REPORT OF THE FINANCE WORKING GROUP TO THE NORTHEASTERN ILLINOIS PUBLIC TRANSIT TASK FORCE

Introduction.
The objective of the Finance Working Group (the "Working Group") of the Northeastern Illinois Public Transit Task Force (the "Task Force") is to evaluate the methodology for and the adequacy of funding for transit within Northeastern Illinois. To complete this assignment, the working group relied on information from the RTA, CTA, Metra, and PACE, as well as transit agencies in other parts of the U.S. We also utilized the expertise of Delcan and reviewed additional research compiled for the Task Force.

Finance and the Task Force Guiding Principles.
The subject matter of all of the working groups are so interrelated and the funding recommendations discussed herein are very much dependent upon the findings and recommendations that come out of the Ethics, Governance, and System Performance working groups. Likewise, because the issues around funding and the allocation of resources is so critical to the region's ability to create and maintain a world class transit system, each of the guiding principles established by the Task Force informed the Working Group's deliberations. The Task Force abides by eight guiding principles. The Working Group is directly affected by the four listed below.

1. Promote economic vitality by matching development with transit service, connecting communities, employment centers, and other destinations throughout the region.

2. Plan ambitiously and adapt to change, continually refining transit services and investments to increase ridership, relieve congestion, and provide an abundance of transportation choices.

3. Embrace innovative technology and systems in finance, communications, vehicles, infrastructure, and customer service.

4. Be adequately, predictably, equitably, and sustainably funded to provide high levels of performance and maintain a state of good repair.

Findings Related to Funding.
The findings enumerated below are broad findings supported by input that the Task Force and the Working Group received from various sources.

1. **<u>The region lacks a strategic financial plan that does more than show funding gaps based on the status quo.</u>**

   Planning is fragmented, making it difficult to effectively manage a regional approach to transit. While CTA and PACE appear to have a robust capital planning and budgeting process, there is limited coordination of planning across Service Boards to address system-wide goals or to optimize the deployment of limited capital resources. As discussed in greater detail below, transit funding for operations and capital is allocated according to either statutory or historical formulas, rather than any set of objective measures designed to optimize regional mobility.

2. **Operations of the current transit system are sized for available resources.**
The three main sources of funding for transit operations are: (i) fare box revenue, (ii) sales tax revenues, and (iii) a State funding match through the Public Transportation Fund ("PTF"). The operating funds for transit from sales tax are distributed based on fixed formulas set by State statute in 1983. The current statute requires that the RTA operate with a balanced budget. It also requires that 50% of operating revenue come from system-generated revenues.

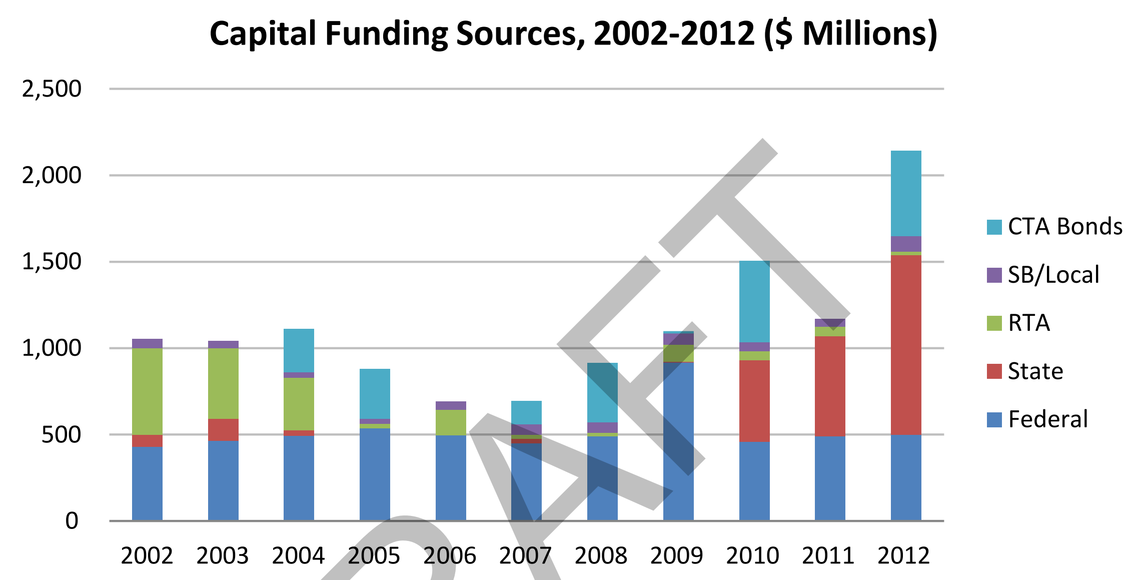
Operating subsidies required to support the Service Boards' primary transit operations have grown significantly since 1991, from $422 million in 1991 to nearly $1.2 billion in 2012, a total of 183.5%. The difference between operating costs and fare revenues, or funding gap, grew rapidly between 1991 and 2012 because the Service Boards' operating costs grew much faster than fare revenues, 126% versus 77% during this period. The growth in the required subsidy was most noticeable between 1994 and 2006 when operating costs grew by 60% but revenues grew by only about 7%. Because any increase or expansion of service will also increase this funding gap, there is a disincentive to increase service regardless of projected need or demand.

The improvement of revenues in recent years due to fare increases and ridership growth has stabilized the funding gap. However, since the service reductions of 2009-2011, operating expenses have continued their previous high rate of growth. It appears that operating expenses plateaued somewhat between 2008 to 2011 due in part to the recession and service cutbacks. Ridership and fare revenues must continue to grow at the rates they have since 2009, or one can assume that the funding gap and resulting subsidy need will continue to increase in the near-term, especially if operating expenses grow at a rate faster than fare revenue.

3. **Existing funding sources do not meet the current capital needs of the system**.
According to RTA, the primary emphasis of its $4.7 billion five-year capital plan is to continue to bring the system's assets to a state of good repair. As a result, the majority of the five-year plan is allocated to capital projects that maintain the existing infrastructure. Chicago's regional transit system comprises some of the nation's oldest transit facilities. As of December of 2011, the RTA estimated that $14.0 billion more is needed to address the "state of good repair" backlog and an additional $12.4 billion would be required to meet the ten-year need for normal capital reinvestment.

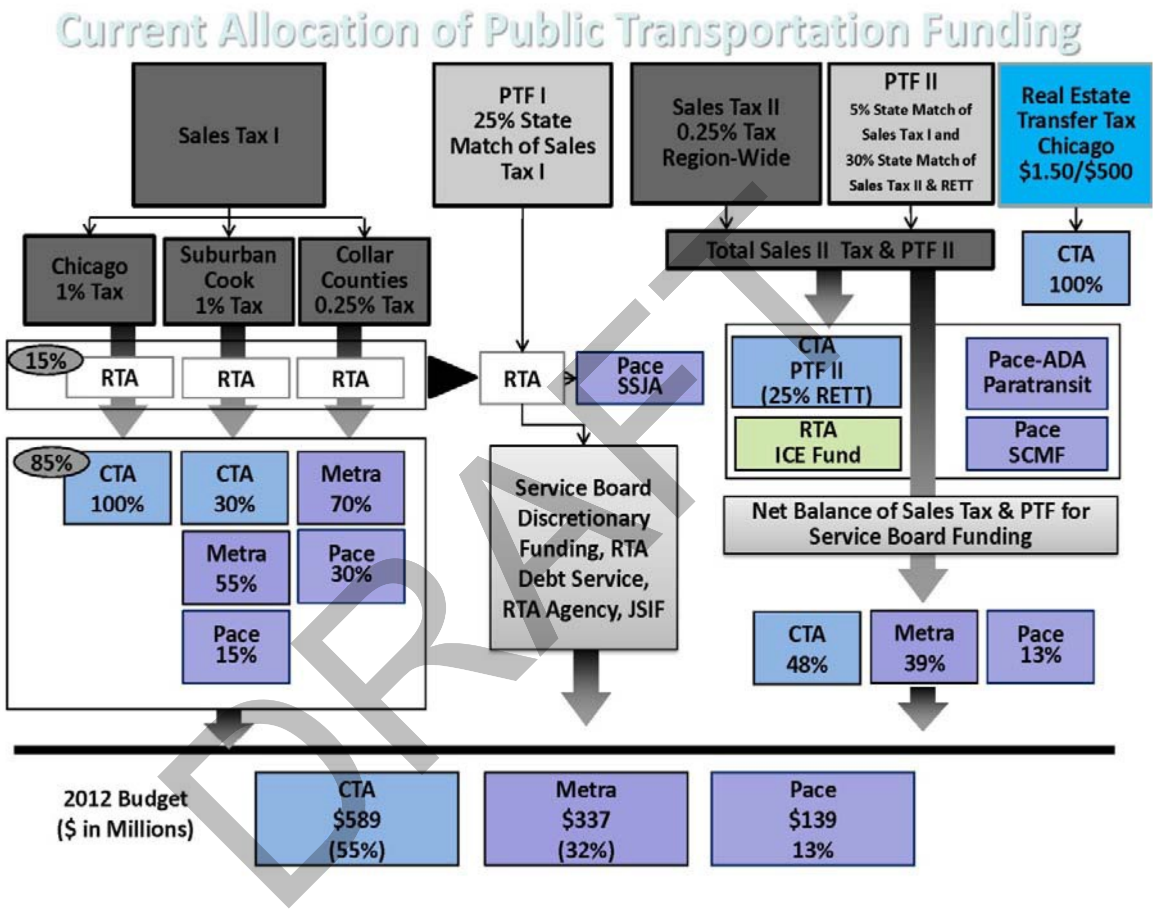
As shown in the chart below, there are four main funding sources for the capital program:

- USDOT's Federal Transit Administration ("FTA") grants;
- Illinois DOT – largely bond proceeds and mostly since 2010;
- RTA (mostly bonds); and
- Local – including Service Boards with CTA bonds accounting for the bulk of these funds.



Federal funding has typically been the largest source of capital for the transit system. However, trends show that federal dollars for transit are becoming more competitive. There is a shortfall in the Highway Trust Fund; at best, funds for transit will stagnate, at worst they will decline. To meet the 20% matching fund requirement attached to federal grants, Illinois has used toll credits from the Illinois Tollway rather than cash. Although the toll credits enable the region to access federal money, they do not provide a single dollar for capital projects. The lack of robust funding streams for transit have put the region at a significant disadvantage vis-à-vis other metropolitan areas when competing for scarce federal dollars. Moreover, State funding for capital has been inconsistent. From 2005 to 2009, the State provided almost no capital for transit. The "Illinois Jobs Now!" bond program provided $2.7 billion in funding between 2009 and 2014, but future funding is uncertain when the program ends. Illinois faces many other financial pressures. Without more investment in the transit system, the region will struggle to remain competitive.

4. **The current mechanism for allocating funds is flawed and complicated.**
As mentioned earlier, neither operations funding nor capital funding is allocated with the goal of improved regional mobility. As shown in the chart below, the mechanism for funding operations is complicated and is not tied to any type of regular planning and/or review process. Likewise, the methodology for allocating capital dollars is somewhat arbitrary, based on historical practice, and is not tied to any regular planning process.



Recommendations.

1. **Implement a regional financial planning process that supports the guiding principles and, in the most efficient manner possible, creates a framework for allocating operating and capital funds on a consistent and sustainable basis.**

   a. Fund operations based on a multi-year integrated, regional strategic plan tied to short- and long-term goals and performance metrics.
   b. Tie the distribution of PTF monies to competitive and performance-based programs for the Service Boards.

2. **Develop a public outreach program.**

    a. Ensure that equity considerations are applied to the funding of transit.
    b. Create greater public advocacy for increased investment in transit through new funding sources.

3. **Identify a new funding framework for transit operations that supports the guiding principles and, in the most effective manner possible, generates adequate resources to meet the investment needs of the system on a consistent and sustainable basis.**

    a. Eliminate the current operating formula and allocate the existing operating funds according to a formula based on performance metrics. This revised formula should include the funds currently designated as discretionary and should initially be consistent with the recent historic funding split, to provide stability for the Service Boards, but would allow change over time.
    b. Consider new funding options to expand resources for operations and capital.
    c. Divide new funds between a competitive program and a performance-based program.
    d. Distribute competitive funds based on criteria that address regional transit goals.
    e. Distribute performance funds based on the performance of the Service Boards on specific measures against an established baseline.

4. **Revise the Capital Funding Allocation to maintain a safe and reliable system while allowing for appropriate service improvements that are aligned with regional transit goals and performance measures.**

    a. Stop using the historic formulas for capital.
    b. Allocate the bulk of capital dollars from current sources through a formula based on the funding needed to reach a state of good repair.
    c. Establish a pool of funds to be divided between a competitive program and a performance-based program.
    d. Distribute competitive funds based on the ability of the Service Boards to reach regional transit goals.
    e. Distribute performance funds based on criteria that address regional transit goals and performance of the Service Boards.

5. **To mitigate limited public resources for funding, eliminate barriers to entry for the private sector.**

    a. Capitalize on new and innovative mobility solutions by allowing private transit providers to reach regional transit goals and compete for funds from the competitive programs.

b. Encourage private sector partnerships where practicable.

6. **Establish performance-based management practices across the system.**

   a. Evaluate performance-based management practices across agencies that may generate savings for the system. These may include: joint procurements, maximizing the use and deployment of existing staff, and/or consolidating certain administrative functions.
   b. Establish five-year milestones for achieving savings through these parameters.

7. **Consider new revenues.**

   a. Use the public outreach program to create broad based buy-in for increased investment in transit.
   b. To ensure the region has a consistent source of capital to better leverage increasingly competitive federal funds, designate new revenues as a funding source for capital.
   c. Use new funding sources for long-term expansion.