Northeastern Illinois Public Transit Task Force
Finance Working Group
October 2, 2013

Thank you for the opportunity to address the Finance Working Group. My name is Ron DeNard, and I am Chief Financial Officer of the CTA. Before I address the questions posed by the Working Group, I would like to remind the Working Group of the scope of service that the CTA provides for the region.

Last year, the CTA provided more than 545 million rides on our trains and buses, averaging 1.7 million rides on a typical weekday. As the region's largest transit operator—covering Chicago and 35 suburbs, representing 67% of Cook County's population —the CTA provides more than 83 percent of regional transit ridership, and 65 percent of vehicle revenue miles By rides, we are the nation's second-largest transit system, operating service 24/7/365.

While the CTA's service is primarily in the City of Chicago, the CTA also provides significant service to the suburbs. In both the city and suburbs, the CTA has scores of connections with our fellow Service Boards—a hallmark of the regional nature of the Service Boards. In fact, more than 15 percent of CTA rides—more than 80 million—have a suburban component to the journey. And over 40 percent of Pace customers transfer to CTA.

1.A. Please define in detail all of your available funding resources (including local revenue sources) for both operating and capital budget.

Operating Revenue

CTA's current operating budget is $1.35 billion. Of this, $701 million is classified as system generated revenue and $653 million is public funding. I will detail the sources of funding within each of these categories.

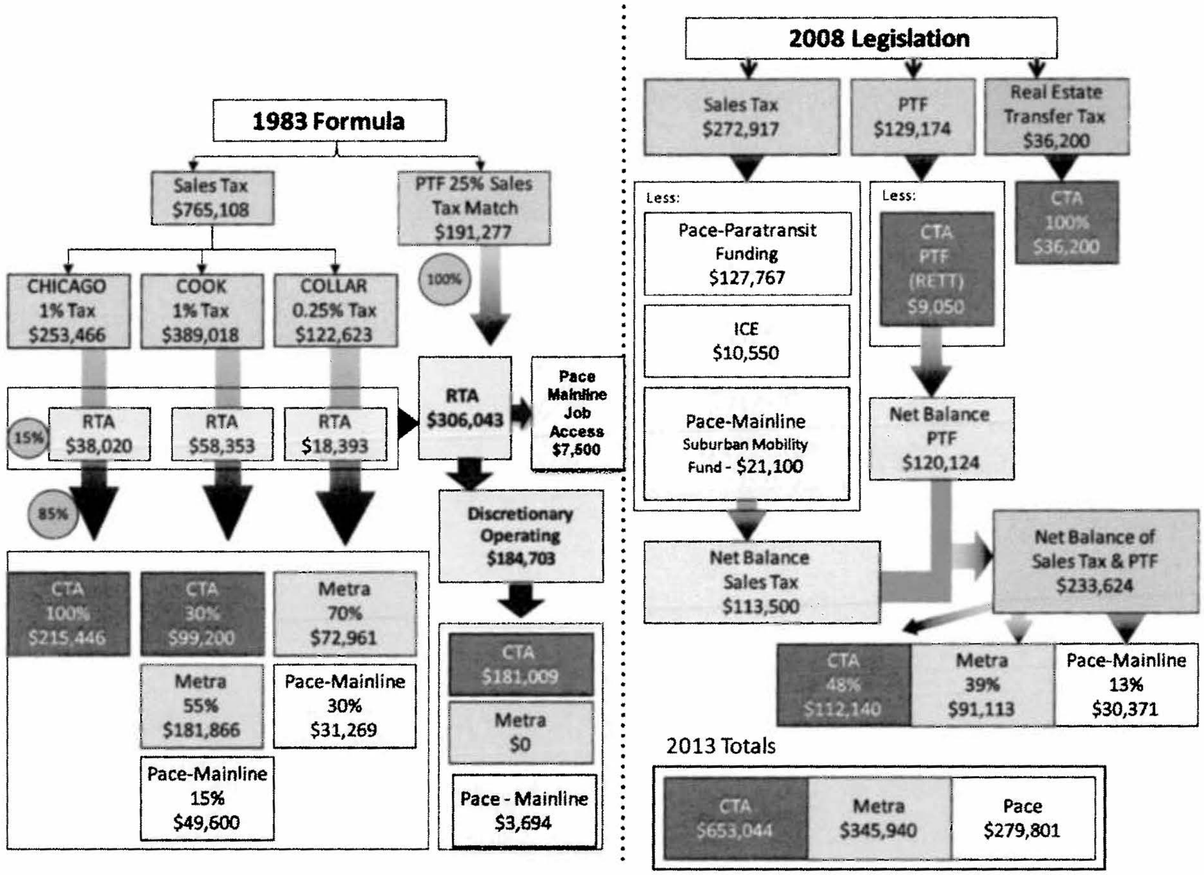
System Generated Revenue

87% of system generated revenue is fare and pass revenue. This revenue comes from CTA's pay per use, or base fare, of $2.25 per ride on rail and $2 per ride on bus and from single and multi-day passes. Through the first six months of 2013, 42% of fare and pass revenue came from passes and 58% from fares. CTA's average fare per trip was $1.08 during that period. We currently expect ridership for 2013 to be 531 million rides. When compared to peer agencies, CTA's robust farebox recovery ratio ranks behind only New York City and Washington DC's public transit systems.

As required by federal, state, and local provisions, CTA provides free and reduced rides to qualifying customers, including students, seniors, and customers with disabilities. In 2012, the CTA provided 40.3 million free rides and 42.5 million reduced fare rides. To partially offset the cost of providing free and reduced rides as required by federal and state provision, we requested $86.0 million from the state based on these ridership levels. Based on prior years' experience and guidance from the RTA, we budgeted to receive $28,322 in State reduced fare payments. In May, the State unexpectedly cut the reduced fare reimbursement in half for its 2014 fiscal year. This reduces CTA revenues by nearly $14 million in 2013 and again in 2014.

Operating Funding Summary

2013 Budget - Operating Funding Allocation Chart (in thousands)



*Amounts may not match other tables in document due to rounding.

Transit Agency	Funding	%
CTA	$653,044	47%
Metra	$345,940	25%
Pace-Mainline	$143,534	10%
Pace-Paratransit	$136,267	10%
RTA	$124,390	9%
Total	**$1,403,175**	**100%**

Operating Funding Summary

2013 RTA Proposed Service Board Operations Funding (in thousands)

2013 Service Board Funding	RTA	CTA	Metra	Pace Mainline	Pace Para-transit	Total
Sales Tax (1983 Formula)	$306,043	$314,646	$254,827	$80,869	-	$956,385
Sales Tax and PTF (PA 95-0708)	-	$112,139	$91,113	$30,371	$127,767	$361,390
CTA - RTA Discretionary	($181,009)	$181,009	-	-	-	-
Real Estate Transfer Tax (25% PTF)	-	$9,050	-	-	-	$9,050
RTA Suburban Community Mobility Funds	-	-	-	$21,100	-	$21,100
RTA South Suburban Job Access Fund	($7,500)	-	-	$7,500	-	-
Metra- RTA Discretionary	-	-	-	-	-	-
Pace - RTA Discretionary	($3,694)	-	-	$3,694	-	-
State Funding for ADA	-	-	-	-	$8,500	$8,500
ICE/ Additional Budget Balancing Actions	$10,550	-	-	-	-	$10,550
Total RTA Funds	**$124,390**	**$616,844**	**$345,940**	**$143,534**	**$136,267**	**$1,366,975**
Real Estate Transfer Tax (City of Chicago)	-	$36,200	-	-	-	$36,200
Total Funding	**$124,390**	**$653,044**	**$345,940**	**$143,534**	**$136,267**	**$1,403,175**

* *Numbers may not precisely add due to rounding.*

Advertising, charter services, and concessions make up 4%, or $28 million, of system generated revenues. CTA has seen strong growth recently in this category with 20% growth in 2012 and continued growth in 2013 thanks to an increased focus on optimizing advertising space and improving concession rental spaces.

Other revenue and investment income make up 5% of system generated revenues. This includes revenue from parking lots, grants, and other various sources.

Finally, the CTA receives $5 million annually in statutory required contributions, $3 million from the City of Chicago and $2 million from Cook County, as required by state statute. This amount has been constant since 1983.

Public Funding

CTA's 2013 budget has $653 million in public funding, consistent with the public funding marks established by the RTA. 76% of this funding comes from the sales tax and state match established in 1983. 17% comes from the 2008 sales tax increase of 0.25%. The remaining 7% comes from the City of Chicago Real Estate Transfer Tax of $3 per $1,000 transaction and the affiliated 25% state match on those funds.

All of these sources are subject to fluctuations based on economic conditions and the CTA saw a dramatic dip in projected revenues during the great recession. Since then, revenues have grown and will outpace the original projections for the 2013 budget. The real estate transfer tax, for instance, is projected to finish 26% above the original projection.

Taking a regional perspective, CTA provides 83% of regional public transit rides and 65% of the region's vehicle revenue miles. In 2013, the CTA is set to receive 47% of public funds overall. The CTA's public subsidy per ride in 2012 was $1.18 with a farebox recovery ratio of 60.8%

Capital

CTA receives capital funds from the following agencies the Federal Transit Administration (FTA), the Illinois Department of Transportation (IDOT), the Regional Transportation Authority (RTA), the Chicago Metropolitan Agency for Planning (CMAP) the regional planning organization, and the CTA through the issuance of Bonds.

Federal Transit Administration funds:

In 1972, the CTA received its first federal capital grant. These funds were established as a part of the Urban Mass Transportation Act of 1970.

The current two year federal transit authorization MAP-21 program provides funding for the Urbanized Area Formula Programs for fiscal years 2013-. Funds are distributed by apportionment to urbanized areas (UZA) based on formulas associated with transit metrics such as passenger-miles, route-miles, existing rail infrastructure, service area population, and population density. Formula funds for the region are distributed to the three Service Boards on the following basis: CTA (58%); Metra (34%); and Pace (8%).

The three federal formula programs that are most applicable to transit agencies are: 5307 Urbanized Area funds, which provide for public transportation capital and planning projects; 5337 State of Good Repair (SOGR) funds, dedicated to repairing and upgrading rail transit systems along with bus rapid transit systems; and 5339 Bus & Bus Facility funds, which provide funding to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities.

In FY 2013 the CTA has received the following formula based funding: 5307 Urbanized $123,453,365; 5337 SOGR $126,561,966; and 5339 $11,485,654.

Federal Discretionary Funds

The federal government also provides funding through discretionary programs which are awarded competitively on a project basis. Includes programs such as 1) Bus Livability Initiative; 2) the Transportation Investment Generating Economic Recovery (TIGER); 3) Infrastructure Finance and Innovation Act (TIFIA); 5) Congestion Mitigation and Air Quality (CMAQ), and 6) Unified Work Program (UWP). In FY 2013, the CTA receive $60 M of federal discretionary grants.

United States Department of Transportation (USDOT) - The Transportation Infrastructure Finance and Innovation Act (TIFIA) program:

This program provides federal credit assistance for large-scale, surface transportation projects. The TIFIA credit program is designed to fill market gaps and leverage substantial private co-investment by providing supplemental and subordinate capital. Each dollar of Federal funds can provide up to $10 in TIFIA credit assistance and support up to $30 in transportation infrastructure investment.

As of FY 2013, the CTA's award of $8M in TIFIA funds provides for credit assistance of $79.2M for the 95th Street Terminal Expansion Project totaling $240M.

The program's fundamental goal is to leverage Federal funds by attracting substantial private and other non-Federal co-investment in critical improvements to the nation's surface transportation system. TIFIA was created because state and local governments that sought to finance large-scale transportation projects with forms of user-backed revenue often had difficulty obtaining financing at reasonable rates due to the uncertainties associated with these revenue streams. Project-based revenues are difficult to predict, particularly for new facilities. Similarly, innovative revenue sources, such as proceeds from tax increment financing, are difficult to predict. TIFIA credit assistance is often available on more advantageous terms than in the financial market making it possible to obtain financing for needed projects when it might not otherwise be possible.

Federal Department of Homeland Security (DHS):

The FY 2013 Department of Homeland Security Grant program supports the implementation of the National Preparedness System (NPS) by providing the building, sustainment, and delivery of core capabilities essential to achieving the National Preparedness. The program, sustainment, and delivery of these core capabilities are not exclusive to any single level of government, organization, or community, but rather, require the combined effort of the whole community. The FY 2013 Homeland Security Grant Program supports core capabilities across the five mission areas of Prevention, Protection, Mitigation, Response, and Recovery based on allowable costs.

Funds are awarded competitively on a project basis to the CTA to implement communication and transit security related projects that will enhance security and safety for CTA employees and customers.

In FY 2013, CTA has been awarded $7,280,350 for Chicago Police Department security operations and for CTA Threat and Vulnerability Assessment.

State Funds

The current State Transportation Series B Bond fund was appropriated under two legislative programs: Illinois Jump Start, which was appropriated in FY 2009 but has not yet been authorized, and Illinois Jobs Now, which was appropriated and authorized in FY 2010. The CTA's share from both legislative programs totals $1.4 billion. The State of Illinois Jobs Now, includes funding for mass transit agencies to replace, upgrade, and enhance infrastructure systemwide, provides state funding over a five-year period, which began in FY 2010 and ends in FY 2014. The CTA has received approximately $900 million under this Jobs Now program. While the initial $495.9 million of Jump Start program funds, planned in the FY 2013-2017 CTA CIP, remain outstanding.

Funds are distributed regionally: CTA, 50%; Metra 45%, and Pace 5%.

Like the federal program, state road construction funds continue to be appropriated by the legislature. However, unlike the federal program, a state transit program's expiration leads to a stop of all transit funding. This start-and-stop approach makes it much more difficult to plan and implement a capital program.

RTA Bonds (State of Good Repair) Funds

The Regional Transit Authority (RTA) proposes to issue $100 million in bonds available for the three Service Boards – CTA, Metra, and Pace – to program for SOGR projects in 2014. Bond funds will be allocated as follows: 50% will go to the CTA, 45% to Metra, and 5% to Pace.

Beginning in FY 2014, the RTA will set aside discretionary funding that would otherwise go to the Service Boards as operating revenue to meet anticipated debt service obligation obligations on these bonds.

City of Chicago - Tax Incremental Financing (TIF) District funding

Tax Increment Financing is a special funding tool used by the City of Chicago to promote public and private investment across the city. Funds are used to build and repair roads and infrastructure, clean polluted land and put vacant properties back to productive use, usually in conjunction with private development projects.

CTA Capital Funding Source Change Table

The following table provides funding sources made available for the FY 2013 – 2017 Capital Program. Included are FY 2013 authorized funds and FY 2014 – 2017 planned funds. Capital budget sources which have changed are boxed in the table listed below:

CHICAGO TRANSIT AUTHORITY
FY 2013 - FY 2017 CIP Funding Marks

Sources of Funds	2013	2014	2015	2016	2017	TOTAL
5307 Urbanized Formula	123,453,365	127,420,000	129,210,000	131,020,000	132,860,000	643,963,365
5337 State of Good Repair	126,561,966	128,020,000	129,810,000	131,620,000	133,460,000	649,471,966
5339 Bus and Bus Facilities Formula	11,485,654	11,690,000	11,850,000	12,020,000	12,190,000	59,235,654
Subtotal FTA	**261,500,985**	**267,130,000**	**270,870,000**	**274,660,000**	**278,510,000**	**1,352,670,985**
Sec. 5309 Disc. Bus/Bus Fac. (SOGR)	23,000,000	0	0	0	0	23,000,000
Sec. 5309 Disc. Bus Livability	10,000,000	0	0	0	0	10,000,000
Sec. 5308 Clean Fuels	4,725,000	0	0	0	0	4,725,000
Sec. 5309 (a) New Start	1,500,000	0	0	0	0	1,500,000
Homeland Security (HLS)	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
FTA TIGER IV	20,000,000	0	0	0	0	20,000,000
TIFIA	80,000,000	0	0	0	0	80,000,000
Sec. 5307 CMAQ	0	0	0	0	3,000,000	3,000,000
Other Federal	**142,225,000**	**3,000,000**	**3,000,000**	**3,000,000**	**6,000,000**	**157,225,000**
AVAILABLE FEDERAL	**403,725,985**	**270,130,000**	**273,870,000**	**277,660,000**	**284,510,000**	**1,509,895,985**
Non-Federal						
State Bond	281,500	198,360,000	100,000,000	197,540,000	0	496,181,500
RTA - ICE	4,320,000	0	0	0	0	4,320,000
Service Board (RTA Disc.)	15,000,000	0	0	0	0	15,000,000
Service Board (TIF City of Chicago)	21,500,000	0	0	0	0	21,500,000
Service Board (CTA)	1,500,000	0	0	0	0	1,500,000
State Technical Planning (TOD)	125,000	0	0	0	0	125,000
UWP	856,000	0	0	0	0	856,000
CTA Bond	175,000,000	380,000,000	445,000,000	0	0	1,000,000,000
AVAILABLE STATE/LOCAL	**218,582,500**	**578,360,000**	**545,000,000**	**197,540,000**	**0**	**1,539,482,500**
New Funding Available	**622,308,485**	**848,490,000**	**818,870,000**	**475,200,000**	**284,510,000**	**3,049,378,485**
REPROGRAMMED	**55,241,698**					
Operating Match	2,636,771					
TOTAL Programmed Funds	**680,186,954**					

Funding levels for specific projects are coordinated with area plans and goals

In 2013 the CTA anticipates receiving approximately $47.2 million for rail station and infrastructure improvements.

CTA Issued Bonds:

Traditional CTA Bond program utilizing authority granted to CTA by the MTA Act, backed by either CTA Capital Grant Revenues or CTA Sales tax receipts. Current five year capital plan calls for up to three possible issuances of Sales tax Receipt Bonds totaling $1.0 billion.

1.B Do the available funding sources adequately fund your current and projected capital and operating needs? If not, please describe your current projected shortfall.

1.C Assuming no changes in current funding levels what steps will you take to address projected deficits in operating and capital budgets?

The CTA is required by law to maintain a balanced budget. Over the past three years, the CTA has implemented many key improvements to achieve this, most importantly successfully negotiating a labor deal that will bend the cost curve through lower health care costs, work rule changes and improved service to drive ridership. Regardless of whether or not funding levels are maintained, the CTA will continue to seek management efficiencies to run the most cost-effective operation for its riders. For example, the CTA will build on its innovative Supply Chain Modernization initiative with the goal of moving towards just-in-time procurement and drive down unnecessary costs; the CTA will continue to work on reducing worker absenteeism to build on the $10 million in savings already realized; and the CTA will further improve its customer-facing operations to drive increased ridership, overhauling the bus fleet, further deploying Bus and Train Tracker signs, and making strategic facility improvements to make the customer experience more enjoyable.

Since 2011, the CTA has initiated a $4 billion capital improvement plan to achieve fleet modernization, station and track repairs, maintenance facility rehab and technology upgrades. In a remarkably capital-intensive industry, CTA and all transit agencies could accelerate service enhancements and improve efficiency with additional capital. However, we are aggressively utilizing the capital we have to modernize the agency with improved services and lower costs.

1.D Do you think that the allocation formula appropriately apportions available funds? What changes, if any would you make to the existing formula and why?

The current funding formula is a byzantine process that is nearly indecipherable to the public, born out of political compromise 30 years ago. It bears no relation to the level of service that the CTA provides regionally, which again represents 83% of rides and 65% of regional vehicle revenue miles.

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Since 1983, CTA's allocation of formula funds alone has been insufficient to meet the operating needs of CTA. To fill that gap, CTA has relied on RTA allocating the great majority of "discretionary" funds to CTA. Over the last 5 years, CTA has received 98.6% of "discretionary" funding, which tracks historical allocations, making the "discretionary" fund anything but. Metra and Pace do not face the same challenges. <u>CTA is the only Service Board that has a significant portion of its operating budget controlled by another entity.</u> However, due to the "discretionary" label that the RTA has given the funds (the term "discretionary fund" appears nowhere in statute), every year's budget process devolves into regional bickering that fails to acknowledge the underlying fact of the persistent insufficiency of formula revenue that the CTA alone faces while focusing only on a small slice of the overall funding picture.

If the funding formula were amended to reflect the true historic breakdown of overall funding, including both formula funds and "discretionary" funds, and to remove any role of the RTA in revenue allocation the underlying cause of regional discord would be addressed and the annual disruptive distraction of the RTA's budgeting would be removed, allowing each Service Board to focus on its mission and removing a key obstacle to regional cooperation.

A complete formula allocation would also underscore the regional nature of mass transit and acknowledge that all aspects of a regional system deserve to be supported by the region as a whole and allow the regional rising tide to lift all boats and give the Service Boards predictability and stability in forecasting.

Most importantly, it would remove a source of contention between service boards and facilitate the type of coordination that has been too often discussed but not implemented and allow the Service Boards to focus on their core mission of transit operations while allowing the RTA to focus on its core mission of impartial financial oversight. One only needs to look at the unprecedented level of coordination that CTA and Pace have achieved to appreciate the potential degree of integration that is possible among Service Boards.

1.E Assuming no increase in the amount of funding coming from the State, please discuss any changes in the current statute that in your opinion, could positively impact funding resources available to the region.

Absent additional funding from the state, there are some changes that could be made to the existing RTA Act that would positively benefit the transit-riding public.

Ensure all possible existing funding goes towards transit.

The RTA Act (70 ILCS 3615 4.01(c))currently caps the RTA's administrative expenditures but the RTA has never adhered to the cap, relying on an opinion from Ernst and Winney to justify the exemption of certain costs. This suggestion was never enshrined into the RTA Act. The RTA currently duplicates the work done by many other agencies, such as FTA, IDOT, and CMAP. The RTA could achieve the necessary budgetary reductions by limiting its focus to its statutorily-mandated financial functions.

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Formally adopt historic funding levels for "discretionary" fund.

As mentioned above, since 1983, CTA's allocation of formula funds alone has been insufficient to meet the operating needs of CTA. To fill that gap, CTA has relied on RTA allocating the great majority of "discretionary" funds to CTA. Over the last 5 years, CTA has received 98.6% of "discretionary" funding, which tracks historical allocations, making the "discretionary" fund anything but.

If the funding formula were amended to reflect the true historic breakdown of overall funding, including both formula funds and "discretionary" funds, and to remove any role of the RTA in revenue allocation, the change would also underscore the regional nature of mass transit and acknowledge that all aspects of a regional system deserve to be supported by the region as a whole and allow the regional rising tide to lift all boats. In addition, it would give the Service Boards predictability and stability in forecasting. Most importantly, it would remove a source of contention between service boards and facilitate the type of coordination that has been too often discussed but not implemented and allow the Service Boards to focus on their core mission of transit operations while allowing the RTA to focus on its core mission of impartial financial oversight.

2. The current allocation format is very complicated and difficult for the general public to understand, how would you go about simplifying it?

(Answered above)

3. If you had a blank slate, how would you allocate funds and why? What prevents that from happening now? What issues would that raise and how would you address them?

If transit funding were to be revisited in its entirety, ideally funding would be based on service provided. The CTA provides over 80% of the region's rides and 65% of the region's vehicle revenue miles yet only receives 56% of the Service Board funding. Any funding formula should provide the Service Boards predictability and stability in its planning. Instead of this, the CTA must annually rely on the RTA to release a significant portion of the support the CTA needs to balance its budget. Neither Pace nor Metra face a similar situation. In addition, fund allocation should be structured in a way that maximizes the amount of funding that goes towards the actual provision of transportation, instead of inefficient bureaucracy. The RTA currently spends approximately double the amount allowed by statute on its own administrative costs.

The greatest impediment to changing how transit is funded is the fact that such changes would require legislative action to modify, and transit is a politically sensitive issue. Thus, in 2008 when the General Assembly increased the RTA sales tax, they modified the existing structure instead of reconsidering funding in totality.

The RTA could by Ordinance establish a fixed formula for the "discretionary" fund, but appears to be instead moving towards more complex allocation strategies that would enhance the role of that body and its Chair in awarding funds, despite the fact that such a move would fundamentally alter RTA's role as an impartial arbiter of financial health among the Service Boards and put such funding decisions into an unstable political process that will undoubtedly result in less regional consensus.

The CTA is also impacted by numerous unfunded mandates from the General Assembly. The CTA annually provides nearly $100 million in statutory free and reduced rides, yet only receives a fraction of the cost in reimbursement for this important service. The 2008 pension legislation, passed on the eve of the Great Recession, saddled the CTA with strict requirements for pension management. Meant to be a guinea pig for other units of government, the legislation mandated inflexible requirements for automatic contributions and onerous borrowing requirements which are problematic in the post-Great Recession market. To make matters worse, the additional revenue to fund the increased costs has proven to be woefully insufficient.

In response to these issues, the CTA would argue that it should be treated equally as the other Service Boards. Neither Pace nor Metra require a third party to approve such a significant portion of its revenue. In addition, neither Pace nor Metra are limited in their ability to manage its pension obligations. However, fully funding state mandates would benefit all Service Boards.

Thank you again for the opportunity to address the Finance Working Group. I am happy to answer any questions that you may have.

New Vehicle Purchases

The CTA is upgrading its fleet of over 1,300 rail cars.

- 714 new rail cars will arrive by the end of 2015.
- 310 of those 714 have already arrived and are in service
- Nearly 300 existing rail cars will receive an extensive overhaul, including upgrading signage, interior lighting, and mechanical systems
- CTA's average fleet age will drop from nearly 25 years old in 2011 to 16 years old in 2015.
- 100 rail car base order will be signed in Q1 2014 with options to purchase over 800.

The CTA will have an almost entirely new bus fleet within the next few years.

- Overhaul of 1,030 buses that are at the "mid-life" stage to make them like new.
- Delivery of 100 new 60-foot articulated buses in 2013
- Purchase from Nova Bus of as many as 450 new buses that will begin to be delivered in 2014.

Security Camera's Route

High –definition cameras in approximately 850 existing, older model rail cars to assist law enforcement in crime-fighting efforts and deter crime. CTA expects is entire fleet will have security cameras by the end of 2014, after the 2400 series rail cars are retired and it will make the CTA's entire rail fleet fitted with security camera's for the safety of its customers.

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Supply Chain Reform

- **Before**

* 300,000 sq. ft. warehouse
* $100M of parts in storage
* Parts stockpiled at warehouse and delivered to garages as requested

- **After**

* Just-in-time delivery directly to garages
* Scanning, barcoding of all parts
* Minimal inventory kept on-site
* Enhanced warranty coverage
* Access to global supply chain program

cta

Bus and Train Tracker

The CTA also has a modern network of real-time travel information. Customers can use their cell phones or smart phones to find out when any train or bus is going to arrive. All rail stations have train arrival signs. Over 100 bus shelters have bus arrival information.