



Determining the Equitable Allocation of Public Funding for a Regional Transit System

Final Report

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In Association With
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EXECUTIVE SUMMARY

The Northeastern Illinois region faces two transit funding challenges – one related to total funds and the second to how these funds are allocated within the region. While the imbalance between available funds and financial needs is similar to problems faced elsewhere in the country, the region is confronted by a complex and inflexible funding allocation process unlike approaches used in other metropolitan regions. There is no easy solution to this challenge – if there was it would have been implemented long ago.



The Interim Report issued in August identified strategic guidelines to shape the discussion of different allocation approaches. These include:

- The funding allocation process should emphasize regional goals.* Rather than focus on what is best for individual Service Boards or specific sub-regions, funds should encourage actions that support a healthy regional economy anchored by a strong, safe, and customer-focused regional transit system that is accessible to all residents;
- Changes in how funds are allocated should not be viewed in isolation,* but rather as part of efforts to improve regional governance, planning, and coordination of public transit service in the RTA region; and
- Any change in how funds are allocated should involve a process* that is transparent, targeted, objective, and that demonstrates results.

Deciding how much money to provide to each Service Board through any funding allocation scenario will generate controversy, particularly at a time when reasonable needs exceed available funds. It is important to recognize the value of financial stability for each of the Service Boards. Any new allocation process will increase funds for one or more Service Boards at the expense of another – unless of course there is a sufficient increase in overall revenues. While opportunities exist for increased revenues, significant growth is unlikely in the immediate future.

This report provides an independent assessment of the current practice for transit funding and assesses alternative approaches (scenarios) to the funding allocation challenge. These scenarios are comprehensive in that they consider all funds, both operating and capital, and examine statutory formulas as well as discretionary funding. It is hoped that this report will help to stimulate a productive debate over how best to improve the region's transit system. This debate should not be constrained to simply adjusting percentages in a formula, but rather should address fundamental flaws in the current practice. Most of the scenarios presented in this report would benefit from changes in the governance structures of RTA, the Service Boards, and potentially other state and regional agencies. All scenarios, other than maintaining the status quo, would also require legislative change.

FINDINGS

The current institutional and financial structure used for transit in Northeastern Illinois is flawed. The funding formulas are complex, out of date (some rules have been unchanged for thirty years), and rigid. Further, RTA does not have the necessary authority to support the planning and decision-making process called for in current legislation (the RTA Act), resulting in an effort that is involved, argumentative, and often unproductive. No other major metropolitan region in the US has selected a similar institutional

arrangement to fund or manage its regional transit system. The only positive is that the funding results are generally predictable.

RTA has important responsibilities, but is sometimes unable to match what state legislation has mandated because of its governance arrangements. Any change would require new legislation. For example, the current super majority requirement to approve financial plans and other key measures makes it possible for relatively small groups to exercise veto power over key decisions.

Any change in how funds are allocated should involve a process that is transparent, targeted, objective, and that demonstrates results. Several scenarios present changes beyond simply applying a new mathematical formula. For these options to succeed, any new procedures should be understandable and carried out in an open environment.

SCENARIOS

Eight scenarios were developed as part of this study. These are not all equally attractive, but they provide a range of options for the region to consider. Financial predictability is important so scenarios that call for significant changes will have these phased in over several years in order to minimize disruption.

1. **Status Quo:** This provides a benchmark. Governance structure, funding process and allocation rules would continue as at present.
2. **Decentralized/Service Board Focus:** This option calls for a weakened RTA with budget savings used to support transit operations at the Service Boards.
3. **New Fixed Formulas:** Capital funds would be allocated in proportion to the costs to reach a “state of good repair” – although resources fall well short of meeting that goal. Operating funds would be allocated based on vehicle revenue miles, passenger revenue miles, and route miles.
4. **Competitive Program:** While the bulk of funds would be allocated according to the formulas called for in Scenario 2, a portion of funds would be part of a competitive program designed to encourage creative solutions. This program would be open to groups beyond the Service Boards.
5. **Performance-Based Allocation:** Again, the bulk of funds would be allocated according to formulas used in Scenario 2, but some funds would be awarded based on achieving key performance goals (customer satisfaction, efficiency, and safety). Another bonus pool would support new efforts, such as expanded service or technology improvements.
6. **Flexible Sub-Area Equity:** Funds (other than certain federal and state capital monies) would be allocated in two steps: first among the counties (including suburban Cook) in proportion to where taxes were paid and second, RTA would allocate funds among the Service Boards that serve these counties in ways that support the region’s strategic long-range transit plan.
7. **Asset Management Focus:** Asset management describes a group of analytic techniques that can help improve the rate of return on investment, control costs, manage safety, improve customer satisfaction and assist organizational readiness. This approach has been advocated by the Federal Transit Administration and incorporates good business practices.
8. **Combination of Scenarios:** This concept would combine the competitive focus of Scenario 4 and the performance focus of Scenario 5.

RECOMMENDATIONS

Change is needed. The first three scenarios could be managed under the current governance structure, although legislation would be required in order to implement the second and third scenarios and some governance reforms would improve their effectiveness. Scenario 4 (Competitive Program) opens up the allocation process to entities outside the RTA and Service Boards that could help improve the viability of the region’s transit services. Scenario 5 is attractive since the emphasis on performance measures should

encourage improvement in key areas and would help to build a culture of accountability. Scenario 7 emphasizes asset management techniques and requires an integrated governance structure. The strongest approach might be Scenario 8, which combines the competitive and performance based approaches.

The ability to gain full value from most of these scenarios calls for change in the governance structure. The review of experience of peer metropolitan areas provides useful examples. An integrated governance structure offers the best potential to achieve regional objectives given its ability to help focus strategic direction and financial management. The Service Boards would become operating arms or subsidiaries in this organization (either a revised RTA or a new entity). This entity would have a board of directors, perhaps with some board members appointed by the Governor with the balance coming from the major regional jurisdictions. This integrated governance structure has similarities to that used in Philadelphia and New York City. Such an arrangement has real potential to improve funding decisions and stability going forward. One possibility would be to include the Illinois Tollway in this organization, something consistent with policies in New York and San Francisco.

While this report addresses governance structure as one of several variables in the assessment of each scenario, in practice the scenarios and their associated institutional options cannot be considered in isolation from one another. Just as current practice involves a mix of formula and discretionary funding within a unique institutional context, other scenarios would allocate funding quite differently than today. Philadelphia and New York City provide a clear example. The major transit entities for those regions do not allocate funds by formula, but are integrated organizations that allocate funds based on their strategic plan and related capital program.

This study was conducted as an independent effort with input from the RTA, Service Boards, and other regional stakeholders. It reflects the independent judgments of the authors.

INTRODUCTION

The Regional Transportation Authority (RTA) for Northeastern Illinois must pass a budget that includes capital and operating funds for the region's three transit providers (known as Service Boards). In 2012, the RTA Board was unable to meet budget deadlines because of disagreements over the allocation of a discretionary fund among the Service Boards. Most funds are distributed by RTA based on fixed formulas set by state legislation passed in 1983 and updated in 2008.

While the origin of this study relates to the impasse over the allocation of discretionary funding in 2012, the scope of work covers both discretionary and formula funding for operations as well as funds for the capital program. The budget impasse that occurred in 2012 has reoccurred in 2013, with the RTA Board again being unable to approve budget marks by the legal deadline of September 15, 2013.

This report builds upon an Interim Report completed in August 2013, which described recent economic trends in the region, characteristics of the three Service Boards, findings from a review of peer metropolitan areas, and principles that should be considered when selecting among alternative allocation schemes. The Interim Report also described five options for the allocation of funds, each of which are now incorporated into one of the scenarios described in this report.

This report provides an independent assessment of the current practice for transit funding in Northeastern Illinois and assesses alternative approaches (scenarios) to the allocation of limited funds. These scenarios are comprehensive, in that they consider all funds, both operating and capital, and examine statutory formulas as well as discretionary funding.

BACKGROUND

In recent decades, the RTA region, like many other metropolitan areas across the nation, has experienced strong economic growth in its suburbs, known locally as the collar counties (DuPage, Kane, Lake, McHenry, and Will). There are signs of a second wave of suburban expansion extending beyond the collar counties. This suburban growth has been driven by many factors, notably the widespread availability and cost of land and lower traffic congestion compared to the city and close-in suburbs.

Suburban expansion presents serious challenges to the Service Boards—CTA, Metra, and Pace. For example, Metra commuter rail services cannot easily adapt to serve reverse commuters (i.e., those who live in the central area and commute to the suburbs) in part because of the difficulty of getting to suburban locations from the Metra train station. Similarly, the fixed route nature of most Pace bus services cannot easily serve the numerous suburb to suburb travel needs of those who both live and work in the collar counties. The lower density of trips also leads to high costs per passenger mile for bus service.

The challenges presented to the provision of transit services, in both the City of Chicago and in the suburbs, should be addressed at a regional level. Although there is some overlap, the institutional environment for transit decisions in the RTA region is focused on the three Service Boards, each Service Board with its own chain of command, internal accountability, and base of political support. In effect, transit services provided by the Service Boards are subsystems within a larger regional system, each with different operational characteristics and core customer bases. The Service Boards' first responsibility is to ensure their respective transit services are safe, efficient, and meet the travel needs of their customers.

THE SERVICE BOARDS

Chicago Transit Authority (CTA) is the oldest of the three Service Boards, technically formed in 1947 when it took over the Chicago Rapid Transit Company and the Chicago Surface Lines. These rail lines had been in operation since 1892 and some of the infrastructure when CTA was formed was already 55 years old. The CTA system is currently the second largest public transportation system in the nation in terms of passenger trips, and serves the City of Chicago as well as 35 communities adjacent to the city. CTA service accounts for more than 80 percent of the transit trips (1.6 million rides per average weekday) made in the six county Chicago metropolitan area. CTA operates 1,200 rail cars over eight routes covering 224 miles of track, making 2,145 trips per day. CTA's 1,781 buses make 19,709 trips per day, serving 11,493 posted bus stops along 1,959 route miles.



Metra is the second largest commuter rail agency in the nation (based on directional route miles) serving Cook, DuPage, Will, Lake, Kane, and McHenry counties. The agency was branded with the name Metra in 1984, but commuter rail service has been prominent in the Chicago area for much longer. Metra's rail system covers 495 miles and serves 241 stations. Metra operates 702 weekday trains, and carries about 50 percent of the trips into downtown along major expressway corridors. Of the morning peak trips made on Metra, 88 percent end in Chicago.



Pace is the suburban transit provider for the Chicago region, providing suburban bus and regional ADA-paratransit services. Pace operates vanpools and Dial-a-Ride programs in the six county Chicago metropolitan area as well as providing bus service to suburban Cook County and the collar counties, serving 284 municipalities. The agency was created in 1983, and in 2007 Pace became responsible for ADA and paratransit services in the full six-county Chicago region. Pace's total ridership in 2012 was about 39 million. Pace has 209 accessible bus routes, 454 paratransit buses, and 694 vanpools.



Transit services provided by the Service Boards have overlapping geographic footprints, but are generally supportive of economic and other activities in the City of Chicago and suburban Cook County, which together serve as the traditional economic hubs for the region. Both CTA and Metra face serious challenges such as ageing rail infrastructure, rail capacity constraints, and numerous station access issues for travelers with disabilities.

RTA RESPONSIBILITIES

The responsibilities of RTA are mandated by provisions specified in the 2008 RTA Act. These responsibilities have changed over the past 40 years from providing and procuring transit services (1973) to reviewing and approving annual financial plans from the three Service Boards for operating and capital investments (2008). The approval of a budget requires a super majority vote of the RTA Board, allowing groups of Board members to block plans opposed by the officials who appointed them. The Board consists of 16 representatives, including a Chairman and 15 members appointed from within the six-county region.

RTA also monitors the budgetary and operational performance of the Service Boards. RTA prepares and adopts a five-year capital program each year and issues bonds for Service Board capital programs. In addition, RTA conducts regional planning, feasibility analyses for regional capital projects, and provides program management oversight for those projects that are approved. RTA is also responsible for audits and regional coordination of government affairs. RTA administers the Reduced Fare Program for seniors, students, and persons with disabilities, as well as the ADA-paratransit Eligibility Certification Program.

RTA is responsible for fulfilling financial oversight and strategic regional planning functions that enhance the regional transit system for the residents of the entire six-county region, including the City of Chicago. This study is consistent with that mission. Each of the Service Boards recognizes transit’s key role in supporting and enhancing the economic vitality and quality of life of the RTA region and the State of Illinois, particularly in the face of competition for jobs from other regions and states. Both the traditional central business district model and suburban expansion have been successful where they improve access to labor (for employers) and to jobs (for employees).

GENERAL SHORTFALL IN FUNDS

The Service Boards provide service to the third largest transit market in the United States. The region consists of a population of more than 8 million and serves 2 million daily riders. Chicago’s regional transit system comprises some of the nation’s oldest transit facilities. As of December of 2011, the RTA required \$18.7 billion to address the “state of good repair” backlog and an additional \$12.4 billion to meet the ten-year need for normal capital reinvestment for a total of \$31.1 billion.¹

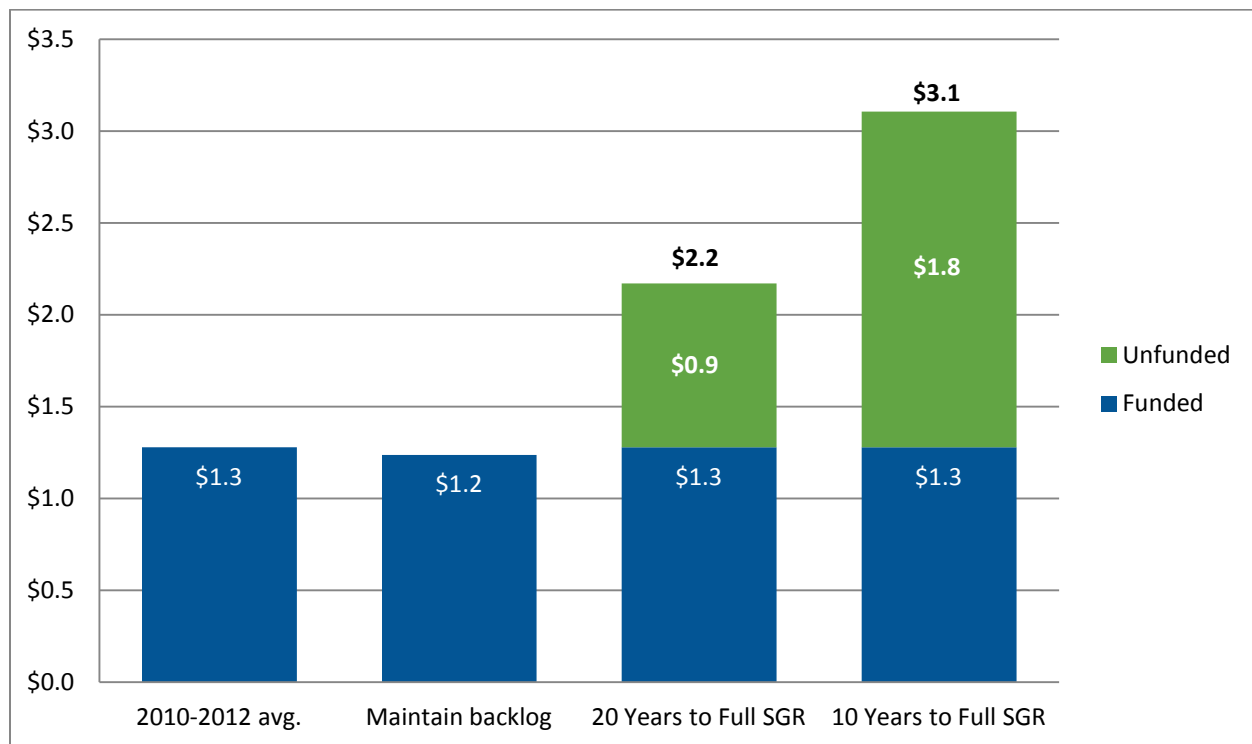


Figure 1: Expected vs. Required Annual Funding to Achieve a State of Good Repair, in Billions.

To obtain a state of good repair over a 10 year period, the annual cost would be approximately \$3.1 billion, or \$1.2 billion to maintain the current backlog (see Figure 1.) Between 2010 and 2012, the region’s annual capital funding averaged almost \$1.3 billion – including an average of \$699 million in receipts from state bonds (but excluding bonds issued by CTA and dedicated to that system). Excluding the state bonds provided by the Illinois Jobs Now! program, the average capital funding over the last three years was only \$582 million – a sum well short of that needed to maintain the current state of good repair backlog. In

¹ Backlog is defined as investments that have been deferred for purposes such as asset rehabilitation, replacement, and annual capital maintenance. The details regarding these estimates can be found in RTA’s Capital Asset Condition Assessment Update.

sum, there is a noticeable difference between available funds and the sums needed to return the region's system to a state of good repair.

Since the 2010 analysis, the estimate of backlog and 10-year state of good repair needs has grown by 17 percent. This increase is due in part to more precise methods of estimation, along with improved data and complete inventory records. The RTA is currently working with all three Service Boards to generate consistency with respect to how assets are characterized and compared.

Aside from capital funding, operating costs are also increasing each year; and the ability to meet these needs will continue to be a challenge faced by all three Service Boards. The RTA region is under a state mandate to maintain at least a fifty percent recovery of operating costs from the farebox. Operating costs are sensitive to changes in energy costs, the general cost of living, and maintenance costs as equipment ages. Service Boards are reluctant to raise fares.

The problem of shortfall in transit capital funds is not unique to the RTA region. Every major US city faces similar gaps between available funds and capital needs – this is particularly true for regions with older rail systems. The national estimate of the cost to return the nation's transit systems to a state of good repair is approximately \$78 billion.

ADA-PARATRANSIT

RTA consolidated ADA-paratransit services under the new Pace ADA umbrella in 2006. Pace and CTA had previously provided ADA-paratransit services within their portions of the RTA region. Since 2007, the ADA-paratransit service has grown at an annual rate of 8 percent. In 2011, the total operating expenses for ADA-paratransit service amounted to more than \$125 million. The cost per trip also rose steadily between 2007 and 2010, dropping slightly in 2011 to about \$37 per trip. The farebox recovery ratio for these services is 7 percent. This federally mandated service is increasingly becoming a major concern for RTA and all three Service Boards since funding for ADA is paid before formula allocations take place.

TRENDS SUMMARY

The Interim Report summarized trends in population, employment, ridership, passenger miles traveled and operating costs (per trip and passenger mile) over the past two to three decades. Appendix A includes these trends.

Many changes have taken place in the region and nation over the 30 years since the current transit allocation scheme for the RTA region was established. The region itself has grown in population, number of jobs, average per capita income, and regional residents' total income (see Table 1). While the City of Chicago has lost some residents and jobs, the collar counties have seen significant gains in both population and number of jobs. The collar counties now account for 36 percent of the region's jobs up from 20 percent in 1980.

Other factors present additional challenges for the RTA. National transit ridership dropped significantly in the 1980s and 1990s, and has grown since then. The Chicago region mimics this trend, with total ridership decreasing since 1980 and increasing slowly since 2000. Federal money for operations virtually stopped after 1998 as a result of the federal ISTEA legislation. This change has increased the importance of the region's sales tax-based revenues.

	1980	2000	2012
Total Jobs in Region	2,710,920*	3,660,592	3,436,395
City of Chicago	47%	33%	33%
Suburban Cook County	33%	34%	31%
Collar Counties	20%	34%	36%
Total Population in Region	7,103,624	8,091,720	8,374,608
City of Chicago	42%	36%	32%
Suburban Cook County	32%	31%	30%
Collar Counties	26%	33%	38%
Total Ridership (unlinked trips in millions)	814	596	666
Average per Capita Income in Region	\$8,940	\$26,541	\$30,084**
Region's Residents' Total Income (billions)	\$60.8	\$203.0	\$243.4**
*These values are for 1981 data.			
**These values are for 2010 data.			

Table 1: Regional Trends in Population, Employment, Incomes, and Transit Use

TRANSPORTATION/TRANSIT PLANNING

Transportation planning is a function that is performed by multiple agencies in the RTA region. While state, regional, and local agencies coordinate their respective transportation planning activities to varying degrees, each has a specific focus that reflects its own vision and goals.

RTA

RTA has a responsibility for strategic transit planning within its six county region. In August 2013 the RTA Board approved the *Regional Transit Strategic Plan*. The five year plan was created by the RTA in collaboration with the Service Boards, and with input from the public, stakeholders and elected officials. It is intended to be used as a road map to shape the future of the region's transit system. The plan identifies the vision of the regional transit system as "A world-class regional public transportation system providing a foundation to the region's prosperity, livability, and vitality." The vision is supported by four goals:

- Goal A: Provide valuable, reliable, accessible and attractive transportation options;
- Goal B: Ensure financial viability;
- Goal C: Promote a green, livable and prosperous region; and
- Goal D: Continue to advocate for and be a trusted steward of public transportation.

The *Regional Transit Strategic Plan* identifies five key continuing and emerging issues, along with strategies to address them:

- Transit's significant capital backlog and insufficient capital funding
 - Proactively seek stable, long-term funding solutions to support state of good repair
 - Strategically invest limited capital funding
 - Increase awareness of transit's capital needs and its impact on the region
- Improve the customer experience through a modernized and integrated system
 - Modernize the customer experience
 - Pursue behind-the-scenes initiatives
 - Develop marketing that better resonates with customers
- Strike a balance between meeting current demand and developing new markets
 - Manage and accommodate currently growing demand
 - Thoughtfully increase ridership to better leverage existing capacity
- Balancing tight operating budgets
 - Continue to manage costs and increase efficiencies
 - Grow revenues
- Reauthorization of the federal transportation bill and the need to educate
 - Proactively seek funding solutions for existing needs
 - Reduce unfunded mandates and encourage initiatives that are transit supportive

CHICAGO METROPOLITAN AGENCY FOR PLANNING

The Chicago Metropolitan Agency for Planning (CMAP) is the federally designated Metropolitan Planning Organization (MPO) for regional planning in the northeastern Illinois counties of Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will. This seven county region includes one county (Kendall) that is not included in the RTA's region. CMAP's Board is comprised of a six member Executive Committee, five City of Chicago appointees, four Cook County appointees, five appointees representing the six collar counties and three non-voting members including one from RTA.

CMAP developed and now guides the implementation of *GO TO 2040*, the Chicago region's comprehensive regional plan. To address anticipated population growth of more than 2 million new residents, *GO TO 2040* establishes coordinated strategies that help the region's 284 communities address transportation, housing, economic development, open space, land use, the environment, and other quality-of-life issues.

SERVICE BOARDS

Strategic planning by the Service Boards focuses on capital initiatives, such as achieving a state of good repair, new/upgraded infrastructure, rolling stock, and the new Ventra fare payment system. In the past Pace has developed a strategic plan (*Vision 2020*). Metra is currently developing a strategic plan. CTA has a Strategic Planning and Service Delivery Committee that is responsible for the planning function. The Service Boards generally plan for their respective systems, rather than for the regional transit system as a whole. One notable exception has been the coordination involved to implement the new fare payment system, that CTA and Pace have begun to use. Metra is required (by statute) to participate in the integrated fare payment system but has not yet selected a technology platform.

RTA and the Service Boards are moving towards a coordinated approach to asset management, but it is unclear to what extent the Service Boards will adopt actions that are complementary to RTA's recently adopted *Regional Transit Strategic Plan*.

CHICAGO DEPARTMENT OF TRANSPORTATION

In May 2012, the Chicago Department of Transportation published its two year transportation plan *Chicago Forward*. This plan has six themes, which include actions to address rail and transit from the perspective of integration with other transportation modes:

- Safety First;
- Rebuild and Renew;
- Choices for Chicago;
- Serving Chicagoans;
- More Sustainable City; and
- Fuel our Economy.

OBSERVATIONS ON CURRENT PRACTICE

Each agency develops strategies and priorities for actions with respect to its own jurisdiction or system. While there are varying degrees of coordination among the agencies, there is no unified strategic plan for transit that both captures all these jurisdictional priorities and is implementable across the entire RTA region. RTA has a statutory responsibility to develop a strategic plan, which it has fulfilled. However, funding allocations are not currently based on this strategic plan. While this situation could change in future years, this would require RTA and the Service Boards to agree on a single set of regional priorities and then base funding allocation decisions on them. Under current legislation, this would only be possible for allocations that are not already set by statute, e.g., federal funds. Given the recent history of budget gridlock, and the current lack of RTA enforcement powers, this situation is unlikely to change in the near-term.

PEER ANALYSIS

A peer analysis was conducted to understand how other metropolitan regions address the challenge of funding allocation (see Appendix B). More than a dozen metropolitan areas across the country were reviewed before narrowing the list down to five regional case studies. These following five regions offer specific lessons with regards to management, institutional structure, governance, and funding distribution:

- *New York City* – the largest metropolitan region operates a centralized management structure with the nation’s biggest and most complex transit system.
- *Philadelphia* – a large transit operator of an aging commuter rail, bus, and subway network in one of the most populous urban areas in the country that also operates a centralized system with funds provided by the state.
- *Seattle* – the umbrella agency, Sound Transit, has a structure with many similarities to RTA and relies primarily on local sales tax funding, making it useful to understand how they have dealt with similar funding issues. They allocate spending in part based on sub-area equity.
- *San Francisco* – the region’s Metropolitan Planning Organization (MPO) is widely seen as a model for regional collaboration and funding distribution and offers lessons about institutional structures and coordination of multiple transit agencies.
- *San Diego* – has a strong MPO that takes the lead on regional planning and distributes funding to two operating agencies that adhere to the MPO’s plan.

INSTITUTIONAL STRUCTURE AND GOVERNANCE

Board structure and the assignment of responsibilities among participating organizations plays a role in a board’s ability to remain neutral with regard to the interests of individual agencies, and maintain a regional focus. New York’s MTA and Philadelphia’s SEPTA offer examples of effective governance

consolidation. Both MTA and SEPTA combined previously existing transit agencies into one large organization, responsible for operations, planning, and capital improvement. MTA and its subsidiaries share one cohesive board. MTA board members sit on committees representing each sub-agency, often sitting on multiple committees. Having multiple responsibilities enables board members to maintain a sense of neutrality and ability to see the regional picture.

The MTA structure is somewhat similar to the RTA, with a governing board overlooking several sub agencies, except MTA has direct control over the sub-agencies in terms of governance and budget allocation. SEPTA has gone even further in consolidation of transit agencies. The four divisions, including the subways, buses, trolleys, and commuter rail, have acted as one unit for more than 40 years, with only one board and no subcommittees. While the accounting and operations framework still recognize differences among the four divisions, customers perceive this as an integrated network.

FUNDING ALLOCATIONS AND FIDUCIARY RESPONSIBILITY

In each of the case studies, the source of revenue plays a crucial role in determining how funding is distributed. For MTA and SEPTA, the bulk of funding comes from the state and federal government, reducing the need to distribute funds back to the counties from whence they came. This enables MTA and SEPTA to allocate funding within their systems based largely on regional investment needs rather than regional equity. While neither system avoids sub-regional “equity” issues completely, they are far less pronounced than at RTA.

Of the peer regions examined, the two agencies with the most similarity to RTA that also have effective power of discretion over the allocation of funds are the New York MTA and the MTC in the Bay Area. Sound Transit is tied to the sub-area equity requirement and SANDAG is responsible for only two agencies in its jurisdiction. SEPTA can distribute money among its four divisions based on the Board’s discretion, but the divisions are much more cohesive than the subsidiary agencies at MTA or the 26 regional operators in the Bay Area.

A reliance on regional tax revenues for about 70 percent of public funding makes it difficult for the RTA to have greater discretion over funding to the Service Boards. SEPTA and MTA both take advantage of a large portion of funding coming from state sources, allowing allocation decisions to be made without emphasis on returning the benefits back to certain tax jurisdictions.

The full peer analysis is documented in Appendix B.

CURRENT APPROACH TO ALLOCATION OF FUNDS

The current approach to allocation of funds to the Service Boards is largely unchanged over the past three decades. It comprises separate approaches for allocating funds to meet the capital and operating requirements of the Service Boards. Funding for capital and operations are calculated using both established formulas and discretionary allocations.

CAPITAL SOURCES

The 2008 RTA Act requires that RTA continually review the capital expenditures of the three Service Boards to ensure that the capital funds available to the region are budgeted and spent with efficiency. Each year, a five-year capital program must be adopted by the RTA board; capital programs are amended quarterly as needed. A capital investment of more than \$1 billion is required per year simply to maintain

the current system; however, an estimated \$31.05 billion is required over the next ten years to achieve a state of good repair.²

Figure 2 shows the trends in capital funding since 2002. There are four main funding sources for the capital program:

- USDOT’s Federal Transit Administration (FTA) (federal);
- Illinois DOT (state);
- RTA; and
- Local—including Service Boards (CTA Bonds are shown separately in Figure 2)

FEDERAL

Federal funding has typically been the largest source of capital funds. The amount of funds provided has changed little since 2002 other than a big jump up in 2009 due to federal stimulus funds. Federal funds will likely decline in the near future given the shortfall in the Highway Trust Fund and other federal budget pressures. Over time, steady dollars buy less in real terms. Federal funds account for approximately 80 percent of PACE capital funding but around 50 percent of capital funding for both CTA and Metra. CTA had a particularly high share of federal funding (79 percent) in 2009.

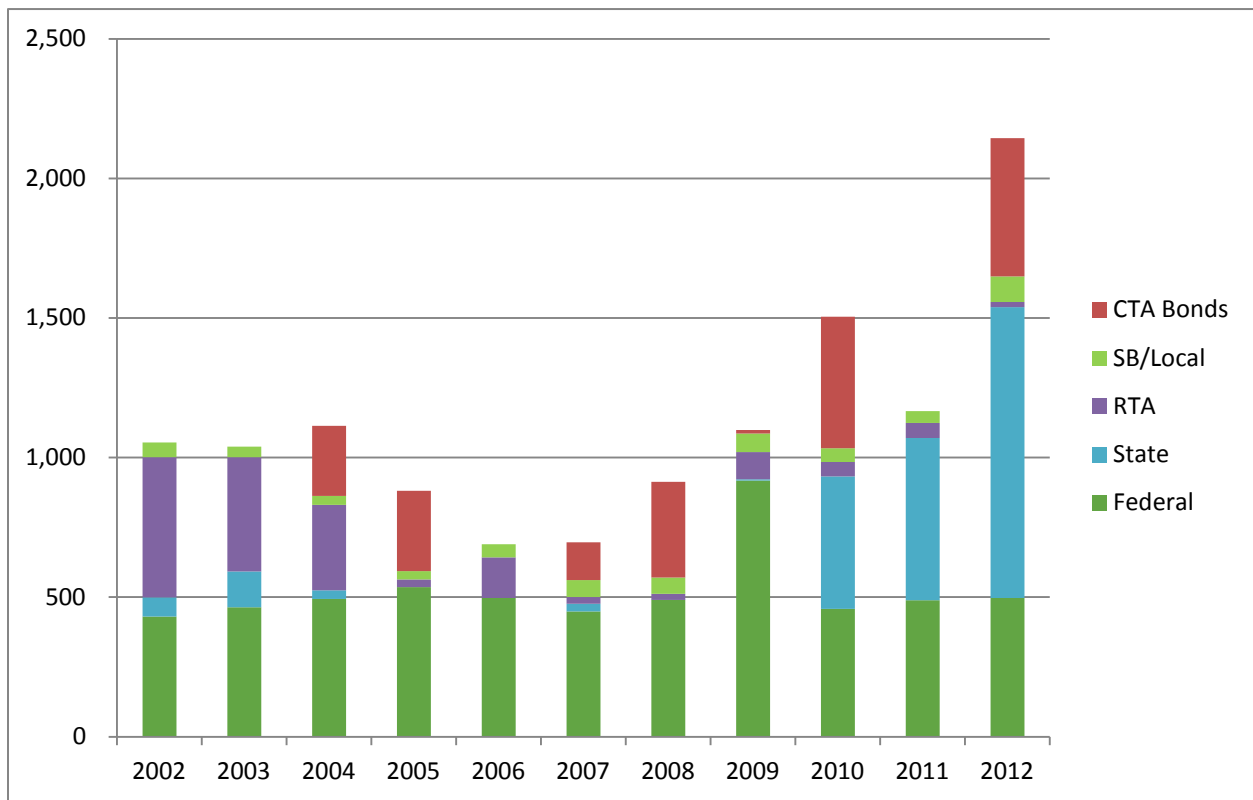


Figure 2: Capital Funding Amounts 2002-2012 (\$ Millions)

² 2012 Capital Asset Condition Assessment

STATE

In recent years the state has contributed to the capital investment for regional transit through the “Illinois Jobs Now!” bond program. The contribution of state funds in recent years has played a key role in maintaining the level of capital funding in the region. However, there is considerable uncertainty regarding the future level of state funding.

For the past five years, the state has replaced \$50-100 million a year in federal matching funds with toll credits. Toll credits were created in 1991 to allow states that toll to use their investments in tolled highways as a credit for federal match. The state did not recompense RTA for the dollars lost by the substitution of toll credits for real money.

Financial pressures have resulted in lowered bond ratings for Illinois³ and the increasing cost of debt service could have an adverse impact on the state’s ability to issue significant amounts of future debt. The potential reduction of these funds will place an additional burden on the RTA and the Service Boards to meet their future capital needs.

RTA

RTA bonds accounted for almost half of the capital funding share in 2002 and 2003, due to the RTA’s Strategic Capital Improvement Program (SCIP) bond program, funded by the state with bonds issued by the RTA. RTA also has capacity to issue up to \$800 million of its own bonds. In practice, CTA prefers to issue its own bonds. Metra and Pace have the authority to issue their own bonds, but have not yet done so.

SERVICE BOARD/LOCAL

While all three Service Boards now have authority to issue bonds, CTA has been the only one to do so. CTA bonds can account for a third or more of overall regional transit capital funding in years when bonds are issued. Obviously CTA bonds can only be used on its system, not the regional system as a whole.

Between 2002 and 2011, CTA raised \$1.5 billion in bonds and plans an additional \$495 million. Federal funds are used to pay debt service and CTA’s share of sales tax revenues are pledged to cover some bonds as well. Neither Pace nor Metra have issued bonds to date, although Pace proposes to issue debt later this year. The Service Boards also receive small amounts of local capital contributions.

CAPITAL ALLOCATIONS

FEDERAL

Federal funds are provided by the national MAP-21 legislation through FTA. The federal funds are allocated to the Service Boards based on a historic split of 58 percent to CTA, 34 percent to Metra, and eight percent to Pace. This allocation is not mandated by law and FTA has suggested that the region review the formula in light of current conditions. FTA would prefer to have federal dollars allocated based on performance and need rather than fixed formulas.

In 2013, the estimated available amount for capital was \$957 million, including state bonds. The primary non-formula federal capital funds are for “fixed guideways” and “bus.” Other federal discretionary programs are awarded on a competitive basis.⁴

³ Rating agencies Standard & Poors, Moody’s, and Fitch each confirm Illinois has the lowest credit rating of any state, June 2013

⁴ RTA has received funding from the Section 5309 Discretionary Bus and New Starts programs.

STATE

Bonds are the primary capital funding for state transit dollars. The historical state bond (SCIP) allocation percentages to the Service Boards are: 50 percent to CTA, 45 percent to Metra and 5 percent to Pace. This allocation is averaged over four years. The current State bond program is for 2010-2014 and programming numbers vary over those years. In addition, the State of Illinois annually appropriates the funds needed to pay debt service on the SCIP bonds previously issued by RTA.

Two recent bond programs, approved in 2009, provide state capital funding; "Illinois Jobs Now!"⁵ provided \$1.8 billion for Service Board projects, and "Jump Start,"⁶ should have been funded at \$900 million.⁷ RTA is able to administer these funds to the Service Boards for purposes such as replacement of aging trains, buses, track, station, and other infrastructure and improvements to the reliability of the system.

RTA FUNDING

Between 2002 and 2012, RTA provided \$1.4 billion in bond proceeds to the Service Boards. In 2012, RTA proposed a \$2.5 billion (\$500 million per year for five years) borrowing based on projected growth in existing revenue streams and maintenance savings to repay the borrowing. Such a plan would require legislation to increase the RTA's bonding authority from its current \$800 million limit. RTA also proposed Service Board formula funding for all operating funding and the elimination of discretionary funding.

SERVICE BOARD/LOCAL

During the period of 2002-2012, CTA, Metra, and Pace transferred approximately \$528 million, \$163 million, and \$117 million respectively of capital funds to operations. RTA approved this reluctantly and recognized that this practice was not a sustainable use of capital funds, particularly given the system's high level of capital needs. In effect, these transfers reduced the amount of available capital. Subsequently, RTA took steps to require that the Service Boards stop the transfer of capital funds for operating support, and no further transfers have occurred in 2012 and 2013.

ASSESSMENT OF CURRENT PRACTICE: CAPITAL FUNDING

Future levels of capital funding are uncertain. Federal funding levels are expected to remain steady at best, but more likely decline in the short term. State funding levels are dependent on the state's ability to issue bonds, which in turn is dependent on the state's creditworthiness. Bonds issued by RTA and the Service Boards are likely to become an ever more significant element of the region's transit capital funding program.

The allocation approach varies according to source of capital funds and reflects changes in state and federal programs over the past three decades. Federal and state funds are allocated to Service Boards using different formulas. The formulas were agreed upon 20 to 30 years ago, based on circumstances at the time. Certainly all three Service Boards can make a case for more capital funds. Regardless, current practice does not readily allow for these formulas to be reviewed, let alone revised. The opportunity for the Service Boards to issue debt has the potential of further fracturing the regional transit system, because the Service Boards issue debt for their projects and those projects may not be the best projects for the

⁵ This program uses the traditional state bond allocation formula of 50/45/5.

⁶ Jump Start uses the funding allocation split of 58/34/8. Expected 2014 Jump Start revenue is \$405 million.

⁷ Jump Start bond issuance has not yet been authorized by the state legislature. The Service Boards have yet to receive capital funding via the Jump Start bonding program, while the funds continue to be programmed in RTA's five year capital plan.

region. RTA has discretion to allocate federal capital funds differently, but has not yet moved to make changes.

Uncertainty of funding levels combined with large and growing needs is challenging enough for any region trying to deliver high-quality transit services in large, established metropolitan regions. Layered on top of this in the Chicago region is a complex process for allocating capital funds that provides an additional headwind. The complexity of the current allocation practice raises concerns about transparency and accountability of how the negotiated funding allocation decisions have been made, which in turn reduces trust between the public, RTA, the Service Boards, and the region. The problem is exacerbated by each Service Board's desire to maximize their control over their capital program and to minimize RTA oversight. At a time of growing needs and constrained resources, these factors undermine the willingness of the agencies to compromise and the likelihood that alternative approaches will be voluntarily adopted.

OPERATIONS FUNDING

The region has three primary sources of operating funds: RTA Sales Tax I; RTA sales Tax II and matching funds provided by the state's public transportation fund (PTF).

RTA Sales Tax I was approved in 1983 and equals one percent on sales in Cook County and one quarter percent on sales in the collar counties of DuPage, Kane, Lake, McHenry and Will.

RTA retains 15 percent of Sales Tax I and passes the remaining 85 percent to CTA, Metra and Pace. Of this 85 percent, CTA receives 100 percent of the City of Chicago tax and 30 percent of the suburban Cook County tax, Metra receives 55 percent of suburban Cook County tax and 70 percent of the tax collected in the five collar counties, and Pace receives 15 percent of the suburban Cook County tax and 30 percent of the collar counties' tax.

The implicit assumption for the allocation of Sales Tax I is that each Service Board serves primarily the local residents of specific sub-regions. Thus Metra does not receive funds from Sales Tax I taxes collected in the City of Chicago, even though many of its riders live in the city, most work in the City, and a growing fraction of travelers engage in reverse commuting to jobs in the suburbs. Similarly, Sales Tax I taxes collected in the collar counties do not provide any direct support to CTA, even though many of the commuters served by Metra and Pace also rely on CTA bus or rail to reach their place of work.

In January 2008, Illinois Public Act 95-0708 increased the sales tax received by the RTA by one quarter percent throughout the region. The sales tax in the collar counties was increased by an additional one quarter percent with proceeds retained by the county in which it was collected. This sales tax became known as Sales Tax II. Unlike Sales Tax I, Sales Tax II is allocated independently of where it was collected.

The City of Chicago also increased its real estate transfer tax (RETT) to fund the CTA.

In addition, the state provides a 30 percent public transportation fund (PTF) match for the two sales taxes and for the real estate transfer tax.

To cover its expenses, RTA receives 15 percent of Sales Tax I and the state PTF match of this tax (25 percent). These funds cover debt service, regional expenses handled by the RTA such as ADA certification, customer service, regional insurance, RTA administrative expenses, etc. with the balance left to be allocated to the Service Boards as part of the discretionary program. The discretionary fund has been a major source of recent RTA Board disagreement. Of the discretionary funds distributed to the Service Boards between 2001 and 2012, CTA received \$1.9 billion (96.4 percent), Pace received \$55 million (2.8 percent), and Metra received \$15.4 million in 2003 to assist with extraordinary costs due to a fire.

ASSESSMENT OF CURRENT PRACTICE: OPERATIONS FUNDING

Most funding to the Service Boards is provided by statutory formula. About 22% is non-statutory and is allocated by discretion of the RTA Board. The RTA has historically provided almost all of the operating discretionary funding to the CTA, based on the assumption that CTA funding needs are not fully covered by statutory formulas and that its operating shortfall requires discretionary funds to make up that difference. CTA received 97 percent of these funds in 2012 and 98 percent in 2013. Pace is also a recipient of discretionary funding for operating purposes receiving three percent in 2012 and two percent in 2013. Metra has not received discretionary funds since 2003, but did receive capital funds from the RTA fund balance in 2012 and 2013 to offset their lack of discretionary funds. CTA receives the vast majority of the money and has come to depend on these funds for their financial plans. While an argument can be made to include more of a flavor of true discretion in allocating these funds, any change should be phased in, allowing CTA time to adjust. There is also logic in integrating any change to the discretionary program with changes to the overall allocation of funds, including the capital program. Economic growth will increase all sales tax and PTF receipts including discretionary funds.

Continuing the current approach to funding allocation maintains the status quo and minimizes disruption to the CTA, but does nothing to resolve recent budget stalemates or to adjust for changing circumstances such as travel patterns or capital needs. With the likely continuing imbalances between capital funds and needs and between operating revenues and expenses, the inflexibility of the current practice is likely to lead to more budget battles than to reducing them.

BASIC PRINCIPLES FOR ALLOCATION DECISIONS

Lessons learned from review of recent history, peer reviews, and stakeholder interviews include:

- The region is short of funds for capital and operating costs. Limited resources are one reason for such a strong emphasis on the allocation of existing funds, but there is a need to focus on additional sources of money.
- Additional revenues could make change in allocations easier to manage. It offers the opportunity to begin to shift how discretionary funds are allocated, but avoid cutting the base of funds that each Service Board receives.
- Institutional change is an essential part of improved regional governance, planning, and coordination of public transit in the RTA region.

Based on this review, several principles were identified to help develop and evaluate alternative allocation scenarios.

Emphasize regional goals. Rather than focus on what is best for individual Service Boards, encourage actions that support a transit network that can meet customers' travel needs from start to finish regardless of the agency that provides each link. The next five principles all follow from this basic tenet and provide different dimensions of a regional focus.

Provide a safe system for customers and employees. This is an obvious goal, but one that should not be forgotten. There is a close link here with sound maintenance of equipment, track, facilities and rights

of way. Sound maintenance helps make progress towards a state of good repair, in part by extending the effective life of equipment and track.

Support for a strong and growing regional economy. Access to jobs for individuals and labor for business is directly linked to growth in regional economic productivity. Transit in Chicago is a vital part of this access.

Ensure customer satisfaction. This should be common sense for public and private entities. This will include characteristics such as quality of service that reflect the daily experience of most travelers: buses and trains that are on time; vehicles and stations that are clean and safe; operations that are frequent and fast enough to provide a viable service; and service to locations where people want to go.

Cost effectiveness. This is important both due to the limited resources faced by all transit agencies and in response to the interest from all residents to make sure that their taxes are well spent. This approach also calls for greater use of performance measures.

Support livability. The concept of livability is a vaguer but perhaps useful term that describes the ability to support attractive lifestyles. Examples here include the ability of transit to help individuals find neighborhoods that allow them to manage their combined transportation and housing costs.

SCENARIO ASSESSMENT

The allocation scenarios described in this section reflect lessons learned from the review of transit financial policies in peer regions, information gathered from interviews with stakeholders within the RTA region, and a review of the recent financial history of transit in Northeastern Illinois. Some of the general findings from these efforts were described in the Interim Report.

Most importantly, the funding allocation process should emphasize regional goals. Rather than focus on what is best for individual Service Boards or specific sub-regions, funds should encourage actions that support a healthy regional economy anchored by a strong, safe, and customer-focused transit system that is accessible to its residents. A successful regional focus calls for a single regional transit strategic plan that addresses infrastructure, integration, and growth. Today, several transit plans are prepared within the region, but these either focus on parts of the network (as with CTA's current plan) or lack the authority to have their principles carried out (as with RTA).

RTA has important responsibilities, but is sometimes unable to match what state legislation has mandated because of its governance arrangements. Any change would require new legislation. For example, the current super majority requirement to approve financial plans and other key measures makes it possible for relatively small groups to exercise veto power over key decisions.

Any change in how funds are allocated should involve a process that is transparent, targeted, objective, and that demonstrates results. Several scenarios present changes beyond simply applying a new mathematical formula. For these options to succeed, any new procedures should be understandable and carried out in an open environment.

The region's ability to generate an effective overall level of funding for transit operations and investment may be even more important than exactly how these funds are allocated. The future of transit funding for the region and the nation is uncertain. Federal transit funds are likely to decline in the next few years given constraints on federal monies. Financial uncertainty in the state of Illinois raises questions about the future of state bonds. These pressures will call for greater dependence on regional resources. In addition,

pressure will increase to find ways to reduce overhead and manage smarter. Gains could come from coordinated procurement of goods and services or perhaps through consolidation of strategic planning activities or better coordination of transit services.

Moving funds around among individual transit operators is not the end goal. Rather it is important to focus on an effective regional transportation system. This, in turn, calls for scenarios that encourage:

- Improved performance, with attention to customer service and safety as well as efficient service;
- Investments that are financially sound and flexible with regards to capital and operating needs;
- Investments and action that support sustainable growth; and
- Accountability for investments and other actions.

SCENARIOS

Eight scenarios were developed as part of this study. These are not all equally attractive but they provide a range of options for the region to consider. Financial predictability is important so scenarios that call for dramatic changes will have these phased in over several years in order to minimize disruption.

1. **Status Quo:** This provides a benchmark. Governance structure, funding process and allocation rules would continue as at present.
2. **Decentralized/Service Board Focus:** This option calls for a weakened RTA with budget savings used to support transit operations at the Service Boards.
3. **New Fixed Formulas:** Capital funds would be allocated in proportion to the costs to reach a “state of good repair” – although resources fall well short of meeting that goal. Operating funds would be allocated based on three performance measures: vehicle revenue miles, passenger revenue miles, and route miles.
4. **Competitive Program:** While the bulk of funds would be allocated according to the formulas used in Scenario 2, a portion of funds would be part of a competitive program for operating or capital projects designed to encourage creative solutions. This program would be open to entities beyond the Service Boards.
5. **Performance-Based Allocation:** Again, the bulk of funds would be allocated according to formulas used in Scenario 2, but some funds would be awarded based on achieving key performance goals (customer satisfaction, efficiency, and safety). Another bonus pool would support new efforts, such as expanded service or technology improvements.
6. **Flexible Sub-Area Equity:** Funds (other than certain federal and state capital monies) would be allocated in two steps: first among the counties (including suburban Cook) in proportion to where taxes were paid and second RTA would allocate funds among the Service Boards that serve these counties in ways that support the region’s strategic long-range transit plan.
7. **Asset Management Focus:** Asset management describes a group of analytic techniques that can help improve the rate of return on investment, control costs, manage safety, improve customer satisfaction and assist organizational readiness. This approach has been advocated by the Federal Transit Administration and incorporates good business practices.
8. **Combination of Scenarios:** This concept would combine the competitive focus of Scenario 4 and the performance focus of Scenario 5.

OVERVIEW OF GOVERNANCE STRUCTURES

While the focus of this study is on options for allocating funds among the three Service Boards, the ability to gain full value from certain options calls for change in governance. Based on the review of peer transit agencies, these governance structures fall into four broad categories.

- A. **No change:** This could fit with the Status Quo scenario and the Service Board Focus scenario, since both rely largely on a simple pass through role for RTA.
- B. **Weakened RTA:** A weaker RTA would result in a more limited oversight role for RTA over the three Service Boards. RTA essentially becomes a pass-thru agency, with Service Boards running the show. All bonding would be done by the individual Boards and they would make investment decisions based on the needs of their specific operating responsibilities.
- C. **Strengthened RTA:** A strong RTA, with additional tools would have the authority needed to carry out its current legislative responsibilities. These changes would include the end to the super majority rule for budget decisions, centralization of certain transit planning authority within RTA, and a series of administrative changes such as:
- Greater financial oversight and control, perhaps including a line item veto;
 - Authority to make funding allocations based on the strategic regional transit plan;
 - Better access to financial records;
 - Additional enforcement tools;
 - Priority by RTA Board members for transit riders rather than individual Service Boards and a vibrant regional system;
 - End to the supermajority vote rule for financial decisions; and
 - Minimum qualifications for Board members.
- D. **Integrated system:** This concept offers the best potential to achieve regional objectives given its ability to help focus strategic direction and financial management. The Service Boards would become operating arms or subsidiaries in this organization (either a revised RTA or a new entity). This entity would have a board of directors, perhaps with some board members appointed by the Governor with the balance coming from the major regional jurisdictions. This basic structure has similarities to that used in Philadelphia and New York City. Such an arrangement has real potential to improve funding decisions and stability going forward. One possibility would be to include the Illinois Tollway in this organization, something consistent with policies in New York and San Francisco. This integrated system is important for the success of Scenario 4 (Competitive) and Scenario 5 (Performance) and is mandatory for Scenario 6 (Asset Management). Many of the scenarios may not even be possible without institutional change. They do not call for such change, but rather require it.

The eight scenarios presented here were selected representing a range of options. Each scenario has four sections:

- Features: general rationale plus summary of program and allocation of funds
- Governance Structure: what is needed to make this scenario achieve its overall objectives
- Advantages
- Disadvantages

SCENARIO 1: STATUS QUO

Features: This scenario provides a benchmark against which other scenarios can be compared. The current allocation formulas would continue as at present. This means the current formulas would remain unchanged and the discretionary funding would still be focused on CTA. There would be no change in capital allocations including federal allocations.

Governance Structure: There are no changes with the Status Quo scenario – all current arrangements would remain in place.

Advantages:

- The key advantage of this scenario is that RTA, the Service Boards, and other stakeholders know the rules and their respective roles;
- Annual funding levels will be largely predictable since they are based on established rules; and
- While the allocation process could be improved, the available funds have served to improve the region's transit system.

Disadvantages: As discussed previously, the current practices embodied in this scenario are flawed:

- Limited focus on regional objectives;
- While RTA has recently adopted a regional strategic transit plan, current allocation practices are not directed by this plan; and
- Some of the allocation rules have not been adjusted for up to thirty years, and lack the flexibility to be adjusted, at least within the current governance structure.

RTA does not have the necessary authority to support the planning and decision-making process called for in legislation, resulting in an effort that is involved, argumentative, and rarely productive. As witnessed by the gridlock in the 2012 annual budget process for FY 2013 (now being repeated in the 2014 budget cycle), the RTA Board cannot fulfill its statutory responsibility to pass 'budget marks' by September 15 with a statutorily required 'Super Majority.' Not passing the budget marks means that RTA, and the Service Boards, are unable to approve their respective budgets, which in turn may ultimately lead to a shutdown of the regional transit system.

No other major metropolitan region in the US uses a similar institutional arrangement to fund or manage their regional transit system.

SCENARIO 2: DECENTRALIZED/SERVICE BOARD FOCUS

Features: This scenario modifies the Status Quo scenario by recognizing the reality of the current system. That is, RTA has limited ability because of lack of legislated power to provide effective financial oversight. Rather than seeking a stronger RTA, this scenario would reduce RTA's budget to the minimum needed for the organization to provide a financial pass-through of current funds. These funds would include sales tax I and II and the state matching funds as well as federal capital funds. In addition, the discretionary fund would be allocated based on recent history, with CTA receiving 97 percent of available funds and Pace three percent. Any discretionary features would be dropped.

RTA would not issue additional bonds, although of course funds would still be provided to fund debt service on past bonds. RTA would focus on efforts to coordinate operations and planning among the three Service Boards, but these activities would not include efforts to develop a formal regional strategic plan⁸. Specific efforts such as the ICE program and the maintenance of a reserve would be dropped as well, with each Service Board expected to maintain any reserve funds on its own.

A scaled back RTA function would mean a significant reduction in the RTA operating budget, with the resulting savings allocated among the three Service Boards in proportion to how operational funds are currently allocated. For 2014, these funds could total \$12 million, with \$6.6 million allocated to CTA; \$3.8 million to Metra and \$1.6 million to Pace. RTA would retain an operating budget of about \$22 million

⁸ This would require a legislative change.

including \$15 million to support a series of regional services, including ADA certification, reduced fare permits and so forth. This scenario would maximize the amount of funds received by the Service Boards. It would also be a de facto recognition that a coordinated regional transit strategy has not been pursued, although existing efforts to coordinate operations by individual Service Boards would continue.

Governance Structure: Legislation would be required to reduce RTA’s legal responsibilities. Some agreement is needed between RTA and the Service Boards over the specific actions that RTA would continue to carry out.

Advantages: The key advantage of this scenario is that the allocation rules would be clear and funding levels predictable. The Service Boards would receive a modest level of additional funds, as a result of reduced costs associated with RTA’s strategic planning and oversight functions.

Disadvantages: To the extent that this scenario is based on the current practices associated with the Status Quo scenario, it also shares similar disadvantages. As discussed previously, the current practices embodied in both of these scenarios are flawed:

- Minimal oversight for Service Boards and their financial plans;
- There is, at best, only a limited focus on regional objectives;
- Focus is on Service Board needs;
- While RTA has recently adopted a regional strategic transit plan, current allocation practices are not directed by this plan; and
- Current allocation rules have not been adjusted for up to thirty years, and lack the flexibility to be adjusted, at least within the current governance structure.

SCENARIO 3: NEW FIXED FORMULAS

Any set of new formulas must address capital and operating allocations. The RTA region’s current capital program includes federal grants, proceeds from state bonds, and proceeds from bonds issued by RTA or by one of the Service Boards (to date, only CTA has issued bonds). The formulas used to allocate these funds differ from each other. They also show variability from year to year, but the average allocation is steady.

	CTA	Metra	Pace
Federal	58%	34%	8%
State Bonds*	50%	45%	5%
RTA Bonds	50%	45%	5%
2010-2012 Average	56.2%	37.4%	6.4%
CTA Bonds	100%	0%	0%

*Illinois Jobs Now uses 50/45/5, but Jump Start is projected to use 58/34/8.

Table 2: Capital Funding Allocation Formulas

Table 2 summarizes the capital allocation formulas for each of the major sources of regional capital funds: federal grants, state bonds, and RTA bonds. For the three years (2010, 2011, and 2012), an average of

\$1.28 billion in funds were allocated by RTA from these sources (not counting revenues from bonds issued directly by CTA). CTA received 56.2 percent of these combined funds, while Metra received 37.4 percent and Pace 6.4 percent. These percentage shares exclude competitive federal grants and smaller funds from RTA and other agencies.

Features: While asset management methods (as described in Scenario 7) would use standard analytic methods to identify those investments with the best overall rate of return, this approach requires a centralized decision-making system as well as considerable amounts of data. A less elegant but still practical approach would rely on data from state of good repair studies mandated by the Federal Transit Administration. The state of good repair methodology is based on the cost to replace assets once they reach useful life and assumes that all rehabilitation has been carried out and that capital maintenance is up to date. The state of good repair backlog combines both the existing investment backlog and the normal reinvestment needs.

State of good repair findings are presented in several ways, including a backlog number, sums needed for normal reinvestment and funds needed to reach a state of good repair within a certain number of years – usually 10 or 20 years. RTA has been working with the Service Boards to develop consistent assumptions regarding the useful life for certain equipment – buses, rail cars, maintenance sheds etc.

There is some logic to focusing dollars on the costs to maintain current conditions, with additional funds going to reduce the overall costs to reach a state of good repair. One way to approximate this allocation would be to allocate funds in proportion to the costs to reach a state of good repair within ten years. This is a theoretical allocation since the current level of available capital funds falls well short of the sum required to attain the state of good repair – but it does represent an effort to recognize near term and longer term needs. This approach would allocate funds as follows:

- CTA would receive 61.7 percent of funds, an increase of 5.2 percentage points relative to recent history;
- Metra would receive 31.1 percent of funds, a decrease of 6.3 percentage points relative to recent history; and
- Pace would receive 7.2 percent of funds, an increase of 0.8 percentage points relative to recent history.

If future funds continue at the average for 2010-2012, this would represent a \$70 million annual increase for CTA, an \$81 million annual decrease for Metra and an \$11 million annual increase for Pace (Figure 3.)

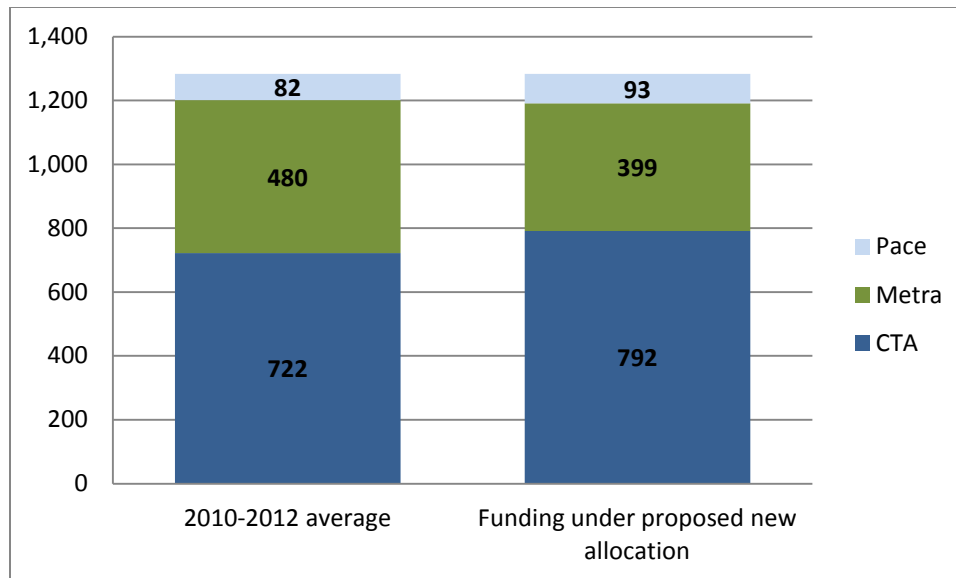


Figure 3: Scenario 3 Proposed New Funding Allocations (\$ millions)

These numbers will change over time as new estimates are made of the state of good repair. The allocation should follow a three-year moving average in order to minimize sudden shifts due to changes in methodology.

Any allocation of operating costs based on a formula will generate complaints – something certainly true of the current formula. After reviewing a number of options, a three-part formula is proposed based on passenger miles, vehicle revenue miles and route miles. Each of these measures is a key metric:

- Passenger miles reflects mobility and connectivity of passengers. This measure is also a management assessment tool since growth in passenger miles reflects the ability to offer an attractive and valuable service;
- Revenue generation is a key part of operations and this has a direct relationship with revenue vehicle miles. This measure is also a management assessment tool since dead head miles and equipment not in service during peak times do not generate revenues; and
- Directional route miles capture the extensive CTA and Metra fixed route infrastructure that needs to be maintained. They also reflect the scale of the bus fleet that CTA and Pace need to maintain in order to provide service across their regions.

Thus, a balanced approach combines vehicle revenue miles, passenger miles and route miles:

- 45 percent passenger miles;
- 45 percent vehicle revenue mile; and
- 10 percent route miles.

This results in an allocation of operating funds as follows:

- CTA would receive 55.87 percent of funds, an increase of 0.4 percentage points relative to recent history;
- Metra would receive 30.77 percent of funds, a decrease of 0.7 percentage points relative to recent history; and

- Pace would receive 13.36 percent of funds, an increase of 0.3 percentage points relative to recent history.

These results would be adjusted annually, based on a rolling three-year average.

Governance Structure: New legislation would be required to change the formulas. Additional work would be needed to ensure a consistent set of state of good repair calculations. Similar efforts will be needed for estimates of vehicle revenue miles, passenger miles, and route miles.

Advantages:

- The allocation rules would be clear and funding levels predictable;
- Formulas would shift over time in line with changes in state of good repair and shifts in vehicle revenue miles, passenger miles and route miles; and
- Capital funding would be more closely aligned with the efforts needed to reach a state of good repair.

Disadvantages:

- This would create incentives to generate higher estimates of the state of good repair and to exaggerate vehicle revenue miles, passenger miles and route miles;
- RTA would need to design and carry out programs to audit collection of these data; and
- No focus on how well funds are being spent.

SCENARIO 4: COMPETITIVE PROGRAM

Features: Funds for transit capital investment and operations are likely to fall well short of needs for the foreseeable future. This calls for creativity in generating full value from available funds. Competition is the classic method used to stimulate creativity. This is a more flexible allocation method than a fixed formula. For example, the focus of any particular competition can be shifted to meet current demand.

A competitive allocations program is intended to encourage creativity. By shifting the specific objective for particular competitions, it would allow the RTA to fund activities that support regional goals. Different goals, driven by the regional strategic transit plan, could be emphasized: performance; cost; growth; need; safety; technology. RTA would set the annual mix of goals, with possible input from other groups. Capital projects might include support for new technology, such as the deployment of the Ventra ticket system by CTA and Pace.

The bulk of operating funds would continue to be allocated via formula, since budget stability is important. Capital funds would also be allocated via formula based on the funding need to reach a state of good repair. Funds available for the competitive program would come from a percentage of the overall pool of operating revenues. A ten percent allocation would generate more than \$110 million for the competitive bid. This is a sizable fund and should be phased in over time – say four years (2.5 percent in year one; five percent in year two, 7.5 percent in year three and 10 percent in year 4). This would also allow RTA and the Service Boards to adjust to this new program. The program should be assessed at this point to help identify changes needed to improve its effectiveness. In future years, the percentage could be increased – say one percentage point a year for the next ten years.

Outside agencies or local municipalities would be asked to provide matching funds, so that total funds could grow further.

Such an approach would allow partnerships between Service Boards and other agencies within the region. Funds would come from the growth in operating funds whether from sales tax receipts or possible new

sources (see Appendix C). The base of operating funds would remain unchanged at 2013 levels so that the Service Boards would not see a drop in their current allocation of operating funds. Further, the portion of revenue growth assigned to the competitive program would be phased in over time.

Apart from the competitive allocations program, the primary basis for allocation of capital funds would be in proportion to the costs to reach a state of good repair within ten years as described in Scenario 3.

The bulk of operating funds would be allocated as described in Scenario 3 – in proportion to passenger miles; vehicle revenue miles; and route miles. The discretionary program would be folded into the formula program. The competitive portion of the operating funds would be allocated as follows:

- All new funds (growth plus new taxes) allocated based on competitive bids:
 - phased in over several years in order to minimize budget disruption;
 - includes flex between operations and capital;
 - requires an independent selection process (described in detail in the Interim Report);
 - focus of annual competition set by RTA board with objectives changing from year to year in line with objectives from the regional transit plan; and
 - competition open to non-Service Boards including matching funds.

Governance Structure: New legislation would be required to implement this scenario, either through a strengthening of RTA (option C) or a fully integrated system with the Service Boards as operating divisions (option D).

Advantages:

- New solutions to traditional problems would be encouraged; and
- Opening the competition to groups outside the Service Boards (most likely as partners with the Service Boards) would create an opportunity to increase funding due to the required matching funds.

Disadvantages:

- There would be a learning period while RTA and the Service Boards adapted to a new set of rules and procedures;
- There would be budget uncertainty;
- Some Service Boards would gain funds relative to a pure formula while some would lose – and these winners and losers may shift from year to year; and
- The base of operating funds would not grow as fast as otherwise, since part of the growth would be used to fund the competitive program.

SCENARIO 5: PERFORMANCE-BASED ALLOCATION

Features: There is a growing interest in performance measures as part of transportation planning and management. This approach matches well with a general public concerns regarding how well their tax dollars are being spent. The most recent federal surface transportation legislation (MAP-21) places a strong emphasis on performance metrics as part of state DOT management. A similar focus on performance-based management is found in most state and local transportation agencies. A performance-based system also makes it easier to change emphasis as new demand or conditions develop. As such it is more flexible than fixed allocation formulas such as the RTA region has relied on – and such as proposed in Scenario 3.

Funding allocation should be dynamic and responsive to the changes in the regional economy or the demand for transit services including customer demands, regional mobility, economic, housing and employment changes, demographic shifts, the environment and funding. Allocations should reflect achieved goals. Good measures correlate with strategic goals and should reward good performance. This scenario means that the concept of rights to specific amounts of funds is replaced with the concept of earned funding based on performance.

A performance based allocation approach can be implemented in several different ways. One option is to gradually introduce the concept. That is determine the goals, criteria and measures, but keep the existing (or somewhat improved) formulas in place for the bulk of funds. Funds available for the performance program would come from a percentage of the overall pool of operating revenues. A five percent allocation would generate more than \$50 million in the first year. This could be increased to ten percent of the total pool of funds in the second year, with future increases over time – say one percentage point a year for the next ten years. To be effective, a performance-based program calls for a sizable potential reward.

Each Service Board would submit performance data and related applications for the factors in the performance pool at the beginning of the year (measuring the previous year). The distribution of the bonus pool would be determined by progress that each agency has made with respect to performance against that baseline one year later, rather than absolute numbers. For example, if one agency has 100,000 riders and another has 1,000,000, it is not fair to compare them on the basis of total ridership. But it is fair to measure how well they have improved over their baseline during the course of the year.

This scenario contains five components:

- Most capital funds would be allocated as described in Scenario 3, in proportion to the costs to reach the state of good repair within ten years;
- Most operating funds would be allocated based either on the current formulas or the formulas based on vehicle revenue miles, passenger miles and route miles as described in Scenario 3;
- Performance-based allocations would cover the growth in revenues, whether from normal economic growth or from any new taxes as follows:
 - 75 percent would be allocated based on the performance criteria described below that cover customer satisfaction, economic efficiency, and safety;
 - 25 percent would be allocated based on proposals for a bonus pool designed to support new initiatives; and
 - An additional \$2-5 million would be allocated based on improved performance for the ADA/demand response/vanpool system – with the higher number phased in over five years.

The measures to be used to evaluate performance within the main bonus pool would correspond to specific goals that are consistent with RTA's regional transit goals. Each goal – customer satisfaction, efficiency, and safety, would account for one-third of the allocation. Within each goal are specific metrics used to evaluate progress towards that goal in a balanced manner.

Metric	Weighting	Explanation
Goal: Customer satisfaction (33 percent)		
Ridership	33 percent	<p>Ridership increases are an important goal, but they must be balanced with cost, and transit agencies that add news riders at lower costs should be rewarded. However, ridership (demand) does not capture all elements of customer satisfaction as many customers are “captive” and have few alternatives. This is why independent objective surveys of customer satisfaction should be included as an additional metric. In an event where ridership declines, such as an economic downturn, those agencies that did the best job of retaining ridership would receive higher scores. Additionally, it is not just the existing riders that need to be surveyed, but potential riders in the Service Boards’ areas as to why they are not using transit services. Understanding that market and capturing more of that market should be rewarded.</p> <p>Other potential metrics are: on time performance- reliability, particularly with connections to other transit services or within a single transit service; and frequency of service. Are the customers able to get to their destination predictably and within the time parameters needed?</p>
Cost per new rider	33 percent	
Independent surveys	33 percent	
Goal: Economic efficiency (33 percent)		
Cost per existing rider	33 percent	<p>The cost per existing rider metrics reward transit agencies for keeping their costs per rider down even if ridership is declining or stagnant due to factors beyond their control. Total revenues effectively measures how well the property is setting prices to match demand and maximizing potential revenue sources, and encourages them to play a role in maximizing available funding. Revenue per passenger-mile is also important however, because it normalizes total revenue.</p>
Total revenues	33 percent	
Revenue per passenger-mile	33 percent	
Goal: Safety (33 percent)		
Incidents per passenger-mile	50 percent	<p>Safety is a measure of both how frequently incidents occur as well as how many incidents occur. For example, a property with more express bus routes may have more total incidents due to higher travel speeds. Including a per-passenger-mile metric allows agencies to move towards higher speeds without compromising their safety score.</p> <p>Another potential metric is related to equipment failure during service. Such failures can translate to increased safety hazards for customers.</p>
Total incidents	50 percent	

Table 3: Proposed Performance Measure Evaluation

Table 3 summarizes how this could work in practice. Using the suggested weighting found in Table 3, the performance bonus funding score for agency X =

$$0.11(\text{ridership}) + 0.11(\text{cost/new rider}) + 0.11(\text{independent survey}) + \\ 0.11(\text{cost/existing rider}) + 0.11(\text{total revenues}) + 0.11(\text{revenue per passenger-mile}) + \\ 0.165(\text{incidents per passenger-mile}) + 0.165(\text{total incidents})$$

(Remember this is based on the percent progress over a baseline rather than raw numbers.)

Scores for each agency would then be compared in order to create a funding allocation. The actual amount of funding allocated would depend on the size of the bonus pool, and the respective performance-based scores of the Service Boards, which in turn are based on the metrics selected and their corresponding weights.

Program rules, agreed in advance, would determine how funding allocated through the performance bonus could be used, e.g. operations or capital projects (or both). The performance formulas are not set in stone. Each year agencies should submit their ideas for how the formulas could be improved to better reflect RTA's regional transit goals and fairness of distribution.

If this program had been implemented in 2013 based on performance between 2010 and 2012, CTA would have received 33 percent of funds in the performance pool, Pace would have received 6 percent and Metra 61 percent. The strong showing for Metra comes from two factors: a general fare increase raised total revenue growth and revenue growth per passenger mile and Metra was able to decrease overall incidents and incidents per passenger mile. Pace did well on on-time performance. All three Service Boards did well on ridership growth. These results are probably not typical since sizable fare increases are rare.

- Bonus Program to Support New Initiatives. This program would make awards based on innovative ideas from one or more of the Service Boards. The purpose would be to encourage actions that offer significant benefits to the transit system, but that also may involve some risks. These might include use of new technologies (one example might be 3-D printing to produce certain spare parts). Joint efforts by the Service Boards would be given priority – for example, joint procurement of certain supplies. While there is an element of competition here, there would be no mandate to award all the funds. Unused funds would be allocated according to the base allocation formulas described above.
- Bonus Program for ADA and Demand Response Service: Pace operates the ADA (American Disabilities Act) service for the full RTA region. Costs for this service are the fastest growing transit segment in the region (about 8 percent a year) with continued growth expected in part due to an aging population. The costs for this service receive priority with funds provided prior to allocations for the three Service Boards. One way to manage costs is for ambulatory ADA customers to use Pace as a feeder service to fixed routes. This approach highlights the importance of reliable interconnectivity between Pace and the fixed routes. This service has different operating parameters than traditional bus and rail transit service so in most cases ADA would not be eligible for the performance-based bonuses described above. Financial incentives for improved service and cost controls are important, however, and a separate ADA bonus pool would be established. This pool would be provided to Pace based on the following objectives:
 - Provide 95 percent reliable connections within 5 minutes between ADA and demand management services and mainline transit service operated by Pace, Metra, and CTA;

- Improve service reliability as measured by revenue and passenger miles between maintenance failures;
- Lower cost per revenue mile below the cost per revenue mile of Pace's peer group;
- Reduce passenger injuries by 5 percent per 5,000 boardings relative to prior year; and
- Reduce customer complaints by 5 percent per 5,000 boardings relative to prior year.

The performance bonus approach is an iterative process that will take time to perfect. While there will likely be plenty of challenges along the way, eventually a formula and accompanying metrics that are perceived as fair will evolve. Depending on the scale of the performance-based program, this option provides varying levels of budget predictability to the Service Boards. A small performance-based program will provide a level of budget predictability similar to the current practice. This is because only a very small share of funding would be allocated to Service Boards on a performance basis. This is likely to be the case, at least initially. On the other hand, a performance-based program in which a substantial share of funding is allocated on a performance basis will potentially lead to a high degree of unpredictability for the Service Boards in planning their annual budgets but also should encourage more aggressive action to meet performance objectives.

This option is not only supportive of RTA's regional goals; it also provides flexibility to adapt to changing circumstances and priorities over a period of time.

As with any performance-based program, it is important that it be verifiable using existing or readily available new data sources. Priority should be given to metrics based on data reported to the federal National Transit Database. RTA oversight would be required for additional data collected from alternate sources to ensure data quality and consistency. The selection of performance metrics must take into account the possibility that some metrics may be reported in such a way as to unjustifiably increase a Service Board's eligibility for performance payments. Selection of multiple performance metrics will help to minimize this possibility, as well as encourage Service Boards to improve performance more broadly rather than focus on just one or two. An appropriate balance must also be found between enhanced performance and cost to operate the program.

Governance Structure: This option cannot be implemented without legislative action:

- Changes to the current formulas for allocating federal and state funds. Implementation will require sufficient time for necessary legislation, program design, data quality and accuracy procedures, establish benchmark data, and outreach/training;
- Unified transit region plan to set regional transit goals, which will form the basis for program goals;
- Program Administrator must be established to determine program goals, performance metrics, weightings, verify data accuracy and quality used for performance metrics, and to oversee funding sources and allocation;
- Governance arrangements to implement annual changes, including bonus pool;
- Mandatory annual review process to consider program changes, e.g. goals, performance metrics, and weightings;
- Authority to update the program annually, based on mandatory review process; and
- Program Administrator requires an annual budget with identified funding source.

Advantages:

- This would encourage a focus on important performance measures;
- Tracking performance provides a link with accountability;
- Performance measures could be adjusted to fit changes in the region's long range plan; and
- The innovation bonus pool would encourage new approaches.

Disadvantages:

- A performance based approach would require new rules and adjustment by the Service Boards and RTA;
- There would be some budget uncertainty; and
- Active debate over specific measures could generate lasting disagreement among Service Boards and others.

SCENARIO 6: FLEXIBLE SUB-AREA EQUITY

Features: Sub-area equity is a popular concept, particularly among local elected officials who are not pleased when funds raised by their local taxes are spent elsewhere, even when this spending occurs in the same region. This focus on so-called donor-donee issues has come to dominate federal debate over the allocation of highway funds and it is often heard locally as well.

Two regions use a flexible version of sub-area equity. Seattle attempts to ensure that the benefits of transit investment (new rail lines, stations, and interim express bus services) are experienced across the region as a whole. These calculations are averaged over several years. Operating funds are not part of this system.

In the case of the San Francisco Bay Area, funds are allocated to counties in line with tax receipts and MTC (the region's MPO) has discretion to assign funds to individual transit agencies within the counties based on regional objectives or on specific needs for individual authorities. In this case, the MTC also prepares the region's long-range transit plan. The Bay Area is a more complex transit environment than the RTA region. There are a couple of large transit operations, each with its own dedicated sources of funds (BART is the largest and best known) and then a total of 26 smaller operating agencies. MTC starts with an allocation of funds across the region's counties based on where taxes are paid, but then allocates money based on consistency with the regional plan as well as other strategic goals – for example the Bay Area seeks to encourage transit oriented development so funds are allocated to investments and operations that encourage this.

If this model were emulated in the RTA region, it would give the RTA the ability to make decisions based on regional goals or to reflect specific regional problems or opportunities. For example, if suburb-to-suburb trips were deemed a priority, Pace might receive additional funds in the collar counties and suburban Cook County. At present, it appears that suburban Cook County might benefit the most from this program since all three Service Boards operate there

As with several other scenarios, this one combines a baseline of predictable funding with a new set of rules for allocation. The major changes would be phased in over the next five years.

Capital funds are largely generated from outside the region – that is they are paid for by federal taxes (including federal motor fuel taxes) while state bonds are paid from general tax receipts from the state of Illinois. The bulk of these funds would be allocated based on the state of good repair calculations described in Scenario 3 and used in Scenarios 4 and 5. Ten percent of the capital funds would be set aside for RTA to allocate in coordination with the operating funds.

Operating money would be allocated in a two-step process. First, based on the jurisdiction that paid the taxes, and second, within these allocations, RTA would make assignments to individual Service Boards. These assignments would reflect general objectives in the region's long-range transit plan.

Governance Structure: Legislation would be required to change the formulas. Additional work would be needed to ensure a consistent set of state of good repair calculations. Similar efforts will be needed to establish the sub-area equity program for allocating funds to Service Boards. Given the magnitude of changes, it may make sense to institute a transition period.

Advantages:

- Local tax payers receive funds in their home region; and
- Allows RTA to link allocations with regional transit plan.

Disadvantages:

- Some uncertainty regarding allocations to individual Service Boards; and
- Less clear linkages with regional objectives.

SCENARIO 7: ASSET MANAGEMENT FOCUS

Features: The basic principles of asset management have long been advocated as good practice by public and private entities who manage capital-intensive systems. The focus on transit asset management emerges from the investigation by GAO, the NTSB (National Transportation Safety Board), and the FTA of a 2009 fatal transit accident involving the Washington Metro. These analyses developed the legal reason for a federal role in asset management. FTA's 2011 report found that transit agencies were slow in developing asset management programs and that the use of asset management practices at large transit agencies varied widely, including the CTA, and none were sufficient. Consequently, FTA and the federal MAP-21 legislation required transit asset management programs to be established for all federal transit fund recipients.

Transit agencies are now required to develop asset management plans. These plans have value beyond complying with federal requirements. As the private sector and Department of Defense have found the integration of corporate strategic planning with a viable and significant asset management component tied to the strategic plan can significantly improve the rate of return on investment, help to control costs, manage safety, improve customer satisfaction and assist organizational readiness.

Private corporations recognize that asset management is not just an exercise in capital investment nor an effort to improve maintenance and operations. It goes beyond the efforts to achieve a state of good repair, although this is part of asset management. Asset management requires the full participation of the whole organization with the goals, criteria, strategies and measures being driven top down through the organization. By doing so asset management becomes a guiding strategy that provides context for many future decisions.

The development and implementation of asset management in the Service Boards is underway by RTA, but the focus has been on efforts to quantify investments needed to achieve a state of good repair. Asset management for the Service Boards is still not part of the organizational culture and is largely confined to maintenance and operations with supporting capital asset requests. This scenario calls for a more robust asset management option that is directly tied to organizational strategic values and goals:

Asset management has several primary goals/purposes:

- Insure the safety of customers and employees;
- Provide for calculable reduction in projected long-term equipment, maintenance costs and service quality;
- Provide decision-makers with risk analysis and performance measures and specific lines of accountability;
- Provide decision-makers with reliable data and information to make timely investment decisions;
- Provide the public with a transparent process for asset investments and organizational decisions;
- Provide decision-makers with viable performance measures to assess that the asset management goals are achieved;
- Provides predictable vehicle reliability over its service life; and
- Improves maintenance productivity and will likely lower costs in the future.

Asset management involves three types of activity, each with its own set of criteria.

- Capital maintenance and rehabilitation of investments:
 - Legally required- repair or replacement of handicapped lifts; or other safety investments; or environmental equipment;
 - Manufacturer's Guarantees or Warranties- mandatory maintenance of equipment per manufacturer requirements to maintain the guarantees/warranties (requires a complete audit of original manufacturer suggested maintenance intervals against RTA Service Board consensus recommendations); and
 - Scheduled repairs for older equipment. Equipment past the warranty period requires scheduled maintenance, service, repair, rehabilitation or replacement.
- Capital replacement or modernization:
 - Replace or modernize equipment/facilities if the cost of maintaining equipment is greater than the cost to replace; or,
 - Replace or modernize equipment/facilities if the new equipment has new technology that will lower the cost of operations, maintenance below current costs and/or dramatically enhances customer service; or
 - Replace or modernize equipment/facilities mandated by law.
- Capacity expansion or new service or expansion of existing service:
 - Is the equipment compatible with existing equipment and maintenance capabilities?
 - Does the manufacturer provide robust warranties and guarantees in concert with the region's asset management goals?
 - Does the manufacturer meet the Buy America provisions?
 - Can the region piggy back with another transit provider to lower per unit costs?

Performance measures for asset management include:

- Increase organization's service life for equipment;
- Enhance defined safety improvements for equipment and facilities for customers and employees;
- Decrease employee and customer injuries;
- Increase miles travelled between failures and/or road calls; Decrease maintenance costs for the life of the equipment; and
- Restructure procurements and planning to integrate asset and operational decisions within an asset management context.

Governance Structure: This scenario requires legislative change to implement an integrated governance structure. The structure would include a single board that would organize the asset management analysis and provide the three operating arms with allocations for capital and operations.

Advantages:

- Focuses investments on regional objectives, such as the safety of customers and employees;
- Provides decision-makers with greater understanding of risks, and helps to make timely investment decisions;
- Creates transparency to monitor progress towards achieving asset management goals;
- Improves maintenance productivity and will likely lower costs in the future.

Disadvantages:

- Considerable time and dollars will be required to develop the appropriate data base;
- A different discipline in organizational structure and enforcement will be needed and resisted;
- Current business and operating practices will need to be changed;
- On-going vigilance will be required by organizational decision-makers; and
- Much easier to just do state of good repair and confine asset management to operations and maintenance.

SCENARIO 8: COMBINATION OF SCENARIOS

This concept would combine the competitive focus of Scenario 4 and the performance focus of Scenario 5. As with both of these scenarios, the bulk of funds would continue to be allocated based on fixed formulas, but a larger sum would now be available for assignment outside of that process. Part would be allocated based on performance criteria as described in Scenario 4 and part under the competitive procurement proposed in Scenario 5. While this scenario is more complicated it also aims to encourage improved performance and innovative ideas. The two smaller bonus programs described in Scenario 5 would not be included here.

SUMMARY OF SCENARIOS

Table 4 provides a summary of the features and impacts of all eight scenarios.

SCENARIO/ FEATURES	FUNDING ALLOCATION BASIS		SERVICE BOARD FUNDING IMPACT			GOVERNANCE STRUCTURE	IMPACTS	
	Capital	Operations	CTA	Metra	Pace		Advantages	Disadvantages
<p>Status Quo</p> <p>Provides a benchmark to compare other scenarios against</p>	Allocation rules would continue as at present	Allocation rules would continue as at present	No change	No change	No change	None - current arrangements remain in place	<p>1) RTA, Service Boards and stakeholders know the rules</p> <p>2) Funding levels predictable</p>	<p>1) Limited focus on regional objectives</p> <p>2) Current allocation practices unrelated to the regional strategic transit plan</p> <p>3) Current allocation rules have not been adjusted for up to 30 years, and lack the flexibility to be adjusted within the current governance structure</p>
<p>Decentralized /Service Board Focus</p> <p>Weakened RTA with budget savings used to support transit operations at the Service Boards</p>	Allocation rules would continue as at present	Allocation rules similar to present, but discretionary funds would be fixed at 97 percent for CTA and 3 percent for Pace	Additional \$6.6 million in 2014	Additional \$3.8 million in 2014	Additional \$1.6million in 2014	Legislation would be required to reduce RTA's legal responsibilities and to convert the discretionary funds as formula funds	<p>1) RTA, Service Boards and stakeholders know the rules</p> <p>2) Funding levels predictable</p> <p>3) Additional funds available, as a result of reduced costs associated with RTA's strategic planning and oversight functions, and a reduced need for interactions between the Service Boards and RTA</p>	<p>1) Limited focus on regional objectives</p> <p>2) Current allocation practices unrelated to the regional strategic transit plan</p> <p>3) Current allocation rules have not been adjusted for up to 30 years, and lack the flexibility to be adjusted within the current governance structure</p> <p>4) No oversight for the Service Boards financial plans</p>

SCENARIO/ FEATURES	FUNDING ALLOCATION BASIS		SERVICE BOARD FUNDING IMPACT			GOVERNANCE STRUCTURE	IMPACTS	
	Capital	Operations	CTA	Metra	Pace		Advantages	Disadvantages
<p>3</p> <p>New Fixed Formulas</p> <p>Updates allocation formulas, and eliminates discretionary funds</p>	<p>Allocated in proportion to the costs to reach a “state of good repair”, spread over 10 years—although resources fall well short of meeting that goal</p>	<p>Allocated based on a mix of performance measures, including vehicle revenue miles, passenger miles, and route miles</p>	<p>61.7 percent of capital funds (5.2 percentage point increase)</p> <p>55.87 percent of operating funds (0.4 percentage point increase)</p>	<p>31.1 percent of capital funds (6.3 percentage point decrease)</p> <p>30.77 percent of operating funds (0.7 percentage point decrease)</p>	<p>7.2 percent of capital funds (0.8 percentage point increase)</p> <p>13.36 percent of operating funds (0.3 percentage point increase)</p>	<p>Legislation would be required to change the formulas. Additional work would be needed to ensure a consistent set of state of good repair calculations. Similar efforts will be needed for estimates of vehicle revenue miles, passenger miles, and route miles.</p>	<p>1) Allocation rules would be clear</p> <p>2) Funding levels predictable</p> <p>3) Formulas would shift over time in line with changes in state of good repair and shifts in vehicle revenue miles, passenger miles and route miles</p> <p>4) Capital funding would be more closely aligned with estimates of state of good repair and the success of maintenance and operations</p>	<p>1) Creates incentives to generate higher numbers for state of good repair numbers and to exaggerate vehicle revenue miles, passenger miles and route miles</p> <p>2) RTA would need to design and carry out programs to audit collection of these data</p> <p>3) No focus on how well funds are being spent</p>
<p>4</p> <p>Competitive Program</p> <p>Portion of funds would be part of a competitive program designed to encourage creative solutions. This program would be open to groups beyond the Service Boards.</p>	<p>Allocated in proportion to the costs to reach a “state of good repair”, spread over 10 years—although resources fall well short of meeting that goal</p>	<p>Allocated based on a mix of performance measures, including vehicle revenue miles, passenger miles, and route miles</p>	<p>Generally the same, initially, subject to size of competitive program. The new competitive program would draw on a portion of total operating funds. Allocation of competitive program funds depends on successful proposals.</p>			<p>Legislation would be required to change the formulas. Additional work would be needed to ensure a consistent set of state of good repair calculations. Similar efforts will be needed to establish the competitive program.</p>	<p>1) New solutions to traditional problems would be encouraged.</p> <p>2) Opening the competition to groups outside the Service Boards (most likely as partners with the Service Boards) would create an opportunity to increase funding due to the required matching funds.</p>	<p>1) There would be a learning period while RTA and the Service Boards adapted to a new set of rules and procedures</p> <p>2) There would be budget uncertainty until the Service Boards adjusted to the new set of rules</p> <p>3) Some Service Boards would gain funds relative to a pure formula while some would lose – and these winners and losers may shift from year to year</p> <p>4) The base of operating funds would not grow as fast as otherwise, since part of the growth would be used to fund the competitive program</p>

SCENARIO/ FEATURES	FUNDING ALLOCATION BASIS		SERVICE BOARD FUNDING IMPACT			GOVERNANCE STRUCTURE	IMPACTS	
	Capital	Operations	CTA	Metra	Pace		Advantages	Disadvantages
<p>5</p> <p>Performance-Based Allocation</p> <p>Portion of funds would be awarded based on achieving key performance measures, and supporting new initiatives</p>	<p>Allocated in proportion to the costs to reach a “state of good repair” – although resources fall well short of meeting that goal</p>	<p>Allocated based on a mix of performance measures, including vehicle revenue miles, passenger miles, and route miles</p>	<p>Generally the same, initially, subject to size of competitive and bonus pool programs. The new performance program would draw on a portion of total operating funds. Allocation of performance-based funds depends on documented performance. Allocation of bonus pool funds depends on program rules.</p>			<p>Legislation would be required to change the formulas. Additional work would be needed to ensure a consistent set of state of good repair calculations. Similar efforts will be needed to establish the performance-based and bonus pool programs.</p>	<p>1) This would encourage a focus on important performance measures.</p> <p>2) Tracking Performance provides a link with accountability.</p> <p>3) Performance measures could be adjusted to fit changes in the region’s long range plan.</p> <p>4) The innovation bonus pool would encourage new approaches</p>	<p>1) A performance based approach would require new rules and adjustment by the Service Boards and RTA</p> <p>2) There would be some budget uncertainty.</p> <p>3) Active debate over specific measures could generate lasting disagreement among Service Boards and others.</p>
	<p>1) Performance based allocations (customer satisfaction, efficiency, and safety) using the growth in revenues</p> <p>2) Bonus Program to Support New Initiatives</p> <p>3) Bonus Program for ADA and Demand Response Service</p>							
<p>6</p> <p>Flexible Sub-Area Equity</p> <p>Attempts to more closely match the geographic sources of funds with where the funds are spent</p>	<p>Allocated in proportion to the costs to reach a “state of good repair” – although resources fall well short of meeting that goal</p>	<p>1) In proportion to where taxes were paid</p> <p>2) Among the Service Boards that serve these locations in ways that support the region’s strategic long-range transit plan</p>	<p>Suburban Cook County might benefit the most from this program. Since all three Service Boards operate there, however, it is not clear how this would affect the overall allocation of funds to individual Service Boards.</p>			<p>Legislation would be required to change the formulas. Additional work would be needed to ensure a consistent set of state of good repair calculations. Similar efforts will be needed to establish the sub-area equity program for allocating funds to Service Boards.</p>	<p>1) Local tax payers receive funds in their home region</p> <p>2) Allows RTA to link allocations with regional transit plan</p>	<p>1) Some uncertainty regarding allocations to individual Service Boards</p> <p>2) Less clear linkages with regional objectives</p>
	<p>Ten percent of capital funds would be set aside for RTA to allocate in coordination with the operating funds</p>							

SCENARIO/ FEATURES	FUNDING ALLOCATION BASIS		SERVICE BOARD FUNDING IMPACT			GOVERNANCE STRUCTURE	IMPACTS	
	Capital	Operations	CTA	Metra	Pace		Advantages	Disadvantages
7 Asset Management Focus Helps improve the rate of return on investment, control costs, manage safety, improve customer satisfaction and assist organizational readiness.	This would follow asset management analysis	This would support asset management principles, but most would likely be allocated based on fixed formulas	Allocation depends on asset management analysis			Legislation would be required to implement an integrated governance structure	1) Focuses investments on regional objectives, such as the safety of customers and employees 2) Provides decision-makers with greater understanding of risks, and helps to make timely investment decisions 3) Creates transparency to monitor progress towards achieving asset management goals 4) Improves maintenance productivity and will likely lower costs in the future	1) Considerable time and dollars will be required to develop the appropriate data base 2) A different discipline in organizational structure and enforcement will be needed, and likely resisted 3) Current business and operating practices will need to be changed 4) On-going vigilance will be required by organizational decision-makers 5) Much easier to just do state of good repair and confine asset management to operations and maintenance
8 Combination of Scenarios Combines competitive focus of Scenario 4 and the performance focus of Scenario 5	Allocated in proportion to the costs to reach a “state of good repair”, spread over 10 years—although resources fall well short of meeting that goal	Allocated based on a mix of performance measures, including vehicle revenue miles, passenger miles, and route miles	Generally the same initially. Competitive and performance-based pools would draw from growth in revenues so base funding total would change only based on new formulas. The allocation of competitive and performance funds would vary based on results of performance analysis and competitive procurement and cannot be predicted at this time.			Legislation would be required to change the formulas. Additional work would be needed to ensure a consistent set of state of good repair calculations. Similar efforts will be needed to establish the competitive, performance-based and bonus pool programs.	1) Greater encouragement for improved performance and innovative ideas	1) More complicated scenario to implement 2) Excludes the two smaller bonus programs described in Scenario 5

Table 4: Summary of Scenario Features and Impacts

CONCLUSIONS AND RECOMMENDATIONS

FINDINGS

In contrast to the lack of organizational change in the RTA Region, regional transit organizations in other metropolitan areas have continued to evolve. For example, both New York's MTA and Philadelphia's SEPTA have integrated existing transit agencies into one large organization, responsible for operations, planning, and capital improvement. Both agencies operate with a single board of directors, with most members appointed by the Governor. In San Francisco, the regional MPO (the Metropolitan Transportation Commission) prepares the region's transit plan and then allocates funds among some 26 transit operators. Capital improvement plans are approved based on their consistency with the long range plan.

The current governance and financial structure used for transit in Northeastern Illinois is flawed. The funding formulas are complex, out of date (some rules have been unchanged for thirty years), and rigid. Further, RTA does not have the necessary authority to support the planning and decision-making process called for in current legislation (the RTA Act), resulting in an effort that is involved, argumentative, and often unproductive. No other major metropolitan region in the US has selected a similar institutional arrangement to fund or manage its regional transit system. The only positive is that the funding results are generally predictable.

RTA has important responsibilities, but is sometimes unable to match what state legislation has mandated because of its governance arrangements. Any change would require new legislation. For example, the current super majority requirement to approve financial plans and other key measures makes it possible for relatively small groups to exercise veto power over key decisions.

Any change in how funds are allocated should involve a process that is transparent, targeted, objective, and that demonstrates results. Several scenarios present changes beyond simply applying a new mathematical formula. For these options to succeed, any new procedures should be understandable and carried out in an open environment.

RECOMMENDATIONS

Change is needed. The first three scenarios could be managed under the current governance structure, although legislation would be required in order to implement the second and third scenarios and some governance reforms would improve their effectiveness. Scenario 4 (Competitive Program) opens up the allocation process to entities outside the RTA and Service Boards that could help improve the viability of the region's transit services. Scenario 5 is attractive since the emphasis on performance measures should encourage improvement in key areas and would help to build a culture of accountability. Scenario 7 emphasizes asset management techniques and requires an integrated governance structure. The strongest approach might be Scenario 8, which combines the competitive and performance based approaches.

The ability to gain full value from most of these scenarios calls for change in the governance structure. The review of experience of peer metropolitan areas provides useful examples. An integrated governance structure offers the best potential to achieve regional objectives given its ability to help focus strategic direction and financial management. The Service Boards would become operating arms or subsidiaries in this organization (either a revised RTA or a new entity). This entity would have a board of directors, perhaps with some board members appointed by the Governor with the balance coming from the major regional jurisdictions. This integrated governance structure has similarities to that used in Philadelphia

and New York City. Such an arrangement has real potential to improve funding decisions and stability going forward. One possibility would be to include the Illinois Tollway in this organization, something consistent with policies in New York and San Francisco.

While this report addresses governance structure as one of several variables in the assessment of each scenario, in practice the scenarios and their associated institutional options cannot be considered in isolation from one another. Just as current practice involves a mix of formula and discretionary funding within a unique institutional context, other scenarios would allocate funding quite differently than today. Philadelphia and New York City provide a clear example. The major transit entities for those regions do not allocate funds by formula, but are integrated organizations that allocate funds based on their strategic plan and related capital program.

Overall, the report advocates for change from the current practice, which is complex, out of date, and rigid in its ability to respond to a dynamically changing regional economy. The report suggests that the strongest approach might be a combination of Scenarios 4 and 5, which would emphasize both competition and the achievement of performance goals, combined with a new integrated governance structure.

APPENDIX A: TRENDS SUMMARY

POPULATION

In the 1980 to 2012 period, Cook County's population has fallen by 0.4 percent while the other five counties in the RTA region have grown. Chicago's population fell by 9.7 percent while the balance of Cook County has grown by 11.9 percent. As a share of the regional population, Chicago shrank from 42.3 percent to 32.4 percent of the RTA region from 1980 to 2012. Since 2010, Cook, DuPage, Kane, and Will Counties have grown slightly, while Lake and McHenry Counties have lost population.

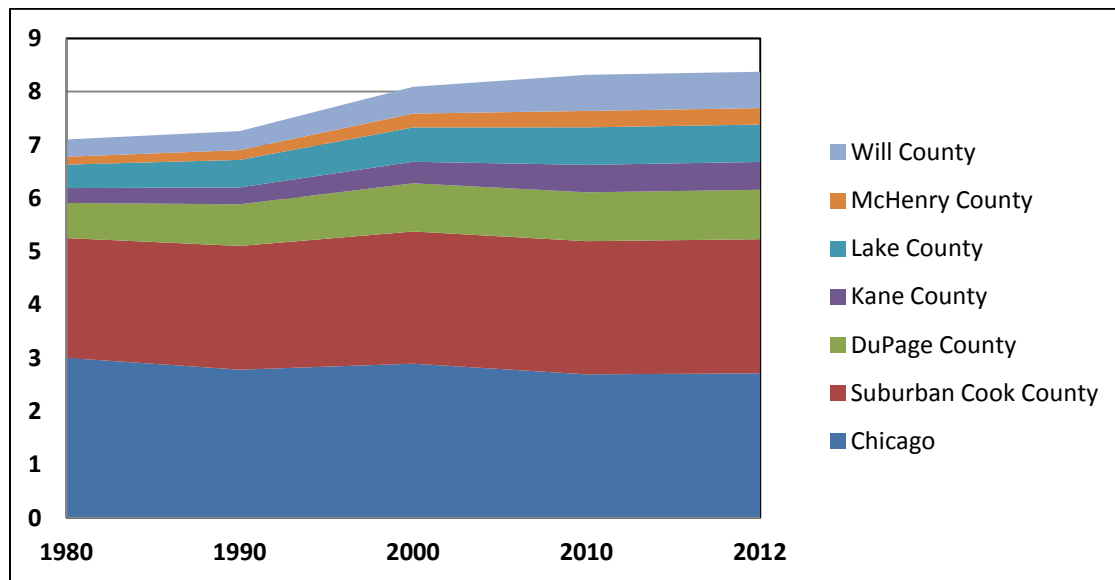


Figure A-1: Shares of Regional Population, 1980-2012 (Millions)

EMPLOYMENT

The location of jobs in the RTA region over the 1981 – 2012 period indicate two trends:

- Suburbanization of jobs throughout the collar counties; and
- Decline of employment in the inner ring suburbs (suburban Cook County and DuPage County).

Suburban Cook County and DuPage County are mature and largely built out; meanwhile, firms might be moving to more cost-effective or productive locations within the region. Will and McHenry counties were the only RTA counties to experience employment gains between 2001 and 2012. Since 2010, all RTA geographic divisions have experienced employment growth, with suburban Cook County and McHenry County lagging the rest of the region. Conversely, employment in the Loop peaked in 2007 just prior to the recession. These data do not include non-incorporated self-employed persons—which include many professional job categories such as attorneys, accountants, and physicians—and thus likely under-counts the number of employed persons working in central Chicago.

Some of the loss of jobs in the counties can be attributed to the recession of 2008–09; slight job declines were already evident in Cook, DuPage, Kane and McHenry counties from 2007 to 2008. Suburban Cook County saw a much steeper job decline from 2001 to 2012 than did Chicago. Between 2001 and 2012, Chicago lost 5.5 percent of its jobs while suburban Cook County lost 14.8 percent and DuPage lost 4.2 percent. Since 2010, the City of Chicago has accounted for about half of the region’s growth in jobs.

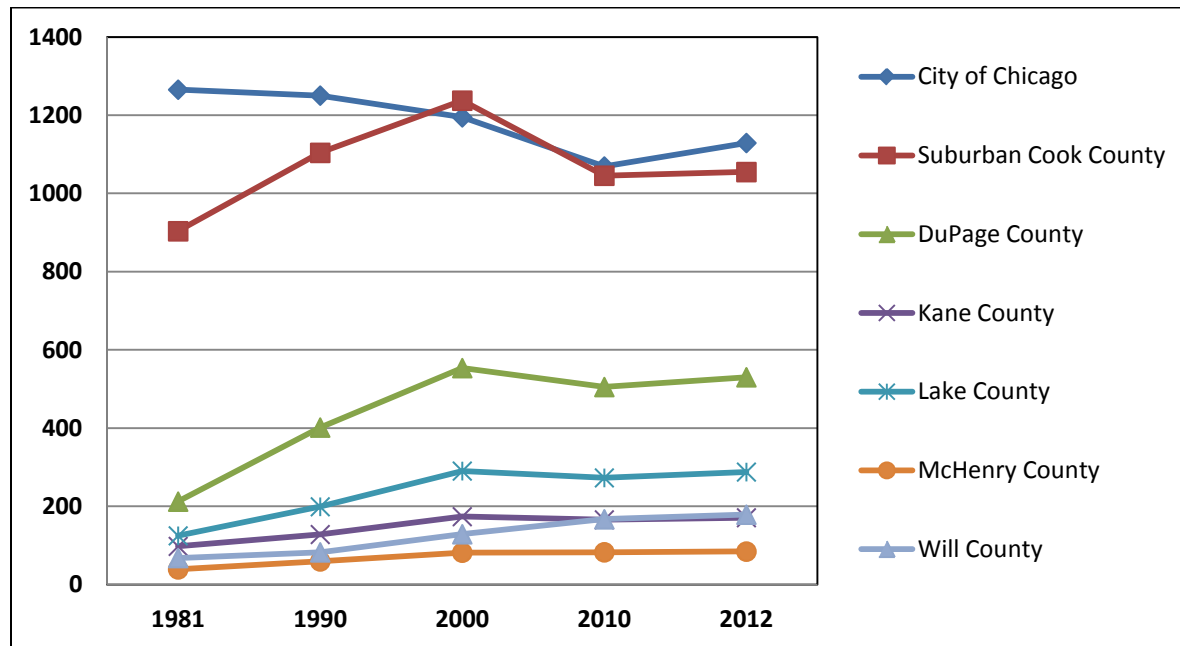


Figure A-2: Jobs in RTA Geographic Divisions, 1981-2012 (Thousands)

RIDERSHIP BY SERVICE BOARD⁹

Between 1991 and 2012, total annual RTA ridership experienced growth of only 1.6 percent. However changes in CTA’s method for counting rail ridership changed in 1997, meaning that trends for the period from 1998 onwards are more consistent. During the period from 1998 to 2012, total annual RTA ridership grew by 19 percent. During this period, Metra, CTA rail, and CTA bus saw gains of 17 percent, 50 percent, and 8 percent respectively, while Pace bus experienced a ridership loss of 15 percent.

ADA-paratransit, dial-a-ride, vanpool, and other demand response services are excluded from counts of unlinked passenger trips. The Service Boards’ shares of RTA ridership have roughly held steady over the 1991 – 2012 period. As a percentage of overall RTA ridership, Metra’s share has grown slightly while CTA and Pace’s have declined slightly. Despite this, CTA has consistently provided the vast majority of unlinked passenger trips, making up at least 80 percent of RTA’s unlinked trips each year.

⁹ 1991-2011 Ridership data come from the National Transit Database. 2012 ridership data come from RTA using methodologies consistent with the National Transit Database.

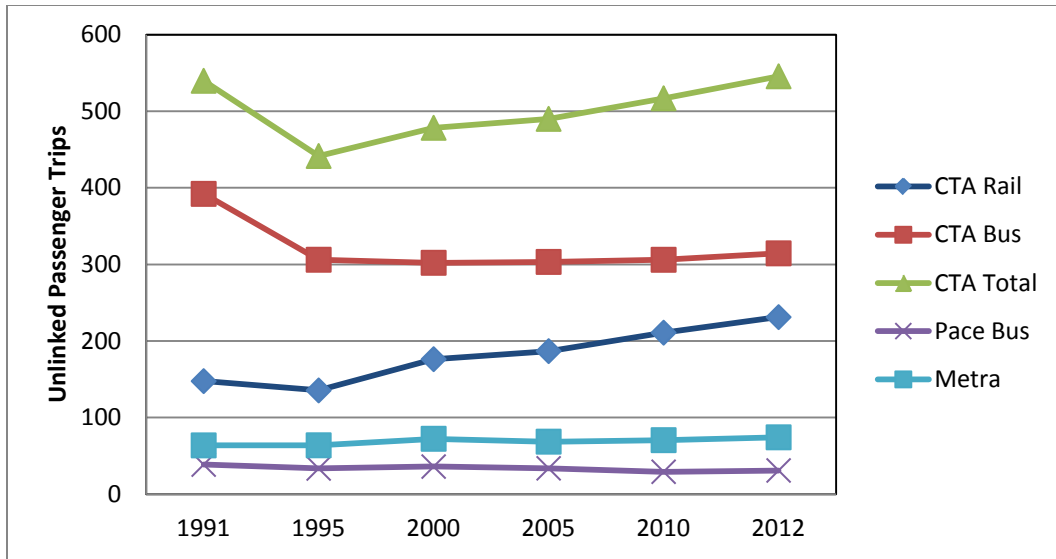


Figure A-3: Service Board Ridership, 1991 – 2012 (Millions)

PASSENGER MILES TRAVELED

Passenger miles are not measured directly, but rather depend on surveys regarding average trip lengths. 2011 is the most recent year for which estimates of passenger miles traveled are available. Before 1995, data for Metra does not include passenger miles for contracted services provided directly by host railroads. In addition, Pace data do not include vanpools, dial-a-ride, or paratransit services.

Passenger miles traveled trends for the RTA Service Boards have been mixed since 1991. CTA rail has seen tremendous growth in ridership and passenger miles, more than offsetting the steady CTA bus ridership decreases. Meanwhile, Metra has experienced steady ridership growth while it extended its network outward. Pace experienced periods of both growth and decline since 1991, with modest growth in recent years. Service Board shares of RTA passenger miles have remained fairly steady since 2005, with CTA's share increasing slightly and shares for Metra and Pace bus decreasing slightly.

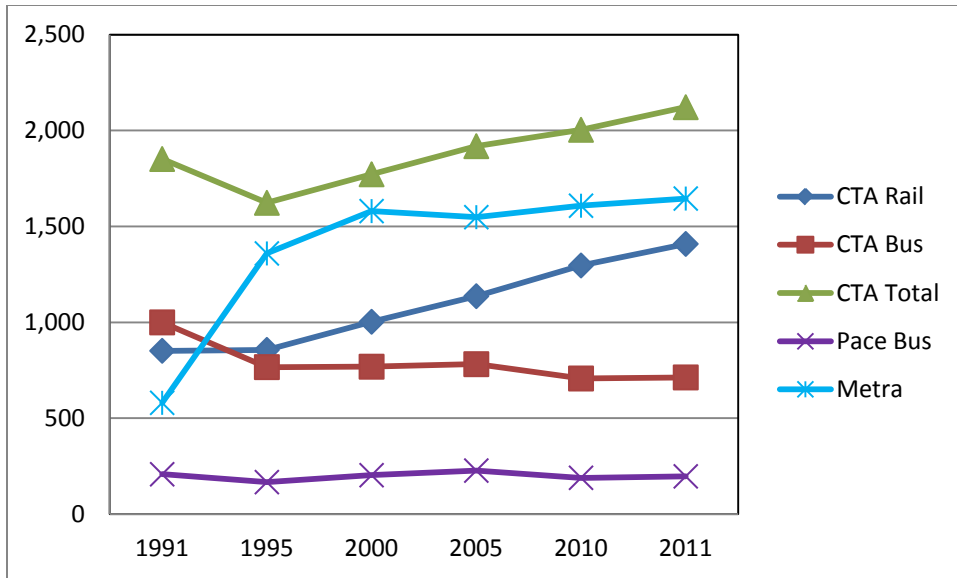


Figure A-4: Passenger Miles Traveled, 1991-2011 (Millions)

OPERATING COST PER TRIP

Operating expenses for both Pace and Metra grew considerably over the 2005 - 2011 period. Metra service did not include all commuter rail service in the region in 1991; privately owned services were absorbed into Metra in 1995 and 1996. Thus, Metra data for the whole 1991 – 2011 period does not accurately represent regional commuter service during this span of time.

CTA’s cost per trip has varied greatly for the bus and rail modes; operating cost growth has been very modest for CTA rail, while the operating cost for CTA bus has risen rapidly in the 1991 to 2011 period. At the same time, ridership for CTA rail has grown, but fallen for CTA bus. These conditions have resulted in a reversal for the two CTA modes: CTA rail cost per trip was 62 cents higher than CTA bus in 1991, but CTA rail now costs 19 cents less per trip than CTA bus. Operating cost per trip has fallen slightly for both CTA modes since 2005. Cost reduction has resulted largely due to substantial reductions in service for both modes in 2010 (bus in particular).

For Pace, suburban bus ridership has fallen steadily since 1991 while costs have risen, resulting in the largest increases in cost per trip between 1991 and 2011 amongst all Service Boards and modes. This figure does not include dial-a-ride, ADA-paratransit, or other demand response services; these direct response services are by far the most expensive types of transit service to operate.

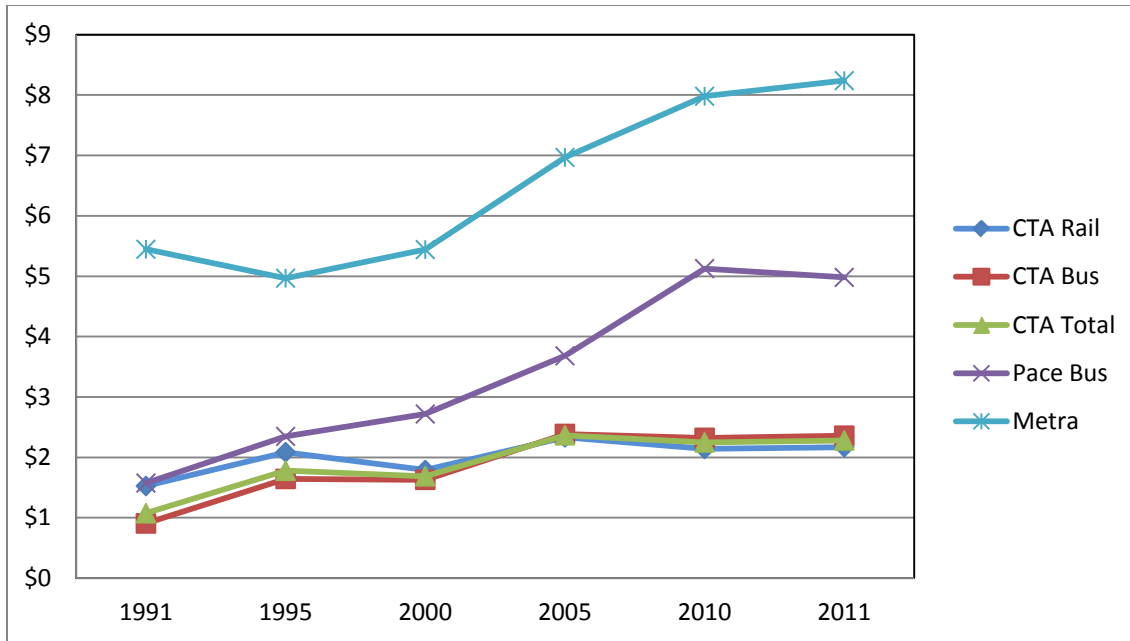


Figure A-5: Operating Cost per Trip, 1991-2011 (Dollars)

OPERATING EXPENSE PER PASSENGER MILE

Rail operations costs tend to be influenced by route distance served much more so than bus operations (which are more heavily influenced by vehicle operating time). On a per passenger mile basis, both CTA Rail and Metra have the lowest costs. CTA and Metra operate very different types of rail systems. CTA operates electric multiple-unit trains on a CTA-owned exclusive track system with stations in close-proximity to one another, while Metra operates a push-pull commuter system with both diesel-electric and electric locomotives on a mixed-use and mixed ownership network of rail lines with stations that can be several miles distant from one another. Since 2005:

- Overall CTA costs per passenger mile have fallen due to slow total cost growth (largely because of service cuts to both modes since 2010) and rising rail ridership; CTA bus costs per passenger mile have increased by 11 percent while CTA rail costs have decreased by 11 percent.
- Pace suburban bus service costs per passenger mile have risen by 41 percent because of a 23 percent rise in operating expenses in combination with a 13 percent drop in passenger miles and an 8 percent drop in passenger trips.
- Metra costs per passenger mile have increased by 17 percent.

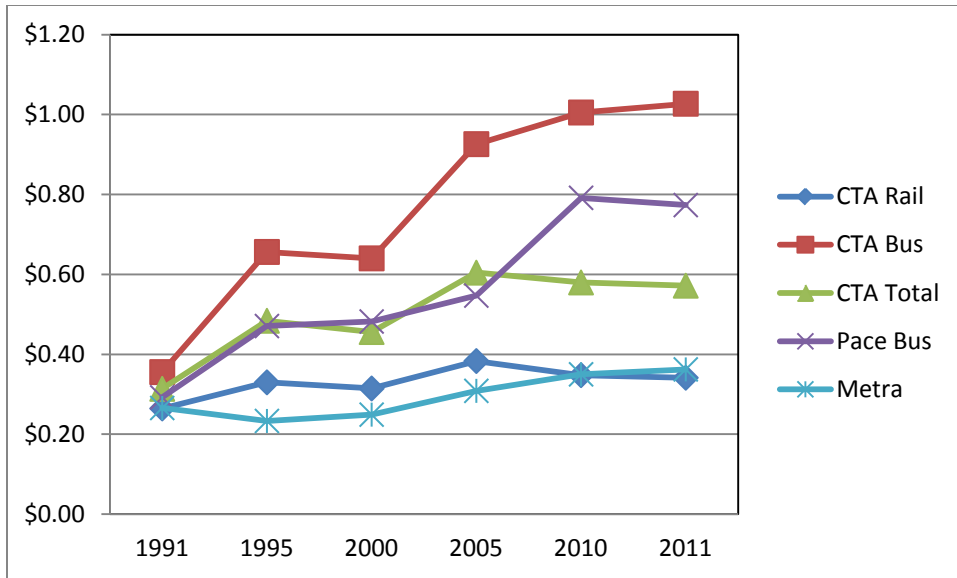


Figure A-6: Operating Expense per Passenger Mile, 1991 – 2011 (Dollars)

APPENDIX B: PEER ANALYSIS

A peer analysis was conducted to understand how other metropolitan regions address the challenge of funding allocation. More than a dozen metropolitan areas across the country were reviewed before narrowing the list down to five regional case studies. These following five regions offer specific lessons with regards to management, institutional structure, governance, and funding distribution:

- *New York City* – the largest metropolitan region operates a centralized management structure with the nation’s biggest and most complex transit system.
- *Philadelphia* – a large transit operator of an aging commuter rail, bus, and subway network in one of the most populous urban areas in the country that also operates a centralized system with funds provided by the state.
- *Seattle* – the umbrella agency, Sound Transit, has a structure with many similarities to RTA and relies primarily on local sales tax funding, making it useful to understand how they have dealt with similar funding issues. They allocate spending in part based on sub-area equity.
- *San Francisco* – the region’s Metropolitan Planning Organization (MPO) is widely seen as a model for regional collaboration and funding distribution and offers lessons about institutional structures and coordination of multiple transit agencies.
- *San Diego* – has a strong MPO that takes the lead on regional planning and distributes funding to two operating agencies that adhere to the MPO’s plan.

Three topics are particularly relevant:

- Approaches to governance and its impact on a regional focus,
- Funding allocation and fiduciary responsibility, and
- Other innovative ideas to improve transit in the region.

INSTITUTIONAL STRUCTURE AND GOVERNANCE

Board structure and the assignment of responsibilities among participating organizations play a role in a board’s ability to remain neutral with regard to the interests of individual agencies, while maintaining a regional focus. New York’s MTA and Philadelphia’s SEPTA offer examples of effective governance consolidation. Both MTA and SEPTA combined previously existing transit agencies into one large organization, responsible for operations, planning, and capital improvement. MTA and its subsidiaries share one cohesive board. MTA Board members sit on committees representing each sub-agency, often sitting on multiple committees. Having multiple responsibilities enables board members to maintain a sense of neutrality and an ability to see the larger regional picture.

The MTA structure is somewhat similar to the RTA, with a governing board overlooking several sub agencies, except MTA has direct control over the sub-agencies in terms of governance and budget allocation. SEPTA has gone even further in consolidation of transit agencies. The four divisions, including the subways, buses, trolleys, and commuter rail, have acted as one unit for more than 40 years, with only one board and no subcommittees. Customers perceive this as an integrated network.

The west coast examples provide alternate structures that are more similar to the RTA, with separate organizations responsible for different aspects of the transit system. These agencies have clearly defined roles that are useful in assigning planning and service responsibilities. Sound Transit in Seattle, for example, was created to deploy a regional rail transit system with funds from a new dedicated regional sales tax. While each of the three counties in the Seattle region owns and operates its own transit agency,

Sound Transit is helping to extend new lines across county borders and create a more cohesive transit network.

The Metropolitan Transportation Commission (MTC) is the San Francisco Bay Area's regional Metropolitan Planning Organization (MPO) and is legislated to coordinate the services of the 26 transit operators in the region. The MTC Board, which has representation from each county (notably, not necessarily corresponding to specific transit agencies), has the responsibility and discretion to distribute state and federal funds to agencies in part by need. As with the MTA in New York it can approve or reject capital improvement plans based on MTC's long range plan.

The San Diego Association of Governments (SANDAG) is the MPO for the San Diego region. It also has a clear role apart from the two transit operators in the region. SANDAG is solely responsible for planning a regional system and approving capital plans within that framework while the two operating agencies, Metropolitan Transit System (MTS) and North County Transit District (NCTD), are solely responsible for providing transit service within that plan. In each of these cases, the larger regional organization with a significant planning function also has a direct regional impact on capital investment decisions.

FUNDING ALLOCATIONS AND FIDUCIARY RESPONSIBILITY

In each of the case studies, the source of revenue plays a crucial role in determining how funding is distributed. For MTA and SEPTA, the bulk of funding comes from the state and federal government (and for MTA bonds supported by toll revenues) reducing the need to distribute funds back to the counties from whence they came. This enables MTA and SEPTA to allocate funding within their systems based largely on regional investment needs rather than regional equity. While neither system avoids sub-regional "equity" issues completely, they are far less pronounced than at RTA.

Of the peer regions examined, the two agencies with the most similarity to RTA that also have effective power of discretion over the allocation of funds are the New York MTA and the MTC in the Bay Area. Sound Transit is tied to the sub-area equity requirement and SANDAG is responsible for only two agencies in its jurisdiction. SEPTA can distribute money among its four divisions based on the Board's discretion, but the divisions are much more cohesive than the subsidiary agencies at MTA or the 26 regional operators in the Bay Area.

The MTA Board consists of 17 voting members, including the Chairman. Four members are nominated by the New York State Governor and one member by each of the county executives. After nomination, the State Senate must confirm all board members. The Chairman serves as the Chief Operating Officer of the MTA. Each subsidiary also has its own President. The MTA Board uses a committee structure that helps the Chairman in discharging responsibilities of each operating agency, but these committees are subservient to the larger MTA Board. The seven subsidiary agencies do not have their own, separate boards and have committees on the MTA Board instead. The Chairman assigns each board member to multiple committees and each committee has a mix of representatives from New York City as well as the surrounding counties.

MTA retains direct control over capital and operations funding at each of the subsidiary agencies, and has direct control over setting fares and tolls for each agency. Annual operating budgets are created by each agency within MTA's constraints and must be approved by the MTA Board. The five-year capital budgets follow a structure that has mostly been unchanged since 1982, allocating approximately 75 percent of capital funding to the urban transit network and 25 percent of funding to the commuter rail network. The agencies choose projects that advance MTA's long-range plan and performance goals and then MTA reviews the selection for final approval. Most of their infrastructure projects are prioritized by their asset management program and operations by performance indicators such as employee's availability, mean distance between failures, etc.

While the board has discretion over how much money to distribute to the subsidiary agencies, the annual budgets are consistent from year to year. Figures 8 and 9 show the annual operating budget of each MTA agency in dollars (millions) and its percentage of the overall MTA budget.

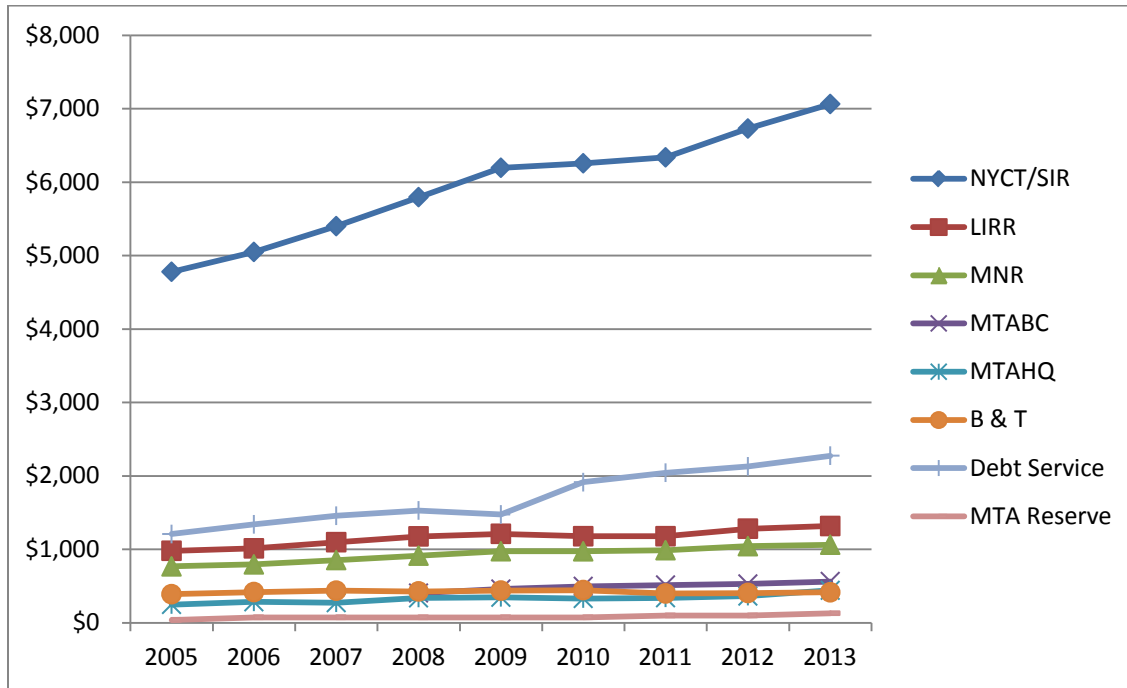


Figure B-1: Budget by MTA Agency, 2005-2013 (Millions)

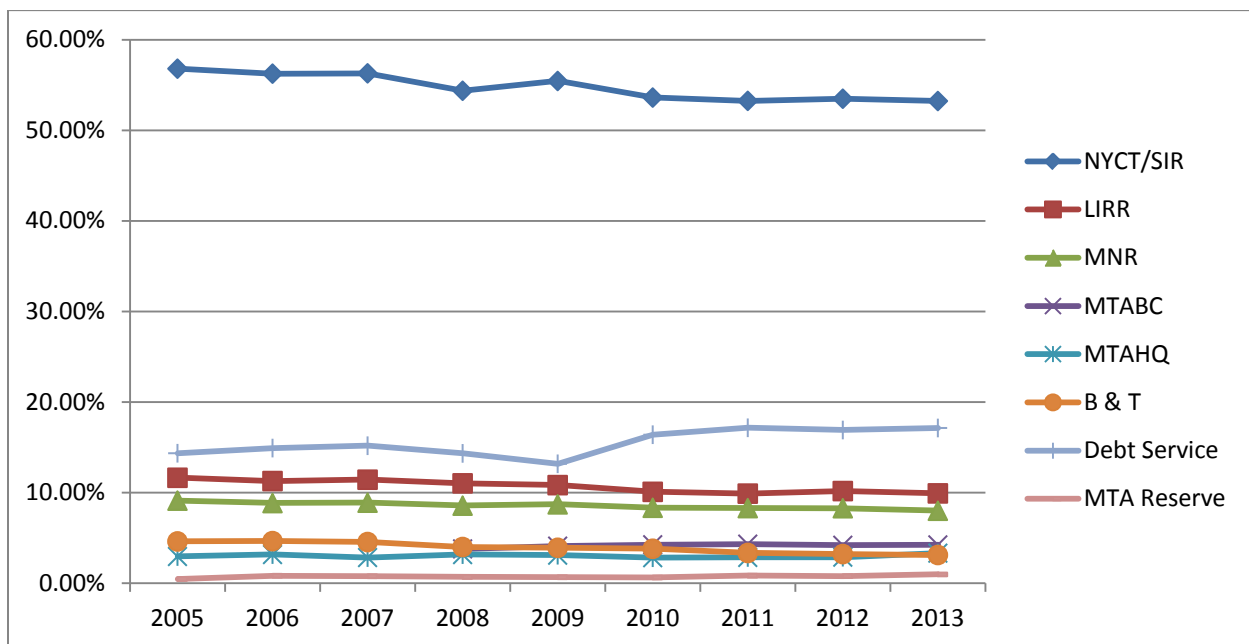


Figure B-2: MTA Agency share of MTA Budget, 2005-2013

As the two figures demonstrate, changes in the annual budgets are phased in gradually over multiple years. This is helped by a slowly increasing tax base that allows each agency to receive at least the amount of funding that it received during the previous year. Capital funding for the MTA is done on a 4 year cycle. Much like the operating budgets, the MTA Board allocates funding to projects within each of its subsidiary agencies. Each agency received more capital funding in the 2010-2014 capital plan than in the 2005-2009 cycle, but the relative share for each agency changed to reflect the board's investment decisions.

Fiduciary responsibility manifests itself differently for the MPOs in California. San Francisco's MTC must appropriate funding to each local county tax district based on formula, but the board has discretion over which agency receives the funding within that district. This allows MTC to make funding decisions that recognize differing needs among agencies within jurisdictions and that reflects regional transportation strategies. For the fiscal year 2011-12, approximately \$534 million of state and local transit capital and operating funding was distributed through the MTC. Including federal grants, the total funding allocation is nearly \$1 billion on an annual basis. Each transit agency has its own dedicated local funding source, which they often use for bonding, and MTC often distributes more funding to agencies that have the most need. For example, BART is well funded through its dedicated local sales tax and thus receives a smaller amount of funding from the MTC than other agencies such as AC Transit and Muni. This funding distribution creates tensions among agencies but MTC has become the neutral forum for such fighting. MTC has control over the final funding allocation and is able to keep conflicts over funding to a minimum. The large amount of operators in the Bay Area also helps to diffuse the funding fight.

On a percentage basis, funding allocations from MTC to the regional agencies are fairly consistent from year to year. The total amount of funding available has been increasing over the past decade, with a reduction coming in 2009-2010 due to reduced state and local sales tax revenues. Since 2003, the relative amount of operating funding allocated to the largest recipients, AC Transit, Muni, SamTrans, and VTA, has not varied more than a few percentage points. Capital funding is more varied in terms of both percentages and total dollar amounts. This is due to the relatively lumpy nature of capital investments. When a regional transit agency wants to make capital investments, especially for infrastructure, it must be approved by the MTC Board and be consistent with MTC's regional plan.

In terms of funding distribution, SANDAG offers a less useful comparison because it is responsible for two agencies within a single county. These agencies, MTS and NCTD, have minimal service overlap when compared with a more complex region like Northeastern Illinois. SANDAG does distribute funding to the two agencies, but is bound mostly by formula and the single county structure does not give it the flexibility that MTC enjoys. However the transit agencies must operate within SANDAG's regional plan, which allows cooperation and regional coordination to be implemented effectively.

Sound Transit provides an example of pure sub-area equity. Sound Transit is legally committed to investing the sales tax revenue that each of the five defined sub-areas (three counties plus two parts of King County) contribute back in that sub-area. The board has created a methodology for determining which investments in capital and operations benefit which sub-areas. For example, a light rail extension to the airport in one sub-area is a large capital investment but the operations provide benefits to users mostly of the other sub-areas. Properly accounting for these benefits has been a challenge, but the Sound Transit Board provides detailed statements outlining the benefits and costs and how they are distributed back to each sub-area to match their respective tax contributions. For the time being Sound Transit's primary aim is to foster capital expansion, a role that is not currently in direct competition with sub-area equity. There are concerns that as the focus shifts from expansion to operations and maintenance that sub-area equity may not continue to be a viable option for distributing funding.

A reliance on regional tax revenues for about 70 percent of public funding makes it difficult for the RTA to have greater discretion over funding to the Service Boards. SEPTA and MTA both take advantage of a large portion of funding coming from state sources, allowing allocation decisions to be made without emphasis on returning the benefits back to certain tax jurisdictions. While the State of Illinois already provides significant contributions to the RTA region, in the long run RTA could push for a shift to a more complete state funded model, which would help dispel the sense of inequity felt between the City of Chicago, Suburban Cook County, and the collar counties. Given the financial pressures currently faced by the state of Illinois, this is likely to be quite difficult an exercise for some time. Alternatively, RTA could further examine the methodology used in the Seattle region and create a transparent and understandable accounting system that assigns the benefits of the network to each of the six counties and compares those with the amount of tax revenue received. However, the Chicago metropolitan region is focused on reaching a state of good repair while Seattle is expanding its network. The different focus and needs in the RTA region make a sub-area equity approach difficult to implement.

OTHER INNOVATIVE IDEAS FROM PEER REVIEW

Changes to RTA's governance, financial structure, and regional perspective could help to reinvigorate and better coordinate regional transportation in Northeastern Illinois. The case studies also revealed that some agencies are looking to new and innovative ways to increase financial resources, as well as ways to appropriate those resources to encourage desired development.

Other agencies have become more creative in how they distribute existing monies. MTC in San Francisco has employed a program to encourage investment related to its transit-oriented development plan. The region's program distributes formula-based federal money to counties based on population, but includes requirements that 70 percent of this funding be spent within MTC-designated 'Priority Development Areas', often near transit stations. This program has allowed MTC to ensure that federal funding dollars also assist in advancing its regional plans. Implementing a similar program in the RTA region could potentially be done without substantial change to the organization.

As a source of new revenue, both MTA and MTC have looked to toll authorities to help finance their projects. By taking partial ownership of existing toll authorities, these agencies have been able to use surplus toll revenues to fund transit projects. These revenues often have more flexibility to use on the projects that need the most funding. However they are often reinvested into a specific corridor. Using toll revenues would require a more dramatic change to the institutional structure and laws governing RTA, which makes this difficult to implement, but other regions demonstrate successful use of toll revenues for transit services.

APPENDIX C: NEW SOURCES OF FUNDS

There is some logic to focus new allocation approaches on new sources of revenues. The RTA region has at least six potential sources of new transit revenues – not all equally likely, of course.

- Economic growth will generate an increased level of sales tax receipts. Between 2013 and 2016, this could generate an additional \$340 million in revenues (including matching funds from the state) for the three Service Boards.
- Current federal rules limit the ability of many states to collect sales taxes on internet sales. There is growing interest in changing these rules – and states such as Maryland and Virginia have already passed transportation funding legislation built in part around an eventual change in these laws. The timing and magnitude for any change is difficult to forecast.
- Some observers believe that certain corporations have been able to avoid the higher sales taxes in the RTA region by appearing to purchase goods in other parts of the state. RTA is involved in lawsuits that attempt to collect these funds. It is too early to speculate regarding the likelihood of success in these lawsuits or the potential dollar value.
- In recent years, the state of Illinois has used toll credits from the Illinois Tollway rather than cash to provide matching funds for federal grants. The federal government allows state DOTs to receive credit for transportation investments made by these toll authorities. These credits can be used as a “soft” match for federal funds. While this practice helps state and local governments to continue to receive federal grants for roads and transit, it does not provide funding to the RTA and the Service Boards as it had in the past. The state of Illinois has substituted toll credits for state funds in RTA projects in order to help the state conserve its cash. One option would be for the state to return to its earlier practice and provide actual cash payments. This practice could generate an additional \$50 million or more a year for transit. In addition, if RTA was still allowed to use the toll credits to match federal funds, the cash payments received from the state would be state funds and thus free from any federal regulations.
- RTA has the authority to impose additional taxes with receipts dedicated to transit. These taxes include certain parking charges and rental car fees.
- Finally, of course, the state legislature could increase taxes dedicated to transit. This year several states (Maryland and Virginia for example) have raised motor fuel taxes and related fees, with portions being used to fund transit.

APPENDIX D: BACKGROUND ON AUTHORS

DELSCAN CORPORATION

Delcan Corporation is an independent 800-person international transportation consulting firm. Established in 1953, Delcan's largest practice area is mass transit. The firm's management consulting arm, based in Northern Virginia, focuses on policy, finance, and economics. Delcan's transit experience includes the allocation of public funds in a competitive environment, allocation modeling, and formulas. Delcan has a demonstrated track record of working with multiple players and with the public. Key technical leads for Delcan were Richard Mudge, PhD and William Ankner, PhD, supported by Lindsey Carroll. Delcan's project manager was Keith Jasper.

SUBCONTRACTORS

The Delcan team includes two subcontractors:

- The Eno Center for Transportation, a neutral, non-partisan DC-based think tank that promotes policy innovation in transportation. Founded in 1921, recent work includes an assessment of the impacts of significant cuts in federal funds for transit, including implications for how funds might be re-allocated. The key technical lead for Eno was Joshua Schank, PhD, supported by Paul Lewis.
- TranSmart, a Wisconsin-based Disadvantaged Business Enterprise specializing in transportation planning and technology. From its inception in 1996, TranSmart has focused on providing and delivering professional services and solutions for advancing and enhancing the nation's transportation infrastructure. The key technical lead for TranSmart was Richard Kedzior, supported by Glen Ausse.

Delcan has long-established working relationships with both Eno and TranSmart, having worked together on similar projects, both as firms as well as on an individual basis.

Delcan thanks the many individuals, and the organizations they represent, for their assistance in the preparation of this report.