RTA Regional Transit Strategic Plan

10-Year Financial Plan Technical Group

Meeting #5—Notes

ATTENDEES

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First	Last	Organization	Present
Doug	Anderson	RTA	X
Sarah	Rubino	RTA	X
Peter	Kersten	RTA	X
Bea	Reyna-Hickey	RTA	X
Bill	Lachman	RTA	
Peter	Fahrenwald	RTA	
Anthony	Cefali	RTA	X
Jeremy	Fine	CTA	X
Lisa	Smith	CTA	
Michael	Connelly	CTA	X
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	
Melanie	Castle	Pace	X
David	Tomzik	Pace	X
Daniel	Comeaux	CMAP	X
Elizabeth	Scott	CMAP	
Matt	Orenchuk	SSE	X
Alex	Hanson	SSE	
David	Baumgartner	CS	X
Baird	Bream	CS	X
Emma	Winston	CS	X
Holly	Chase	CS	

AGENDA

Peer Research – Projected Budget Gaps

- Sarah Rubino presented research findings regarding projected funding gaps at peer transit agencies:
    - **New York MTA** expects to fully exhaust all federal COVID-relief funding in 2025 and is projecting a shortfall in 2026 of over $2 billion. Since federal relief funding is expected to expire in FY25, MTA is anticipating $499 million (half a billion) of deficit borrowing proceeds to bridge the gap in that year. MTA's latest financial plan shows fare and toll increases beginning in FY23 through FY25. Total projected ridership in FY25 is about 86% of pre-pandemic levels.
    - **L.A. Metro** plans to exhaust its remaining $1.1 billion of ARPA funds in their FY23 budget. Although L.A. Metro hasn't announced a budget deficit figure for FY24, it is implied that a shortfall of at least $1 billion will present itself in the absence of ARPA. Average ridership is projected to be 86% of pre-COVID levels by the end of FY23.
    - **Washington, D.C. Metro** is facing the steepest financial cliff with a $519 million shortfall projected for FY24, which represents more than 23% of their FY23 operating budget. Traditionally, Metro ridership consisted of a high percentage of 9-to-5 white collar commuters – which was the exact demographic to go remote at the beginning of the pandemic and shows little signs of returning to prior norms. Although Metro has adopted new fare and schedule policies to attract riders beyond this demographic, the ridership forecast for FY23 is 53% of pre-COVID levels.
    - **Philadelphia SEPTA** expects their coronavirus relief funding to dry up sometime in 2024. To replace the federal aid in fiscal years 2025 and 2026, SEPTA plans to tap its Service Stabilization Fund, a rainy-day reserve of about $300 million. In FY27, SEPTA is projecting a budget shortfall of $269 million which equates to 15.3% of the forecasted operating budget in the same fiscal year. Estimated passenger revenue in FY27 is 74% of pre-COVID levels.
    - **Boston MBTA** expects to exhaust federal relief funding in fiscal year 2024 leaving a shortfall of $236 million as costs grow faster than revenues driven by lower ridership, safety improvements, new service, and fuel inflation. The projected deficit in FY25, the first year without federal COVID relief funding, could be as much as $473 million which represents 18.5% of MBTA's FY23 operating budget. MBTA plans to utilize $316 million in deficiency fund reserves to balance the FY23 operating budget. The ridership forecast in the FY23 budget is 68% of pre-pandemic levels.
    - **Dallas, Houston, and Denver** are forecasting balanced budgets for the short- and longer-term outlook since these agencies are funded on a higher percentage of sales tax while fare revenue makes up a small percentage of their funding sources. These

agencies also reduced service during the pandemic which allows flexibility in adding service/expense to match demand as ridership returns.

Discussion / Q&A Peer Agency Budget Gaps

- **Doug Anderson:** New York's situation is dynamic since it is based on an out-of-date ridership forecast. Jeremy noted a couple weeks ago that it is a very optimistic ridership projection which is not coming to fruition and so even though their latest official guidance was that federal relief would last through FY25, I think after their updated forecast it will exhaust sooner than that. Boston seems to be most like us in terms of size of the gap relative to their operating budget and their ridership assumption.
- **Jeremy Fine:** That's helpful; MTA mentioned their ridership projection was not even close to being realistic. I think that will probably put them in the same ballpark with us or worse when that's fully adjusted. It may be interesting to standardize it through this analysis at percent of ridership for example and see how they compare apples to apples, if you assume ridership is similar across all the agencies.
- **Lorri Newson:** Can you explain why Washington, D.C. is showing a $519M deficit and they are projecting 53% ridership. I find it to be interesting that it's only $519M.
    - **Sarah Rubino:** D.C. has also recently pulled 60% of its rail fleet after a derailment revealed issues with their 7000 series cars. I think they are facing a lot of challenges beyond regular ridership return.
    - **Doug Anderson:** Gap as a percentage of operating budget – 20% seems to be a pretty good rule of thumb – that's kind of where we are, and Washington's deficit is larger than that plus their federal relief funding is going to exhaust sooner than ours.
- **Alan Ochab:** In your research, I was wondering if you came across if any of these transit agencies addressed what they were going to do when the funding runs out. If they had any ideas or if they were projecting something or how they are approaching it.
    - **Sarah Rubino:** Right, that's the big question for all of us – what are we going to do? Unfortunately, I did not find a lot of solutions yet only problems/holes on some systems. I didn't find too many other ideas from peer agencies.
    - **Doug Anderson:** In the reading I did, they all seemed vague about that. I'm sure they're going through the same thing we are, just trying to figure it out.
    - **Sarah Rubino:** Yes, I know that L.A. has a task force for something like what we're doing in this group – financial planning.
- **Daniel Comeaux:** One observation and a question. If seems that it's important that these regions will all be hitting a financial cliff in different years. It seems like it's a little bit staggered so we will hit it a little bit later so we will be able to see how some respond. It won't be everyone hitting it at the same moment. I am curious that in these budget documents if we could standardize the ridership for example what is everyone projecting for 2025 so that we can capture a point in time. Especially on the ridership some of these are 2023 and some of these are 2027 and we could see some big differences there, but I understand why you did it for this table. Thanks.

- **Sarah Rubino:** The ridership what I had available, so if they didn't provide a ridership projection in the year of the gap, I just went with either their current ridership levels or latest budgeted ridership.

- **Jeremy Fine:** Again, I think that in our conversation with Kevin over at MTA, he had indicated that they are going through a similar process that we're doing. The interesting and helpful thing in this and from our own analysis beyond New York is that our revenue streams from the state or others are smaller in scope and in amount than what others receive. So that's somewhat of a good thing the fact that we have more arrows in the quiver than some of the others. For example, New York MTA was a little worried about where do we go? We've tapped into a lot of different revenue streams so how do we continue to get more revenues? I guess the silver lining is that we haven't tapped into a lot, however the problem in Illinois is that a lot of revenue streams are tapped out away from us. Also, regarding the staggering of the years I think it would be helpful to try and standardize this as best we can just to see how the gap years are affected by standardizing the ridership numbers. That estimate is wildly varying here – from 53% to 83% so we want to make sure that we're in the latter half of that. Presumably it would be best if New York MTA hit the wall first just as the gorilla in the room. I don't think no matter who's in congress anyone wants to see a total catastrophe unfold in New York City. I think it would be helpful to standardize it to see when those gap years do occur.
- **Mike Connelly:** The point I was going to make was something that you talked about a little bit and that is the farebox revenue as a percentage of the total budget. You mentioned that for Dallas, Houston, and Denver that they're farebox revenues is a much smaller portion. I'm thinking ahead to presenting this to the RTA board and the public in general. I think that's an aspect because we and New York have such a high farebox recovery ratio requirement it makes a big difference in terms of the ridership while Dallas, Houston, and Denver are not in that boat and L.A. Metro is very different that we are too. You can get that out of the NTD data, I think. It tells a little bit about the variety of revenue sources coming in and how big of a difference that makes.
  - **Doug Anderson:** That's a good comment, Mike, and that's a good transition to our next slide. The legacy systems traditionally have relied on fare revenue and passengers to support their systems, while the newer systems that we saw on Sarah's table that don't really have a budget gap haven't relied on passengers and fare revenue as much. The legacy systems are the ones with the structural problem now because of that former, relatively high reliance on passenger revenue versus the newer, warm weather systems that have less reliance on passenger revenue and are largely funded with sales tax which has done very well and is increasing now in response to the pandemic. That's why those systems don't have as big of a problem as we and the northeast systems do.
  - **Alan Ochab:** Doug, on this slide how many of these cities have a required recovery ratio versus just calculating it as a metric?
  - **Doug Anderson:** That's an excellent transition to Anthony because I'm going to turn it over to him to talk about required recovery ratios.

- **Bea Reyna-Hickey:** I find it hard to believe that Dallas did not have a deficit. I could see Houston and Denver, but I find it hard to believe. That's not what we heard at the TFLEX conference either. Maybe they're not projecting it yet publicly.
    - **Doug Anderson:** We can double check that. They are robustly funded with sales tax, so again those systems that had a lot of sales tax and not a lot of fare revenue before COVID are going to be better off coming out of it.

Peer Research – Recovery Ratio Requirements

- Anthony Cefali presented peer transit agency information around recovery ratio requirements:
    - Overall, only Denver RTD and Maryland MTA had recovery ratios that were comparable to the RTA.
    - Both systems had legislated farebox recovery ratio mandates of 35%.
    - In Denver, the original 1989 legislation mandated the recovery ratio increase to 40% over time. The whole statute was repealed in 2021 in a bill that granted RTD greater operations flexibility as the system experienced significant declines in ridership.
    - Maryland's effort to repeal the state-mandated farebox recovery ratio began in the early 2010s and ultimately passed in 2017.
        - The Maryland Transit District, the state agency responsible for transit, could not cut service as part of the farebox recovery ratio mandate. This led to an imbalance in service and abnormally high fares statewide.
    - It's notable that while MTA in New York and LA Metro don't have strict farebox recovery ratios, both must meet minimum farebox recovery standards to apply for state funds for operations. Both systems rely heavily on these programs, which are funded by portions of a statewide sales taxes passed in the 70's and administered by the state DOTs.
    - The other systems surveyed use farebox recovery ratio as a performance metric. Some are required to report it, others use it for goal setting, but none carry any kind of financial penalty for noncompliance.
        - Massachusetts is the only peer system surveyed that had a state mandate to track farebox recovery ratio. Facing significant operations funding gaps in the early 2010s legislation was passed in 2014 creating the MBTA Fiscal Management Control Board. The legislation mandated that MBTA set farebox recovery ratio targets, to be established by the control board, but no penalty for noncompliance.
        - Research suggests that MBTA hit their performance targets of 30%-35% during the years that control board exercised oversight, but then the board term expired in 2019.

Discussion / Q&A Peer Agency Recovery Ratio Requirements

- **Doug Anderson:** I think Denver had a financial penalty for not meeting their farebox recovery ratio, although it has been repealed. The general takeaway here is that other transit agencies either don't have a recovery ratio requirement and treat it as a performance measure, or they had one and they've gotten rid of it.

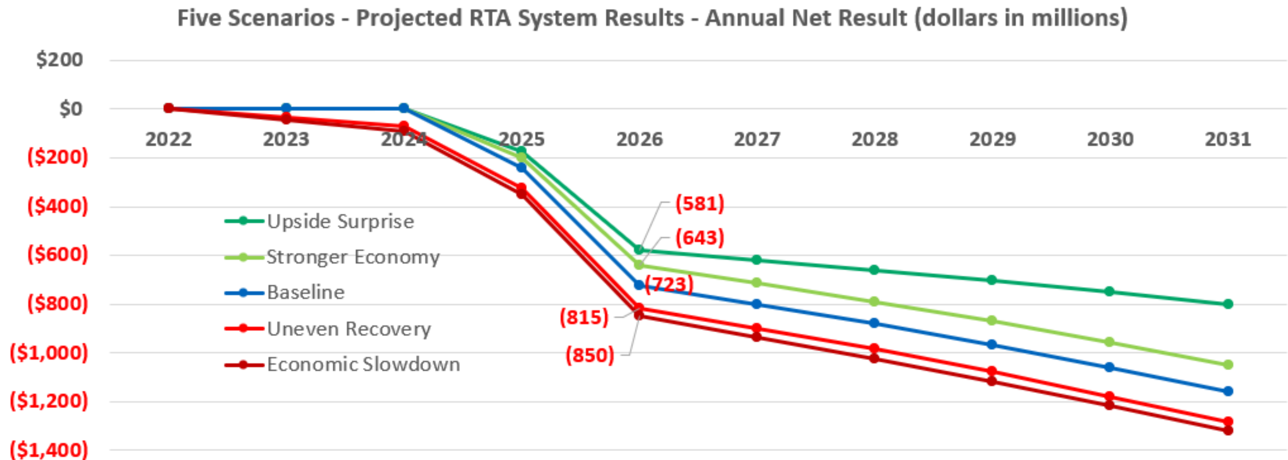
- **Bea Reyna-Hickey:** This is all very useful, Anthony and Sarah. This will help make our case.
    - **Doug Anderson:** Just to make sure as a team we are educated on what the other systems are looking like and what they're doing.

Updated Model Scenarios and Results

- Took fare increases out of all scenarios since it was clouding things up in terms of what the true gap looked like. Fare increases will be more of a potential, partial solution to the gaps as we move forward.
- Still have five scenarios:

Scenario	Ridership (2026)	Ridership (2031)	Fare Increase	Sales Tax Growth	SB Expense Growth
Upside Surprise	80%	100%	No adjustment after 2024	4.5%	+0.5% from baseline
Stronger Economy	75%	80%	No adjustment after 2024	3.75%	+0.25% from baseline
Baseline (most likely)	68%	74%	No adjustment after 2024	3.0%	3.9%
Uneven Recovery	62%	70%	No adjustment after 2024	2.25%	-0.25% from baseline
Economic Slowdown 7/12/2022	58%	70%	No adjustment after 2024	1.5%	-0.5% from baseline

- Narrowed the expense growth variance from the baseline because we didn't want to go too low or too high on that for purposes of modeling. We now have a half a point above and below the baseline.
- The sales tax growth rates range from 4.5% (which we have experienced so it's in the realm of possibilities) and decrease as you move through the more pessimistic economic assumptions.
- The scenarios, with fare increases removed, represent five broad sets of economic conditions bracketing the baseline scenario. This is what we came up with after meeting with our consultants and getting feedback from the group.
- Model results based on those five assumptions/scenarios:



- Funding gap range = $581 million - $850 million
- This also shows that even in a very optimistic scenario, which we are calling the "upside surprise," we still would have a deficit of almost $600 million in 2026. It also shows that we can't cut or assume our way out of this problem as it's very structural in nature. In the end we may drop the high and the low scenarios and go with the three in the middle to reduce the range of the gap.

Discussion / Q&A Updated Model Scenario & Results

- **Jeremy Fine:** I like the idea of dropping the high and the low. The reason is that the upside surprise is showing both sales tax growth and ridership growth. This is my two cents on this: I think you're going to see a lot more people coming back to work if a recession kicks in and companies start laying off employees. If workers start to lose power in terms of working remotely, I believe you could see ridership go up and sales tax go down. My larger point is that upside surprise scenario is probably too optimistic. Again, if you drop the high and the low you start gravitating toward a mean that's probably more realistic and what we need to be asking for from the state legislature and others.
  - **Doug Anderson:** I was thinking exactly along those lines.
- **Doug Anderson:** As Daniel mentioned a couple meetings ago, it's disconcerting that the gap continues to grow beyond 2026. My response to that is that fare increases would probably have to come into play eventually to start to bend that back up, and the funding solutions that we come up with will have to grow as well over time.
- **Jeremy Fine:** Sales tax growth in the economic slowdown scenario is still positive. Again, we could be in a really bad situation here in the larger economic impact of a recession or stagflation. If you go back to the 1970s, that period lasted for quite some time. Hopefully that's not a recurring event here but it seems more likely every day.
  - **Bea Reyna-Hickey:** What struck me is that none of these scenarios reflect a recession.
  - **Doug Anderson:** Michele brought that up last meeting. The 1.5% is an average growth so it could be a negative five followed by a plus three or four. Your point is well taken.
- **Alan Ochab:** I would not be against keeping the upside surprise, or our best-case scenario, in this only because even in that best case scenario we're talking about a huge dollar amount

needed. I suspect that as we make the arguments to legislators having this as a case in front of them – even if a lot of things go right, we need to double sales taxes to make ends meet. I think that's a powerful statement to make. Or we need to come up with additional sources of funds whether that's sales taxes or some of the other things in the upcoming matrix that are of similar magnitude.

  - **Jeremy Fine:** I think it's a good talking point, but I think you must also have the extreme downside too. Where you have stagflation/recession in another downside scenario, not just economic slowdown but major issues.
  - **Alan Ochab:** Whether it's $700 million of $850 million at the end of the day you're still going to need a lot of money. Whereas you show that even best case that's a different delta.

- **Daniel Comeaux:** I think 1.5% could be a reasonable 10-year average with a recession in the early part of the decade, but a problem with that is it would introduce a much larger gap in 2026. It creates a cash flow problem in the early part of the decade because we're not solving our revenues on a 10-year basis, we must solve them annually. For a planning exercise that makes sense. Regarding the continued growth of the gap beyond 2026, certainly fare revenues is something that we can think about, and it makes sense to separate out from the scenarios. The assumptions about the rate of cost growth and how we match revenue growth works for sales taxes but not fare revenues if they're fixed.
  - **Doug Anderson:** We can put the sales tax growth in here by year rather than put an average in. I'm hearing that we want a "major issues" scenario where some negative sales tax growth for the first couple years and then a rebound, which will drag the 2026 gap down significantly. That might be one for us to add.
- **Lorri Newson:** It might make sense to keep it between the strong economy and the uneven recovery because I think it gives more credibility to our projections if we tried to narrow it as much as possible.
  - **Doug Anderson:** What ends up in the final strategic plan is quite a ways off. We could certainly model these things – it doesn't necessarily mean they will end up in the finished product or be communicated. At the end of this process there will be a technical memo written by us and the consultants, which captures the entire team's work process over the last few months and will become more of a final product. That's where we need to be careful of what we include and don't include. That's still over a month away.

Funding Evaluation Criteria Update

- The consulting team has drafted a document that contains the funding ideas that came out of the financial responsibility stakeholder group. Many of you are on that team so the ideas on there would not news to you, but the initial draft contained only those ideas coming from that group. There were some additional ideas that came out of this group which we have not incorporated into that document yet. The document and format are still being vetted by the RTA staff providing feedback to the consultants. We'll hopefully be able to distribute a comprehensive draft next week.

- David Baumgartner presented the framework and criteria for evaluating alternative revenue sources.

Discussion / Q&A Funding Evaluation Criteria

- **Bea Reyna-Hickey:** I think there's a difference between ease of implementation verses ease of maintaining it (collection, etc.) I think those should be two different things or split off.
- **Alan Ochab:** I was wondering about the equitable outcomes. What's throwing me is the word "benefits" in the description. Low = minimal and high = great. When we use the word benefits, I can't imagine how any new revenue source is going to provide benefit. Is what you're trying to say here "lease negatively impacted" versus "most negatively impacted" or am I misinterpreting what the intent is here?
  - **David Baumgartner:** I think the scale represents how progressive that funding source is. Does it have higher impacts on higher income groups versus lower income groups? It's an evaluation of progressivity of that funding source.
  - **Bea Reyna-Hickey:** I get what you mean, Alan. Either way I think we should describe it better because it will mean different things to different people.
  - **Peter Kersten:** Alan, this is one thing that I think will change before we share it with the full group. Better align the language to match what we use for the stakeholder working groups. We had a formal definition we shared with the board in preparation for that, and that's something we flagged during internal review was to change this language to make that clearer. I think you'll see an adjustment in the formal draft we share with this group.
  - **Alan Ochab:** I also recognize that the way we define low, medium, and high with low being worst and high being best that a definition we come up with for equitable outcomes might be the inverse of all of that. Flipped.
  - **Peter Kersten:** You're spot on in that we need to be very clear in how we communicate that part of it.

- David Baumgartner presented an initial, <u>draft</u> visualization of the outcomes of the funding source ideas in terms of stability, nexus with transit, equitable outcome, and projected year.

Discussion / Q&A Funding Visualization

- **Lorri Newson:** Can you explain what you mean by index Paratransit funding?
  - **Doug Anderson:** That's from the $8.4 million that comes from the state every year. It's never been adjusted for inflation, so someone suggested increased that for inflation. It doesn't add much but that's an idea, so we wanted to include everything that was brought up.
- **Alan Ochab:** I generally like the graphic, but we've got six dimensions. I'm wondering even though it's easy to understand, is this going to be the best way to present this data going forward versus is it just simply a table with rankings for each of the five categories. I don't know how we present each of the dimensions in one concise way.

- **Doug Anderson:** I think this slide exists to get people to start thinking about prioritizing and filtering the options. Part of RTA staff's feedback to the consulting group was to do exactly what you're saying by making more of a ranking type of thing within the document. You'll see that detail in the document next week.

- **Jeremy Fine:** The way that we've shown it in internal documents is just in a bar chart. We should not get into the ease of implementation because I'm sure the legislature may have different opinions than ours. It's just showing here's all the different ideas and here's how much they would generate. It's a menu. Then have a line on there of how much we need and show how we can achieve it with the different bars. It seems like the legislature has different opinions in terms of ease of implementation.
- **Daniel Comeaux:** A thought on the ease of implementation, it sounds like this is the non-political ease of implementation. This is really the logistics of implementation so maybe just clarifying language there. Making it clear even on this page that we're not thinking about the political aspect. One other thought – it does seem like something that we can get in place by 2025 is quite different than something we can get in place in 2027 given that we're facing a gap in 2026. The timelines here could maybe use some tweaking because there may be things that might not be feasible in 2025 but we could get soon enough versus what's after that and might not be on the table.
  - **Jeremy Fine:** Absolutely. That will be critical with anything regarding congestion pricing. It produces a lot of money but it's going to take a while to figure out.

Closeout/Q&A

- July 21st (homework – review funding evaluation document to be provided week of July 11).
- **Alan Ochab:** Is there a skeleton of the steps needed to take one of those proposed funding sources and have it come to fruition? It seems hard to evaluate a proposed funding sources just based on a three-word description.
  - **Doug Anderson:** I don't think we've taken that next step yet. There is a lot more detail in the draft document so hopefully that will help in terms of evaluation, but that's a valid point.