MINUTES OF A SPECIAL 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 a special public session on **Wednesday, December 3, 2014** at 9:10 a.m., in Suite 1650, 175 West Jackson Blvd., Chicago, Illinois, pursuant to notice.

Committee Chairman Magalis presided.

ROLL CALL

Committee members present (6): Anderson (phone), Buchanan, Coulson, DeWitte, Lewis, and Magalis
Committee members absent (1): Troiani
Other Board members present: Frega, Hobson, Melvin, Ross (phone), Totten, and Chairman Dillard (phone)

The following is a summary of the Service Boards' presentations and subsequent questions and answers at the RTA Special Finance Committee Meeting held on December 3rd, 2014 as prepared by Ms. Donna Anderson, Division Manager, Budget, Performance, & Business Analysis and her staff.

Metra

Presentation – Tom Farmer, Chief Financial Officer

Mr. Tom Farmer provided an overview of Metra operations and its budget and capital program. Metra operates over 750 trains per day in the most complex operating environment of any commuter rail service. Metra shares tracks with freight railroads, which operate 600 trains per day, and is an example of a public-private partnership that has been successful for a long time. Metra provides over 300,000 passenger trips per weekday on 11 lines. Metra has 241 stations, 76 in Chicago, serving 116 communities.

The proposed 2015 budget is balanced and meets the required recovery ratio. Projected operating expenses are set at $753.1 million. Metra is not budgeting for any service level changes. The capital program is budgeted at $329 million.

Mr. Farmer showed a chart indicating that Metra fares have not kept up with either its peers' fares or the consumer price index.

Key budget points include: a 10.8% fare increase, bringing back the discounted 10-Ride Ticket so that it equals the cost of 9 rides, increasing the cost of the Weekend Pass from $7 to $8, allowing the monthly pass to be used until noon on the first workday of the subsequent month, and allowing the one-way ticket to be valid for a period of 90 days instead of 14.

Charts showing the performance measures of operating cost per passenger mile and miles between major mechanical failures, and comparing Metra's results to those of its peers were shown. Mr. Farmer praised the RTA performance measure reporting process.

A discussion of Mobile Ticketing ensued. Mr. Farmer stressed that mobile ticketing is customer-focused and offers new payment options, but is also beneficial to Metra as it has a lower price tag than ticket vending machines, gated systems, or tap on/off systems. Mobile ticketing allows for instant ticket purchasing and allows for the use of bank and credit card transactions on-board. As for point of sale upgrades, contactless card readers are currently being installed and necessary system upgrades to support functions are occurring.

Metra will need $9.9 billion over the next ten years to maintain a State of Good Repair, but only about 25% of this is projected to be available from traditional funding sources. Fares cover about half of Metra's operating expenses. Funding is a chronic problem that will require new funding streams, and this problem cannot be solved through fare increases alone.

ICE projects were outlined, as well as the modernization program, which will cost $2.4 billion over the next 10 years. $1.3 billion of this has not yet been identified. Positive Train Control (PTC) will cost about $400 million. Rolling Stock will cost about $2.1 billion over 10 years and will be used to purchase new vehicles and rehab some older ones. The RFP for the accounting systems renewal project was released in mid-2014 and is currently in the selection process.

Questions and Answers

Director Magalis: How was the budget impacted by the public hearings?
Comments about the proposed budget were mixed, but people saw the need for modernization. The Metra board received and reviewed all comments and made the decision to proceed with the proposed modernization plan.

Director Magalis: How does Metra project passenger trip growth with the upcoming fare increase?
Passenger trips are actually projected to decrease by about 1% in 2015 resulting from the fare increase. Ridership growth in subsequent years is based on historical ridership trends, which typically show a post-fare increase transition period followed by growth.

Director Coulson: Stated his own train was late this morning due to a signal problem. How does the capital program address such issues?
Every year's budget includes signal upgrades; they are a constant maintenance item. Signal upgrades will also occur as PTC is implemented. Tom explained that the tracks are a circuit, and a signal problem indicates a break somewhere in the circuit, which could result from many things.

Director Coulson: Does Metra see revenue from freight using Metra tracks?

Yes, there are trackage fees within each contract but they are quite long-term and are at preset rates. Tom estimated that Metra receives about $20 million a year in trackage fees.

Director Frega: Are there any energy savings plans?
Metra is looking into compressed natural gas (CNG) and other alternative fuels for its rubber-tire vehicle fleet. Metra is testing three newly purchased locomotives that might save fuel; the problem is that the alternative fuel needs to be energy dense, as you would not want to have to haul around an extra tender with the fuel. The alternative fuel also has to meet clean air criteria.

Chairman Dillard: Does Metra see any decrease in operating costs resulting from capital expenditures?
Metra has received about half of the 160 new train cars for the Metra Electric District Line and does expect to see savings from those new cars.

Chairman Dillard: What is the time frame to decide to either bond or get vendor financing?
Mid-2015. Financing expense is already in the budget.

Chairman Dillard: I recently paid $2.49 for a gallon of gas. Is Metra pursuing options to lock in fuel prices?
Purchasing is looking into this.

Chairman Dillard: I would like to see the fare chart showing the peer fares and the CPI-adjusted fares in the next commuter newsletter to educate riders.

Director Hobson: How much of the budget is for fuel?
11-12%.

Director Hobson: What percent of the fare increase is going to capital?
There is a 10.8% fare increase in the 2015 budget. 1% will go to capital, 2% to the farebox capital program, and the rest goes to inflationary increases of operating expenses, increased maintenance costs, and the cost of PTC (about 1%).

Director Hobson: What are your thoughts on the budget process this year?
Mr. Farmer thought the process worked well.

Director Lewis: What are the plans to install Wi-Fi on trains?
The RFP is out and Metra is in the process of evaluating responses. He should have an answer next year.

Director Lewis: What is the plan to increase use of extra capacity in the off-peak?
At peak rush hours, Metra operates at full capacity. Metra is undertaking radio and TV ads to market the service and is currently promoting campaigns (e.g., enhancements to Rock Island Line) and special events to increase ridership at off-peak times.

Director Lewis: Any thoughts to implementing special pricing?
Metra is issuing an RFP to study fare pricing. The weekend pass is an example of special pricing that is already in place.

Director Lewis: What is the status of leasing vs. buying equipment?
As Metra works through its financing packages, vendors are being asked to provide leasing and financing options. Mr. Farmer is hoping that a manufacturer will pair up with a bank to offer a financing package to save the cost of bond issuances.

Director Lewis: Can you report on Metra's supplier diversity program?
Mr. Farmer stated this was out of his field of expertise, but would be happy to get the information and report back to the Board at a later time.

Director Buchanan: How many staff people are on each train?
There are 2 or 3 conductors per train.

Chairman Magalis: What kind of reserve fund does Metra have and how will Metra operate should there be some huge event that impacts the budget?
There's no slack in the budget for extra expenses; Metra has a few months' worth of expenses held in reserve.

Chairman Magalis: What type of reserve should Metra have considering its size?
Mr. Farmer stated that from a finance point of view, he'd rather look at a line of credit than have pots of money lying around doing nothing. A line of credit of $100 million at 30 basis points would cost $300k per year and might be a good insurance policy for the Service Boards and RTA to pursue.

CTA

Presentation – Ron DeNard, Chief Financial Officer and Tom McKone, VP Budget, Management, & Capital Finance

Mr. Ron DeNard started the presentation by highlighting facts about the CTA's service area. He stated that CTA service covers 234 square miles in the City of Chicago and 35 suburbs. The CTA operates 128 bus routes and 145 rail stations. Passenger trips on CTA make up 82% of total regional passenger trips.

CTA focused its presentation on capital initiatives and management efficiencies. Mr. Denard stated that CTA has a $1.44 billion balanced budget for 2015 that features no fare increases or service reductions. He outlined the evolution of the CTA since 2011, stressing no more "doomsday" budgets, no more transfers from capital to operations, improvements to bus and rail service, and continued investment in system modernization under President Claypool's leadership.

Mr. Denard provided a high-level overview of the CTA's recent capital program achievements. In 2014, the CTA announced the "Your New Blue" project to revitalize track and stations on the O'Hare branch of the Blue Line. CTA secured TIFIA funding for the 95th Street Station, and completed the transition to the Ventra open fare system. In 2015, the CTA is planning the Ventra mobile application launch, improvements to the Ravenswood-Loop connector, introduction of 4G coverage in subway stations, delivery of new rail cars, and the opening of the CTA's 146th rail station. CTA will also continue planning for the Red Line Modernization and Extension project and Wilson, 95th, Quincy, Washington, and IMD station reconstructions in 2015.

Mr. Tom McKone highlighted the labor and health care savings the CTA achieved in 2012, CTA's efforts to reduce absenteeism and the expansion of CTA's second chance program which creates jobs for ex-offenders as bus and rail servicers. He also reviewed other management initiatives including supply chain reform, more aggressive advertising strategies, bus overhauls, and CTA's forward purchasing strategy, which resulted in fuel, and power cost savings. Mr. McKone also stressed that the average age of CTA's rail fleet has dropped from 28 to 18 years, resulting in a 60% improvement in the in-service defect rate and a 9% decrease in cost per mile.

Mr. DeNard mentioned CTA's camera program, which has created a network of 23,000 cameras and has reduced violent crime by 30% on trains and station platforms. He also spoke about CTA's bus and train tracker digital signs and the agency's hiring of 1,000 customer service agents.

Mr. DeNard then outlined CTA's financing strategies, which included delaying issuance of $555 million in sales tax bonds to 2014 in order to take advantage of $78 million savings from lower interest rates. Mr. DeNard noted that the finance team had 54% minority participation. CTA also secured a TIFIA loan to build the new 95th Street Station rather than issuing traditional sales tax debt that begins accumulating interest immediately. In 2016, CTA plans to issue $145 million in sales tax backed bonds.

Mike Quinn, VP of Revenue Systems, then joined Mr. DeNard and Mr. McKone to present on CTA's Ventra mobile phone application and its timeline for implementation.

Mr. McKone then spoke on ridership. He cited that 2014 marks record-breaking rail ridership, but that overall ridership will end the year lower due to unfavorable bus ridership results. Mr. McKone identified the polar vortex, falling gas prices, alternative transportation options, free Red Line bus shuttles in 2013, and fewer CPS school days in 2014 as reasons for the bus ridership loss. He also spoke of national trends, which show riders favoring riding rail over bus.

Questions and Answers

Director Magalis: Echoed the achievements of CTA since 2011.

Director Melvin: Great report. Riding CTA is a better value now more than ever. Congratulations on achieving 54% minority participation on the 2014 debt issuance.

Director Lewis: Does CTA have a minority supplier program in place now?
Mr. DeNard responded that CTA does have a DBE program, but that he would have to get back to Director Lewis with more information.

Director Lewis: How much of the budget is allocated to debt service?
Mr. McKone responded saying that most bonds are paid out of the capital program. Pension obligation bonds are the only ones included in operating expenses and they total $156 million every year. TIFIA debt service will begin in 2019.

Director Hobson: Good to see cooperation with Metra on the Ventra mobile ticketing application.

Director Hobson: Regarding bus ridership, how does the CTA reconcile projected growth in 2015 when bus ridership was down in 2014 due to all of the factors stated in the presentation?
Mr. McKone responded that CTA believes that many of those factors negatively impacting ridership in 2014 will no longer be an issue in 2015 (i.e., polar vortex) and that the projected ridership growth is very minimal.

Director Coulson: With $14 million being spent on security services in 2015, does CTA currently have cameras on every train? In addition, there should be signs in vehicles telling people about the cameras.
Mr. McKone said yes, and that CTA plans to use ICE funding to begin to handle all the video it collects.

Director Coulson: Many Lincoln Park residents are concerned about the Belmont Flyover. What is the status of this project?
Mr. McKone responded that the CTA is currently in the planning and preliminary engineering phase of this project and that it is included in the capital program under Red/Purple Modernization.

Director Coulson: Bus operators do not get enough credit. They have a hard job and perform very well.

Chairman Dillard: Thanks for great work and cooperation putting together 2015 budget. If the Lucas Museum is built on the proposed site, what additional capital infrastructure will CTA need to connect visitors to the location?
Mr. McKone replied that it is already a very transit friendly site, which is why it was selected, but that CTA will continue to work with the City to understand how it can best serve the museum.

Leanne Redden added that both RTA and CTA are part of a planning committee on this issue organized by the city, including multiple agencies.

Director Frega: How much of total 2015 operating expenses are for fuel expenses?
Mr. McKone responded that 4% of operating expenses are dedicated to fuel.

Director Frega: Does CTA have any plans to implement CNG/hybrid buses?
Mr. McKone replied that CTA is currently testing two all-electric buses and that it uses clean diesel for all of its buses.

Director Magalis: What would CTA like to see regarding a reserve funding policy?
Mr. DeNard said he agrees with Mr. Farmer (Metra) about having a credit line, especially in the current low interest rate environment.

Director Magalis: Regarding outsourcing its warehouse parts, is this something Metra could also benefit from?
Mr. DeNard responded that he would be happy to work with Tom Farmer if he was interested and he can open up the discussion with Napa.

Director Buchanan: What is the status of the Red Line Extension?
Mr. McKone replied that funds are in the budget to continue planning on this project.

Director Hobson: Is there any cooperation with fuel purchases across agencies?
Mr. DeNard responded that it is something that has been discussed in the past and should be looked at again.

Pace

Presentation – T.J. Ross, Executive Director, and Terry Brannon, DED Internal Services

Mr. Terry Brannon opened by stating that the Pace budget is comprised of two main elements: Suburban Service and ADA Paratransit, and that Pace maintains separate funds for each.

Suburban Service

The Suburban Service 2015 budget has a very positive outlook, is balanced to the RTA funding marks, meets the required recovery ratio, contains no fare increase, and reflects some service expansions, which will contribute to ridership growth.

For 2014, operating revenues are expected to finish $0.5 million favorable to budget due to the Ventra transition, which has resulted in an 8-cent increase in average fare per passenger trip. This is due to both more equitable fare revenue sharing with CTA and customer behavior, which has tended to favor pay-as-you-go fares over passes. Operating expenses are expected to finish 2014 $7.8 million favorable to budget due to delays in service start-ups, the delay in the full Ventra cutover which saved operating fees, and lower fuel prices. The Suburban Service net result for 2014 is expected to be $8.7 million, as public funding has also been trending favorable to budget.

Operating revenues are projected to grow by 2.4% in 2015 to $61.1 million, while operating expenses grow by nearly 8% to $223.2 million. Operating expense drivers include debt service on Pace's first bond issuance of $12 million, the full-year impact of service expansions which began in mid-2014, labor expense, health insurance expense, and ICE projects. The resulting operating deficit of $162.1 million is balanced to the adopted RTA funding marks.

Suburban Service ridership is expected to finish down 1.2% in 2014, mostly due to the cold and snowy weather in the first two months of the year. Pace has also lost some ridership due to the discontinuation of cash transfers and the 10-ride ticket, both effective with the Ventra cutover on July 1st. One bright spot has been the continued success of Bus-on-Shoulder service on I-55, where ridership has grown by 44% over 2013. For 2015, ridership is expected to increase by 1.4%, driven by modest fixed-route service expansions and vanpool growth.

ADA Paratransit

The ADA Paratransit 2015 budget also has a very good outlook, is balanced to the RTA funding marks, and meets the required recovery ratio with no fare increase.

In 2014, ADA Paratransit received $2.8 million of unanticipated revenue from Medicaid reimbursements. Expenses are expected to exceed budget due to Trapeze software upgrades, but a positive year-end net result of $1.9 million is projected. This funding surplus will be retained at the RTA for future ADA Paratransit needs.

Operating revenue will decrease by 11% in 2015 as Medicaid reimbursements return to levels that are more normal. Operating expenses are projected to increase by 7.0% to $172.2 million. The ridership growth assumption for 2015 is 4.9%, comprised of 5.0% growth for ADA Paratransit and flat ridership for the Taxi Access Program. Public funding of $158.2 million is projected to be adequate for 2015. Expense growth is being driven by both volume and contractor price increases of around 3%.

Capital Program

The 2015 Capital Program for Suburban Service amounts to $68.7 million, 60% of which will be spent on the purchase of 75 buses and 190 vanpool vans. The program also includes spending on I-90 corridor infrastructure ($1.2 million), Milwaukee Avenue ART infrastructure ($10.4 million), the replacement of all garage security systems ($3.3 million), and the acquisition of land for the new Northwest Cook garage ($6 million from bond proceeds). Finally, the Burr Ridge park-n-ride, which supports I-55 Bus-on-Shoulder service, will have its capacity doubled at a cost of $1.2 million.

Pace will be converting the South garage to Compressed Natural Gas (CNG) capability, with construction timed to coincide with the delivery of 91 CNG-fueled buses beginning in the fourth quarter of 2015. This conversion will be funded with $12 million of Pace bond proceeds. Pace expects to seek RTA Board approval of this bond issuance in the first quarter of 2015. Pace has an overall 10-year capital shortfall of $1.555 billion. Failure to address this shortfall will result in the deferral of fleet replacements, which will subsequently lead to higher operating costs and lower customer satisfaction.

Questions and Answers

Director Magalis: What is Pace's level of cash reserves?
Mr. Brannon stated that their board policy is to maintain one month's worth of expenses or about 8.5% of annual expenses for working cash reserves. Pace is significantly better than that right now. If there were some kind of regional calamity, we'd all be talking about an action plan.

Director Magalis: Has Pace given any consideration to a fare increase, since the most recent one was implemented in 2009?
Mr. Brannon replied that Pace considers a fare increase as each budget is developed, but didn't feel an increase was necessary for 2015. The Ventra cutover effectively increased their average fare due to revenue sharing and customer behavior, so revenue performance is strong. He said that 2015 was not a good year to implement an increase since CTA was not raising fares and Pace has to maintain full integration since 50% of Pace customers transfer to CTA service. Mr. Brannon also stated that the auditor general had found that Pace's fares had kept pace with inflation, unlike Metra's, and were within 5 cents of a 1992 benchmark, adjusted for inflation. Now that Pace has Ventra fully implemented, staff can start thinking about market pricing since Ventra has given them this new capability.

Director Magalis: Can you provide justification for the increase of 11 administrative positions in the ADA Paratransit budget?
Mr. Brannon said that Pace is playing catch-up since the staffing level has been at 35 since they took over all ADA Paratransit, but ridership has increased more than 50% in that time. The number of vehicles, incident reporting and additional FTA requirements has all increased significantly, with no corresponding staffing increase. Trapeze software upgrades will also require additional staff time next year. In some ways Pace has been a victim of its own success since demand grows as you provide improved service. Pace is doing everything possible to contain costs and compares very favorably to other agencies in the RTA's sub-regional peer performance report.

Director Magalis: What is Pace doing to encourage disabled riders to use fixed-route options?
Mr. Brannon said that some marketing efforts have been made, but it is an uphill battle to accomplish the shift to fixed-route. The next step is trip screening, where the reservation agent can look at fixed-route options for the caller.

Director Totten: What is the impact of the I-90 corridor project on Pace's operations and funding?
Mr. Brannon estimated that Pace would be adding about $8 million worth of additional service with both express bus routes and feeder services. This will require 24 additional vehicles. Engineering is in progress for three park-n-rides at Randall Road, Route 25, and Barrington Road. Existing routes 600 and 606 are heavily utilized, so Pace believes the demand is there for additional service. Funding will come from the operating budget, CMAQ funds, and some of Pace's own reserve funds from recent positive budget variances.

Director Lewis: Has Pace considered leasing of vehicles instead of outright purchases?
Mr. Brannon stated that Pace primarily uses federal 5307 funds to acquire vehicles. These funds can only be used to lease vehicles if you can prove that leasing is a cheaper alternative than buying, which it is not, due to interest payments.

Director Lewis: Has Pace considered outsourcing parts inventory with a similar approach as CTA?
Mr. Brannon responded that they have looked at it in the past and not found it advantageous. Pace only has about $6 million in parts inventory. However, they will look at it again.

Director Lewis: Does Pace have a minority supplier program?
Mr. Brannon stated that Pace does have a minority supplier program, and is undertaking a study to increase minority participation. Pace assigns DBE goals for most procurements, and has had 20% to 25% DBE participation on recent construction projects.

Director DeWitte: Can you discuss long-range Bus-on-Shoulder planning, especially on I-88?
Mr. Ross said that IDOT was doing most of the work on this, including planning for implementation on the Edens expressway. There is the potential for service along 230 miles in 10 different corridors. Ridership on Pace's Bus-on-Shoulder routes has tripled since the service started in October 2011. He asked the Board to keep in mind that it took almost 14 years from Pace's initial site visits to start-up of the service.

Director Frega: How are fuel conservation efforts handled with respect to ADA Paratransit?
Mr. Ross said that alternative fuel efforts are not built into the current contracts. In the 1950s, many fleets ran on propane. Hybrid vehicles have been utilized, but did not perform well.

Director Frega: Does Pace consider veteran status when awarding contracts?
Mr. Brannon said veteran status is not considered and that Pace does not have a clear position yet on this issue. It is being evaluated.

Director Melvin: Does Pace consider CNG-fueled buses to be a good value?
Mr. Brannon said that the cost of a CNG bus is about the same as a diesel bus, at $479,000. However, fuel costs should be lower. When the new Northwest garage is built, it will have CNG capability. This will supplement the South garage and allow a sizable portion of Pace's bus fleet to be CNG-fueled, if that is the direction Pace decides to head in.

Director Melvin: Does Pace utilize any fuel price locks?
Mr. Brannon said that he has never been a fan of fuel hedges. He cited a study, which concluded that 9 out of 10 fuel hedge contracts turned out to be unfavorable. Floating purchases with the market is safer and easier to explain. Pace recently paid $2.71 per gallon for fuel, significantly under budget. Any savings on fuel falls into a positive budget variance, which eventually gets used for capital funding.

Director Hobson: But your 2015 budget has assumed a price of $3.17 per gallon?
Mr. Brannon said that the budget was developed during the summer, before fuel prices decreased. Pace used the best information it had at that time including forecasts from the U.S. Energy Information Administration (EIA). Pace expects actual 2015 fuel expense to perform favorably to budget.

Director Hobson: What percent of total expenses do fuel expenses represent?
Mr. Brannon said fuel comprises about 10% of the operating budget.

Director Coulson: Are there any opportunities for joint procurement of buses with CTA?
Mr. Brannon stated that Pace's different operating environment from CTA requires different vehicle types and also that timing differences and federal requirements complicate joint procurement of vehicles. With a current 5-year contract with ElDorado National for bus deliveries, Pace is locked in for now.

Chairman Dillard: Are there opportunities for additional funding for ADA Paratransit from State human services agencies?
Mr. Brannon said that he believes this area is fertile ground for new funding and cited Pace's success with obtaining $1.5 million per year in funding from Medicaid reimbursements. A capital funding source for ADA Paratransit would allow Pace to purchase vehicles and bring down operating costs.

Director DeWitte: It would be worthwhile to take another look at joint procurement opportunities with the other Service Boards, including fuel, where each agency seems to have a different approach.
Mr. Ross said that the Service Boards talk about opportunities and cited the Ventra implementation as a successful joint procurement. Leanne said that RTA would provide a summary of past successes in joint procurement to give the Board a sense of what has already been accomplished and what areas may provide future opportunities.

ADJOURNMENT

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

Committee members present (6): Anderson (phone), Buchanan, Coulson, DeWitte, Lewis, and Magalis
Committee members absent (1): Troiani

The meeting ended at 11:35 p.m.

Audrey Maclennan
AUDREY MACLENNAN
Secretary of the Authority