

What We Have Done

- Reviewed how peer regions address funding allocation
 - New York City, Philadelphia, Seattle, San Francisco, San Diego
 - Governance approaches
 - Funding allocation and fiduciary responsibility
- Conducted data gathering meetings
 - Service Boards and other stakeholders
 - RTA staff
- Carried out research
 - Documented recent history of funding allocation in the RTA region
 - Analyzed recent trends
 - Developed eight funding allocation scenarios
- Prepared Interim Report
- Prepared Draft Final Report

Key Principles

- The funding allocation process should emphasize regional goals
 - Support a healthy regional economy
 - Strong, safe, and customer-focused system
 - World class performance
- Changes in how funds are allocated should not be viewed in isolation
 - Effectiveness depends on improved regional governance
 - Link between strategic plan and spending
- Any change in how funds are allocated should be transparent, targeted, objective, and demonstrate results

Funding Allocation Scenarios

1. Status Quo
2. Service Board Focus
3. New Fixed Formulas
4. Competitive Program
5. Performance-Based Allocation
6. Flexible Sub-Area Equity
7. Asset Management Focus
8. Combination of Scenarios

Possible Governance Structures

- **No change**
- **Weakened RTA:** RTA becomes a pass-through agency with a limited oversight role. Service Boards would make investment decisions based on their individual operating responsibilities.
- **Strengthened RTA:** RTA would have the authority needed to carry out its current legislative responsibilities.
- **Integrated system:** The Service Boards would become operating arms or subsidiaries within a new organization. Allocation decisions would focus on regional objectives.

Scenario 1: Status Quo

- Continues current practice
 - No change to Service Board funding
 - No change to governance structure
- Current funding allocation process is flawed
 - Funding formulas are complex, out of date, and rigid
 - RTA lacks the authority to support regional planning and decision-making process
- Future levels of capital funding are uncertain
 - Federal; steady at best, likely to decline in near term
 - State; dependent on creditworthiness – Illinois currently worst-rated of all states
 - RTA and Service Board bonds; likely to become significant funding component
- Significant gap between current fund and investment needed to reach a “State of Good Repair”

Scenario 2: Service Board Focus

- “Weakened” RTA
 - No change to capital funding allocation
 - Similar operations funding allocation, with discretionary fixed at 97% CTA and 3% Pace
 - Reduced RTA responsibilities generates at least \$12 million/year for Service Boards
 - RTA retains \$22M operating budget, mostly to support regional services, e.g. ADA certification, reduced fare permits
- Governance Structure
 - Some change needed to reduce RTA’s legal responsibilities
- Advantages
 - Allocation rules clear, funding predictable
 - Modest additional funds
- Disadvantages
 - Limited focus on regional objectives
 - Allocation practices unrelated to regional plan
 - No oversight for Service Boards and their financial plans
 - Current allocation rules have not been adjusted for up to 30 years

Scenario 3: New Fixed Formulas

- Capital funds allocated in proportion to state of good repair
 - 61.7% CTA (5.2 percentage point increase)
 - 31.1% Metra (6.3 percentage point decrease)
 - 7.2% Pace (0.8 percentage point increase)
- Discretionary program combined with other operating funds
 - Passenger miles – measure of mobility and connectivity
 - Vehicle revenue miles – measure of resources required to provide sustained service
 - Directional route miles – measure of physical extent of required network
 - 55.87% CTA (0.4 percentage point increase)
 - 30.77% Metra (0.7 percentage point decrease)
 - 13.36% Pace (0.3 percentage point increase)
- Governance Structure
 - Legislation needed to change formulas
- Advantages
 - Allocation rules clear, funding predictable
 - Changes over time to reflect changing circumstances, performance
- Disadvantages
 - Possible incentives to ‘game’ the system
 - RTA needs to audit data used for allocation
 - No focus on how well funds are spent

Scenario 4: Competitive Program

- Motivation: to stimulate new ideas and new partnerships
 - Most capital and operating funds use formulas proposed in Scenario 3
 - Competitive funds would be a portion of total operating revenues – phased in over time
 - RTA sets annual objectives, e.g. develop new markets, apply new technologies
 - But winners selected by independent panel outside current process
 - Competition open to entities beyond the Service Boards – but with matching funds
- Governance Structure
 - Legislation needed to either strengthen RTA or create an integrated system
- Advantages
 - New solutions encouraged
 - Open competition would encourage new ideas and could increase funds
- Disadvantages
 - Learning period necessary
 - Budget uncertainty
 - Year to year variations
 - Base of operating funds would grow more slowly

Scenario 5: Performance-based

- **Motivation: to reward performance and encourage accountability**
 - Most capital and operation funds use formulas described in Scenario 3
 - Portion of total operating funds allocated based on meeting performance targets.
 - Main pool allocated based on customer satisfaction, efficiency, and safety
 - Bonus pool to support new initiatives (applications from the Service Boards)
 - ADA bonus pool based on improved efficiency
- **Governance Structure**
 - Legislation needed to either strengthen RTA or create an integrated system
- **Advantages**
 - Focus on important performance measures, consistent with regional plan
 - Accountability
 - Bonus pools would encourage new approaches
- **Disadvantages**
 - New rules and a period of adjustment
 - Budget uncertainty
 - Active debate over specific measures

Scenario 6: Flexible Sub-area Equity

- **Motivation: to integrate regional goals with sub-area equity allocation**
 - Most capital funds allocated in proportion to state of good repair (sources of capital funds cannot generally be linked to local geographic regions, e.g. federal, state funds)
 - Within jurisdictions, RTA allocates funds to individual Service Boards based on regional goals
 - Portion of capital funds set aside to allocate consistent with regional plan
 - Suburban Cook may be biggest beneficiary
- **Governance Structure**
 - Legislation needed to either strengthen RTA or create an integrated system
- **Advantages**
 - Local tax payers receive funds in their home region
 - Allows RTA to link allocations with regional plan and have some discretion
- **Disadvantages**
 - Budget uncertainty
 - Less clear linkages with achieving regional objectives

Scenario 7: Asset Management Focus

- **Motivation: to improve safety and return on investment**
 - Asset management goals, criteria, strategies and measures are driven from the top down through the organization
 - Capital funding allocation based on asset management analysis
 - Operations funding allocation consistent with asset management principles
- **Governance Structure**
 - Legislation needed to create an integrated system
- **Advantages**
 - Ensures the safety of customers and employees
 - Provides for reduction in projected long-term equipment, maintenance costs and service quality
 - Provides decision-makers with risk analysis and performance measures and specific lines of accountability
- **Disadvantages**
 - Considerable time and dollars will be required to develop the appropriate data base
 - Current business and operating practices will need to be changed
 - New discipline
 - On-going vigilance
 - Easier to confine asset management to operations and maintenance

Scenario 8: Combination of Scenarios

- Combines competitive and performance focuses of Scenarios 4 and 5
 - Capital funding allocation in proportion to state of good repair
 - Portion of operations funding allocation based on vehicle revenue miles, passenger miles, and route miles
 - Sizeable portion of funds would be reserved for competitive and performance-based allocation
- Governance Structure
 - Legislation needed to either strengthen RTA or create an integrated system
- Advantages
 - Greater encouragement for improved performance and innovative ideas
- Disadvantages
 - More complicated scenario
 - Excludes the two smaller bonus pools described in Scenario 5

Recommendations

- Change is needed
 - New allocation rules should be combined with governance reforms
 - Value in linking regional strategic plan with spending
- Attractive scenarios
 - Scenario 5: Performance-based allocation
 - Rewards gains in customer satisfaction, efficiency and safety
 - Improves accountability
 - Scenario 4: Competitive program
 - Encourages new ideas and new partnerships
 - Scenario 8: Combines performance and competitive scenarios
- Integrated governance structure, building upon experiences in New York City and Philadelphia
 - Would also support use of asset management principles