issuance would be sought from the Board before the bonds were sold. Director Pang said that it would be unfair to de-authorize the bond issuance without first consulting with the Service Boards and that there are future points in the budget process where the issuance can be debated. Chairman Dillard agreed with this approach and noted that there is no State capital funding to be had at the present time. Ms. Redden agreed and said that the Service Boards should be allowed to weigh in on the give and take between operating and capital.

Director Anderson asked if we could delay the vote on the funding amounts. Ms. Redden said the funding amounts need to be passed to establish a timely framework and plan for the Service Boards to build their budgets around. Ms. Reyna-Hickey reiterated that each of the Service Board CFOs had indicated that the RTA should go ahead with the planned bond issuance. Director Pang suggested that the Board's concerns surrounding the bond issuance and balance between operating and capital be included in the letter from the Board to the Service Board Executive Directors.

Director Melvin asked if the Service Boards have the option to go to the markets themselves to raise money for capital if the RTA Board decided to de-authorize the issuance. Director Magalis said that each of the Service Boards had the borrowing authority to do that. Ms. Reyna-Hickey pointed out that CTA and Pace are planning their own bond issuances for 2018 and that the RTA issuance would be in addition to that capital funding. She also said that in this difficult budget year, the Service Boards need more time, not less, to develop their budgets and capital programs. Director Higgins pointed out that if the RTA issues the bonds, it would exhaust the RTA's borrowing authority, whereas if the Service Boards issue bonds then the RTA's capacity can be held in reserve.

Director Lewis and Director Melvin suggested that the Board's concerns about the debt issuance be formalized in writing so that the process can move forward. Ms. Reyna-Hickey stated that the requirement for a letter to the Service Boards regarding the reduced fare programs and proposed $150 million RTA bond issuance was incorporated into the 2018 funding ordinance by the General Counsel. The Chairman asked that the Service Boards also identify the capital projects that would be impacted if the RTA bonds were not issued.

Director Lewis moved, and Director Melvin seconded that the proposed ordinance be recommended to the full Board for approval with the requested amended language. The motion carried on the following roll call vote:

8 Ayes: Directors Anderson, Buchanan, Coulson, DeWitte, Lewis, Melvin, Troiani and Magalis

Ordinance authorizing the Quarterly Capital Amendment

Mr. David Spacek explained that the proposed amendment allows the Service Boards to apply for their full year FFY 2017 federal formula fund apportionments published in the July 10, 2017 Federal Register. It also allows Metra to program, and subsequently apply for a recently awarded $20.17M federal Rail Safety Technology (RST) Grant to help accelerate the installation of their Positive Train Control system. The ordinance to amend the 2017-2021 Capital Program includes changes to the full year 2017 federal formula apportionments to CTA, Metra and Pace, an increase in 2017 federal discretionary funding to Metra, as well as other program funding and project changes for CTA, Metra and Pace. The amount of federal formula funds originally estimated in the 2017 Capital Program, based on FAST Act authorization levels, changed when compared to the full year 2017 federal formula fund apportionments. The result is a reduction in FFY 2017 federal Section 5307/5340 and Section 5337 formula funds, and a slight increase in federal Section 5339 funds to the region. These changes have an impact not only to the 2017 federal formula funds available for the Service Boards, but also to the Northwestern Indiana Regional Planning Commission (NIRPC) and the Southeastern Wisconsin Regional Planning Commission (SWRPC). In addition, $77,382 of lapsing SWRPC federal formula funds have been reallocated to Metra and Pace and are being applied to this capital amendment.

However, increases in federal discretionary funds, largely from Metra receiving a $20.17M RST Grant, Service Board and local funds, and de-obligated and carryover funds offset the decrease in federal formula funds and result in a total funding increase to the 2017 Capital Program of $41.68M. The overall proposed amendment to the 2017 Capital Program increases overall spending by $41.68M.

The CTA's proposed program amendment is based on a decrease in federal 2017 formula funds of $2.02M, and an increase of $0.2M in reprogrammed formula funds from previous years, and a $22.17M increase in Service Board and local funds. The $22.17M increase Service Board and local funds is the result of programming Positive Budget Variance (PBV) funds for numerous capital projects. The decrease in CTA federal formula funds is the result of a reduction in the full year apportionment of 2017 federal formula funds from those estimated at the beginning of the 2017 Capital Program.

Metra's proposed program amendment is based on an overall decrease in federal 2017 formula funds of $1.18M, the reallocation of $62,642 in lapsing SWRPC federal 2013 Section 5307 funds, a $20.17M federal discretionary RST Grant, a $300,000 Cook County Department of Transportation grant, and the reprogramming of $2.28M of 2016 Service Board funds as a partial match to the RST Grant funds. The decrease in Metra federal formula funds is the result of a reduction in the full year apportionment of their 2017 federal formula funds from those estimated at the beginning of the 2017 Capital Program.

Pace's proposed program amendment is comprised of a $339,056 decrease in federal 2017 Section 5307/5340 formula funds, a $9,078 increase in 2017 federal 5339 formula funds and an increase in lapsing SWRPC federal 2013 reallocated in federal Section 5307 formula funds of $14,170. The decrease in Pace federal formula funds is the result of a reduction in the full year apportionment of their 2017 federal formula funds from those estimated at the beginning of the 2017 Capital Program.

Director DeWitte moved, and Director Lewis seconded that the proposed ordinance be recommended to the full Board for approval. The motion carried on the following roll call vote:

8 Ayes: Directors Anderson, Buchanan, Coulson, DeWitte, Lewis, Melvin, Troiani and Magalis

ADJOURNMENT

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

8 Ayes: Directors Anderson, Buchanan, Coulson, DeWitte, Lewis, Melvin, Troiani and Magalis

The meeting ended at 10:40 a.m.

Audrey Maclennan

AUDREY MACLENNAN
Secretary of the Authority