LESLIE MCGRANAHAN: Everybody-- so I think we should get started to keep the trains on time today. So I am Leslie McGranahan. I'm the Vice President and Director of Regional Research at the Federal Reserve Bank of Chicago. And on behalf of the bank and our program partners, the Civic Committee of the Commercial Club of Chicago and the Civic Federation, I'd like to welcome you to today's program-- Public Transit in a Post-COVID World-- Building a Financially Stable, Equitable, and Accessible Mass Transit System in Chicago and beyond.

Before we get started with the program, please download the Pigeonhole app on your phones. You can do this-- this should be in front of you. Do this right now while I'm talking. So download this on their phones.

This is a technology that we use for Q&A. We've transitioned to this technology, as it allows equal participation of individuals in the room and remote attendees. And also just use this and ask us lots of questions. It'll make the program more interesting.

So today's program is very timely. It reflects the continued interest in how urban places adapt following the pandemic and the roles that key institutions and amenities such as transit will have in that future. We will learn from important work that has occurred in Chicago, Washington DC, San Francisco, and Los Angeles to plan for this changing environment.

Before I turn the podium over to Sarah Wetmore, I wanted to offer a few words of thanks to our program collaborators. So the bank has long benefited from work with the Civic Committee on projects ranging from the O'Hare expansion, designing a new Burnham plan for Chicago, to recent work of the Transportation Committee which is led by the talented Tom Kotarac. Our second partner is the Civic Federation. This marks the ninth time we have partnered with the Federation on a program discussing an important public finance and public policy topic. And this has been a very rewarding Partnership for the bank in providing evidence-based work on key issues facing Chicago, Illinois, Midwest, and the country.

This Partnership also reflects the exceptional thought leadership of Lawrence Msall and Sarah Wetmore. Tragically, Lawrence passed away earlier this year, and I know that everyone in this room and online, as I do, misses Lawrence's intellect, his expertise, dedication to fiscal responsibility, and his sense of humor. Yet we know that the Federation is in good hands with interim president Sarah Wetmore.

Sarah has always had a passion for public policy and research. She's a talented leader who represents the federation's goals of nonpartisan solutions-based work. And the bank's Partnership has always benefited from Sarah's involvement, and we look forward to future collaborations.

[APPLAUSE]

Thank you. Now, I would like to invite Sarah to the podium to provide our opening presentation on the history of transit funding in Chicago.

SARAH WETMORE: All right. Well, thank you, Leslie, for that really extremely generous introduction. And again, this is the first conference we've co-hosted with the Federal Reserve Bank. We are so excited to be back in this wonderful room and to have so many people with us here today.

I would also like to do around of thanks on the Civic Federation's behalf to the Fed for hosting this event and for the events team at the Fed for doing such a fantastic job of running the registration and all of the backend functions. I also want to thank Civic Federation's staff for all of the work they've put into this event and particularly Annie McGowan for taking point on this project. I wanted to also thank the Civic Committee of the Commercial Club for their work in partnering with us for today's forum.

And I wanted to thank you thank all of our distinguished speakers and all of you for being in this room and online. We are so pleased to have a sell-out crowd here. And transit is a topic that's near and dear to the heart of the Civic Federation, and we are just so glad so many of you both here in the room and online are willing to forego a rare 80-degree day in April in Chicago in order to be here and talk transit.

And then I also just wanted to note, on behalf of the Civic Federation, thanks for the outpouring of support for all of us and for our dear departed friend Lawrence Msall. So we appreciated everybody's tributes to him, the tributes from governments. And then from people on Twitter people who have reached out to u, thank you.

And so, I just wanted to also note that Lawrence loved this event-- the annual policy conference that we had with the Fed. And he would have really appreciated this conversation. He would have told you how his commute was in the morning. So I will tell you-- I had a really lovely commute on the blue line this morning. And he also would have called for the governments to come up with a long-term plan.

So today's forum is going to focus on the future of public transit in Chicago, again, amid the major challenges our transit agencies face, including declining ridership, looming budget shortfalls, and changing work and mobility patterns. Staff of the Civic Federation, the Federal Reserve Bank, and the Civic Committee have assembled two exceptional panels featuring experts from around the country, and we're also looking forward to hearing from our keynote speaker, Joshua Schenck, the managing principal of Info Strategies during our luncheon.

And we've already gone through the pigeonhole portion, so I will be our Guinea pig on pigeonhole. You can go ahead and start submitting questions through that platform, and we'll be pulling them together. They will come up in a tablet over there, and my colleague Annie McGowan will be reading your questions once we get to the Q&A portion of my talk.

So with that business out of the way, it is my pleasure to provide a brief history of the mass transit funding in the Chicago region. And here we go. [INAUDIBLE]. So in honor of Lawrence, who always did this, I'm going to have a brief commercial for the Civic Federation which was founded in 1894. Our members include folks from the major corporations and service firms. We've got a number of them in the room and online, including our board chair Donovan Pepper.

We're independent and nonpartisan. If you'd like to read more about our work, you can do so on our website civicfed.org. And if you're interested in membership, please feel free to talk to me.

So my job here today is to make sure everybody in the room and online has working knowledge of the basics of how Illinois funds mass transit in the Chicago region, how it's governed, and so that you're all ready to participate in the discussions to come. Part of the purpose of this forum is to contribute to a conversation that is already underway about how to address a pending funding shortfall for the transit agencies here in Illinois and across the United States before it becomes a full-blown crisis. And so, for any history, well, you've got to start somewhere. And given several hours, I could have gone back to the early days of Chicago, and to discuss the origins of public transit, and how it has been funded and governed-- or not governed-- over the last two centuries.

However, while that history is fascinating, I do have only have 30 minutes. So I've chosen to start with the founding of the Regional Transportation Authority in 1974 and then focus on how governance and funding structures across the service boards have changed over the years in response to challenges and periodic crises. So for my transit nerds in the room, I am not meaning to depreciate that history. And in fact, one of the fun things about working for the Civic Federation, which has 129 years under its belt, is that if you are looking at pretty much any topic, you can be sure that you have a long-term perspective, but you can also be sure that sometime in the history of the Civic Federation that topic has been studied.

In this case--

[LAUGHTER]

In this case, it was in 1901 when the Civic Federation studied the financial condition of the then independently owned and operated Streetcar Railways of Chicago. And by the way, all 169 pages of that bad boy are available on Google Scholar.

[LAUGHTER]

So we'll start in 1974, move on to a crisis many years in the making that came to a head between 1981 and 1983, the next crisis, also many years in the making, that came to a head in 2007 to 2008, and then a summary of the current RTA funding and governance structure and a very brief summary of where we are now because I dc not want to step on the toes of our first panel. And also, I just wanted to note I'm mostly going to be focusing on operating funding, not capital. That's not because capital isn't important or controversial, definitely is, but, again, only 30 minutes.

All right. So the genesis of the Regional Transportation Authority and a more regional approach to mass transit provisioned in Northeastern Illinois had its roots in the nationwide rise of the car-centric suburbs and declining ridership between the 1940s and 1970s. By the late 1960s, the CTA, which was controlled by the city of Chicago, and privately owned suburban commuter rail, and bus services were in financial trouble. So in the early 1970s, a debate started about how best to deal with all of these issues and better manage and fund mass transit for both the city and suburbs.

Should there be an integrated regional transportation agency? Should there simply be a coordinating agency? Eventually a compromise was settled on and passed in Springfield, and a referendum was held in the counties in the Northeastern Illinois area which passed with a little over 50% of the vote. And it's important to note here that over 70% of voters in Chicago voted in favor, and 68% of people in the suburbs voted no. So we're already seeing here a split that was going to plague the organization in the years to come.

So the new RTA had an oversight role over CTA and suburban transit and operated contracts with private commuter rail and suburban bus systems. The CTA was still independent and retained operations of city rail and buses. The original RTA governing board had four members appointed by the city, four from the suburbs, and the first chair ended up being from Chicago. It was elected from among the members.

And again, this kind of set up an ongoing throughline through the RTA's history-- a lack of agreement and cooperation between the city and suburbs over who would control and have a veto over what the RTA board could do. The perspective of the suburbs was that they were being taxed to bail out the CTA and that the city controlled RTA. The perspective of the city was that they had a huge need and they ought to control the RTA.

So the original funding structure included state sales tax subsidies to RTA, and the law that created the RTA allowed it to impose a gas tax and a parking text to support its operations. The gas tax ended up being imposed in 1977 but was changed by a state law to a sales tax in 1979. So the RTA had asked for a one percentage point sales tax across its region. What it ended up getting was a 1% tax in Cook County and 1/4% tax across the collar counties. And they ended up losing a state subsidy.

So this ended up being insufficient to fund the operations, rising operating costs at CTA and suburban services, and eventually large fare hikes of 50% on the CTA were imposed and up to 100% on commuter rail agencies, alongside significant service cuts. So by the time we got to the early '80s, in response to this impending crisis, another round of studies and task forces were convened. There was an eventual agreement between leaders across the region, including Chicago Mayor Harold Washington and Governor Jim Thompson, that included more governing changes, this time with the goal of making RTA more of an administrative and planning organization and devolving power over operations to the CTA and to newly created divisions, one eventually called Metra to oversee commuter rail operations in a public-private Partnership and one to oversee suburban bus operations eventually called Pace.

Suburban leaders were to appoint the members of the governing boards of Metra and Pace. And the mayor of Chicago retained control over the CTA board. RTA's governing board was changed to a 13-member structure with five members from the city and seven from the suburbs, four from Cook County, two from the collar counties except DuPage, and one from DuPage. And then the chairman was elected from outside of the Board.

So the funding structure was also altered at this time. The state sales tax structure was retained but also made subject to a very complicated distribution formula across the service boards. And then there was a new state match of the RTA sales tax and a requirement that 50% of funding for the service boards come from farebox resources. With a few bumps along the way, the structure generally prevailed until after the recession of the early 2000s, and growing cost structures, and flat sales tax revenues, and declining ridership created more budget shortfalls across the service boards.

By 2006, additionally, the CTA pension fund was heading towards insolvency and was projected to run out of funding by 2013. So again, regional leaders and transit supporters in the general assembly, including the moderator of our first panel, Julie Hamos, discussed how best to address this most recent crisis and set the RTA and the service boards up for long-term sustainability. The eventual reform package expanded the RTA board again, this time to five Chicago members, five suburban Cook members, and five collar county members with a supermajority election of the chair.

The RTA's responsibilities were expanded to include long-term strategic plans for transit and required service board budgets to be approved by the RTA and consistent with the strategic plan among other enhanced authorities. There were also increases to revenue sources, a 1/4% increase in the RTA sales tax on both general merchandise and food and drugs across the region, and a real estate transfer tax increase in the city of Chicago, which was transferred to the CTA. The state continued to provide matching funds for those increased revenues. So essentially there was also an increase to the state subsidy.

The package also included a new tier of benefits at the CTA, as well as increases in employer and employee contributions to the fund. The CTA issued pension obligation bonds and deposited about $1 billion into its pension fund to help shore it up and used about a half a billion dollars to seed an independent retiree health care trust. These moves were intended to put the CTA pension fund on a more secure footing.

In subsequent years, the CTA was critiqued as being somewhat slow to use this enhanced authority and infighting between the service boards over discretionary and capital funds continued. There were a number of studies over the following years, including by the Northeastern Illinois Public Transit Task Force and the Eno center, both in 2014, that had critiqued RTA's leadership and inability to overcome some regional divisions that had contributed to transit funding and coordination problems. In recent years, the infighting at the RTA has eased somewhat, but the organization's and mass transit's biggest challenge in a generation has arrived with the dislocations of the COVID pandemic. I'll talk a bit more about that in a minute after some additional information about the RTA's current funding structure.

OK. So a little bit more detail on that sales tax. So that's a one percentage point sales tax on general merchandise in Cook County, plus there's a-- distribution of sales tax is somewhat complicated in the state of Illinois. The state has its own portion of the sales tax, part of which it distributes to municipalities and counties. So the .25% that would usually go to Cook County actually goes to the RTA. And there's also a 1.25% sales tax on food and drugs in Cook County.

So in the state when we're talking about the 10.25% composite sales tax rate in the city of Chicago, what we're talking about is the rate on general merchandise. The RTA also has access to a sales tax on food and drugs as well. And then in the collar counties, the RTA has a 0.75% sales tax on general merchandise and also on food and drugs. And of that, 0.5% is allocated to the RTA. A quarter penny of that goes to the counties themselves to help them pay for transportation projects and other things.

Let's see. As noted above, the CTA also has an additional source from the real estate transfer tax. And that and some other items are matched by the state at about 30%. And the state also provides funding for paratransit. But it's really important to note that right now a large percentage of all of the service boards, our budgets are currently being funded by Federal relief funds which have supplemented much reduced farebox revenue due to ongoing ridership shortfalls.

So this is just a large high view of what kinds of services the CTA, Metra, and Pace provide across the region. And the RTA's budget across all of the service boards and its own operations totals $3.6 billion. And the five-year capital budget totals 5.7.

RTA ridership-- here you can see the extraordinary impact of the pandemic on ridership across the CTA, Metra, and Pace and the incomplete revenue recovery that's happened so far and that's projected into the future. 2023 ridership across the RTA is projected to be just 56% of pre-pandemic levels. All right. And that brings us to the last few years and the major impetus behind this conference-- the impact of the pandemic. Not just on the public transit agencies here in Illinois but across the United States and the world.

As we saw in the prior slide, ridership with the CTA, Metra, and Pace plummeted in 2020 first due to stay at home orders and then as work from home continued after the initial pandemic movement restrictions were ended. Recovery in terms of ridership is predicted to remain short of pre-pandemic levels for many years due to what you all are living day to day-- ongoing changes in how we work, with hybrid schedules predominating in many industries. The state of Illinois granted relief from the requirement that the service boards cover 50% of their operating expenses from system-generated revenues-- that's called farebox recovery, even though it includes other system-generated revenues such as advertising. And that suspension is going through the end of 2023.

However, again, with ridership still lagging, it will be important to develop longer-term solutions. Federal Emergency relief funding to transit agencies was directed toward their operating costs and was intended to avoid service cuts at a time when we really, really needed to maintain transit and keep people moving during the worst of the pandemic. The Civic Federation was a strong and early advocate for Federal relief to state and local governments and supported this aid. A total of $69 billion was approved by Congress during the pandemic, with about $3.5 billion going to the RTA.

For fiscal year 2023, Federal funding will make up about 20% of the service board's total budgets. And while the funding has helped during the worst of the pandemic, it will run out. And again, with ridership still lagging, the question remains of how to sustainably fund transit going forward, both here and across the larger systems in the United States.

Additional concerns that have been exacerbated by the pandemic and the economic and social dislocations is a perception of crime and safety issues on transit agencies, again, across the United States. As well as, here in Illinois, there's reliability issues due in part to large staffing shortfalls and particularly at RTA. Riders have complained about ghost trains and buses and a lack of communication about service changes due to that lack of staffing. Both of these issues will impact transit agencies' ability to attract riders back to their systems.

So solving the transit funding and governance question is crucial to the future of our region and the state as a whole. Mobility and transportation, as everybody in this room knows, are key to our economy, but also key to environmental concerns and quality of life in the region. And with that, I see I have just a few minutes to handle maybe one or two questions before I also step too much on the turf of the first panel. So Annie, is there any questions come in?

ANNIE MCGOWAN: We don't have any questions yet. So just as a reminder to both those in the room and online to use the pigeonhole.at website to submit questions so that we can be sure to see them on the iPad. So far no questions.

LESLIE MCGRANAHAN: OK. It may have been that I covered this perfectly and nobody has any questions. Well, I guess does anybody in the room? Oh, go ahead.

[INTERPOSING VOICES]

ANNIE MCGOWAN: And please put your mic on. Hit the button. Yeah.

AUDIENCE: With construction that is going on currently with the 90-94 and around the-- well, we got the NASCAR at Lakeshore Drive, do you expect ridership to increase due to the fact of the construction there that's going on currently?

SARAH WETMORE: I mean, I think that will depend on a number of different things. Like I mentioned, there are a number of reasons why ridership continues to lag. People do have continuing questions about its reliability, how fast it's going, questions about safety, and things like that. So I think that in an ideal world, yes, people would switch to transit and avoid traffic problems that would be going on. And I think that presenting the transit agencies presenting themselves as a good alternative is going to be important to rebuilding that ridership question. But yeah, ideally people would go on different modes.

AUDIENCE: It's always hard to tell with dates if it's a Federal fiscal year, a state fiscal year, or what. Funding will run out starting in 2025.

SARAH WETMORE: Correct.

AUDIENCE: When is that, the end of December?

SARAH WETMORE: Well, for CTA it's a calendar year fiscal year.

AUDIENCE: So December.

SARAH WETMORE: And so, yeah. And then we'll be completely gone in 2026.

AUDIENCE: By the end of 2026? The $732 million hole--

SARAH WETMORE: Yes.

AUDIENCE: --for the entire system?

SARAH WETMORE: Correct. Exactly.

AUDIENCE: So do they all run on the calendar year?

SARAH WETMORE: You know what, I'm actually not certain about that.

[INTERPOSING VOICES]

SARAH WETMORE: The Civic Federation studies the budget of CTA. Thank you.

ANNIE MCGOWAN: OK. We have a question in the chat. Could you speak to the impact that paratransit costs have on transit system finances?

SARAH WETMORE: All right. So when Pace was originally-- and I can talk a little bit about this. Just full disclosure, the Civic Federation has generally focused our analysis on CTA and its operations and budget. So part of the-- Pace used to be just a suburban bus organization. It had paratransit added to its operations after the passage of the Americans with Disabilities Act. And so, there are some subsidies that are provided to RTA in order to offset some of the costs of paratransit, but that was a new thing that needed to be provided starting in the early 1990s, and I don't believe that the subsidies have ever been enough to completely offset the cost.

ANNIE MCGOWAN: OK. And another question. How much of a shortfall are daily fares for transit? So basically, how much is the shortfall?

SARAH WETMORE: So there's-- farebox has not ever covered the full cost of transit in the Chicago region since like the 1960s. CTA was one of the largest transit organizations in the country that was still able to cover its operations with fares, and I think a couple of maybe the suburban commuter rail organizations were able to cover their operations going maybe into the 1970s. So there's a reason why the state only required the RTA across all of the service boards to cover 50% of their operations through farebox recovery even starting back in 1983.

And now, that level of farebox recovery is higher than other transit agencies across the United States. And it's really unlikely that fareboxes is going to recover to a point where we could maintain the system that we have, even with a 50% of farebox recovery ratio. So having and increasing fares to a level where you could come closer to covering would reduce ridership even further, creating something of a vicious circle.

So you want to have skin in the game. You want to have a certain amount of the funding for transit agencies to come from farebox of course, but it's never going to cover all of the expenses.

ANNIE MCGOWAN: And maybe just one final question--

SARAH WETMORE: One more. Yeah.

ANNIE MCGOWAN: Are transit agencies around the country lobbying for additional Federal relief, and what are the chances of receiving additional Federal aid after 2026?

SARAH WETMORE: I mean, I believe that they are lobbying for additional Federal aid, but I also believe that there is not a whole lot of hope that there's going to be significant additional Federal aid. What was provided by the Federal government was really extraordinary. And the way it was provided was also extraordinary. In the past, more Federal funding has gone for capital funding, and that's still happening. But providing direct operational revenues that transit agencies could use to pay their people, keep everything moving, was very much a new and different thing for the pandemic and very unlikely to reoccur.

All right. Thank you.

[APPLAUSE]

Oh, I'm so sorry. I have one more job up here. We're taking a break. So you get to go out there, get some more snacks, get some more coffee, wake yourself back up after that really long presentation. We'll be back here at 9:30 AM for our first panel.

[APPLAUSE]

[CHATTER]