RTA Regional Transit Strategic Plan

10-Year Financial Plan Technical Group
Meeting #4—Notes

ATTENDEES

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First	Last	Organization	Present
Doug	Anderson	RTA	X
Sarah	Rubino	RTA	X
Peter	Kersten	RTA	
Bea	Reyna-Hickey	RTA	X
Bill	Lachman	RTA	X
Peter	Fahrenwald	RTA	X
Anthony	Cefali	RTA	X
Jeremy	Fine	CTA	X
Lisa	Smith	CTA	X
Michael	Connelly	CTA	
Michele	Curran	CTA	X
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

1. Recap of June 16th Presentation to RTA Board

- Doug's presentation to the RTA Board on June 16, 2022 was part of a broader Strategic Plan updated and essentially the same presentation he gave to the Financial Responsibility Stakeholder Group the week prior.
- Baseline Scenario and what the 10-year plan group has accomplished thus far.
- First publicly accessible look at the $730 million projected shortfall in 2026.
- Doug feels it was effective to put that projected gap side by side with the 2022 budget. He made a couple points in the meeting:
    - We did not share any details at the Service Board level – all regional level
    - This gap exists right now in 2022, except that we have relief funding to offset it
- There were no questions from Board members. RTA Chairman Dillard acknowledged the size of the gap and that we need to figure out what to do about it. The Board did not seem surprised at the projection. Did not see much if any press on the item in the days that followed.
- Boston has published publicly a projected gap for 2027 – a range from $340 - $550 million. Their operating budget is about 60% as large as ours, so it lines up well with our projection just based on the relative sizes of our system.
- Philadelphia is showing a $270 million gap in 2027. Their budget is about half the size of our budget. However, they had low expense projections with only 2% annual growth.

2. Definition of Additional Scenarios

- Scenario Overview:
    - 5 Scenarios:
        1. Positive – Downtown Recovery
        2. Positive – Strong Economy
        3. Baseline
        4. Negative – Uneven Recovery
        5. Negative – Economic Slowdown
    - Scenarios defined by 4 levers:
        1. Ridership recovery, %
        2. Service Board average $ fares
        3. Sales tax growth % rates
        4. Service Board Operating Expenses %, <u>independent of service level changes</u>

PROPOSED SCENARIOS OVERVIEW

Scenario	Ridership (2026)	Ridership (2031)	Fare Increase	Sales Tax Growth	SB Expense Growth
Downtown Recovery	80%	100%	Flat thru 2024 then 3%	4.5%	+1.0% from baseline
Stronger Economy	75%	80%	Flat thru 2024 then 2%	3.75%	+0.5% from baseline
Baseline	68%	74%	No adjustment after 2024	3.0%	--
Uneven Recovery	65%	70%	Flat thru 2024 then 2%	2.25%	-0.5% from baseline
Economic Slowdown	87%	92%	Free fares in 2025	1.5%	-1% from baseline

6/27/2022

Proposed Scenarios Discussion / Q and A

- **Alan Ochab:** Are the current expenses that everyone has provided not at 100% service levels already?
    - **Doug Anderson:** I think that's true for CTA and Metra. Pace is kind of shifting service between fixed route and some demand response. I think you're generally correct – the baseline scenario is at 100% pre-pandemic service levels. May have to add some service frequency to achieve the higher ridership assumption.
- **Daniel Comeaux:** On the ridership side of things, is this keeping the relative ridership by service board the same and just scaling that up and down?
    - **Doug Anderson:** Yes, we did do that, Daniel. We can refine that – we took the baseline scenario and increased everyone by a like amount, but we kept the proportions the same.
- **Daniel Comeaux:** On the expense side, the previous slide said that operating expenses are independent of service level changes. What does that exactly mean given what you just said in that we could account for more service?
    - **Doug Anderson:** Good observation. In my mind, frequency would increase rather than the expansion of service, or adding routes for example.
    - **David Baumgartner:** The idea here is that the economic factors behind the growth rate changes do not reflect significant changes to service, but rather more/less labor expense in a good/bad economic environment.
- **Elizabeth Scott:** Fare increase – you probably will want to increase fares in a way that it's recognizable for users (end in 0 or 5). Have you all thought about what those steps are and how that might impact what you're looking at? In a scenario where you're implementing fare increases, can you ballast that with some kind of low-income subsidy? How could those things balance each other and relate to the revenue picture?

  - **Doug Anderson:** Regarding your first observation. For modeling purposes, we, as business analysts, tend to assume smaller fare increases each year where in actuality a service board might do a larger fare increase every three years and end up in the same place. We could refine that, but from a modeling standpoint I think we're saying the same thing. I don't have a good answer to your second observation.
  - **Bea Reyna-Hickey**: That gets more into the strategies which is not what Doug is doing right now. More policy recommendations which will come later this summer.
- **Alan Ochab:** Do any of those top 2 scenarios work in solving the gap?
  - **Doug Anderson:** No. As I showed last meeting, even if we pull some levers really hard, we only come down to about a $500 million gap. We haven't modeled these out yet, but I doubt it would be less than a $500 million gap remaining. All of these scenarios will show sizeable gaps.
  - **Alan Ochab:** It's interesting that we're presenting 5 scenarios that don't work.
  - **Bea Reyna-Hickey:** We aren't presenting the other scenario which we don't control, the fundamental change in funding structure. That's not what Doug is doing here. This makes the case for why we need the ultimate 6th strategy.
  - **Doug Anderson:** At the end we'll say, if we get surprised with some optimistic ridership and sales tax results our gap could be $500 million and, on the downside, it could be $730 million. We provide a range and then come up with funding strategies which solve for that gap as best as we can.
- **Michele Curran:** When we make the case that we need more funding, we need to explain why. Before we expect funding, we need to make the case for why we need it. If we show that we can cut our way out of the gap, then there's no case to be made. We have to explain to people first that there's a problem and what the problem is and what happens if we don't get the funding.
- **Daniel Comeaux:** Thought on the free fares – could make it complicated to communicate the individual cost of a particular change. Holding other things constant and varying just one. It may be helpful to have it separate. If we're otherwise not really looking at policy intervention such as subsidies or anything else besides an annual increase, having free fares could make it a bit confusing to talk about this scenario in comparison to the other ones.
  - **Doug Anderson:** Agree. We may want to break that out as a separate scenario or side analysis rather than having things too muddied up by pulling too many levers at once. Good point.
  - **Bea Reyna-Hickey:** It muddies it up because you're showing an economic slowdown with a 92% ridership return, yet the reason you're doing that is because of the free fares. It's almost two separate scenarios in which you need the economic slowdown scenario and then maybe you do the free fares as a side analysis, like you said, and don't combine them.
  - **Doug Anderson:** I like that.
- **Michele Curran:** In an economic slowdown, we're still expecting sales taxes to grow? I get inflation could cause sales taxes to grow, but if your income is the same or lower, I don't

understand how growth would occur. In the 2008 recession, I thought sales taxes were down double digits.

  - **Doug Anderson:** Yes, sales taxes dropped 10% in 2008/2009. The 1.5% growth we're showing here is an annual average over some number of years, built up from negative and positive numbers. It's very much an estimate.

- **Michele Curran:** On the expense side, in the negative scenarios I am concerned we are showing something unrealistic due to recent inflation and wage/fringe growth.
  - **Doug Anderson:** That's good feedback.
- **Alan Ochab:** Are you all thinking of what to do if we have a "one fare Chicago" or regional fare integration? I don't think that it's the free fare, but I think that there is a scenario that has less, or negative, fare increase if that gets put through. I know regional fares has been a topic in the strategic plan groups. I realize that it's not been fully modeled out or even partially. There needs to be something there showing a fare revenue impact if that happens.
  - **Doug Anderson:** In my mind, funding will be a large part of solving for the $700 million gap, but fares will also need to be a part of the solution. Not to speak for everyone, but somewhere in the next ten-year period we're going to need to get back to doing fare increases whether that's in 2025, 2026, or beyond. At least the service boards can say that they are doing their part and the legislature can recognize that. That's how I'm viewing it.
  - **Alan Ochab:** If you sell one ticket that's good on all three service lines, for one price, there is going to be a revenue impact.
  - **Doug Anderson:** Yeah, we'll have to adjust the baseline scenario when we have better clarity as to how regional fares would impact revenue. If that happens or is very likely, it becomes part of the baseline scenario in my mind.
- **Alan Ochab:** My other comment is that first scenario, downtown recovery, is intended to capture the return of ridership as well as an economic recovery. Versus all the other ones just talk about an economic recovery or slowdown. We may need to rename it.
  - **Doug Anderson:** We can certainly look at that.
  - **Alan Ochab:** I think all your other assumptions are based on what the economy is doing. So, it isn't really related to the service level of that first one (downtown recovery).
- **Baird Bream:** One note to clarify on the comment regarding negative expense growth rates – we're not predicting any negative expense growth rates. I think the right-hand column may need to be redesigned. We're not saying that expenses grow at -1%; we're saying that expenses grow at one percentage point less than the baseline. So instead of 3.9%, they grow at 2.9%.
  - **Michele Curran:** Yes, I get that. Basically, what I was trying to say is even at the baseline I think expense growth of 3.9% is still conservative with inflation at 8.5%. So, to really lower it much from 3.9% may be unrealistic. Prices don't go down in general. I understand what you're saying that expenses could only grow at 2.9% vs. 3.9%, I just don't want to have an unrealistically low expense growth forecast.

- **Baird Bream:** Most of the forecasts for inflation suggest that we should be back to 2% inflation for inflation for the overall economy by 2025 I believe. To Daniel's comment, that 3.9% is the annual average over the period – yes, that's correct.
- **Doug Anderson:** The model has the ability now to treat each year separately in terms of expense growth rate – we don't have to have the same rate for every year. We can put in a higher expense growth in the first couple years and then have that moderate as we move forward. Maybe we can look at refining that.
- **Michele Curran:** Our 2022 budgets don't reflect the current inflation rates, so we're already starting from a lower place.

3. Funding Evaluation Framework

- Proposed criteria for organizing and evaluating list of funding ideas
    - How do we look at these funding ideas in an organized way?
    - David Baumgartner from Cambridge shared the preliminary alternative revenue source evaluation framework criteria. The idea is to rate each of the funding sources on the following criterion:
        1. Revenue Yield – ranges in $
        2. Stability – fluctuation from year to year/unpredictability
        3. Equitable Impact – regressive vs progressive
        4. Ease of Administration – level of difficulty to implement/institute. Expansion of existing mechanism vs. brand new
        5. Ease of Implementation – the expected timeline to be able to implement the funding source

Funding Framework Discussion / Q and A

- **Bea Reyna-Hickey:** I think the proposed evaluation criteria are great – you've captured all except one. I would call it maybe ease of governance authority. What kind of legislative action would be needed? Is it local or state level? It's not administration – it's what administration we need to enact. I don't think it falls into any of these.
    - **David Baumgartner:** I think we're trying to capture that under the 5th criteria, Ease of Implementation, which is mostly about timeline which is dictated by how many steps we need to go through legislatively. The description of each of those will include what steps need to be taken to get there.
- **Elizabeth Scott:** One reflection on criteria – whether the source is potentially big enough for us to even mess with. I feel like that's worth weighing when you're looking at what you want to pursue.
    - **David Baumgartner:** I think the revenue yield will help us determine which ones are worth pursuing. Onece we get them all together we can draw a line through the ones that aren't worth it.
    - **Elizabeth Scott:** Maybe it's more of a ratio between the revenue yield and the difficulty. That's what I was trying to get at.

- **Bill Lachman:** Are you including with the ease of implementation the reaction from the public or acceptance?
    - **David Baumgartner:** We're trying to be careful with that. We don't necessarily know for all these what's that's going to be. My plan is to take an initial stab at, is this going to be accepted in terms of the pubic and politically? But again, I think that's what we're going to look at in this group collectively. Is this feasible or a nonstarter in terms of the political situation?
    - **Bill Lachman:** Are you also looking at the nexus to transit and transportation? For example, motor fuel taxes have externalities of encouraging people to take transit if it's more expensive to drive. Is that part of the criteria?
    - **David Baumgartner:** I'm not sure if that's explicitly in any of these. I know there's some that have that and some that don't.
    - **Baird Bream:** It's not explicitly accounted for but there are implicit recognitions there with the discussion of some of the revenue sources. For example, if we're talking about implementing a progressive property tax but recognizing that property tax has not historically funded public transportation. We say that whatever the amount that would be generated by a progressive property tax we assign only 5% of it going to the RTA and its service boards. We don't have some of those "discounts" assigned to some of the other revenue sources.
- **Alan Ochab:** I was thinking along the same lines as Bill on this. For example, on the RTA electric vehicle registration fee – I realize that electric vehicles aren't using gas and we are losing revenue from that, but the link between electric vehicles on the road versus how we want to move people to transit is much weaker compared to gas powered cars. What's the link to transit for electric vehicle owners? If I'm an EV user, I'm not contributing to pollution. Roadway use yes but that goes to IDOT, right? I don't know if that's picked up in the ease of administration or not.
    - **Baird Bream:** Yeah, I think that could be another factor here. The link to transit – we haven't explicitly considered that in this criteria framework.
    - **Alan Ochab:** In terms of the motor fuel tax, there wouldn't be any cannibalization to PayGo, right? This would be in addition? Does that confuse the message that some of the taxes are going to capital, and some are going to operating?
    - **Doug Anderson:** No, I don't' think we're cannibalizing it. The matrix that's in the document here is very much just a sample. Some of these sources were not on our list of ideas from the last meeting – for example only.
- **Daniel Comeaux:** I agree with the last couple comments. Having some sort of factor of alignment with transit or alignment with regional priorities. Filtering out some of the things like congestion pricing versus raising the sales tax, which doesn't align with regional goals.
- **Elizabeth Scott:** Am I right in that you don't want any feedback on these teaser ideas today and that you want to work on it more and come back together at a future meeting?
    - **David Baumgartner:** Yeah, the goal at this meeting is to discuss and come into alignment on the framework by which we're evaluating the funding sources.

- **Doug Anderson:** Correct, I see it the same way. We will come back, probably at the next meeting, with the real list of funding sources in this format for further discussion.

- **David Tomzik:** One thing that sort of struck me was the idea of capital vs. operating. When you start looking at funding sources for operating, what are people going to be getting for their money? Because that is going to come up. Is it operating or capital? As we move forward are we going to put everything we need, legislative-wise, together? For example, Pace needs more dedicated bus lanes and cameras. There are a lot of things we'll need on the transit side to make the system more efficient. How do we bring more people to the system? This isn't ridership is it, David? Is it just revenue streams increasing from outside taxation or other fees?
  - **David Baumgartner:** Correct, we are going to evaluate new funding sources that can help close the gap that was mentioned in prior meetings.
  - **Baird Bream:** We do have a few policy changes that we've been looking at which came up through the financial planning working group. Those policy changes are focused more on bringing people to the transit system. For example, strengthening equitable TOD regulations, or requiring business to establish demand management plans that incentivize people to use transit. We are putting an implicit thought on the scale by suggesting that their impact is relatively limited in scope. To the point that was raised earlier regarding the revenue to effort ratio – they had scored poorly, but that is a factor we are considering as to what can be done to bring people back to transit.
- **Doug Anderson:** In my mind, the high/medium/low scale works for everything except equitable impact because when I see high equitable impact to me sounds like a bad thing. I know you're stating on here that it's a good thing, but I don't know if anyone else had that reaction. Instead of equitable impact maybe go with favorable/neutral/unfavorable as opposed to high/medium/low.
  - **David Baumgartner:** Yeah, we could change the name to simply "Equity."
  - **Daniel Comeaux:** I agree, Doug, I had the same reaction. I like the favorable/neutral/unfavorable. Also, if you make low as being good for only one of them then that could be confusing.
  - **Alan Ochab:** I also think we need to change the definitions then because I don't think favorable should mean "tax the rich" but rather, no adverse impact to the disadvantaged communities.

Doug Anderson: Okay, we'll definitely think about that one.

4. Recovery Ratios

- Ensure that users pay fair share (fares) versus non-users (sales tax).
- Force transit providers to increase system-generated revenue (fares) as expenses rise.
- 50% budget requirement and penalty for actual result under 50% waived through 2023.
- Chicago ranked third, at 37.6%, in highest fare revenue recovery ratio compared to peer transit agencies nationwide before the COVID-19 pandemic.
- Recovery ratio options moving forward:
  - Fare revenue – NTD, simplest, transparent (2026 estimate = 17%)
  - All revenue – Transparent, includes ADA (2026 estimate = 21%)

- Statutory – Flexible but not transparent (2026 estimate = 26%)
- None – Require balanced budgets only

Recovery Ratio Discussion / Q and A

- **Doug Anderson:** Personally, I like having at least some recovery ratio because I do think it has some governing effect over expense growth, or keeps it proportionate, it certainly needs to be lower than what it currently is. I don't know what that number is – but you can see here it's down in the 20% range probably moving forward. We'll carry this forward into future meetings, so we are not making any decisions now, but I wanted to get initial thoughts on the recovery ratio piece of the puzzle.
- **Jeremy Fine:** I think understanding what the statutory requirements are would be helpful and getting a sense of what other agencies are starting to do about changing their statutory requirements considering the pandemic and its effect on ridership. Curious to see what the trends are.
    - **Doug Anderson:** Everybody is having the same debate right now so it's going to be fluid, but it's a good point.
- **Bill Lachman:** What are peoples' thoughts on having a more transparent recovery ratio?
    - **Jeremy Fine:** There's a lot of messaging that must happen in this because I agree that making it more transparent is helpful. It's going to be a seismic shift for folks to go from 50% to something dramatically lower that's sustainable. I think that's the front running that must happen on the political side to get people comfortable with that.
    - **Bill Lachman:** Right, it got the drop because of COVID and got the drop because we're going from something that has a lot of credits in it compared to something that's more transparent to the public. That's why at our board meetings we've gotten into the habit of showing all three of these versions, so that even our board sees that our statutory recovery ratio is not what you think it might have been.
    - **Erik Llewellyn:** My comment is regarding how we view the recovery ratio. There's a couple ways we can view it and we're talking here primarily about the legal requirement as a system in terms of how much money we get from fares to support the system. We can still have a recovery ratio, not in terms of money coming into the system, but how the service is evaluated separate from the relationship to the funding component. I'm just throwing that out there to still retain the recovery ratio but without it being tied to the funding element as it is today. More of an evaluation measure of service as opposed to how we're performing in terms of the funding that we get.
    - **Bill Lachman:** Are you saying that we would still measure the recovery ratio but not necessarily have a requirement to meet?
    - **Erik Llewellyn:** Correct.
    - **Doug Anderson:** Yeah, viewing it as a goal rather than a strict requirement is an interesting viewpoint.
- **Jeremy Fine:** Just out of curiosity, is there any other entity that has a recovery ratio regarding state funding? Or anything like it?

- **Bill Lachman:** Bea and I have gone to TFLEX conferences with many CFOs from other agencies and I've never heard anybody complain about their recovery ratio requirement. Has anybody else?
- **Jeremy Fine:** My point is that if we've always asserted and we've clearly proven during the pandemic that we're an essential service then we need to be treated like that. This recovery ratio is sort of an illusion that we were a for profit business. We're more like a water system or a police department where we bring in some revenue, but we clearly don't cover all our costs. We've got to change the paradigm of how we're viewed. Frankly, it wasn't working pre-pandemic and now it's not working after the pandemic.
- **Bill Lachman:** Before the pandemic we were looking for new ways to reach 50%.

- **Melanie Castle:** In my mind, yes, we're being treated like the post office. It's not a business it's a service. No one ever says the military lost $30 billion last year – it's not that kind of thing. I've always understood the legislative recovery ratio to satisfy downstate counties to say that all the public funding isn't just going to the Chicago area. There are limits on how much can be eaten up. If they don't generate enough of their own revenue, they can exercise their power to retain the PTF match, right? They can't take the sales tax funding away, but they can reduce the PTF which is the state's way of ensuring that the transit system doesn't become a drain of funding for the rest of the state. I'm very pro – what Erik said – to use it as a performance measure. That's what the NTD does, it shows how much revenue you are generating and are you in the realm of your peers. As far as any requirement for one, no, I would think that if we're balancing our budget that's what I would aim for. At least that gives us a negotiating point. I would argue that it's antiquated and outdated and so long as we can balance our expenses and revenues, I don't see why it needs to exist beyond just a performance measure.
    - **Bill Lachman:** We've always looked at the recovery ratio problem as a math problem as opposed to a problem for providing or funding service. The last thing we want the state to do is say we've relaxed the recovery ratio now we've solved your problem. The problem is money and not this percent.
    - **Melanie Castle:** Pre-pandemic, I think it was Pace's 2017 budget, we got to the point in our situation where we could not generate the recovery ratio necessary to spend all the funding between system-generated revenue and public funding we were not going to be able to generate enough of our own to justify using all the public funding available. We had to set up our budget with an automatic transfer to capital because we just couldn't get there. Granted we ended up spending it on capital but still it could have been spent on operating had it not been for the existence of the recovery ratio requirement.
    - **Bill Lachman:** Ways to get to 50%, right?
    - **Doug Anderson:** Yeah, kind of an unintended consequence of having that requirement.
- **Jeremy Fine:** I want to underscore the point that if this is a secondary concern and that it doesn't solve our problem. It's the cash. The bigger thing is educating folks on what the problem is and potential ways to solve it – and that's cash.
    - **Doug Anderson:** Yes, this will be an important recommendation we make but we're not suggesting that it would solve anything. It's just something else that needs to be adjusted moving forward.

    - **Melanie Castle:** Jeremy, the point here I'm making with this is assume things go great and we can find the cash. If we are still held to a 50% recovery ratio, we're not going to be able use the cash.
    - **Jeremy Fine:** Yeah exactly. By giving us more cash it's almost self-selects that we're not going to hit 50%.
- **Elizabeth Scott:** I'm just curious as to if members of this group have a preference at this point between these policy options – that would be helpful to know. Which options would be most useful? Or maybe it needs to be discussed more.
    - **Daniel Comeaux:** I think everyone agrees that it either must be lowered or go away. I don't think there's a scenario where we stay at 50%. There is potential for discussion on lower and how you calculate versus eliminating.
    - **Doug Anderson:** Yeah, we need more discussion. Personally, I favor a low fare revenue only requirement. That's just me.
    - **Bea Reyna-Hickey:** I favor reporting on a low fare only metric, but not a requirement.