RTA Regional Transit Strategic Plan

10-Year Financial Plan Technical Group
Meeting #2—Notes

ATTENDEES

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

AGENDA

Intro/Hub Site Review

- The technical group hub website is located here: https://sites.google.com/view/rtaworkinggrouphub/technical-groups/10-year-financial-plan?authuser=0
- The page contains prior meeting materials as well as agendas and the team roster.

Future Meeting Schedule

- The timeline of the 10-year financial plan working group process is as follows:
    - Baseline scenario was the focus for May.
    - As we move through June, we're going to be working more on alternate scenario definitions along with new funding sources and associated dollar amount with the help of consultants.
    - July and August will focus on policy solutions and quantifying funding solutions.
    - End of August we will produce a technical memo summarizing the work of this technical group as a whole.
- Future meetings will be held on Thursdays at 1PM tentatively and opposite weeks of the stakeholder group meetings. June 9, June 23, July 7, July 21, August 4, August 18, September 1.

Finalizing the Baseline Scenario

- RTA met with each Service Board individually last week where inflation was a hot topic.
- Mostly minor refinements to revenue and expense assumptions.
- RTA consultants developed a matrix for discrete expense growth which is not yet utilized in the model but is included in the latest version.
- The baseline scenario assumptions are as follows:
    - Ridership recovers slowly to 74% of pre-COVID levels by the end of the 10-year period (2031).
    - Projected expense growth of 4% per year.
    - Projected sales tax growth of 3%. We don't attempt to forecast recessions, but the reason sales tax growth is lower than expense growth is since the possibility of a couple recession years could offset higher sales tax growth years within the 10-year period.
    - Funding distribution by current statute/agreement.
    - ADA Paratransit fully funded each year.
    - Relief funding to exhaust in 2025 for all Service Boards.
    - Use 2026 to isolate annual shortfall – "the gap".

Establishing Funding Gap and Recovery Ratio Capacity

- Current model is projecting a large, expected shortfall greater than $700 million in 2026.

- The region has been requisitioning over $600 million of federal relief funding in the near term. So, in that way, once the funding is gone it shouldn't surprise anyone who has been paying attention to our budget and yet I think it will surprise a lot of people as we socialize this number over into the stakeholder groups.
- Focusing on 2026, the assumptions the Service Boards have given us have ridership at 68% of 2019 levels.
- System-generated revenue supported by that level of ridership is just under $800 million.
- Public funding is projected at $2.4 billion in 2026.
- Combined operating expenses including RTA is about $3.9 billion.
- That gives us an estimated regional shortfall of about $732 million in 2026.
- The regional revenue recovery ratio is projected at 26% and dropping beyond 2026 because expenses are growing faster than operating revenue.
    - That number includes all the current approved adjustments to revenue and expense allowed by the RTA Act, so it's an adjusted recovery ratio.
    - Includes no federal relief funding.
    - Permanent recovery ratio relief will be a product of this group.
    - Starts to give us a sense of what we may or may not be able to do "recovery ratio capacity".
- Next step is to communicate the shortfall to the Financial Responsibility stakeholder group as early as next Thursday, which is their next meeting.
- Need each Service Board leadership team to be aware of the publicity of the number.

Discussion/Definition of Alternate Scenarios

- The assignment for this group is going to be defining additional scenarios that are going to be part of the process as we move through the summer in attacking this gap. Or modeling what could even be a higher gap.
- Scenarios to be defined by varying these levers:
    - Ridership recovery profile
    - Expansion of existing funding
    - New funding sources
    - Expense growth
    - Nature of transit service

Homework for next meeting

- Think about scenarios we want to model
- Bring a list of ideas for expanding existing funding and new funding sources (menu of options)

Q+A/Close-out

- **Jeremy Fine:** What about the impact of a recession? Unfortunately, it's looking more and more like the direction we're headed here.

Doug Anderson: I think that's why we left the sales tax growth at 3%. Maybe it'll be 4% in good years and negative one or two percent in recession years, but the average is what's important. On the flip side, we are not taking advantage or reflecting any positive impact on the near-term sales tax due to current inflation. We feel like we have it about right here as far as the assumptions we can reasonably make.
Jeremy Fine: It's something that we need to flag and see how it starts manifesting itself. We may be way overestimating growth on the revenue side as we move forward.
Doug Anderson: We'll talk more later about how to communicate and socialize this gap and we'll have a lot of caveats with revenue growth assumptions being one of them.
Jeremy Fine: It's been a while since we've been in an inflationary period, and it's been a while since we've been in a sustained recession period as well.

- **Daniel Comeaux:** The end growing part of the shortfall is going to be something people are going to want to talk about and given the rate at which it grows I don't know that a revenue solution that solves this shortfall solves the same problem four years later. I'm just curious if you have reactions to that?
  Doug Anderson: Yeah, if revenue or prospective funding is growing less than expenses then we could end up with an additional gap in those outer years. I haven't looked specifically at how fast that gap continues to grow, but that's something I need to do. It's a valid point, but I think for the purposes of this initial step this is the number we need to get out there.
- **Daniel Comeaux:** I'm trying to think in advance about coming up with solutions if the message is that it's going to be bad and then it's going to get worse, and we don't have any way to make it not get worse.
- **Doug Anderson:** I believe the ridership assumptions we have in here are probably still a little conservative. I think that's the right way to go, and the message of this effort should be focused on getting riders back on the system if they want to continue to have a system. I think there's probably some upside on ridership.
- **Jeremy Fine:** Just to be clear, that's not going to close the gap. It will help close it to some degree but won't eliminate it. I think we are all aligned that we need to get more riders on the system. Through some of the fare adjustments and marketing efforts but unfortunately some things are outside our control. Some of it is in our control. We'll need to continue to push on what we can. I don't want to give the illusion that ridership could close the gap alone. It's very hard. You'd have to have growth above and beyond 2019 levels to start closing these gaps. You said you view the ridership estimates as conservative but unfortunately, at least through the first part of 2022, they're pretty much mapping on top of where we are. MTA's CFO noted that CTA's ridership estimates were much more conservative than those of New York, which are in the 80%-90% range over the next several years, and not what New York is actually experiencing. We are pushing for more riders, but the reality is that it's obviously slower than what any of us would like.
- **David Tomzik:** For clarification, are the operating expenses current budgets or projected increases?

- **Doug Anderson:** Definitely projected increases. That's what we worked on with the Service Board finance teams last week. Essentially, we are taking the levels in the 2022-2024 current adopted budget and plan and growing those by about 4% collectively per year.
- **Alan Ochab:** From a metrics perspective there's a couple of hot topics that are being discussed in the strategic plan and I would classify these projections as being status quo versus incorporating anything related to Metra's South Cook fare program. That program expires after three years – could continue getting funded or not moving forward. The other hot topic is a region wide fare neutralization or integration system which without additional funding probably has the impact of lowering regional revenues. I think we need to be clear on defining what this does or does not include with relation to at least those two items.
- **Doug Anderson:** Totally agree. We'll have an assumptions list that will back up our estimates. I don't like to call it a status quo scenario because that implies that we can continue as we are and be okay and that's certainly not the case. That's why we're calling it the baseline scenario. We're going to define additional scenarios as we move forward which will include things like you mentioned – the regional fare product. That could make this number even worse and so those types of things are going to have to be accounted for in additional scenarios.
- **Erik Llewellyn:** Just a clarification, I know that 2026 is the first full year in which we would see a shortfall, but how is 2025 going to be addressed? Because 2025 doesn't exactly have small numbers either. I know that there's federal funding still available, but there's still potentially a deficit there as well.
- **Doug Anderson:** Great point. The CTA is also sitting on a very significant projected shortfall in 2025. We're sitting here in 2022 and the solutions are going to take at least some legislative action over the next two or three legislative years, so at least some of that's going to have to be in place before or during 2025 to address those projected shortfalls. But again, I grabbed 2026 as the first clean year but 2025 looks like it's going to have at least partial deficits as well.
- **Erik Llewellyn:** The other part is when this information gets brought to the working groups, I think it needs to be clear that there's going to be a shortfall actually occurring in 2025, not just starting in 2026.
- **Doug Anderson:** I agree. We will make that clear. Very good point.
- **Elizabeth Scott:** We've discussed that there are a lot of assumptions built into this gap number, the baseline scenario. Have you all considered, outside of scenario planning, expressing the gap as a range? Sometimes if you tell people a number and it's not on the nose then you may lose some persuasion ground with the stakeholder groups.
- **Doug Anderson:** Yes, I understand. It's sort of like a false precision problem. I'd like to hear thoughts from the team on maybe going that route.
- **Bea Reyna-Hickey:** I think that's an excellent point, and I think that'll absolutely be part of the strategies. You're calling it ranges and I'm calling it scenarios. If this happens this would be the range.
- **Peter Kersten:** I think the range is important. I think we also want to be clear about what things we can and cannot control and that's kind of implicit in the range. Things like inflation and recessionary periods are obviously way beyond what anyone can control. And we need to be honest about that with the stakeholders as we start to socialize the problem.

- **Doug Anderson:** To Elizabeth's point, there's a lot of sensitivity to a lot of things. If we adjust sales tax growth to 3.5% that decreases the gap to $700 million, for example. Instead of giving a precise $732 million, we could say it's over $700 million. We need to get our communications team involved with how they think we should characterize it to your point.
- **Jeremy Fine:** We definitely need to outline it, but I'm more in the camp where you have different scenarios which shows the different toggles and further highlights those variables that contribute to the adjustments. Some people may assume that we put more weight on a recession or on ridership recovery. I think it further highlights the fact that there's a lot of different levers that are impacting our overall number.
- **Lorri Newson:** I feel we need to consider the implications as we migrate to full electrification by 2040. We must consider the impact of having less motor fuel tax come into the region and be made available for public transportation. We may have to consider whether or not there's tax on the electricity used.
- **Doug Anderson:** Yeah, I think there's a higher registration fee for electric vehicles in an effort to sort of recapture some of the lost motor fuel tax, but that's a very good point. There's a revenue side impact of that and then on the expense side for Pace and CTA. We could certainly capture that in one of our scenarios. I had also asked the consultants to help us think through the general impact of electrification as we move through the next decade.
- **Lorri Newson:** Another thing we have to consider is creating a subsidized transportation program for low-income families if fares increase.
- **Doug Anderson:** That's a perfect example for this menu of options we're talking about. The current model more or less holds the average fare steady but certainly fare increases or decreases could be built into the alternate scenarios.
- **Daniel Comeaux:** It seems like the funding sources side of things is a little different in kind than the other levers you talked about. I wonder if the scenario levers are really about the ridership recovery profile, the expense growth, the nature of service and then that scenario produces some gap that you can then figure out through subsequent analysis. There's the things that drive the gap and there's the things that solve the gap and I'm wondering if we can treat them separately.
- **Doug Anderson:** There's sort of an infinite number of possibilities. Infinite number of positions on levers, so I hear what you're saying. We want to keep the scenario structure we develop understandable. Good point.
- **Jeremy Fine:** Are we really looking for a number of different scenarios where we're looking for a high – low range and then we can talk about, if asked, more specific impacts of certain levers. As opposed to having infinite number of scenarios that you group good and bad together. Provide the range and then cost out what the impact of the particular assumptions are so that we can have those in our back pocket. Otherwise, it starts getting messy particularly to people outside the tent.
- **Alan Ochab:** Maybe it makes sense to prioritize some of the levers. For example, once we kind of know the range of public funding then what's the nature of transit service look like. It becomes a waterfall for the scenario rather than a scenario having all five components.

- **Doug Anderson:** Yeah, I think that's what we're talking through now. I don't have a specific plan for these scenarios, so that's a good point and something we can work on as we define these.
- **Alan Ochab:** So, is raising fares at the beginning of the priority or is it back end? Is it changing operating cost at the beginning of the priority or is it back end? I think that's something that, as a group, we probably need to agree upon. Or it becomes a scenario as to where the priority is.
- **Doug Anderson:** Good points. I do think we need to get this baseline number out there as it's sort of on the critical path in the strategic plan timeline to get that $700 million number socialized and out there in the stakeholder world and eventually the public with the appropriate list of assumptions behind it. And then develop these scenarios as we move through the next month or two.
- **Elizabeth Scott:** Something to think about while you're specifying the scenarios is that scenarios themselves can serve multiple purposes. One purpose is a team purpose, which is kind of trying to stress test different assumptions and look at different combinations of possible futures and that can give us insights about what to do. But the other piece is about communication and messaging around the policies. Usually, I've found that they don't necessarily mesh all that well. Usually civilians are like "Wow, this is really complicated. Which one are you saying is going to happen?" That's usually what people think in this kind of situation. It's complicated to communicate this effectively.
- **Jeremy Fine:** I like that. The matrix is good for internal discussions, but the range is better for the outside folks.
- **Doug Anderson:** One more thing we'll do at the next meeting is play with the model to give people a better sense of sensitivity. Things like sales tax growth rates, fare changes, expense growth rates, what really sort of moves the needle more than other things. I'll have that thought out ahead of time to give it a little more structure.