MINUTES OF A 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 public session on Thursday, December 3, 2015 at 9:05 a.m., in Suite 1650, 175 West Jackson Blvd., Chicago, Illinois, pursuant to notice.

Committee Chairman Magalis presided.

ROLL CALL

Committee members present (5): Buchanan, Coulson, DeWitte, Lewis, and Magalis
Committee members absent (2): Anderson and Troiani
Other Board members present: Frega, Fuentes, Hobson, Pang, Ross, Totten, and Chairman Dillard

Presentation and discussion of 2016 Budgets with the CTA, Metra and Pace
Each Service Board, represented by their CEO and/or CFO presented their 2016 to the RTA Finance Committee and Board members. Board members asked pointed questions, which were answered knowledgeably by each Service Board. Several Board members and the Service Boards commended all parties for the cooperation achieved during this annual process. The following is a summary of each presentation and responses to questions asked by RTA Board members. This summary was prepared by RTA Budget Manager Bill Lachman.

At the special Finance Committee meeting, each Service Board gave an overview of its 2016 budget and capital program. Board members' subsequent questioning on the Service Boards' 2016 budgets stressed several common themes: the status of collective bargaining agreements, reserve fund levels and strategy, fuel purchasing and efficiency, efforts to boost ridership, the prospects for future fare increases, and actions taken based on the results of the latest customer satisfaction survey. When asked to state the greatest challenge surrounding their 2016 budgets, each Service Board responded that the uncertainty in State operating funding and the lack of a new State capital program represented the area of greatest risk.

Executive Director TJ Ross, Internal Services Deputy Executive Director Terry Brannon, and Budget Planning Department Manager Roman Romatoski represented Pace. In his presentation, Terry Brannon stated that 2016 Suburban Service ridership is expected to grow by 1.6%, due entirely to service expansion. Pace's 2016 Suburban Service budget reflects 7.1% expense growth over 2015, with 2% due to normal inflation and the balance of the growth split equally between service expansion and new initiatives such as the Oracle upgrade and Wi-Fi on buses. Pace will be increasing full and reduced cash fares to $2.00 and $1.00, respectively, with the goal of moving more customers to the Ventra system. For ADA Paratransit, expenses are projected to increase by 7.2%, driven by 5.1% ridership growth and 2% contractual price increases. Pace's 2016 capital program totals $47.6 million, with 81% of expenditures programmed for vehicle replacements.

Following his presentation, Mr. Brannon responded to a series of questions from RTA Directors. Pace is currently negotiating one collective bargaining agreement that is open and two that will open on December 31. Pace will be responsible for budget shortfalls that result from reductions in revenue or funding or increases in expenditures. With respect to State funding, Pace's budget includes reduced fare reimbursement of approximately $2.6 million for Suburban Service and ADA Paratransit funding of $8.5 million. Both motor fuel prices and natural gas prices have declined. Pace's contracts with ADA paratransit carriers include performance standards, including on-time performance, missed trips, and productivity, with penalties if standards are not met. Pace's contracts with suburban service contractors also include performance standards, although they are configured differently. The next delivery of CNG buses awaits the construction of the North Cook garage. In 2016 and 2017, all Pace buses will offer Wi-Fi. Pace expects a 10% increase in Federal Funding as a result of the new federal transportation authorization. The 260 municipalities where Pace provides service have varying views on bus shelters and bus shelters with advertising, so Pace shares bus shelter advertising revenue with the municipality. Pace lost ridership in 2015 as a result of lower gas prices and the elimination of cash transfers that accompanied the Ventra conversion. Despite national and regional trends, Pace projects a ridership increase of 1.6% resulting from new services to be offered. In response to the customer satisfaction survey, Pace is increasing the number of bus shelters and improving on-time performance to improve customer satisfaction. Pace is currently paying lower fuel prices than reflected in the 2016 budget prepared in June. Pace does not try to protect its fuel budget by hedging fuel prices. Pace pays 1.1 cents per gallon over an index price for delivery and profit. Economies of scale of collective purchasing with the other Service Boards would be lost because of the number of delivery points and because each agency uses a different fuel blend. Pace regularly evaluates the need for a fare increase to restore the equilibrium that is disturbed by operating costs rising faster than revenue. The implementation of Ventra resulted in a substantial increase in revenue per passenger without increasing fares. Ventra allows for more flexible pricing. Federal funding provides for the majority of Pace's capital program. To date, Pace has bonded only $12 million of its $100 million authorization. Pace has ridership projections for its service on I-90 scheduled to begin in 2017. Pace does not intend to eliminate any routes when this service begins. The greatest challenges to Pace's budget are the potential loss of State operating funding ($8.5 million for ADA and $2.6 million of Reduced Fare Reimbursement) and the lack of state capital funding.

Metra CEO Don Orseno, CFO Tom Farmer, and Strategic Capital Planning Senior Division Director Lynnette Ciavarella represented Metra. In his presentation, Mr. Orseno reported that Metra's 2016 operating budget of $759.8 million represented 2% expense growth versus the 2015 budget. The budget is balanced, and contains a 2% fare revenue increase, less than the 5% originally anticipated, due to fuel savings and other realized efficiencies. Even after this fare increase, Metra's fares will still be the lowest among its peers. Ridership is projected to decline by 0.8% in 2016 as customers adjust to the fare increase, and low gasoline prices induce more driving. Service levels will be stable, with new express service on the Rock Island District introduced in late 2015. Metra's five-year capital program of $1.250 billion is focused on the purchase and rehabilitation of railcars and locomotives and the installation of the federally required Positive Train Control (PTC) system.

Following his presentation, Mr. Orseno responded to a series of questions from RTA Directors. Metra has seventeen collective bargaining agreements with four unions. Some of these agreements have not been settled yet. Positive Train Control (PTC) competes with other capital needs and will cost commuter railroads $3.5 billion dollars. If a budget shortfall should occur, the Metra board will have to consider service reductions or fare increases. Metra intended to issue bonds in 2015, 2017, 2019, and 2022. Uncertainty in State funding has delayed the 2015 issuance. Challenges to reaching a state of good repair do not present any implications to winter service. Installations of Wi-Fi on all Metra cars could cost as much as $72 million, so Metra is currently outfitting one car on each line in order to evaluate the feasibility and reliability of service. Rolling stock is Metra's priority for capital funding. Most station renovations are on hold because of the lack of State funding, but Metra has been using some operating funds for this purpose. Metra is installing a third track on the UP West line. Metra does not have any slow zones, just speed restrictions on curves. Metra is responding to the results of the customer satisfaction survey by improving on-time performance, customer communications (customized line alerts), and customer service, and by launching the mobile app. Metra is addressing uncollected fares with conductors and placing spotters on trains. Railroad Rehabilitation & Improvement Financing funds will be available for the rehabilitation of Union Station. The greatest challenges to Metra's budget are State funding and disinvestment in capital. (Magalis)

Acting Chief Financial Officer Tom McKone and Budget Director Yvonne Towers represented the CTA. In his presentation, Mr. McKone opened by highlighting the progress the agency has made since 2011. The CTA's $1.475 billion 2016 budget is balanced with no fare increases or service reductions. Ridership growth is projected at 0.7% for 2016, the same growth rate seen thus far in 2015. Express bus service will be reinstated on Western and Ashland Avenues utilizing RTA ICE funding, and new Loop Link bus service will also begin next year. The $2.3 billion capital program will include the purchase of new railcars and buses, the Red-Purple Modernization project, and system-wide slow zone removal.

Following his presentation, Mr. McKone responded to a series of questions from RTA Directors. The CTA is seeking to achieve efficiencies in exchange for concessions in their collective bargaining agreements that replace the ones that expire at the end of 2015. CTA would be happy to speak with the consortium and the Infrastructure Trust about expanding 4G coverage in CTA subways to Metra. The CTA is paying $156 million from its operating budget for debt service on Pension Obligation Bonds and applying $140 million of federal funds to pay debt service on railcar purchases. The CTA evaluates the incremental cost of maintaining older vehicles against the cost of debt service on purchases of replacement vehicles. State capital funding would allow the CTA to reduce bonding. Better weather and highway bus routes result in lower operating costs at LA Metro. The CTA uses fixed pricing to procure 80% of its fuel purchases to reduce budget uncertainty. The CTA seeks greater efficiencies (e.g., new vehicles, cleaning programs, energy reductions) to close the gap between cost growth and revenue growth, with fare increases as the last option. The lack of State capital funding poses the greatest challenge to the CTA budget. The CTA will address unforeseen budget shortfalls. The fund balance reserve planning process with RTA CFO Bea Reyna-Hickey, her team, and the financial consultants was productive.

ADJOURNMENT

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

5 Ayes: Directors Buchanan, Coulson, DeWitte, Lewis, and Magalis
2 Absent: Directors Anderson and Troiani

The meeting ended at 11:15 p.m.

Audrey Maclennan
AUDREY MACLENNAN
Secretary of the Authority