

Executive Summary

Budget Highlights and Issues

The budget outlook for 2012 is once again stable. The budget is balanced without the need for fare or service adjustments.

Pace had taken proactive steps early in the economic downturn, implementing a fare increase in 2009 followed by expense reductions in 2010; these actions positioned us well for a balanced budget in 2011. Due to better than expected sales tax growth in 2011 (4.2%), we expect to perform within budget in 2011. We anticipate another stable budget year in 2012 based on the most recent estimates of funding available from the RTA.

RTA funding estimates for 2012 indicate growth in overall sales tax revenue of 2.8%. Further, changes to the ADA Fund will result in some reduction to the suburban sales tax funding formula resulting in overall funding growth for the suburban program of only 1.3%. Despite this limited growth, we have prepared a 2012 budget that maintains all existing services and funds modest new service opportunities.

Suburban Services Operating Funding

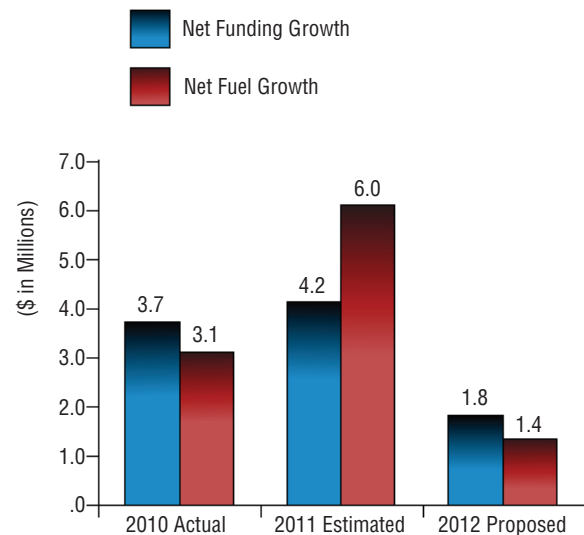
Based on the most recent estimates from RTA, Pace expects total public funding to increase in 2011 by \$4.2 million or 3.1% over 2010 actual levels. While this increase is a welcome sign that the economy is recovering as evidenced by strong sales tax growth, it is not enough to cover the increased cost of fuel in 2011. Pace spent \$15.1 million on fuel in 2010 and expects to spend \$21.1 million on fuel in 2011. For 2012, fuel costs are expected to reach \$22.5 million or 11.5% of the total Pace budget.

The volatility of fuel prices presents a challenge for Pace and public transit systems nationally. A recent survey by the American Public Transportation Association indicated that 74% of transit agencies in the nation considered rising fuel prices to be one of the leading budget problems they had to face in 2011. Nearly 80% of the transit agencies responding indicated they would be raising fares or reducing services as a result.

Pace is fortunate to be in a better position than most public transit systems due to our conservative management of expenditures while making every effort to maximize operating income. As a result, we have the financial capacity to balance the 2012 budget within available funding.

The following chart depicts the relationship between Pace Suburban Services funding growth and rising fuel costs since 2010.

Chart A. Pace Funding and Fuel Cost Growth—2010 to 2012



ADA Paratransit Funding

The original ADA Fund level was set at \$100 million in 2008 but quickly fell to a low of \$91 million by 2009 due to the economic recession and the decline in sales tax receipts. While costs grew due to ridership demands, the ADA Program became underfunded and relied on additional financial support from the RTA and the State to adequately fund the program.

In 2011 Pace was successful in securing a legislative amendment to the RTA Act which addressed the ongoing shortfall in the RTA ADA Fund. The legislation increases the RTA ADA Fund level to \$115 million for 2012; further it provides that additional funding as may be needed to support the approved budget will be provided by RTA. This change establishes significant financial security for the ADA Program.

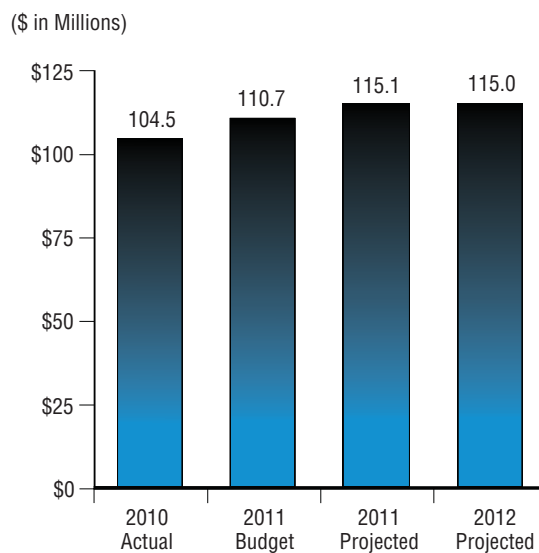
In spite of this security, the ADA Program faces significant challenges for 2012. It is estimated that the program will need \$115 million in funding in 2011 to adequately meet current demand; this means that there is no allowance for ridership growth provided by the fund level of \$115 million for 2012. Ridership is projected to grow by 5.0% in 2012 placing considerable stress on the ADA Fund.

Pace is taking steps to provide for the expected increase in demand while limiting spending to the \$115 million available. First we are negotiating with our contract vendors to freeze prices at 2011 levels, second, we are proposing to implement the RTA directive to limit reservation hours to normal business hours; lastly, we will move forward with deployment of the interactive voice response system (IVR). The IVR system is an automated system that will call riders in advance of their trip arrival allowing them time to prepare for their trip.

These initiatives as well as continued management of the program by Pace staff are expected to improve productivity – as measured by trips per hour – in 2012 thereby allowing Pace to serve more riders with the same level of funding.

The following chart summarizes ADA paratransit funding results for 2010 to 2012.

Chart B. Regional ADA Paratransit—Funding 2010-2012



2012 Combined Operating Budget Summary

On September 14, 2011, the RTA established funding and recovery rate marks for Pace's traditional Suburban Services budget and the Regional ADA Paratransit Program operated by Pace. The RTA Act as amended in 2005 established Pace as the provider of all ADA paratransit service throughout the six county region in northeastern Illinois, including the City of Chicago.

The status quo expense budget for Suburban Services in 2012 is \$195.017 million. Suburban Services operating revenues are budgeted at \$54.469 million. Total public funding for Suburban Services will reach an estimated \$140.548 million. This amount will cover the status quo operating deficit. There are no fare increases or service reductions included in the 2012 budget for Suburban Services.

The status quo expense budget for the Regional ADA Paratransit program in 2012 is \$126.576 million.

At current fare levels, ADA operating income will be \$11.576 million, resulting in a funding requirement of \$115.000 million. The ADA fund for 2012 is projected at \$115.000 million based on a recent amendment to the RTA Act.

There are no fare adjustments proposed for ADA paratransit services in 2012 at this time.



Pace opened its new Administrative Headquarters building in spring of 2009.

Table 1. 2012 Combined Pace Services Operating Budget Summary (000's)

	Suburban Service	Regional ADA Paratransit	Combined Pace Services
Total Operating Expenses	\$ 195,017	\$ 126,576	\$ 321,593
Less: Total Operating Revenue	54,469	11,576	66,045
Funding Requirement	\$ 140,548	\$ 115,000	\$ 255,548
Less: Sales Tax (Part I)	\$ 78,234	\$ 0	\$ 78,234
Sales Tax & PTF (Part II)	30,197	115,000	145,197
Suburban Community Mobility Funds (SCMF)	20,319	0	20,319
South Suburban Job Access Funds	7,500	0	7,500
Federal CMAQ/JARC/New Freedom Funds	1,298	0	1,298
RTA Discretionary (PTF - Part I)	3,000	0	3,000
Net Funding Available	\$ 0	0	\$ 0
Recovery Ratio	30.00%	10.00%	N/A

2012 Capital Budget Summary

Suburban Services

The 2012 Suburban Capital Program totals \$100.230 million. The program contains \$80.130 million for the purchase of 172, 40' fixed route replacement buses and \$6.160 million for bus overhaul/maintenance expenses, associated capital which is used to purchase bus components such as engines and transmissions, and a diesel engine retrofit project.

The program also contains \$11.812 million for improvements to garages and facilities, replacement of existing emergency generators at seven garages, computer systems, hardware and software, purchase of support equipment and non-revenue vehicles, and the purchase of office equipment and furniture. The program also contains \$2.128 million for the purchase of shelters and other passenger amenities, project administration and Pace funded unanticipated capital.

Regional ADA Paratransit

Pace leases office space at Metra's office building in downtown Chicago to house its ADA staff. In light of the fact that there is no predictable level of capital funding for ADA, Pace is asking the RTA for discretionary funding in order to make interior improvements to a space that has been offered to Pace from RTA. If RTA declines the funding, then Pace cannot use the space as it is unimproved and needs interior work. The cost of these improvements is estimated at \$75,000.

In summary, the total combined 2012 Capital Budget equals \$100.305 million for Suburban Service and Regional ADA Paratransit needs.

Table 2. 2012 Suburban Services Capital Budget (000's)

Project Description	Amount
ROLLING STOCK	
172 Fixed Route Buses - 40 Foot Replacements	\$ 80,130
Bus Overhaul Maintenance Expense	1,500
Associated Capital	1,600
Diesel Engine Retrofit	3,060
Subtotal - Rolling Stock	\$ 86,290
SUPPORT FACILITIES AND EQUIPMENT	
Improvements to Garages/Facilities	\$ 1,000
Purchase Emergency Generators	6,025
Computer Systems/Hardware & Software	3,787
Support Equipment/Non-Revenue Vehicles	800
Office Equipment/Furniture	200
Subtotal - Support Facilities and Equipment	\$ 11,812
STATIONS AND PASSENGER FACILITIES	
Purchase Passenger Shelters and Amenities	\$ 800
Subtotal - Stations and Passenger Facilities	\$ 800
MISCELLANEOUS	
Unanticipated Capital	\$ 250
Project Administration	1,078
Subtotal - Miscellaneous	\$ 1,328
TOTAL SUBURBAN CAPITAL PROGRAM	\$ 100,230
TOTAL FUNDING	
Federal 5307	\$ 32,070
Federal CMAQ	\$ 3,060
Federal State of Good Repair	\$ 22,000
State Bond Program	\$ 42,850
Pace Funds	\$ 250
TOTAL SUBURBAN FUNDING	\$ 100,230

Table 3. 2012 Regional ADA Capital Budget (000's)

Project Description	Amount
SUPPORT FACILITIES	
Improvements to Metra Space	\$ 75
Total ADA Capital Program	\$ 75
TOTAL FUNDING	
RTA Discretionary Request	\$ 75
Combined Capital Budget	\$ 100,305