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CIVIC FEDERATION OPPOSES UNBALANCED CTA BUDGET

(CHICAGO) – "A spending plan based on the hope of $110 million in new money from the state is neither balanced nor financially responsible," said Laurence Msall, president of the Civic Federation.

The Federation announced its **opposition** to the Chicago Transit Authority's proposed $1.13 billion budget as "financially imprudent" today. The group also expressed concern regarding the RTA's instructions to the three mass transit service boards to produce unbalanced budgets and the CTA's proposal of a budget that rests on the hope of additional funds from the State of Illinois. The Federation called upon CTA officials to produce a contingency plan that provides enough detail for the citizens of northeastern Illinois and the Illinois General Assembly to effectively evaluate how the CTA will meet its obligations if more public funding is not forthcoming from Springfield. "Metra produced a contingency plan detailing what capital projects will be deferred if they do not receive State funds, and the CTA should do likewise," said Msall. "The CTA needs to specify what service cuts will be made and what other measures, including fare increases or the drawdown of capital funds, will be necessary if additional public funds are not forthcoming. Broad, unspecific statements about 'service cuts' are no substitute for a concrete plan and do not meet the state's legal requirements for producing a balanced budget that is open to public review."

The report notes that the CTA's FY2007 deficit is largely due to two factors: 1) higher wage and benefit costs, including retroactive increases, that were mandated as a result of a recent binding arbitration decision, and 2) a large pension fund contribution increase that anticipates more dramatic, required contribution increases beginning in January 2009, when the CTA's contribution levels will be determined by a new State law intended to rectify the retirement system's serious underfunding.

The combined effect of the arbitrator's unfavorable ruling and the new state law means that the CTA faces growing pension liabilities even as it sharply increases pension contributions to pay down existing liabilities. Labor costs will increase by 13.5% or $101.4 million in FY2007. This increase represents 8.9% of the CTA's entire operating budget.

The Federation's analysis acknowledges that CTA management was hamstrung during labor negotiations by an arbitrator's decision disallowing *any* of the reasonable benefit and pension cost control measures that management requested, despite the precarious financial status of the CTA's pension fund. "The Civic Federation deplores this shortsighted and financially indefensible decision and enourages the CTA management to continue to pursue improvements in the pension fund by seeking critical cost-saving measures," said Msall.

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The Federation report urges the Illinois General Assembly to take immediate action to remove certain benefit and work rules from the purview of the CTA's collective bargaining agreement, so that the current stalemate and disregard for the financial state of the pension fund can be eliminated and the CTA Board be allowed to manage its personnel resources effectively. "The long-term fiscal health of the CTA depends on this reasonable move," added Msall.

The rapid deterioration of the CTA's pension fund, which had a funded ratio of only 34.4% in FY2005, is primarily due to insufficient contributions and the spiraling cost of health care benefits for which annuitants pay nothing, according the Federation's analysis. The CTA's new, state-mandated pension funding schedule, passed by the General Assembly in response to the CTA pension fund's looming crisis, requires that the CTA begin a ramp up of its pension contributions in FY2009 so that the pension fund will be 90% funded by 2058. The CTA estimates that this will require a $150 million contribution in FY2009, nearly $100 million more than the CTA contributed in FY2005.

The Civic Federation makes three recommendations to the CTA for the improvement of the condition of its pension fund, but these recommendations are contingent upon a fourth recommendation that the Federation makes to the State of Illinois: the General Assembly should grant the CTA the flexibility to restructure its employee pension and heath care benefits. If the General Assembly grants the CTA the authority it needs to manage its pension and benefit costs effectively, the Federation recommends that the CTA should: 1) reduce benefits for new hires; 2) require that there will be no benefit increases without provision for additional funding; and 3) require that retired employees contribute to their health insurance costs. While the retirement benefits for current employees and annuitants of local governments may be constitutionally guaranteed in Illinois, new hires' pension benefits can be reduced.

Other Civic Federation recommendations reflect the belief of the Federation's membership that public transportation is a vital asset to the region and critical to the financial health of Illinois. The Federation supports increased public funding for all three of the transit service boards, whether provided from State funds or an adjustment in the RTA funding formula. To address the long-term structural funding problems of the transit service boards, the RTA Act's funding formula must be reviewed with an eye toward efficiency, effectiveness, and future transit needs of the region.

"There is plenty of blame to go around for the creation of this deficit budget, but blame will not remedy the situation. If the RTA does not take more of a leadership role and the General Assembly does not grant the CTA more latitude with its unions, the citizens and elected officials of Illinois are going to see, up close and personal, what happens when a local government goes bankrupt," warned Msall. "The Civic Federation cannot stress enough how important reform is to the future of mass transit in the Chicagoland area."

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

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CHICAGO TRANSIT AUTHORITY
FY2007 PROPOSED BUDGET
Analysis and Recommendations

Prepared By
The Civic Federation

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EXECUTIVE SUMMARY

The Chicago Transit Authority proposes a FY2007 budget of $1.13 billion that assumes the State of Illinois will provide an additional $110.1 million at some point next year. Because the State has given no indication that any funds are forthcoming, this proposed budget is not balanced.

The Civic Federation <u>opposes</u> this deficit budget. It is very risky and financially imprudent for the Regional Transit Authority to direct the three mass transit service boards to produce unbalanced budgets and to assume that millions of dollars in State funds will be forthcoming. It is also financially imprudent for the CTA to propose a spending plan based on a vague hope for additional money from Springfield. All governments must clearly identify how they propose to operate in a fiscal year based on known revenue constraints and opportunities. The RTA and its transit agencies should not base proposed spending plans on the hopes of additional funds from Springfield.

The CTA must produce a FY2007 contingency plan outlining the impact of cutting $110.1 million to operations just as it did two years ago when it issued its “Gridlock” budget. In sharp contrast to the CTA, Metra has prepared a FY2007 budget that identifies which specific capital projects will be deferred if additional State funds do not materialize. The Civic Federation strongly believes that the public is entitled to complete information about the consequences of the RTA’s failure to secure additional public funds for the CTA before the CTA’s budget is approved.

Regardless of the General Assembly’s response to the CTA’s request for additional state revenue, the long-term fiscal health of the Chicago transit system requires that the CTA seek the flexibility to exempt certain benefit and work rule provisions from the collective bargaining process, and that the General Assembly grant the CTA this flexibility. The current system of binding arbitration produced a labor agreement this year that prevented the implementation of any of the reasonable cost control measures sought by CTA management. As demonstrated by the arbitrator’s recent decision, the current labor negotiation constraints will not allow the CTA to meaningfully control labor costs or reform its pension system. The CTA must be granted the managerial flexibility required to affect these reforms.

FY2007 Budget Highlights

- Total operating appropriations in FY2007 are expected to be $1.1 billion, a 9.3%, $96.5 million increase from the FY2006 appropriation of $1.0 billion.
- The budget assumes that the State of Illinois will provide $110.1 million in additional public funding at some point in FY2007. Because there are no guarantees regarding this funding, the CTA’s budget is not balanced.
- The CTA faces a budget shortfall in large part because of: 1) higher wage and benefit costs, including retroactive increases, mandated by binding arbitration; and 2) increased pension fund contributions mandated by a new State law intended to rectify the retirement system’s serious underfunding.
- Total public funding from the RTA is projected to be $470.3 million, a 10.2% decrease from the previous year. This decrease has two causes. First, the CTA will not receive a paratransit subsidy as it did last year because all of the CTA’s paratransit responsibilities were

transferred to Pace in July 2006. Second, the CTA has not budgeted for the use of capital funds to meet operating expenses as it did in FY2006. The paratransit subsidy and the capital fund transfers accounted for $68.3 million of the CTA's public funding in FY2006.

- Sales tax revenues provided to the CTA are expected to increase by 3.2%, from $455.7 million to $470.3 million. The CTA receives sales tax revenues from RTA sales taxes collected in the City of Chicago and suburban Cook County, discretionary RTA funds generated by local sales taxes, and a State General Fund sales tax match.
- Labor costs will increase by 13.5% in FY2007. This represents a $101.4 million increase from $748.9 million to $850.3 million. The amount of this labor cost increase constitutes 8.9% of the CTA's entire FY2007 operating budget, and is equivalent to 92.1% of the $110.1 million in additional public funds that the CTA is requesting. In total, labor costs represent 75.0% of the CTA budget.
- The funded ratio of the CTA Employees' Pension Fund fell to just 34.4% in FY2005, down from 66.3% in FY2001. Unfunded liabilities have increased in that five-year period from $947.5 million to $2.2 billion.
- Public Act 94-0839, approved in 2006, requires that beginning January 1, 2009, the CTA must make annual pension contributions sufficient to bring the funded ratio up to 90% by 2058. Total required employer and employee contributions will exceed $150 million in 2009, up from $51.7 million in FY2005.
- The CTA proposes to fund 10,907 positions in its FY2007 budget; this is a 0.3% or 34 position increase from the previous year's budgeted positions of 10,873.

Civic Federation Recommendations

- The Civic Federation calls on the **General Assembly** to take immediate action to remove certain benefit and work rule concerns from the purview of the CTA's collective bargaining agreement requirements. It is imperative that the CTA be given the ability to effectively manage its personnel resources.
- The legislature should also give the CTA the flexibility to restructure its employee pension and healthcare benefits so that costs may be contained in the long-term. Failure to do so now imperils the long-term financial viability of the CTA.
- The CTA should establish a two-tiered pension system that provides reduced benefits for new hires, and links annual annuity increases to the projected Consumer Price Index only.
- The CTA should adopt a pay-as-you-go pension funding strategy requiring that every new benefit increase made to the CTA's retirement system must identify and provide for additional funding to pay for the resulting annual accrued cost of the increase. Any benefit increases should expire after five years, subject to renewal.
- CTA retired employees must contribute to the rapidly escalating cost of their health insurance.
- The RTA funding formula should be reviewed, and any changes should include a sunset clause to ensure future review of the RTA Act.
- Increased public funding should be provided for all three of the transit service boards – CTA, Metra, and Pace. Whether this funding is provided from State funds or through readjustment of RTA revenue sources must be negotiated among relevant stakeholders.
- The CTA should develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders. The plan should include a regular review of

the CTA's fare structure as well as efforts to control costs through the introduction of efficiencies.

OVERVIEW

The Civic Federation **opposes** this deficit budget. It is financially imprudent for the Regional Transit Authority to direct the three mass transit service boards to produce unbalanced budgets and to assume that millions of dollars in State funds will be forthcoming. It is also risky for the CTA to propose a spending plan based on the vague hope that additional public funds will be forthcoming. All governments must clearly identify how they propose to operate in a fiscal year based on known revenue constraints and opportunities. The Federation cannot support a budget that is based on hopes rather than the promise of adequate revenue.

The CTA states in the FY2007 Budget Book that failure to secure additional public funding could induce the Authority to implement $165.0 million in service cuts. These unspecified service cuts could reduce ridership and thus correspondingly lower revenues by $55.0 million, resulting in the net $110.1 million in savings needed to balance the budget. The service cuts, according to the CTA, would be equivalent to an overall 30% reduction in service.[1] The Civic Federation does not consider broad, non-specific statements to be a reasonable substitute for a concrete plan detailing the CTA's course of action should the State fail to provide an additional $110.1 million subsidy this year.

The CTA must produce a FY2007 contingency plan outlining the impact of cutting $110.1 million to operations just as it did two years ago when it prepared its "Gridlock" budget. Such a plan should specifically identify how the CTA would meet its obligations, whether through service reductions, the use of capital funds for operating purposes, fare increases, or other measures. If service cuts are the preferred option, then those cuts must be clearly identified so that the public, the City of Chicago, and the General Assembly can have complete information regarding the impact of a budget reduction on service.

In sharp contrast to the CTA, Metra has prepared a FY2007 budget that identifies which specific capital projects will be deferred if State funds do not materialize. This is a prudent and responsible action that the CTA would be well advised to follow.

The long-term fiscal health of the CTA requires that the General Assembly grant the agency's management more flexibility to exempt certain benefit and work rule provisions from the collective bargaining process. The current system of binding arbitration produced a labor agreement this year that prevented the implementation of reasonable cost control measures sought by CTA management.[2] As demonstrated by the arbitrator's recent decision, the current labor negotiation constraints will not allow the CTA to meaningfully control labor costs or reform its pension system. The CTA must be granted the managerial flexibility required to affect these reforms.

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[1] *FY2007 CTA Budget*, p. 45.
[2] Chicago Transit Authority, "CTA Dissents Arbitrator Ruling," CTA Press Release, July 10, 2006.

The inability to adopt measures to rein in the mounting cost of overly generous benefit packages will cost the CTA millions of dollars it cannot afford. For example, the arbitration decision rejected a management proposal that the CTA adopt the common government practice of requiring retirees to contribute $100 per month for retiree health care costs.[3] Retirees currently make no health care cost contributions.[4] This decision by the arbitrator added at least $20 million in costs per year.[5] Management proposals to increase the retirement age for new hires from 60 to 65 and to increase required employee contributions into the CTA's pension system have also been rejected in arbitration.[6]

The Civic Federation also believes that the RTA must take far more of a leadership role than it has in the past. The RTA must work with the CTA and the other service boards to actively seek relief in Springfield from the severely constricting effects of current collective bargaining provisions. Likewise, the CTA should not passively accept the status quo, but should aggressively lobby for labor law reform on its own behalf.

Civic Federation Recommendations

The Civic Federation offers the following recommendations regarding ways that the CTA might improve its short- and long-term financial management and fulfill its long-term financial obligations:

<u>General Assembly Must Provide CTA with More Flexibility in Collective Bargaining</u>

A long-term cost reduction study conducted by AECOM Consult in 2005 identified $159 million in savings opportunities for the CTA. Of this $159 million in potential savings, $111 million would require changes in the CTA's collective bargaining agreements or other legislative changes.[7]

The long-term financial viability of the Authority depends on the restructuring of CTA employee pension and healthcare benefits in order to control costs. This can only happen if the CTA management is empowered to negotiate with its unions on a more equal footing.

The Civic Federation <u>**commends**</u> the CTA management for its willingness to address the past underfunding of its pension fund and its ever-mounting benefit costs by proposing cost-saving measures. We are extremely disappointed that the decision rendered by arbitration did not permit the implementation of these reasonable cost saving measures.

The Civic Federation calls on the **General Assembly** to take immediate action to remove certain benefit and work rule concerns from the purview of the CTA's collective bargaining agreement

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[3] Dennis Anosike (Senior Vice President, CTA), in a letter to The Civic Federation, October 12, 2006. Only retirees hired before September 5, 2001 receive health care benefits. The elimination of health care benefits for retirees hired after this date was negotiated during a previous collective bargaining session.
[4] John Kallianis (Executive Director, Retirement Plan for CTA Employees), in a presentation to the Civic Federation Pension Committee, August 15, 2006.
[5] CTA Budget Office, in a communication to The Civic Federation, October 10, 2006.
[6] Dennis Anosike, in a letter to The Civic Federation, October 12, 2006.
[7] *CTA FY2007 Budget*, p. 32.

requirements. It is imperative that the CTA be given have the ability to effectively manage its personnel resources.

Specific Benefit Reforms are Needed

The Civic Federation is pleased that the CTA management recognizes the need to control the burgeoning costs of benefits and that it has attempted to do so. Unfortunately, the arbitration decision this year made it impossible to achieve benefit cost control. Some of the initiatives that we believe should be adopted in future years to help control benefit costs are listed below.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of a two-tiered benefit system where existing and new employees receive different retirement benefits.

Link Annuity Increases to CPI (for New Hires)

Currently, pension fund beneficiaries receive annual cost of living increases that often exceed the rate of inflation. For new hires, annual annuity increases should be linked to the projected Consumer Price Index only.

Any Benefit Increase Should Require Contribution Increases

The CTA should adopt a pay-as-you-go pension funding strategy along the lines of Public Act 94-0004. That State of Illinois statute requires that every new benefit increase made to one of the State's retirement systems identify and provide for additional funding to pay for the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. This is a sound proposal that should apply to the CTA Employees' Pension Fund.

Require Retirees to Contribute to the Cost of Health Insurance

Given the dire financial situation of the retiree health insurance fund, the Civic Federation believes that is appropriate to require some cost sharing between the CTA and retirees. Retired CTA employees must contribute to the rapidly escalating cost of their health insurance.

Increase Public Funding for RTA Service Boards

The Civic Federation and our many business members recognize that public transportation is a vital economic asset to the entire Chicagoland region. Public transportation significantly reduces congestion, making the area more attractive for businesses. Therefore, we reiterate our past support for increased public funding for all three of the transit service boards – CTA, Metra, and Pace. Whether this funding is provided from State funds or through readjustment of RTA revenue sources must be negotiated among relevant stakeholders.

The RTA Funding Formula must be Reviewed

The Illinois General Assembly must address the long-term structural funding problems of the three regional transit service boards by reviewing and revising the RTA Act's funding formula. We are not persuaded by arguments that the RTA Act is immutable and should never be changed. On the contrary, virtually every government policy should be re-evaluated at reasonable intervals to ascertain if it still fulfills its original purpose and whether there are better or more efficient ways to meet that purpose.

A review of the RTA funding formula should be based on an analysis of the efficiency and effectiveness of transit services currently being provided, as well as the future transit needs of the region. It should not be used as a reason for cannibalizing certain transit agencies for the benefit of others. Any changes to the RTA Act should also include a sunset clause because no formula should be frozen in time—its assumptions and outcomes must be revisited at timely intervals.

Require Pension Fund Reporting to the Illinois Department of Financial and Professional Regulation

The Civic Federation believes that the General Assembly should repeal the CTA Pension Fund's statutory exemption from filing public financial reports with the State Department of Financial and Professional Regulation's Division of Insurance.[8] There exists no sound public policy reason for exempting any public body receiving public funds from disclosing financial information.

Develop and Implement a Long-Term Financial Plan

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[9] The Civic Federation believes that the CTA should follow their recommendations and develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The long-term financial plan would include a regular review of the CTA's fare structure as well as efforts to control costs through the introduction of efficiencies.

Budget Format Improvements

The CTA budget format could be improved by including the following features:

- Specific information about projected sales tax revenues provided to the CTA by the RTA for the proposed budget. The budget should specify what percentage of the CTA's sales tax revenue is generated by the City of Chicago and what percentage is generated by suburban Cook County. It should also specify the percentage of its sales tax revenue provided to the

[8] 40 ILCS 5/1A-102.
[9] See National Advisory Council on State and Local Budgeting and Government Finance Officers Association

CTA according to statute and the percentage provided at the RTA's discretion. Currently RTA Public Support, regardless of source, is aggregated in the budget presentation.

- Personnel information that breaks out FTEs by category – Operations, STO and Administration – should be provided in the Budget Book in addition to information currently provided about positions by area.

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to Chicago Transit Authority President Frank Kruesi, Senior Vice President and Treasurer Dennis Anosike, Vice President for Finance and Comptroller Lynn Sapyta, and the CTA budget and finance staff for their hard work in preparing this budget and their willingness to answer many of our budget and revenue questions.

BUDGET HIGHLIGHTS

The Chicago Transit Authority has proposed a FY2007 budget of $1.1 billion. This is a 9.3% increase from the FY2006 budget of $1.0 billion. The Regional Transit Authority, which coordinates mass transit activities in northeastern Illinois, has authorized the CTA, Metra, and Pace to assume that the State of Illinois will provide additional public funds in FY2007 to balance each agency's budgets. The CTA share of this subsidy is projected to be $110.1 million. As there is no pledge or guarantee that these funds are actually forthcoming from the State, the CTA budget is not balanced at this time.

The FY2007 CTA budget contains the following important features:

- There will be no service cuts.
- There will be no fare increases.
- There will be no transfer of capital funds to operations as in previous years.
- Total public funding provided by the RTA will decrease by 10.2% or $53.7 million. This decrease has two causes. First, the CTA will not receive a paratransit subsidy as it did last year because all of the CTA's paratransit responsibilities were transferred to Pace in July 2006. Second, the CTA has not budgeted for the use of capital funds to meet operating expenses as it did in FY2006. The paratransit subsidy and the capital fund transfers accounted for $68.3 million of the CTA's public funding in FY2006. Revenues from sales taxes, however are expected to increase by 3.2%, or from $455.7 million to $470.3 million. The sales tax increase reflects improved economic conditions.
- The CTA assumes it will receive $110.1 million in additional public funding from the State of Illinois.

The CTA argues that it faces a long-term structural deficit. The existing funding structure, it says, is insufficient to meet rising expenditures. The factors driving the structural deficit according to the CTA are primarily personnel-related. These factors include:

1. Rising costs for wages and benefits under the CTA's collective bargaining agreement.

2. The approval this year of Public Act 94-0839, which requires that, beginning January 1, 2009, the CTA must make annual pension contributions sufficient to bring the funded ratio to 90% by 2058. Total required employee and employer contribution in 2009 will exceed $150 million.

3. The July 18, 2006 arbitration award, which made none of the cost saving changes sought by the CTA to either pension contributions or benefit levels. The arbitration decision was made despite the precarious status of the pension fund and the dramatic increases in employer contributions slated to begin in 2009.

4. The inability of the CTA to implement approximately $111 million in cost saving and efficiency measures recommended by the 2005 AECOM consulting report because they would require amendments to the structure of the collective bargaining agreements or the General Assembly's approval of legislation.[10]

In FY2007 the specific cost drivers are as follows:

- Labor costs are expected to rise by 13.5% in FY2007, from $748.9 million to $850.3 million. This increase reflects both higher wage and benefit costs – including retroactive increases – mandated by binding arbitration, and an increase in the CTA's contribution to its pension system. The CTA has increased its payments into its pension system this year in order to anticipate the legislatively-mandated pension payments increases that the CTA will face beginning in 2009. As 75.0% of the CTA operating budget consists of personnel costs, salary and benefit increases are the single most significant factor in annual cost increases.
- Fuel costs will jump by 27.6% or from $48.0 million to $61.2 million. Fuel prices remain volatile. However, the CTA has hedged most of its diesel fuel consumption, which should bring some stability. Fuel is budgeted at $2.50 per gallon.[11]
- Power costs may rise by 14.4%, from $24.5 million to $28.0 million as Illinois electricity is deregulated.

The CTA has projected that its FY2007 budget gap will be closed with the anticipated $110.1 million State subsidy and the 3.2%, $14.5 million projected increase in sales tax receipts.

APPROPRIATIONS

This section provides an analysis of the CTA's proposed FY2007 appropriations. This year, the CTA's budget will total over $1.1 billion, a 9.3% or $96.5 million increase from the FY2006 budget of $1.0 billion.

Appropriations: FY2006 and FY2007

The Proposed FY2007 Budget includes $850.3 million in appropriations for labor costs, a $101.4 million or 13.5% increase over FY2006. This jump reflects an increase in the CTA's pension payments, the higher wage and benefit costs resulting from the labor arbitration ruling, and West

[10] *CTA FY2007 Budget*, p. 41.
[11] *CTA FY2007 Budget*, p. 43.

Side Service improvements. Appropriations for fuel will rise by $13.2 million in FY2007, a 27.6% increase. Material and power appropriations will also increase significantly, by 16.1% and 14.4%, respectively. There will be no appropriations for paratransit in FY2007, paratransit services having been transferred to Pace on July 1, 2006. Appropriations for the provision for injuries and damages, having increased by 73.7% between FY2005 and FY2006, will decrease by 24.2% in FY2007, falling from $33.0 million to $25.0 million.

CTA PROPOSED OPERATING BUDGETS BY OBJECT OF EXPENDITURE: FY2006 vs. FY2007				
Appropriation by Object	**2006**	**2007**	**$ Change**	**% Change**
Labor	$ 748,922,000	$ 850,332,000	$ 101,410,000	13.5%
Material	$ 67,088,000	$ 77,894,000	$ 10,806,000	16.1%
Purchase of Paratransit	$ 29,582,000	$ -	$ (29,582,000)	-100.0%
Security	$ 35,335,000	$ 35,334,000	$ (1,000)	0.0%
Fuel	$ 48,000,000	$ 61,233,000	$ 13,233,000	27.6%
Power	$ 24,526,000	$ 28,057,000	$ 3,531,000	14.4%
Provision for Injuries & Damages	$ 33,000,000	$ 25,000,000	$ (8,000,000)	-24.2%
Other Expenses	$ 50,232,000	$ 55,301,000	$ 5,069,000	10.1%
Total	**$ 1,036,685,000**	**$ 1,133,151,000**	**$ 96,466,000**	**9.3%**

Source: CTA Proposed Budgets, FY2006 and FY2007

Appropriations: Five-Year Trend

From FY2003 to FY2007, the CTA's total operating budget will increase by 22.6%, or $208.6 million. Fuel costs will have increased by 173.7%, appropriations for security services will rise by 42.4%, and the provision for injuries and damages will increase by 42.3%. Labor costs will have risen by 23.8% over the same period. As stated above, there will not be any appropriations for paratransit in FY2007 due to the termination of CTA responsibility for paratransit as of July 1, 2006.

CTA PROPOSED OPERATING BUDGETS BY OBJECT OF EXPENDITURE: FY2003 vs. FY2007				
Appropriation by Object	**2003**	**2007**	**$ Change**	**% Change**
Labor	$ 686,912,000	$ 850,332,000	$ 163,420,000	23.8%
Material	$ 67,466,000	$ 77,894,000	$ 10,428,000	15.5%
Purchase of Paratransit	$ 37,215,000	$ -	$ (37,215,000)	-100.0%
Security	$ 24,813,000	$ 35,334,000	$ 10,521,000	42.4%
Fuel	$ 22,375,000	$ 61,233,000	$ 38,858,000	173.7%
Power	$ 21,296,000	$ 28,057,000	$ 6,761,000	31.7%
Provision for Injuries & Damages	$ 17,568,000	$ 25,000,000	$ 7,432,000	42.3%
Other Expenses	$ 46,922,000	$ 55,301,000	$ 8,379,000	17.9%
Total	**$ 924,567,000**	**$ 1,133,151,000**	**$ 208,584,000**	**22.6%**

Source: CTA Proposed Budgets, FY2003 and FY2007

REVENUES

The CTA receives its operating funding both from system-generated revenues (revenue generated internally by the CTA, such as fares, concessions, and advertising) and from public funding sources (sales taxes, which are distributed by the RTA). Each of these revenue sources will be examined in turn.

System-Generated Revenues: FY2006 and FY2007

The Proposed FY2007 Budget includes $552.7 million from system-generated revenue and $580.5 million in public funding through the RTA. Included in the system-generated revenue is $468.3 million in farebox revenue, a $41.8 million or 9.8% increase from FY2006. Farebox revenue represents 79.8% of system-generated revenue in the FY2007 Budget. Investment income will increase sharply in FY2007, by $7.2 million or 145.1%. The CTA attributes this increase to higher cash balances in CTA accounts and increases in the short-term interest rate by the Federal Reserve Board.[12]

The annual payment of $5 million that the CTA receives by law from local governments – $3 million from the City of Chicago and $2 million from Cook County – is considered system-generated revenue rather than public subsidy according to the recovery ratio. The amounts contributed to the CTA by Chicago and Cook County have remained unchanged since 1985. The City of Chicago does, however, also make in-kind law enforcement contributions to the CTA. The State of Illinois's reimbursement for reduced fares will increase slightly in FY2007, by $1.4 million or 4.6%, and advertising and concession revenue will remain nearly flat. Other revenue, which includes parking charges, filming fees, and Federal Transit Administration (FTA) grants for paratransit, will decline by $10.8 million due to the loss of FTA paratransit grants.

CTA BUDGETED REVENUE: FY2006 vs. FY2007				
Source	**2006**	**2007**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 426,522,000	$ 468,334,000	$ 41,812,000	9.8%
Reduced Fare Reimbusement	$ 30,590,000	$ 32,000,000	$ 1,410,000	4.6%
Advertising, Charter & Concessions	$ 24,800,000	$ 24,990,000	$ 190,000	0.8%
Investment Income	$ 4,944,000	$ 12,120,000	$ 7,176,000	145.1%
Required Contributions from Cook County & City of Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 20,773,000	$ 10,250,000	$ (10,523,000)	-50.7%
Total System-Generated Revenue	**$ 512,629,000**	**$ 552,694,000**	**$ 40,065,000**	**7.8%**
Public Funding through RTA	**$ 524,056,000**	**$ 470,349,000**	**$ (53,707,000)**	**-10.2%**
Proposed Funding from the General Assembly	**$ -**	**$ 110,108,000**	**$ 110,108,000**	**100.0%**
GRAND TOTAL	**$ 1,036,685,000**	**$ 1,133,151,000**	**$ 96,466,000**	**9.3%**

Source: CTA Proposed Budgets FY2006 and FY2007

The recovery ratio, which measures the amount of operating expenses that were recovered from operating revenues, is a significant indicator of the CTA's performance. The ratio is determined by dividing system-generated revenues by operating expenses, excluding depreciation and other exempt expenses. The RTA Act requires that the entire RTA region must achieve an annual recovery ratio of at least 50 percent. For FY2007, the RTA has required the CTA to recover at least 52.0% of its operating expenses through system-generated revenues. The CTA's FY2007 proposed budget estimates that the recovery ratio will be 52.03%.[13]

[12] Chicago Transit Authority, *President's 2007 Budget Recommendations*, 46.
[13] Ibid., 47.

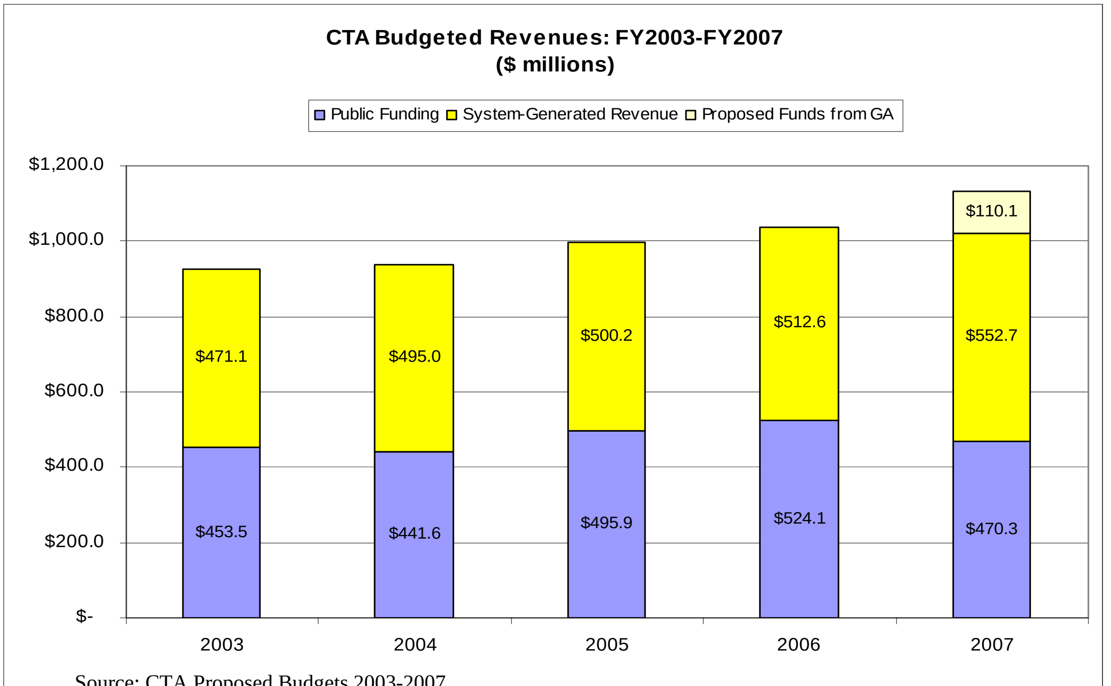
System-Generated Revenues: Five-Year Trend

Comparing the CTA's FY2007 Proposed Budget with that of FY2003, total revenues are projected to have increased by 22.6%, with the largest percent increase coming from investment income (a projected rise of 149.2%). Farebox revenue is predicted to increase by 24.5%. In contrast, other revenue will decrease by 63.6%. Advertising, charter and concession revenues, and reduced fare reimbursement revenues from the State of Illinois will remain nearly flat over this five year period.

CTA BUDGETED REVENUE: FY2003 vs. FY2007				
Source	**2003**	**2007**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 376,132,000	$ 468,334,000	$ 92,202,000	24.5%
Reduced Fare Reimbusement	$ 32,300,000	$ 32,000,000	$ (300,000)	-0.9%
Advertising, Charter & Concessions	$ 24,598,000	$ 24,990,000	$ 392,000	1.6%
Investment Income	$ 4,864,000	$ 12,120,000	$ 7,256,000	149.2%
Required Contributions from Cook County & City of Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 28,184,000	$ 10,250,000	$ (17,934,000)	-63.6%
Total System-Generated Revenue	**$ 471,078,000**	**$ 552,694,000**	**$ 81,616,000**	**17.3%**
Public Funding through RTA	**$ 453,488,000**	**$ 470,349,000**	**$ 16,861,000**	**3.7%**
Proposed Funding from the General Assembly	**$ -**	**$ 110,108,000**	**$ 110,108,000**	**100.0%**
GRAND TOTAL	**$ 924,566,000**	**$ 1,133,151,000**	**$ 208,585,000**	**22.6%**

Source: CTA Proposed Budgets FY2003 and FY2007

The following exhibit illustrates system-generated revenues and public funding between FY2003 and FY2007.

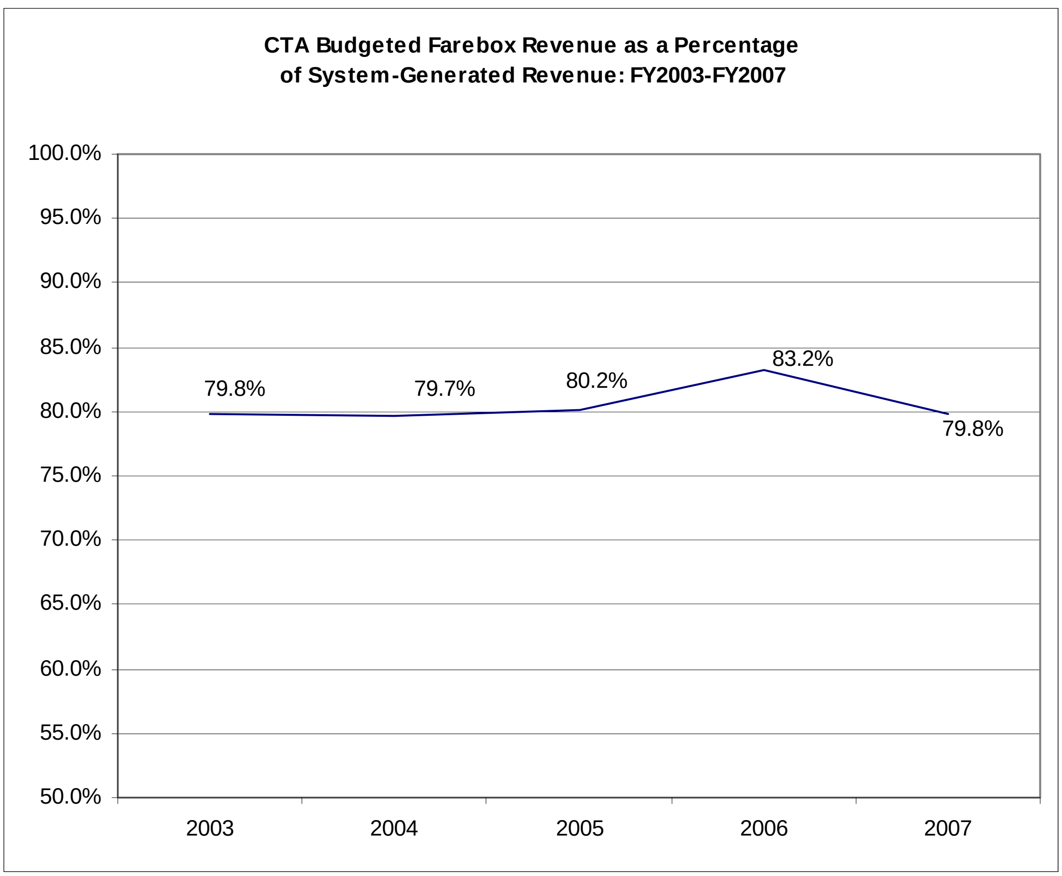


Source: CTA Proposed Budgets 2003-2007

Farebox Revenues

Ridership is the core of any transit agency, not only because moving riders is the primary purpose of mass transit, but also because farebox revenues are critical to finances. Farebox revenue represents 80-90% of the CTA's system-generated revenues in a given year, so ridership changes have a significant effect on revenue. The remainder of the CTA's system-generated revenue is derived from advertising, investment income, reduced fare reimbursement, statutorily required reimbursements, as well as a miscellany of other revenue sources such as income from parking lots.

Due in part to CTA's efforts to seek out other sources of revenue, between 1998 and 2003, budgeted farebox revenue declined from nearly 90% to 80% of CTA generated revenue. The FY2006 budget projected that the percentage of system-generated revenues realized through the farebox would rise from 80.2% in FY2005 to 83.2%. The FY2007 budget, however, anticipates that the farebox ratio will fall from FY2006 levels, and that ridership will account for 79.8% of system-generated revenue.



Structure of Public Funding for the CTA from the RTA

The Chicago Transit Authority will receive public funding from two sources in 2007: 1) RTA sales tax revenues collected in the City of Chicago and suburban Cook County; and 2) discretionary RTA funds generated by local sales taxes and a State General Fund sales tax match.

The CTA's budget also specifies that it will receive $110.1 million in additional public funding from an undesignated, new revenue source. This $110.1 million budget projection amounts to a request for additional funds that the CTA is making to the General Assembly. There is no certainty that the legislature will accede to the CTA's request.

The RTA is authorized to levy a sales tax in the six-county region of northeastern Illinois at the following rates:

- 0.75% sales tax on general merchandise in Cook County
- 1.00% sales tax on qualifying food, drugs, and medical appliances in Cook County
- 0.25% sales tax on general merchandise and qualifying food, drugs, and medical appliances in DuPage, Kane, Lake, McHenry, and Will counties

From its Occupation and Use Tax Replacement Fund, the State of Illinois distributes additional funding to the RTA. The amount distributed by the State is equal to the amount generated by a 0.25% sales tax in Cook County, making the Cook County general merchandise sales tax rate equivalent to 1.00% for the RTA. The RTA also has authority to levy taxes on automobile rentals, motor fuel, and off-street parking facilities, but has not exercised this authority.[14]

The RTA retains 15% of the total tax revenue collected, and distributes the remaining 85% to the service boards according to a statutory formula:

RTA SALES TAX DISTRIBUTION			
	Chicago Sales Tax Revenue	Suburban Cook Sales Tax Revenue	Collar County Sales Tax Revenue
CTA	100%	30%	0%
Metra	0%	55%	70%
Pace	0%	15%	30%
TOTAL	**100%**	**100%**	**100%**

As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $470.3 million in sales tax revenue from the RTA in FY2007. This is a $14.5 million, or 3.2%, increase over CTA sales tax revenues in FY2006, reflecting improved economic conditions.

Because it no longer has responsibility for paratransit services, the CTA will not receive any paratransit funding from the Illinois Department of Transportation in FY2007. The termination of the IDoT grant represents a reduction of $27.1 million in public funds compared to the public

[14] 70 ILCS 3615/4.03.

funding available to the CTA in FY2006. The CTA also projects that it will not use any capital funds to meet FY2007 operating expenses. The CTA's decision not to use capital funds for operating costs in FY2007 means that, based on the amount of capital funding it transferred to operating in FY2006, the CTA will see an additional reduction of $41.2 million in public funding for the year. To make up for these lost revenue sources and to meet its projected FY2007 costs, the CTA's budget specifies that it will receive $110.1 million in additional public funding from an undesignated, new revenue source. The CTA produced a budget anticipating this $110.1 million in additional public funding at the direction of the RTA.[15]

Without this infusion of funds, the CTA's only public funding will be the $470.3 million in sales tax revenue that the CTA receives from the RTA. This would represent a $53.7 million or 10.2% decrease in the public funds available to the CTA in FY2007. If the CTA receives the $110.1 million it has requested, public funding will increase by $56.4 million or 10.8%.

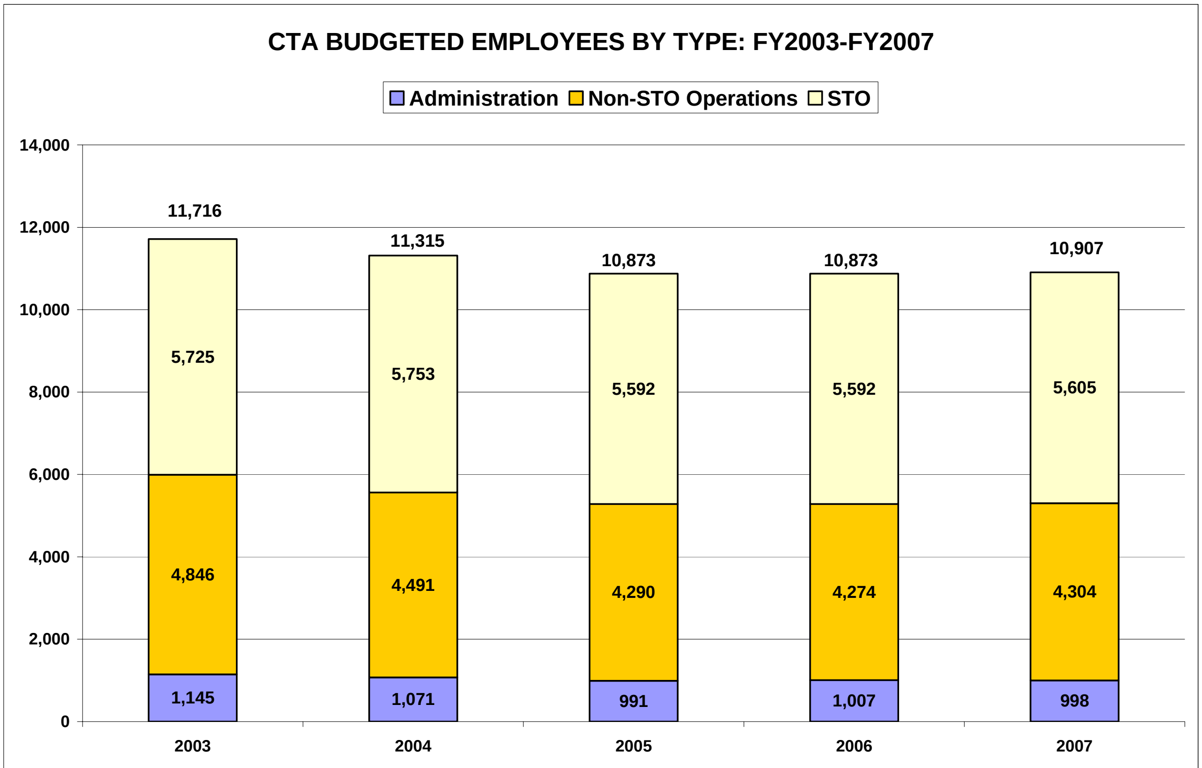
CTA Public Funding: FY2006 & FY2007				
	FY2006	**FY2007**	**$ Change**	**% Change**
RTA Formula Sales Tax Revenues	$ 284,636,000	$ 295,098,000	$ 10,462,000	3.7%
RTA Discretionary Sales Tax Revenues	$ 171,128,000	$ 175,251,000	$ 4,123,000	2.4%
Capital Transfer to Operating Funds	$ 29,200,000	$ -	$ (29,200,000)	-100.0%
IDoT Paratransit Grant	$ 27,100,000	$ -	$ (27,100,000)	-100.0%
Preventive Maintenance Capital Transfer	$ 12,000,000	$ -	$ (12,000,000)	-100.0%
SUBTOTAL	**$ 524,064,000**	**$ 470,349,000**	**$ (53,715,000)**	**-10.2%**
Projected Additional Public Funds	$ -	$ 110,108,000	$ 110,108,000	100.0%
PROPOSED TOTAL	**$ 524,064,000**	**$ 580,457,000**	**$ 56,393,000**	**10.8%**

Source: CTA Proposed Budget FY2007

PERSONNEL TRENDS

The CTA plans to fund 10,907 positions in its FY2007. This is a 0.3% increase of 34 positions from the FY2006 Budget. This increase includes 21 service- and security-related positions. In FY2006, 9.2% of all positions will be administrative, 51.4% will be STO, and 39.5% will be non-STO operations.[16]

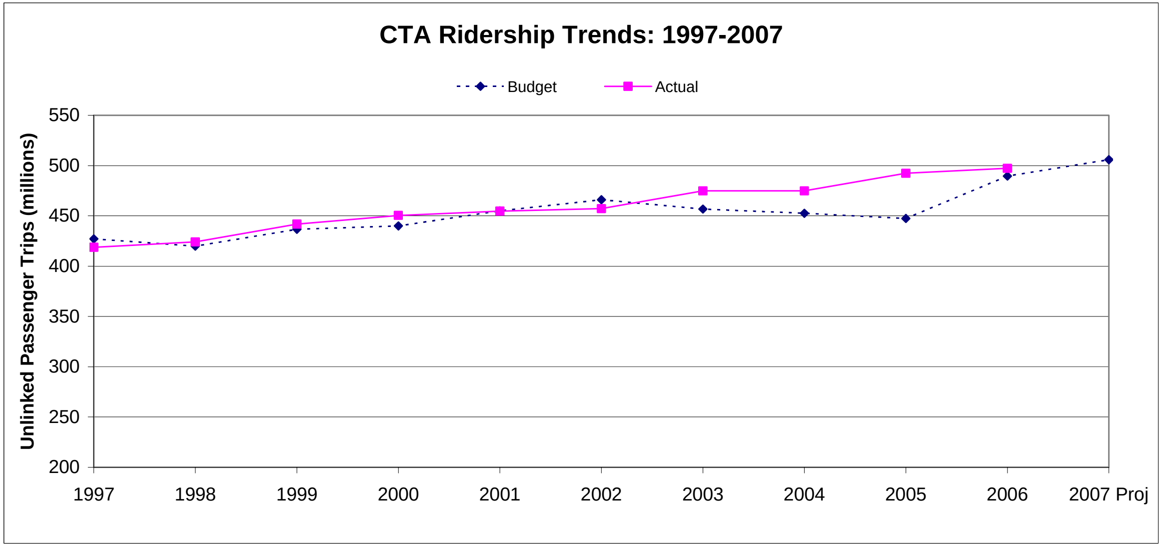
[15] Joe Costello (Chief Financial Officer, RTA), in a communication with The Civic Federation, October 13, 2006.
[16] Dennis Anosike, in a Headcount Summary provided to The Civic Federation, October 12, 2006.



Source: Dennis Anosike, in a Headcount Summary provided to The Civic Federation, October 12, 2006

RIDERSHIP

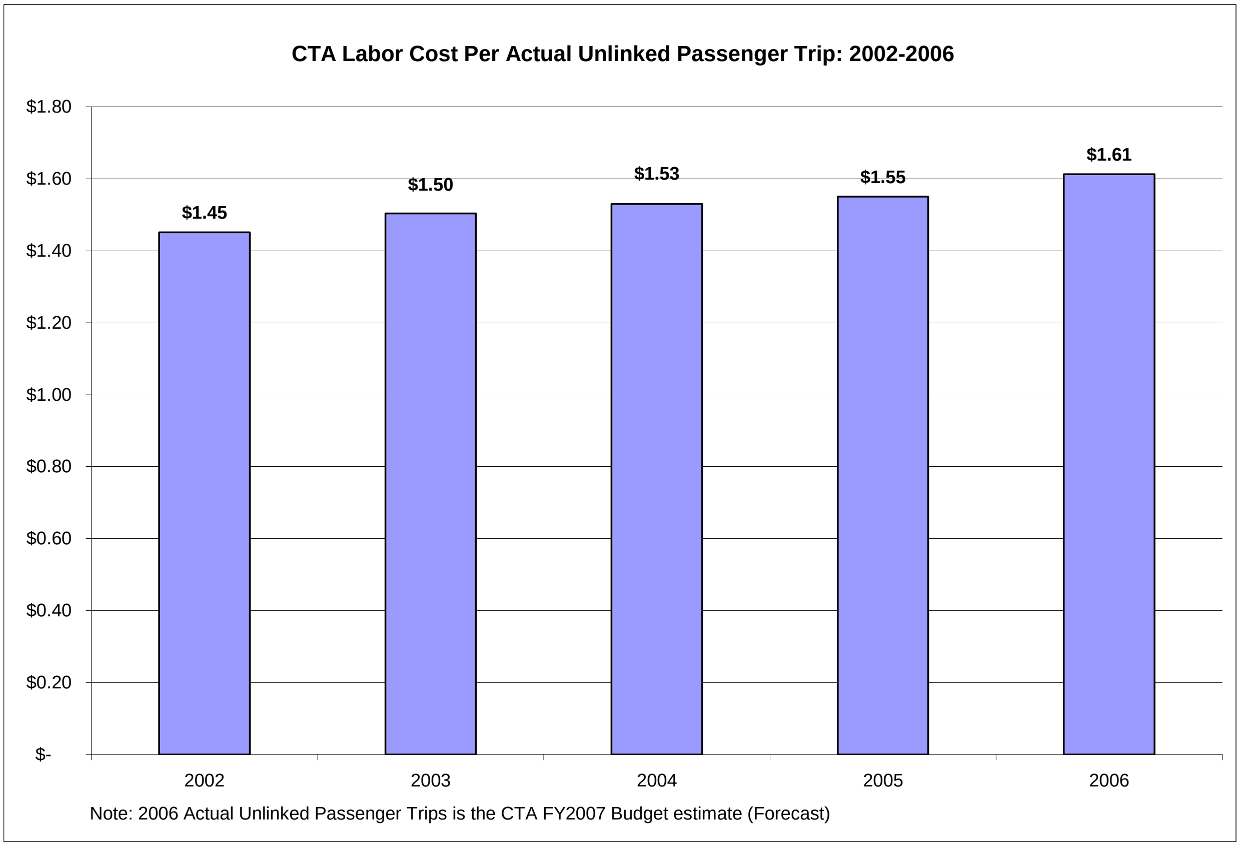
The CTA projects ridership to increase by 3.3% in FY2007, from 489.6 million rides, as projected in the FY2006 budget, to approximately 505.9 million rides in FY2007. Bus ridership is projected to account for 59.6% of all trips in FY2007 and rail for 40.4%.



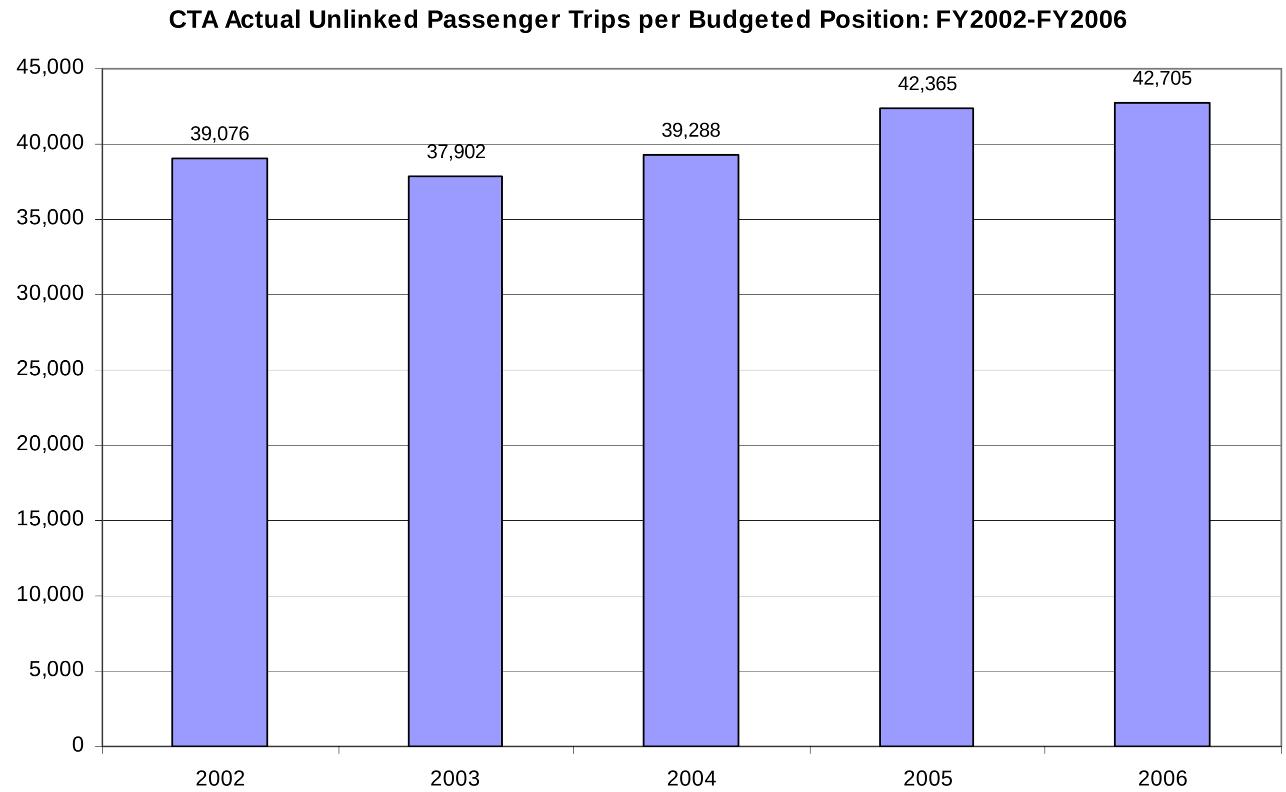
PRODUCTIVITY MEASURES

The Civic Federation uses three measures to assess the CTA's productivity over time: labor cost per actual unlinked passenger trip, actual unlinked passenger trips per budgeted position, and operating expense per passenger mile.

Productivity can be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. In the last five years this number has risen from $1.46 to $1.61, a 10.3% increase. Between 2002 and 2006, labor costs rose 12%, while ridership grew by approximately 1.6%.



A second measure of productivity is unlinked passenger trips per employee. In this case, a higher number of trips indicates higher productivity. This trend shows that the number of trips per budgeted position has been increasing, rising from 39,076 trips per employee in 2002 to 42,705 trips per employee in 2006. Ridership per employee declined slightly between 2002 and 2003 as overall CTA ridership declined, but rose substantially from 2004 to 2005 as overall ridership improved and headcount was reduced. Between 2005 and 2006 the trend remained fairly steady as overall ridership increased further and the number of employees remained the same.



Note: The 2006 figure was generated with CTA 2007 Budget estimates for unlinked passenger trips.

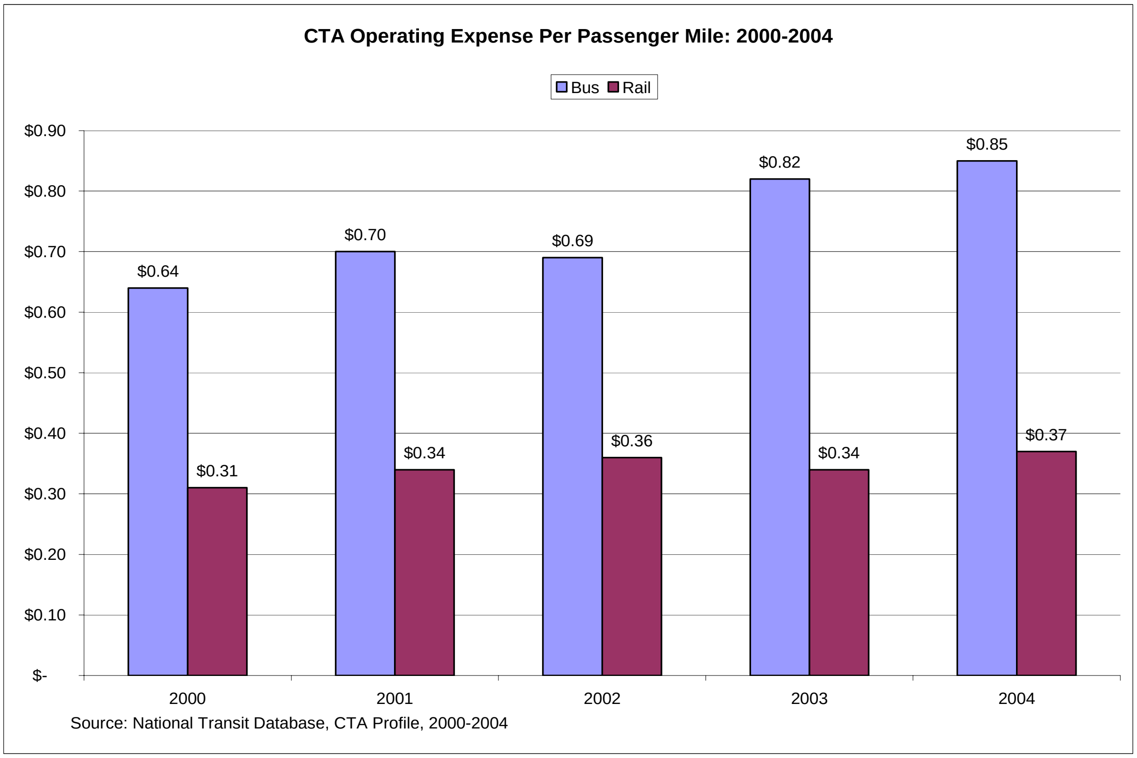
The table below shows unlinked passenger trips per administrative position. This trend generally resembles the trend for total positions above. The larger productivity gains in 2004 and 2005 reflect significant cuts in administrative positions, and the slight downturn in 2006 reflects the addition of 16 administrative positions that year.

CTA Unlinked Passenger Trips per Administrative Position: 2002-2006	
2002	400,062
2003	387,830
2004	415,076
2005	464,815
2006	461,104

Additional Productivity Indicators

There are two other historic indicators that provide information about the productivity of the CTA's operations. Unfortunately, he latest data available for these indicators is from 2004.

The chart below illustrates operating expense per passenger mile for bus and rail between 2000 and 2004. As with all transit systems, rail service is more cost effective than bus service. The cost effectiveness for rail service has remained relatively constant, ranging between $0.31 and $0.37 per passenger mile. For buses, operating expense per passenger mile have been rising over time. This service's cost effectiveness dropped substantially in 2003 when costs rose from $0.69 in 2002 to $0.82 in 2003. Costs increased more modestly in 2004, rising from $0.82 to $0.85.



For bus transit, the CTA's 2004 operating expense per passenger mile compared favorably with the mass transit systems in other major cities. Compared to the previous year, the operating expense per passenger mile for the CTA bus transit increased by only $0.03, the least among the bus transit systems that showed increased operating expense per passenger mile between 2003 and 2004. Chicago's operating expense per passenger mile for rail service, however, was tied with Boston for second-highest among the cities examined. Of the six cities considered, only Los Angeles's rail service was more expensive when measured by passenger mile. The CTA was also the only transit system among the systems surveyed that showed increased operating expense per passenger mile.

Selected Cities: Operating Expense Per Passenger Mile in 2004			
	Bus		Rail
New York	$ 1.07	Los Angeles	$ 0.43
Washington D.C.	$ 0.91	Boston	$ 0.37
Boston	$ 0.88	**Chicago**	**$ 0.37**
Chicago	**$ 0.85**	Washington D.C.	$ 0.35
Philadelphia	$ 0.74	Philadelphia	$ 0.32
Los Angeles	$ 0.56	New York	$ 0.30

Sources: CTA FY2007 Proposed Budget and National Transit Database 2004

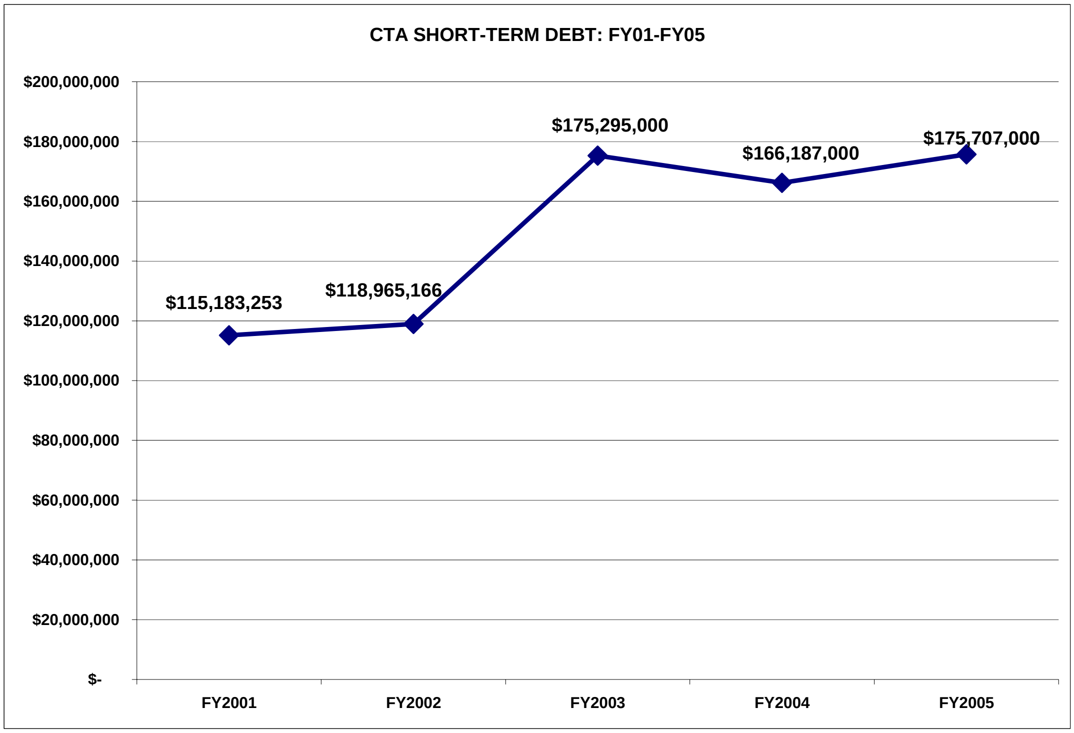
SHORT- AND LONG-TERM DEBT TRENDS

The Civic Federation has employed two measures of debt for purposes of this analysis: short-term debt trends and long-term debt per capita trends.

Short-Term Debt Trend

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt includes accounts payable, advances and deposits, deferred passenger revenue, and deferred operating assistance. It does not include accrued payroll, the current portion of supplemental retirement plans or capital lease obligations, and the current portion of self-insurance reserves.[17]

CTA short-term debt increased in FY2005, rising by 9.5% or $5.7 million. This represents an increase from $166.1 million to $175.7 million. This increase comes after a decrease in the prior year. Over the five-year period between FY2001 and FY2005, CTA short-term debt increased by 52.5%, rising from $115.1 million to $175.7 million. This trend bears watching if it continues.

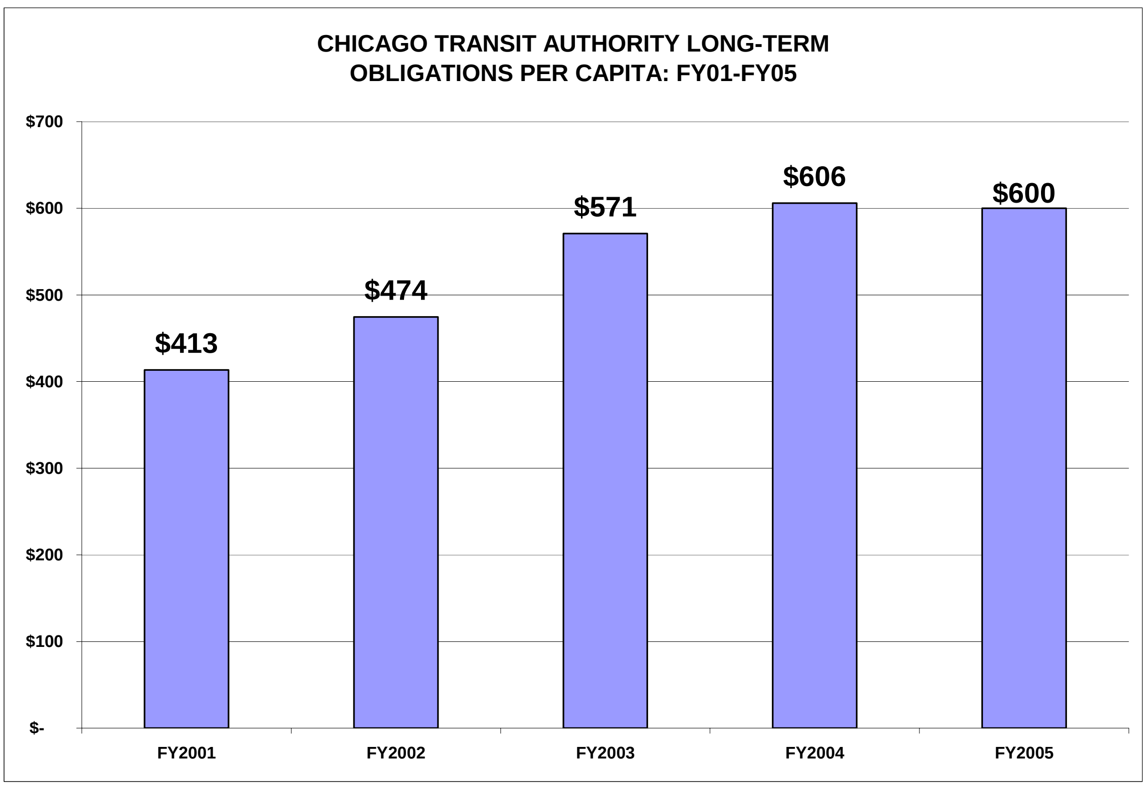


[17] Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2005 and 2004*, p. 12.

Long-Term Obligation Per Capita Trends

Long-term obligation per capita is a measure of a government's ability to maintain its current financial policies. This analysis takes the amount of Chicago Transit Authority total long-term liabilities per year and divides it by the population served by the CTA. As of the 2000 census, this population was 3.8 million. The CTA's long-term liabilities include self-insurance claims, capital lease obligations, and bonds payable. Sharp increases should be monitored as a potential sign of increasing financial risk.

In FY2001 long-term obligations per capita were $413. Since that time, long-term obligations per capita increased to $600, a 75.2% increase. This increase represents a rise from $1.5 billion in long-term liabilities in FY2001 to $2.2 billion five years later. The large increase is driven in part by a first-ever bond issuance of $207 million in 2003 and a subsequent $250 million bond issue in FY2004. These bonds were issued in anticipation of grants from the federal government. The large increases in long-term obligations over time bear watching. However, it is important to note that long-term obligations per capita did fall between FY2004 and FY2005, dropping by 1.0%, or from $606 to $600.



RETIREMENT SYSTEM TRENDS

The CTA employees' pension fund is a defined benefit pension plan covering most full-time permanent union and nonunion employees. In FY2005 the Fund had 10,644 active employees and 8,998 beneficiaries.

The fund is governed by the terms and conditions of the employees' collective bargaining agreements. The CTA has no direct oversight authority over the Fund, although it does appoint half of the members of the fund's board of trustees. In fact, under the guidelines set forth in the Governmental Accounting Standard Board's Statement Number 14, the Fund is a legal entity separate and distinct from the CTA. Thus, its financial statements are not included in the Authority's financial statements. In addition, unlike virtually every other local pension fund, the Employees' Pension Fund is exempted under state statute from reporting financial information about its assets, liabilities, and investments.[18]

The CTA employees' pension fund actuaries have informed the CTA Board of Directors that Fund assets are projected to be depleted in 2012, and retiree health insurance account assets are projected to be depleted in 2007.[19] Fund actuaries note that while the combined employer/employee contribution for FY2005 was 9% of payroll, the actuarially determined required contribution to cover normal cost as well as a 40-year amortization of unfunded liability was 50% of payroll.[20] According to the Fund's executive director, the trend toward declining funded ratios has developed over the past 25 years. The rapid deterioration of the CTA pension fund in recent years has primarily been due to insufficient contributions and escalating health care benefits. These problems in turn have been exacerbated by investment losses.[21]

Public Act 94-0839 was passed in the spring of 2006 as part of the FY2007 Budget Implementation Act. It requires that, beginning January 1, 2009, the CTA must make annual pension contributions sufficient to bring the funded ratio to 90% by 2058. The Act specifies that payments are to be made as a level percentage of payroll, and that post employment healthcare benefits provided by the pension fund are to be excluded from the actuarial calculations used to determine required contributions.

The CTA pension fund actuaries estimate that the 2009 total required employee and employer contribution will exceed $150 million, up from $51.7 million in 2005.[22] Required contributions are projected to reach $1.1 billion (the size of the CTA's entire FY2007 operating budget) by

[18] See Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2003 and 2002*. Note 1 to the Financial Statements – Financial Reporting Entity – p. 18. See also 40 ILCS 5/22.1.
[19] Presentation made by Fund actuaries to the CTA Board on September 14, 2005.
[20] Gabriel, Roeder, Smith & Company, *Retirement Plan for Chicago Transit Authority Employees: Actuarial Valuation Report for the Year Beginning January 1, 2006*, p. 2.
[21] Retirement Plan for Chicago Transit Authority Employees. Basic Financial Statements and Management's Discussion and Analysis, Year Ended December 31, 2004, p. 6.
[22] Gabriel, Roeder, Smith & Company, *Retirement Plan for Chicago Transit Authority Employees Funding Projections: Impact of Funding Policy Change SB1977 Effective May 4, 2006*, p. 7.

2059.[23] This dramatic increase in contributions puts further pressure on the CTA's already strained operating budget.

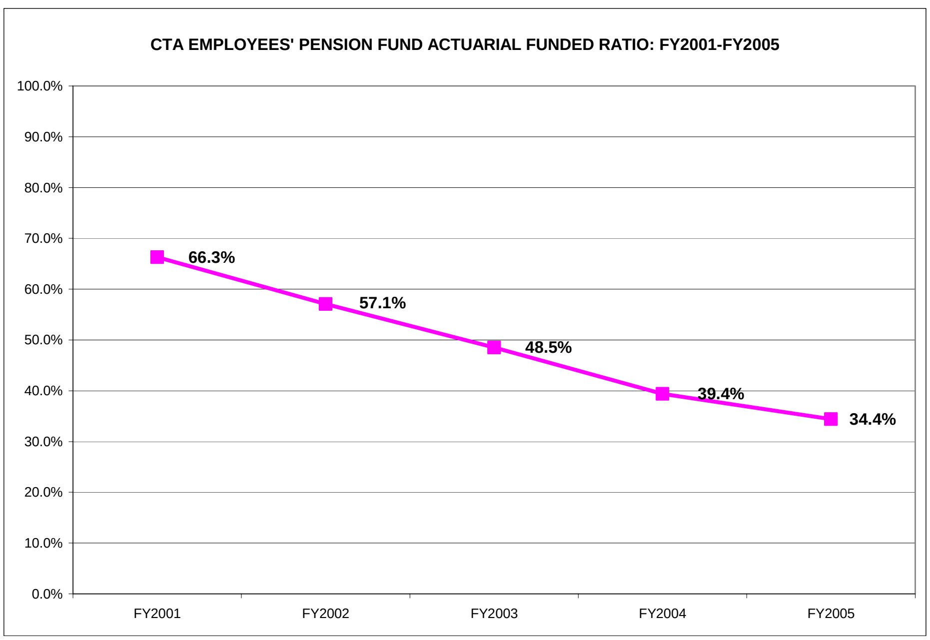
Unlike other state and local pension funds, CTA pension plan benefits and contributions are collectively bargained rather than set by state statute. Recent union negotiations were expected to yield some changes to pension provisions and contributions, given the dire state of the pension fund. Despite the precarious status of the pension fund and the dramatic increases in employer contributions slated to begin in 2009, the July 18, 2006 arbitration award made no changes to either pension contributions or benefit levels.

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Chicago Transit Authority's employees' pension fund: funded ratios, the value of unfunded liabilities and investment rates of return.

Funded Ratios – Actuarial Value of Assets

The following exhibit shows the actuarial funded ratio for the CTA Employees' Pension Fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

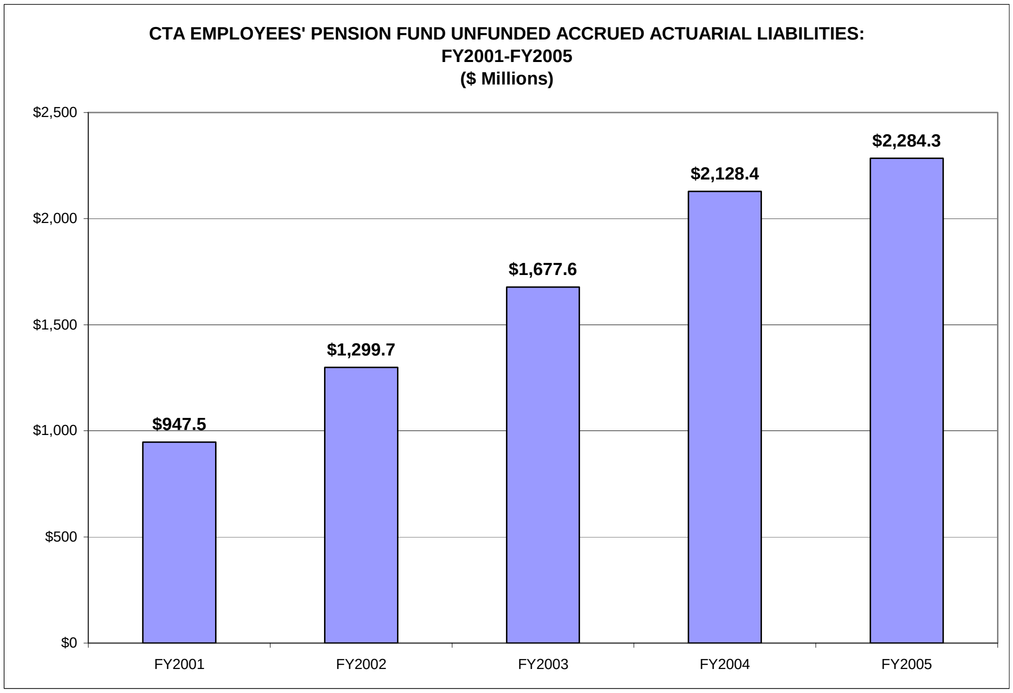
The funded ratio for the CTA pension fund fell by 31.9 percentage points between FY2001 and FY2005, declining from 66.3% to only 34.4%. Given that the CTA's pension fund was already badly underfunded in FY2001, this steady erosion of CTA Pension Fund assets is alarming. Unless new revenues are provided, the Fund will likely be unable to make payments to beneficiaries by 2012.



[23] In contrast, the State of Illinois' required pension contributions at the end of its 50-year amortization period in 2045 will be $15.6 billion for the 5 retirement systems, or roughly 33% of the State's FY2006 operating budget.

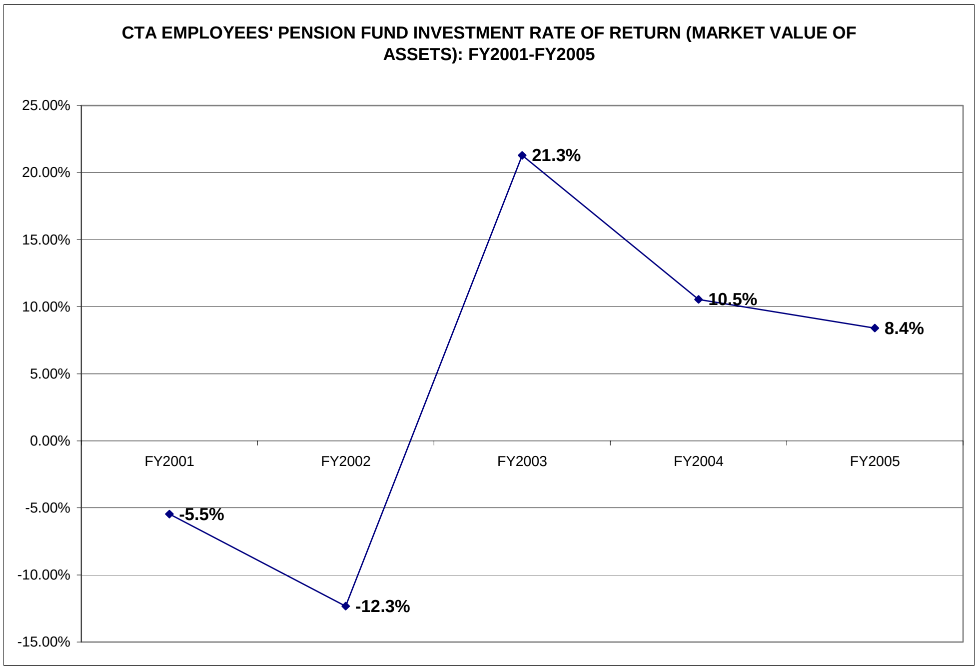
Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the CTA pension fund totaled approximately $2.3 billion in FY2005. This was a $1.3 billion or 141.1% increase over FY2001.



Investment Rates of Return

The investment rate of return for the CTA Employees' Pension Fund was 8.4% in FY2005. This is a slight decline from the 10.5% return reported the previous year, and is less than the actuarially assumed rate of return of 9%. The 8.4% rate of return in FY2005 therefore caused an actuarial loss for that year. The 9% annual assumed investment rate of return was set by collective bargaining agreement.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations regarding ways to improve the Chicago Transit Authority's financial management.

General Assembly must Provide CTA with More Flexibility in Collective Bargaining

The long-term financial viability of the Authority depends on the restructuring of CTA employee pension and healthcare benefits in order to control costs. This can only happen if the CTA management is empowered to negotiate with its unions on a more equal footing.

The Civic Federation commends the CTA management for its willingness to address the past underfunding of its pension fund and its ever-mounting benefit costs by proposing cost-saving measures. We are extremely disappointed that the decision rendered by arbitration did not permit the implementation of these reasonable cost saving measures.

The Civic Federation calls on the General Assembly to take immediate action to remove certain benefit and work rule concerns from the purview of the CTA's collective bargaining agreement requirements. It is imperative that the CTA be given have the ability to effectively manage its personnel resources.

Specific Benefit Reforms are Needed

The Civic Federation is pleased the CTA management recognizes the need to control these burgeoning costs and has attempted to do so. Unfortunately, the arbitration decision this year made it impossible to implement benefit cost controls. Some of the initiatives that we believe should be adopted in future years to help control benefit costs are listed below.

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of a two-tiered benefit system in which existing and new employees receive different retirement benefits.

Link Annuity Increases to CPI (for New Hires)

Currently, pension fund beneficiaries receive annual cost of living increases that often exceed the rate of inflation. For new hires, annual annuity increases should be linked to the projected Consumer Price Index only.

Any Benefit Increase Should Require Contribution Increases

The CTA should adopt a pay-as-you-go pension funding strategy along the lines of Public Act 94-0004. That State of Illinois statute requires that every new benefit increase made to one of the State's retirement systems identify and provide for additional funding to pay for the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after five years, subject to renewal. This is a sound proposal that should apply to the CTA Employees' Pension Fund.

Require Retirees to Contribute to the Cost of Health Insurance

Given the dire financial situation of the retiree health insurance fund, the Civic Federation believes that it is appropriate to require some cost sharing between the CTA and retirees. CTA retired employees must contribute to the rapidly escalating cost of their health insurance.

Increase Public Funding for RTA Service Boards

The Civic Federation and our many business members recognize that public transportation is a vital economic asset to the entire Chicagoland region. Public transportation significantly reduces congestion, making the area more attractive for businesses. Therefore, we reiterate our past support for increased public funding for all three of the transit service boards – CTA, Metra, and Pace. Whether this funding is provided through State funding or the readjustment of RTA revenue sources must be negotiated among relevant stakeholders.

The RTA Funding Formula must be Reviewed

The Civic Federation remains convinced that the Illinois General Assembly must address the long-term structural funding problems of the three regional transit service boards by reviewing and revising the RTA Act's funding formula. As we have stated in previous years, we are not persuaded by arguments that the RTA Act is immutable and should never be changed. On the contrary, virtually every government policy should be re-evaluated at reasonable intervals to ascertain if it still fulfills its original purpose and whether there are better or more efficient ways to meet that purpose.

A primary purpose of the RTA is to promote investment in the region's transportation system in order to boost the economy and attract business. To achieve that goal, the funding formula must be reviewed. That review should be based on an analysis of the efficiency and effectiveness of transit services currently being provided as well as the future transit needs of the region. It should not be used to justify cannibalizing certain transit agencies for the benefit of others. Any changes to the RTA Act should also include a sunset clause because no formula should be frozen in time—its assumptions and outcomes must be revisited at timely intervals.

Require Pension Fund Reporting to the Illinois Department of Financial and Professional Regulation

Illinois statute requires that governments provide annual financial statements to the Illinois Department of Financial and Professional Regulation's Division of Insurance. These statements must include actuarial statements and must be filed no later than nine months after the close of the pension fund's fiscal year. The CTA, however, is exempt from these requirements.

In recent years, after calls for transparency and disclosure by the Civic Federation, the CTA Employees' Pension Fund began to make its annual financial statements available on-line. The Federation applauds the Fund for taking this action, which is clearly in the public interest. However, this action remains voluntary. It could be revoked at any time. This would be unfortunate but cannot be prevented.

The Civic Federation believes that the General Assembly should now take what is an appropriate step and repeal the CTA Pension Fund's reporting exemption. There is no sound public policy reason for exempting any public body receiving public funds from disclosing financial information.

Develop and Implement a Long-Term Financial Plan

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[24] The Civic Federation believes that the CTA should follow their recommendations and develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The long-term financial plan

[24] See National Advisory Council on State and Local Budgeting and Government Finance Officers Association

would include a regular review of the CTA's fare structure as well as efforts to control costs through the introduction of efficiencies.

Budget Format Improvements

The CTA budget format could be improved with the following features:

- Specific information about projected sales tax revenues provided to the CTA by the RTA for the proposed budget. The budget should specify what percentage of the CTA's sales tax revenue is generated by the City of Chicago and what percentage is generated by suburban Cook County. It should also specify the percentage of its sales tax revenue provided to the CTA according to statute and the percentage provided at the RTA's discretion. Currently RTA Public Support regardless of source is aggregated in the budget presentation.
- Personnel information that breaks out FTEs by category – Operations, STO and Administration – should be provided in the Budget Book in addition to information currently provided about positions by area.