MINUTES OF A PUBLIC MEETING OF THE FINANCE COMMITTEE OF THE BOARD OF DIRECTORS OF THE REGIONAL TRANSPORTATION AUTHORITY

The Finance Committee of the Board of Directors of the Regional Transportation Authority met in public session on Thursday, May 25, 2017 at 8:35 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 @ #3a), Coulson, DeWitte, Lewis, Magalis, Melvin, and Troiani
Other Board members present: Durante, Frega, Higgins, Hobson, Pang, Ross, and Chairman Dillard

Approval of minutes from the meeting held on April 20, 2017

Director Melvin moved, and Director Lewis seconded that the minutes from the meeting held on April 20, 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

Director Buchanan joined the meeting by call.

Presentation of the Quarterly Performance Report

Ms. Jill Leary presented the first Quarter Performance report of 2016 to the Finance Committee. She compared year 2016 to 2017, which showed ridership at 2.7% higher in 2017. However, in 2017 ridership decreased 4.5% compared to 2016.

Ms. Leary also presented the peer average ridership performance for the different modes. CTA bus ridership is down 6% compared to 2016, and rail ridership dropped 4%. Metra ridership was down 1.2%, lower than the peer average. Pace bus showed a 1.7% ridership decrease for the quarter, but is still performing better than its peer average of -3.5%. Vanpool ended the first quarter 11.3% below 2016. ADA Paratransit ridership decreased by 1.4%, while its peers increased on average 5.1%. In first quarter of 2017 peer regional ridership, compared to 2016, the Chicago region ranks sixth of the ten regions, with a 4.5% ridership decrease. Houston was the only region to see ridership growth, at 0.1%, compared to 2016.

Lastly, Ms. Leary presented the financial measures. Regional operating costs, after being adjusted for inflation, were up 2.5%. The operating cost per passenger trip was $4.68, which is 7.3% or $0.32 unfavorable compared to 2016. Fare revenue per passenger trip was up 2.5%, or $0.04, and seems to be a positive result. A recovery ratio of 33.6% is 2.3 percentage points lower compared to first quarter 2016, an unfavorable result.

Director Magalis brought up a recent conversation with Ms. Leary about the potential impact that Uber and Lyft are having on ridership. He asked what information was available to show what that impact really is, and how it is being addressed. He stated the example of Lake County and how it is being impacted. He mentioned that the RTA should realign its business due to the impact. Ms. Leary responded that the challenge is figuring out how to measure the impact. She mentioned a RTA customer satisfaction survey from earlier in the year with data that can be shared when it is completed. She also noted that the ride-sharing companies do not share their data. Through the strategic plan and other efforts, we will try to determine how to better evaluate the impact and make changes, if necessary.

Resolutions certifying financial results for the First Quarter 2017

Ms. Bea Reyna-Hickey provided a summary of the Service Board financial results through March. Ms. Reyna-Hickey opened by stating that she will recommend that the Service Boards' results be found in substantial accordance with budget, but that the region as a whole be found not in substantial accordance. Ms. Reyna-Hickey explained that the $16.5 million reduction in the State's reduced fare reimbursement funding to the RTA contained in the stop-gap spending plan has negatively impacted the regional recovery ratio, and also explained that RTA views this funding reduction as potential rather than actual while we are still within State fiscal year 2017.

Regional unemployment decreased to 4.6% during the first quarter, which was 0.1 percentage points higher than the national average. RTA system ridership through March was 2.6% unfavorable to budget, with ridership for all three months of the quarter coming in lower than prior year. System operating revenue was $9.2 million unfavorable to budget, comprised of a $4.2 million shortfall due to lower accrual of the State reduced fare reimbursement and a $5.0 million shortfall due to lower fare revenue and ancillary revenue. Public funding was unfavorable to budget by 4.0% for the first quarter due to slowing sales tax and unfavorable PTF and RETT results. Regional operating expenses were favorable to budget by $12.8 million or 1.9% through March. The system net result was $10.7 million unfavorable to budget, as good expense performance did not fully offset unfavorable operating revenue and public funding. The regional recovery ratio of 45.9% was 0.6 percentage points unfavorable to budget due primarily to the lower level of reduced fare reimbursement funding from the State. Metra's recovery ratio was favorable to budget while CTA, Pace, and ADA Paratransit had unfavorable recovery ratio variances.

The Service Boards' operating deficits were either favorable to budget or well within the 5% unfavorable variance threshold defined in the guidelines for substantial accordance. Ms. Reyna-Hickey further stated that while the regional recovery ratio was unfavorable to budget, restoration of the reduced fare reimbursement to the traditional level of $34 million would swing the regional recovery ratio favorable to budget, by 0.1 percentage points. She went on to say that the RTA Act would require the RTA and Service Boards to return PTF funding to the State if the regional recovery ratio finished the year below 50%. Ms. Reyna-Hickey stated that a one percentage point miss, for example, would require the recovery of $23.2 million of PTF by the State.

Ms. Reyna-Hickey recommended that the Service Boards' first quarter results be found in substantial accordance with budget and that the region as a whole be found not in substantial accordance due to the developing regional recovery ratio shortfall. Ms. Reyna-Hickey stated that RTA staff and the Service Boards would continue efforts to get the reduced fare funding reinstated, while at the same time initiating discussions about potential Service Board action plans for the balance of the year.

Director Magalis stated that finding the region as a whole not in substantial accordance with budget was the appropriate thing to do while there is still uncertainty in the level of reduced fare reimbursement. He noted that the Service Boards' first quarter operating deficits were within the guidelines of the draft substantial accordance document from 2014.

Director Coulson noted that of the twelve current reduced fare and free ride categories offered by the Service Boards, only three are required by law. He suggested that elimination of some of these discretionary programs could be an effective alternative to a fare increase.

Director Hobson asked about the likelihood of the reduced fare reimbursement being reinstated. Ms. Reyna-Hickey said that she did not know the likelihood of reinstatement. She stated that we budgeted at the full amount of $34 million in order to not self-cut, but we accrued at half that amount to reflect reality.

Director Hobson asked if there were any discussions in Springfield about giving the Service Boards credit for the lost funding if it is not reinstated. Ms. Redden replied that a revenue credit is one of the options being pursued, and that we'll know more about the State budget for the current fiscal year by Wednesday, May 31st.

Director Hobson pointed out that one of the factors listed in the substantial accordance guide was "unforeseen conditions having a material negative impact" on the budget and said that the lower reduced fare funding fit into this category, so shouldn't that drive us to find the Service Boards not in substantial accordance with budget? Ms. Reyna-Hickey replied that the primary criteria for substantial accordance is the operating deficit variance and that all of the Service Boards' first quarter results met that test. She noted that the "unforeseen conditions" clause is just listed as a factor, rather than a separate criteria.

Director Hobson noted that we are walking a very fine line with the recovery ratio and asked if the Service Boards were actively preparing corrective action plans. Ms. Reyna-Hickey agreed that it is a fine line, which is why staff recommended finding the region not in substantial accordance. She said that the Service Boards are always preparing contingency plans to control expenses and counter delays in PTF funding. The Service Boards are required to submit a reserve plan since the RTA no longer maintains a centralized fund balance, so those Service Board plans are already in place.

Director Melvin noted that CTA is looking at various options to increase sources of system-generated revenue other than fares. He asked if the budget figures included seasonality. He also stated that CTA provides a large number of free rides and that a revenue credit of up to $100 million to recognize foregone revenue may be a more important area to focus on than fare increases which impact riders' household budgets. Ms. Reyna-Hickey responded that seasonality is already built into the monthly Service Board budget spreads.

Director Higgins noted that two of the potential actions are requesting an amended budget or action plan from the Service Boards, and asked if there was a reason that process had to happen at the conclusion of a quarter, or could it happen in other months as well? Ms. Reyna-Hickey said no, it could happen in any month, but she noted that a budget amendment is a significant amount of work for the Service Board and RTA staffs and the Board, so it is something one must be very sure about before initiating.

Chairman Magalis noted that Metra did the right thing by raising their fares and that Metra's numbers look very solid as a result.

Chairman Dillard asked if the free ride programs list could be shared with the rest of the Board and Leanne agreed to do so.

Director Melvin also complimented Metra for raising its fares but noted that CTA has a different mission, it has fares, which are in the middle of the peer pack, and serves neighborhoods which have still not recovered from the recession, and so an approach that focuses on revenue sources other than fares is appropriate.

Director Coulson moved and Director DeWitte seconded that the proposed resolutions 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, Magalis, Melvin, and Troiani

Discussion and ordinance releasing the 2018 Business Plan Call

Mr. Bill Lachman kicked off the 2018 budget and capital program process by seeking Board approval to release the Business Plan Call. The Business Plan Call outlines for the Service Boards the elements required for the development of their Operating Budgets, Two-Year Financial Plans, and Five-Year Capital Programs. The annual business planning process begins in May and culminates in December with Board adoption of the Service Board budgets and capital programs.

It already appears that 2018 will be a very challenging budget year. Significantly slower sales tax growth will limit the capacity for Service Board expense growth in 2018. Moreover, the RTA is experiencing worsening delays in the receipt of State funding for operations and debt service from a State without an approved budget. RTA system ridership declined for the fourth consecutive year in 2016, consistent with a national trend of decreasing transit ridership. Lower ridership means less fare revenue, which creates pressure on the individual Service Board recovery ratios and the statutory 50% regional recovery ratio requirement. Capital funding at the federal level continues to fall well short of the region's annual capital needs, and the State lacks a capital funding plan.

The key components of the Business Plan Call include the following: The Regional Economic Outlook, which is the basis for the sales tax forecast used to set funding levels for the Service Boards. The Service Boards examine their individual transportation markets and develop service plans that address the needs and opportunities of those markets. The Business Plan Call provides sample schedules of the information that the RTA is requesting. This information includes revenues and expenses by category, recovery ratios, staffing levels, service plans, operating statistics, and financing parameters for any planned bond issuances. For the Capital Program, the Service Boards will provide descriptions of new projects and identify the funding sources that support them.

In response to Service Board feedback, the deadline for submission of proposed budgets and capital programs to the RTA has been moved from September 30th to October 12th, after the Service Boards' October board meetings. Updates to the Service Boards' fund balance and reserve plans are due when the Service Boards submit their proposed budgets and capital programs. Due to the new federal regulations, all transit agencies must develop their own Transit Asset Management Plan. They must articulate their methodology for prioritization of capital projects based on criteria such as ridership, operating cost impacts, and asset condition.

The seven criteria for budget adoption identified in the RTA Act are as follows: Revenues and expenses in balance. Cash flow sufficient to pay expenses with reasonable promptness. Operating budgets that meet the recovery ratio requirements, are based on reasonable and prudent assumptions, and follow sound financial practices. Business Plans not only meet financial, budgetary, and fiscal requirements set by the RTA Board, but are also consistent with goals and objectives of the Regional Transit Strategic Plan.

The capital program for each Service Board identifies the projects to be undertaken in the 2018-2022 program period within projected funding levels. For each new project in the program, the Service Boards will outline the scope, evaluation criteria, justification, benefits, and costs. The RTA also requests that the Service Boards provide preliminary estimates of additional capital funding from local sources, Service Board funds, and Service Board bond proceeds planned for the Five-Year Capital Program. To meet the requirements of federal and state law and to provide opportunities for public input, the Business Plan calendar includes several public meetings and presentations on the capital program development process.

Mr. Lachman closed his presentation with a summary of the 2018 Business Plan timeline beyond the release of the 2018 Business Plan Call. In July, the RTA will provide the Service Boards with preliminary estimates of funding levels as a basis for discussions with the Service Board budget teams. On August 24th staff will present the proposed funding amounts and recovery ratios to the

RTA Board for consideration. Setting the funding amounts in August gives the Service Boards more time to complete their proposed business plans before submitting them to the RTA by October 12th, and presenting them at public hearings in October and November. September 15th is the statutory date for the adoption of the funding amounts and recovery ratios. November 15th is the statutory date for the Service Boards to submit their adopted budgets to the RTA. On November 29th the RTA Finance Committee will hold a special meeting to review the Service Board Budgets. Finally, on December 14th, staff will present the Consolidated Regional Budget for adoption.

Director Lewis urged the Service Boards to revisit their underlying assumptions when preparing their 2018 budgets because of recent trends in funding, revenues, ridership, population, and demographics.

Director Hobson recommended that the RTA increase the Service Boards' recovery ratio requirements and therefore the budgeted regional recovery ratio in order to avoid in 2018 a situation similar to the one we are facing with the 2017 first quarter financial results.

Director Melvin 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, Magalis, Melvin, and Troiani

ADJOURNMENT

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

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

The meeting ended at 9:25 a.m.

Audrey Maclennan
AUDREY MACLENNAN
Secretary of the Authority