Northeastern Illinois Public Transit Task Force

Finance Working Group Recommendations

February 28, 2014

INTRODUCTION

Finance and the NEIL Public Transit Task Force Guiding Principles

The Task Force abides by eight guiding principles. The Finance 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.

The following are broad findings supported by input that the Task Force and the Finance Working Group received from various sources.

FINDINGS

Finding #1

The region lacks a strategic financial plan that does more than show funding gaps based on the status quo.

- Planning is fragmented, making it difficult to effectively manage a regional approach to transit.
- Limited coordination of planning across Service Boards to address system-wide goals.
- Transit funding for operations and capital is allocated according to either statutory or historical formulas.
- No set of objective measures designed to optimize regional mobility.

Finding #2

Operations of the current transit system are sized for available resources.

- The three main sources of funding for transit operations are:
  - fare box revenue;
  - sales tax revenues; and,
  - a state funding match through the Public Transportation Fund.
- The operating funds are distributed based on fixed formulas set by state statute in 1983.
- The current statute requires that 50 percent of operating revenue come from system generated revenues.

Finding #2

- Operating subsidies have grown significantly since 1991, from $422 million in 1991 to nearly $1.2 billion in 2012, a total of 183.5 percent.
- The difference between operating costs and fare revenues, or funding gap, grew rapidly between 1991 and 2012
- Service Boards' operating costs grew much faster than fare revenues, 126 percent versus 77 percent during this period.
- 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.

Finding #3

<u>Existing funding sources do not meet the current capital needs of the system.</u>

- Chicago's regional transit system comprises some of the nation's oldest transit facilities

- The primary emphasis of RTA's $4.7 billion five-year capital plan is to continue to bring the system's assets to a state of good repair.

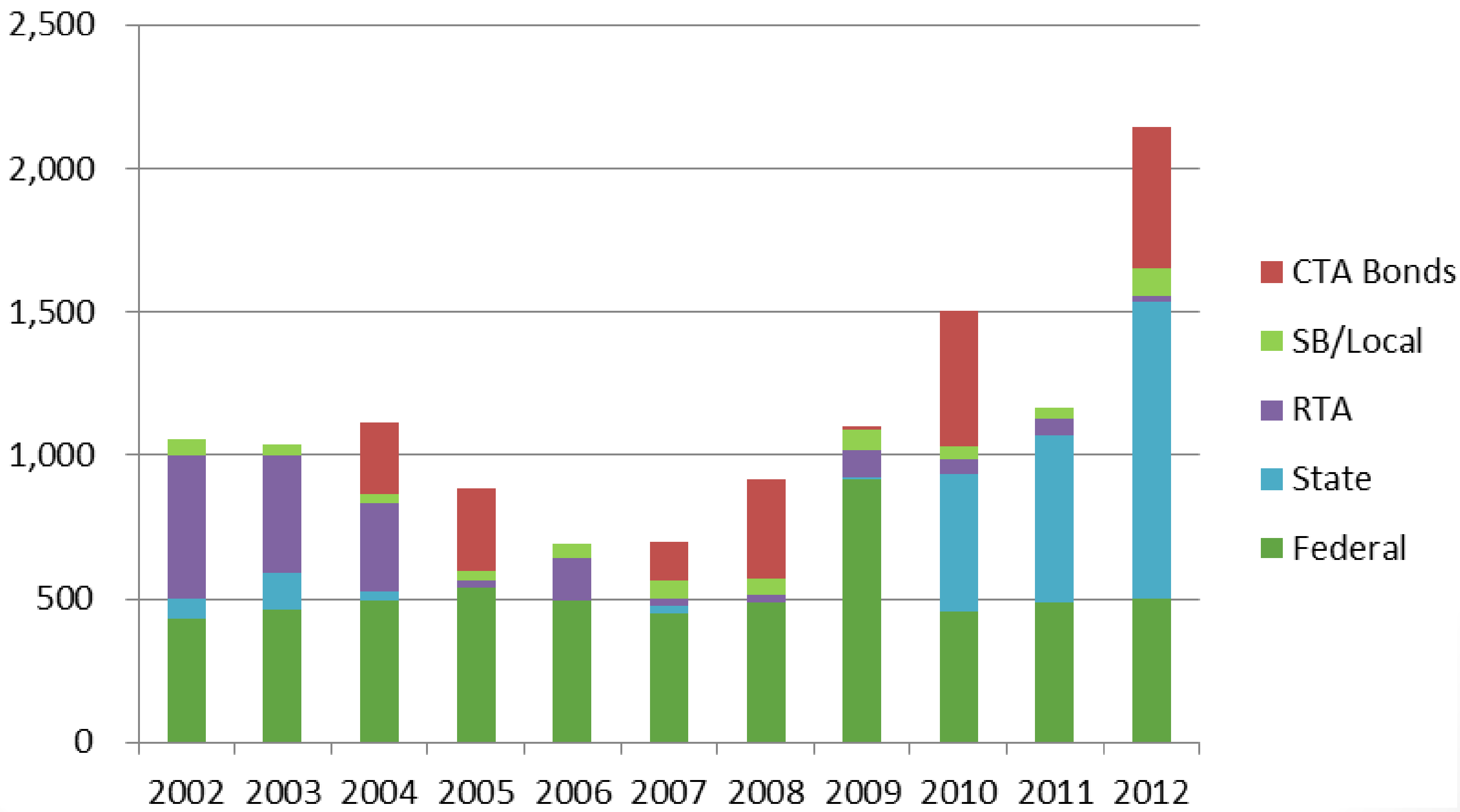
- RTA estimated that $14.0 billion more is needed to address the "state of good repair" backlog and an additional $12.4 billion would be required to meet the 10-year need for normal capital reinvestment.

Finding #3

- There are four main funding sources for the capital program:
  - USDOT’s Federal Transit Administration (FTA) grants;
  - Illinois DOT – largely bond proceeds;
  - RTA (mostly bonds); and,
  - Local—including Service Boards with CTA bonds accounting for the bulk of these funds.

Finding #3

Funding Breakout for Capital Program



Finding #3

- Federal funding has typically been the largest source of capital for the transit system and 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 percent matching fund requirement attached to federal grants, Illinois has used toll credits from the Illinois Tollway rather than cash; this method does not provide a single dollar for capital projects.

Finding #3

- 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.

Finding #4

The current mechanism for allocating funds is flawed and complicated.

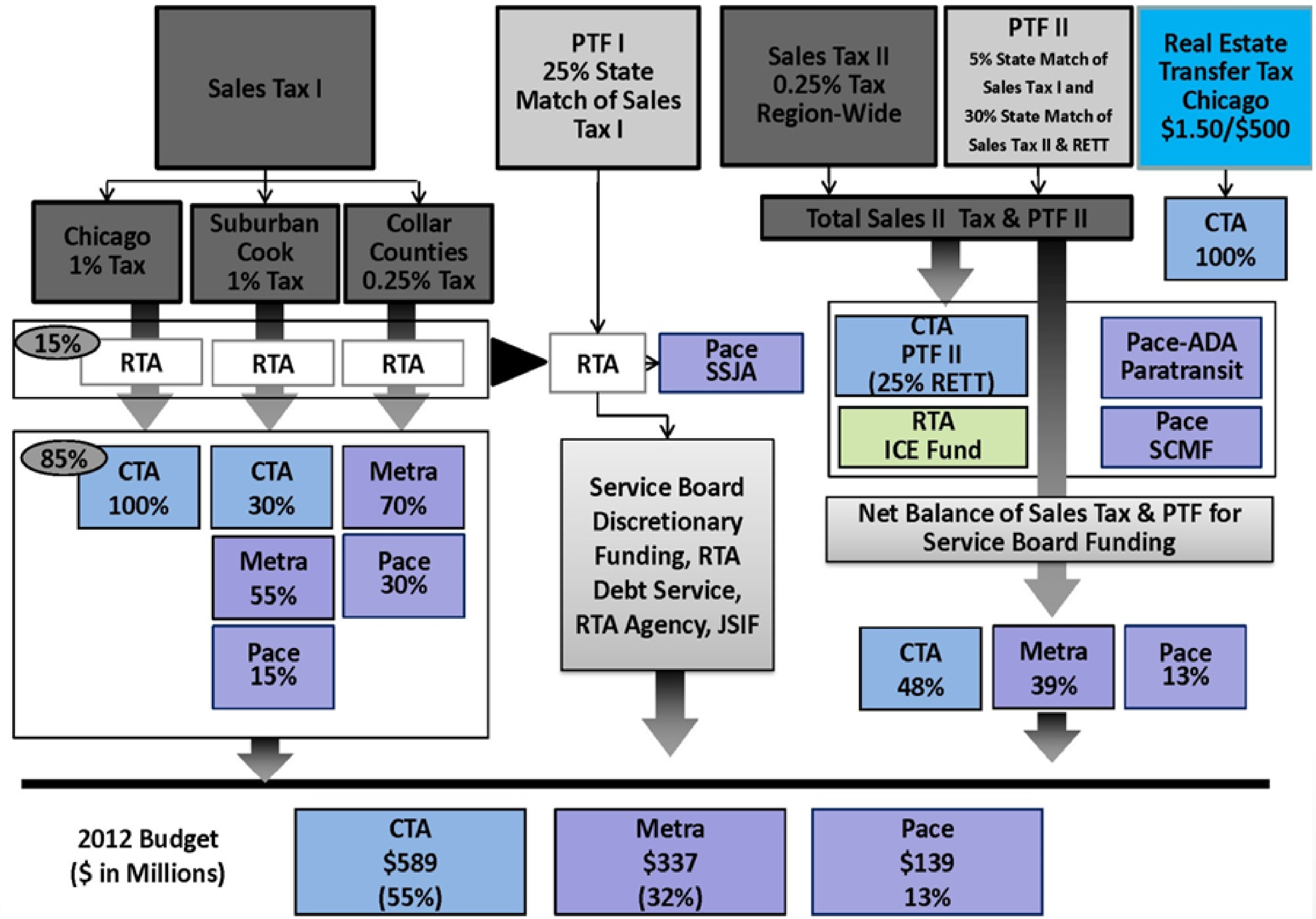
- Illinois faces many other financial pressures. Without more investment in the transit system, the region will struggle to remain competitive.

- Neither operations funding nor capital funding is allocated with the goal of improved regional mobility.

- Likewise, the methodology for allocating capital dollars is somewhat arbitrary, based on historical practice, and is not tied to any regular planning process

Finding #4

Current Allocation of Public Transportation Funding*



* Flawed and complicated

RECOMMENDATIONS

Recommendation #1

Implement a regional financial planning process that supports the guiding principles as outlined previously and, in the most efficient manner possible, creates a framework for the allocation of operating and capital funds on a consistent, sustainable basis.

- Fund operations based on a multi-year integrated, regional strategic plan tied to short and long-term goals and performance metrics.
- Tie the distribution of Public Transportation Fund monies to competitive and performance based programs for the transit providers.

Recommendation #2

Develop a Public Outreach program

- Ensure that equity considerations are applied to the funding of transit.

- Create greater public advocacy for increased investment in transit through new funding sources.

Recommendation #3

Identify a new funding framework for <u>transit operations</u> that supports the guiding principles in the most effective manner possible that will generate adequate resources to meet the investment needs of the system on a consistent and sustainable basis.

- 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 providers, but would allow change over time.

Recommendation #3

- Divide new funds between a competitive program and a performance based program.
- Distribute competitive funds based on criteria that address regional transit goals.
- Distribute performance funds based on the performance of the service providers on specific measures against an established baseline.

Recommendation #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.

- Stop using the historic formulas for capital.
- Allocate the bulk of capital dollars from current sources through a formula based on the funding needed to reach a state of good repair.
- Establish a pool of funds to be divided between a competitive program and a performance based program.

Recommendation #4

- Distribute competitive funds based on the ability of service providers to reach regional transit goals.

- Distribute performance funds based on criteria that address the regional transit goals and performance of the service providers.

Recommendation #5

To mitigate limited public resources for funding; eliminate barriers to entry for the private sector.

- Capitalize on new and innovative mobility solutions by allowing private transit providers that work to reach regional transit goals to compete for funds from the Competitive Programs.

- Encourage private sector partnerships where practicable.

Recommendation #6

Establish performance based management practices across the system.

- 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.

- Establish five year milestones for achieving savings through these parameters.

Recommendation #7

Consider New Revenues.

- Use the public outreach program to create broad based buy-in for increased investment in transit.
- Designate new revenues as funding source for capital, in order to ensure the region has a consistent source of capital, in part to best leverage increasingly competitive federal funds.
- New funding source should also be used for long term capital expansion.