RTA Regional Transit Strategic Plan

10-Year Financial Plan Technical Group
Meeting #3—Notes

ATTENDEES

First	Last	Organization	Present
Doug	Anderson	RTA	X
Sarah	Rubino	RTA	X
Peter	Kersten	RTA	X
Bea	Reyna-Hickey	RTA	
Bill	Lachman	RTA	X
Anthony	Cefali	RTA	X
Jeremy	Fine	CTA	X
Lisa	Smith	CTA	X
Michael	Connelly	CTA	X
Michele	Curran	CTA	
Lynnette	Ciavarella	Metra	X
Alan	Ochab	Metra	X
Jeffrey	Morris	Metra	X
Brian	Stepp	Metra	X
Lorri	Newson	Pace	X
Erik	Llewellyn	Pace	X
Melanie	Castle	Pace	X
David	Tomzik	Pace	X
Daniel	Comeaux	CMAP	X
Elizabeth	Scott	CMAP	X
Matt	Orenchuk	SSE	X
Alex	Hanson	SSE	X
David	Baumgartner	CS	X
Baird	Bream	CS	X
Emma	Winston	CS	X
Holly	Chase	CS	X

AGENDA

Recap of 6/2 Presentation to Financial Responsibility Working Group

- Doug presented to the Financial Responsibility Working Group on June 2nd where he presented the baseline scenario and compared the 2026 gap to the 2022 budget shortfall to illustrate the fact that the shortfall isn't new, however we currently have federal relief funding to address it.
- Baseline Scenario – 2026 vs 2022 Budget
  - 2022 budget shortfall (without federal relief funding) = ($640M)
  - 2026 projected shortfall = ($730M)
  - Shortfall as a percentage of projected 2026 operating expense = 18.7%
- The discussion was kept at the regional level, supported by service board input. Doug was careful not to provide any detail by service board during the discussion.
- The question was asked why the 3.9% growth was so high. Doug responded that inflation is a near-term contributor, and we talked about future expense growth at length with each of the service boards and this is where we think we are.
- The group asked if we expect to get back to pre-COVID ridership levels by the end of the 10-year period. Doug responded, "No." They also asked if any new funding sources were included in our baseline scenario and he also responded, "No."
- Doug will be giving a similar presentation to the RTA Board at next week's meeting (June 16th). The $730M budget gap number will be getting some more publicity, but we think it's important to get that number out there early because right now we have time to make changes legislatively and otherwise before we get to 2026. Director Groven, from the stakeholder group, made that same point. He also wanted to tie back any scenarios we provide to the previous scenario work that the RTA planning staff completed in 2020.

Discussion/Definition of Alternate Scenarios

- Scenarios to be defined by varying these "levers":
  - Ridership Recovery Profile
  - Economic Performance
  - Expense Growth
  - Nature of Transit Service
- RTA Scenario Planning – October 2020
  - Scenarios for discussion: while all six scenarios represent different plausible futures, three were selected for discussion with the RTA Board and stakeholders in relation to the RTA regional transit strategic plan, *Invest in Transit*.
    - 1. Stalled Economy
    - 2. Congested Recovery
    - 3. Regional Remix
- Model Sensitivity – 2026 Budget Gap (*EXAMPLE ONLY*)

- 2026 Baseline Gap = ($732M)
- More optimistic ridership: 75% vs 68% = +$72M
- More optimistic sales tax growth: 3.5% vs 3.0% = +$60M
- Lower expense growth: 3.0% vs 3.9% = +107M
- = ($493M)
- Even if sales tax and ridership surprise us, we are still looking at a daunting gap.

Compile Initial List of Funding Ideas to Mitigate 2026 Budget Gap

- Your Funding Ideas – not “one thing to produce $700M” but rather “ten things to produce $70M each”
- Expansion of existing funding
- New funding sources
- Estimates of impact
- Sales tax increase / base expansion
  - Business-to-business sales taxes
  - Consumer sales taxes on services
    - Lower rate, expand scope of levied services
    - Many of the untaxed/undertaxed services are more generally purchased by higher income populations
    - 7-to-1 impact ratio for RTA impacts of statewide revenue changes (Rule of Thumb, RTA service area = 1/7th of total statewide impacts)
    - CMAP estimates: $200m+ in annual revenues, based on certain assumptions (15% increase in base)
      - CMAP has incorporated service sales taxes into long-range financial planning
  - Both are politically sensitive
    - Taxation would not be Pace’s first choice
- Congestion pricing
  - Challenging implementation with unpopular mechanisms
    - Implementation timeline may also be longer than would allow us to avoid revenue gaps for operations – “optimistically, it would be in place by the end of the decade”
    - Bridge support from state for short-term coverage? Expanded state match?
  - Congestion pricing would also likely undermine support for MFT as source of capital funding
  - Managed lanes, tolling expansions – rely on existing technology, so deployment would be quicker
    - Dedicated increment for transit operations
    - “Good nexus” of tolling and transit operations for storytelling / advocacy – mutually-supportive goals of improving congestion, emissions
  - User-based fee: VMT tax vs. highway congestion charge? TBD
- Policy changes

    - Low-income tax credit for housing as policy model (federal)
        - LIHTC historically used for capital projects – would need a broader policy application
        - Asset depreciation as tax write-off, with portion of tax write-off retained for maintenance and operations
    - Equity-based formula funding (FTA)
    - Federal funding for ADA paratransit operations?
        - CMAQ funding has been used for operations, but usually in a pilot program structure for new service specifically – and ADA services may not be eligible under CMAQ
        - 5310 federal funding may be possible, but a coordinated effort among transit agencies nationwide would be necessary
            - More targeted ask is likely more achievable
    - State Medicaid reimbursement for ADA paratransit?
        - Historically, Medicaid reimbursement carried an extensive administrative burden for operators and payments were not seen as reliable
- Transportation subsidy via public assistance programs (State policy)
- CTA TIF application
- Advocacy for long-term policy change at federal level (extension of ARPA) to make federal transit operating funds – precedent for pre-FTA days ($1 in federal spending per $2.25 in local/state spending)
    - NY MTA is probably going to hit a wall earlier than expected due to ridership staying below forecast
    - "Feds will need to allow for flexibility in use of funding, if not additional funding"
- Need to ensure alternative revenue planning includes implementation considerations – move beyond talking into making it a reality
- Reduced fare reimbursement from State – restoration and/or expansion
- Removal of 1.5% sales tax surcharge
- Increase State PTF match (5% of PTF generates $75m+/yr)
- Auto rental tax (authorized under RTA Act, but never implemented – only generates $10m per year)
- Payroll tax, utility surcharge
- 10 ideas of $70m each:
    - Impact fees for development
    - Parking fees
- Next steps: organize revenue options by magnitude, priority order

Next Meeting Dates

- Thursdays at 1pm, opposite the weeks of the Stakeholder Group Meetings: June 23, July 7, July 21, August 4, August 18, September 1?

Q+A/Close-out

- **Jeremy Fine:** Who was on the Financial Responsibility Working Group?
    - **Doug Anderson:** Shared the RTA Working Group Hub site where each team roster is located. CTA, Metra, Pace, CMAP, advocacy groups such as Neighborhood Technology and Access Living, collar county representatives. About 30 members in total.
- **Elizabeth Scott:** What is driving the projected gap in 2026?
    - **Doug Anderson:** I think it's simply that expenses are projected to grow faster than the ridership is projected to recover. Revenues are not keeping up with expenses under our current projections. If we want to maintain status quo service we are going to incur higher expenses.
    - **Elizabeth Scott:** Is this group going to be a forum where we talk about the components of expense growth and what mitigations can be considered versus massive service cuts?
    - **Doug Anderson:** As we develop alternate scenarios we will likely dive into those hard questions. We did talk about expense growth with each service board individually and I think it's hard to go with lower expense growth without impacting service.
    - **Jeremy Fine:** We are not cutting our way out of this.
    - **Elizabeth Scott:** For sure not. Not trying to suggest that. Just curious about the dynamic. We know that the $730M is a way point on a way toward a gap that is forecasted to grow, in not too short of a time, to around $1B. That's the reality of it and I wanted to understand more as we go along. It sounds like that's where we are headed.
    - **Doug Anderson:** Daniel made that point at the last meeting. The gap does continue to grow beyond the 2026 snapshot. I didn't have a good answer to his question. The way I'm thinking about it now is that the first five years of the plan may be that we are still in recovery and trying to return to stability, by 2026 we may have re-achieved stability. By stability I mean we may be able to do fare increases again because I think we can't have a future with no fare increases. Nobody is talking about fare increases in the near term, including myself. If we get to 2026 with potentially new funding in place and get stabilized, fare increases would probably become necessary again. Right now, we aren't doing that in the model which is why the gap continues to grow. If we could do fare increases five years down the road that could be a way to help manage that last half of the model period.
    - **Jeremy Fine:** To put that into perspective, a $0.25 increase on CTA, pre-COVID levels, generated about $20M.
- **Alan Ochab:** Uncomfortable publishing the $730M number at the RTA Board meeting next week. There's a lot of uncertainty and a lot of runway from now until 2026. I think the $730M is a fine starting place for internal discussions, but once it becomes public at a board meeting it becomes gospel. This is one scenario. I don't even know if I would say that this is the likely scenario. I want to put it on record that I'm uncomfortable with publishing this number.
    - **Doug Anderson:** I understand, and I will make sure that our leadership knows your concerns.

- **Lorri Newson:** Have we looked to see if our peer agencies across the country are struggling with the same issue? Believes this is an opportunity to showcase the need for legislative changes to the treasury code.
  - **Bill Lachman:** All transit agencies across the country are facing severe decreases in ridership and therefore fare revenue, so rest assured we're not alone. I'm sure at some level, maybe at APTA, that there are efforts to lobby on the federal level. We are trying to present the local problem and get the level of magnitude out there so that we can say that we have a problem and we've got 3-4 years to work on solving that problem. Every year our estimate is going to change. We were all prepared to respond to inquiries if that $730M leaked out and it's been crickets. We've not seen that number come up anywhere. Our communication's group was prepared to respond to any inquiries.
  - **Jeremy Fine:** If people were paying attention to the budget process, then that number shouldn't be that big of a surprise.
  - **Bill Lachman:** A) it's not a surprise and B) we're talking about 2026.
  - **Doug Anderson:** Other agencies are talking about their 2023-2024 problems. We may be ahead of them in that this is part of our strategic plan effort, so we are looking further out. I will do some searching to see if other agencies have put out a long-term, structural gap before I talk to the RTA Board next Thursday.
  - **Lorri Newson:** Raising taxes is not the one thing we would like to see but I think we have some real opportunities to change these historical treasury codes and some of the other regulations to allow us the flexibility to be creative whereby the cost is not going to be borne by the customers. I want us to really take the fight to change the bureaucracy rather than to take the easy route and start raising taxes.
  - **Bill Lachman:** Great point, Lorri. That's why we must start talking about 2026 because what you're talking about is a long-term, diligent effort to make big changes.
- **Daniel Comeaux:** The fare revenue in the baseline scenario, you said it has been adjusted to account for some assumptions about new, regional pass products? I would raise the question today about the regional connector pass with CTA and Metra if this accounts for that or if that would be another hit to the fare revenue.
  - **Doug Anderson:** The only thing we did was decrease Metra's average fare slightly because of their $100 monthly pass product announcement. For the other service boards, we left average fares unchanged from current levels. The regional connect has not been factored in here yet. Maybe the service boards can weigh in on how that could impact revenue going forward.
  - **Jeremy Fine:** Hard to say. It wasn't a huge revenue stream previously. It dropped off to a small revenue stream during the pandemic. I think all our initiatives right now are focused on getting riders back on the system and then we can see what we will do from there. It's minimal on the CTA side, but if we don't get people back on the system riding it will be harder to ask for more public funding.
- **Doug Anderson:** To circle back on Alan's concern regarding the RTA Board meeting next week, we will caveat the gap heavily. The point will be that we're at a point in time. The gap will

change as we move forward, and this is what we're seeing right now. Do the CFOs of CTA and Pace share Alan's concern about going public with the $730M budget gap at this point?

- **Jeremy Fine:** No, I feel that we were clear in the budget process.
- **Erik Llewellyn:** We've made our executive director aware of this, so nobody is going to be surprised at this number.
- **Alan Ochab:** Our CEO and external affairs chief are aware of it as well; my reaction is that I can see the headline. It's a headline that is one scenario, but there are many other scenarios out there. When we do the 2024 budget and the 2025-2026 plan, is that 2-year period sufficient for some of the things that we're talking about? My assessment is that a lot of these ideas are unlikely to be in place by 2026. I just don't know what the benefit of publicizing the gap is. Seems there is more downside than benefit.
- **Doug Anderson:** I hear your concern and I will share your concern with Bea, but I think our plan will be to share this information with the RTA Board next week unless you hear otherwise.