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For more information,
contact Laurence Msall at 312-201-9044

CIVIC FEDERATION SUPPORTS RESPONSIBLE, BALANCED CTA BUDGET

Urges Immediate Passage of Comprehensive Reform Package in Senate Bill 572

The Civic Federation supports Chicago Transit Authority President Ron Huberman's proposed $1.0 billion FY2008 budget because it makes necessary fare increases and service cuts to create a balanced budget for the coming fiscal year. The Federation's full analysis and recommendations are available on our website, www.civicfed.org.

"The Civic Federation **commends** the CTA for producing a responsible budget which allows the General Assembly, Governor Blagojevich, and the public to see in detail how the agency will meet its obligations if no additional funding is forthcoming from Springfield," said Laurence Msall, president of the Civic Federation. In contrast, last year's budget assumed $110 million in state funding which never materialized and threatened amorphous "service cuts" if the state did not provide that extra funding.

The Federation's analysis emphasizes the need for a **comprehensive approach** to solving the CTA's financial crisis that will address the agency's most critical needs of 1) increased operational funding; 2) greater flexibility in collective bargaining process; and 3) reform of the CTA's unaffordable pension and retiree health care benefits. The CTA and its unions have together agreed to landmark pension and retiree health care reforms that will create a retiree health care trust, shore up pension funding, trim benefits, and increase employer and employee contributions. We **commend** both parties for doing their part to ensure the future financial viability of the CTA. These necessary reforms are contained in SB572, sponsored by Representative Julie Hamos, and await state action. Every month that goes by without the state acting to reform the CTA's pensions and retiree health care costs the agency $10 million dollars. In contrast, a new bus costs $250,000 and a new rail car costs $1.5 million.

The state has provided short-term funding *at the last minute* to ward off "doomsday" dates the CTA responsibly planned for September and November in response to lack of funding. The reprieves first borrowed from the agency's future state funding and then granted federal capital dollars to be used for operations. Granting temporary funding at the eleventh hour is not only unfair to riders, who suffer uncertainty about getting to work and school, but also costs a good deal of money to the CTA. The agency has to reprogram its fleet and stations in preparation for new fare structures, reorganize its bus system, and place signage to warn riders. The CTA estimates that each "doomsday" preparation costs $1.5 million.

Article XIII of the Illinois Constitution states, "*Public transportation is an* ***essential public purpose*** *for which public funds may be expended. The General Assembly by law may provide for, aid, and assist public transportation, including the granting of public funds or credit to any corporation or public authority authorized to provide public transportation within the State.*"(Emphasis added.)

The Civic Federation calls on the members of the General Assembly and Governor Blagojevich to follow the Illinois Constitution and pass SB572.

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.

177 N. State Street, Suite 400 Chicago, Illinois 60601 ● Telephone (312) 201-9066 Fax (312) 201-9041 ● E-mail civicfed@civicfed.org

CHICAGO TRANSIT AUTHORITY
FY2008 PROPOSED BUDGET
Analysis and Recommendations

Prepared By
The Civic Federation

November 5, 2007

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Chicago Transit Authority proposes a FY2008 budget of $1.0 billion. This is an 8.8% decrease from the original FY2007 budget of $1.1 billion. Unlike the FY2007 original budget proposal, which assumed $110 million in additional public funding would be forthcoming, this budget is balanced and reflects no additional public subsidy.

The Civic Federation **supports** the proposed FY2008 Chicago Transit Authority Budget because it makes the necessary fare and service changes to create a balanced budget for the coming fiscal year. This budget is a reasonable and responsible approach to both insufficient public funding for transit and the statutory and collective bargaining constraints that preclude the CTA from enacting major cost-saving reforms.

The Civic Federation **strongly supports** a comprehensive approach to solving the Chicago Transit Authority's financial crisis. This approach must address the agency's three most critical needs: 1) increased operational funding; 2) greater flexibility in the collective bargaining process; and 3) reform of unaffordable pension and retiree health care benefits.

Senate Bill 572, sponsored by Representative Julie Hamos, addresses all three of these needs. Increased funding alone will not fix the CTA's severe operating crisis. Any additional funding must be linked to reforms that will address CTA's high personnel costs that are driven by generous pension and retiree health care benefits. The Civic Federation **commends** CTA and its unions for agreeing to landmark pension and retiree health care reforms that would create a retiree health care trust, shore up the pensions, trim benefits, and increase employer and employee contributions. These reforms are contained in SB 572 and await State action.

The Civic Federation calls on the members of the Illinois General Assembly and Governor Blagojevich to approve SB 572 and secure the future of public transit in Illinois. The importance of a well-operated and fiscally viable public transit system to the well-being of the citizens, businesses, and economy of the Chicago region and, indeed, the entire State of Illinois cannot be exaggerated.

FY2008 Budget Highlights:

- A 53.1% reduction in bus routes over current service levels.
- The introduction of peak pricing (higher fares during rush hour) and 11-63% increases for most fares. Reduced fares for students, seniors, and disabled persons will not be affected.
- There will be no transfer of capital funds to operations as in previous years.
- Personnel will decline by 2,276 full-time equivalent positions, or 20.9%, over the original FY2007 budget.
- Unlike last year, increased public funding is not assumed, and the FY2008 Recommended Budget is balanced.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the proposed FY2008 Chicago Transit Authority Budget because it makes the necessary fare and service changes to create a balanced budget for the coming fiscal year. This budget is a reasonable and responsible approach to both insufficient public funding for transit and the statutory and collective bargaining constraints that preclude the CTA from enacting major cost-saving reforms.

The Civic Federation **strongly supports** a comprehensive approach to solving the Chicago Transit Authority's financial crisis. This approach must address the agency's three most critical needs: 1) increased operational funding; 2) greater flexibility in the collective bargaining process; and 3) reform of unaffordable pension and retiree health care benefits.

Senate Bill 572, sponsored by Representative Julie Hamos, addresses all three of these needs. It provides increased public funding to the Regional Transit Authority, Pace, Metra, and the CTA in the form of a 0.25% sales tax increase in the six counties of northeastern Illinois. It would also allow an increase of up to 0.3% in the Chicago Real Estate Transfer Tax and would continue State support for paratransit service.

But increased funding alone will not fix the CTA's severe operating crisis. Any additional funding must be linked to reforms that address CTA's high personnel costs that are driven by generous pension and retiree health care benefits. The Civic Federation **commends** CTA and its unions for agreeing to landmark pension and retiree health care reforms that would create a retiree health care trust, shore up the pensions, trim benefits, and increase employer and employee contributions (see page 21 for details of the reforms). These reforms are contained in SB 572 and await State action.

Article XIII of the Constitution of the State of Illinois states that:

> "Public transportation is an ***essential public purpose*** for which public funds may be expended. The General Assembly by law may provide for, aid, and assist public transportation, including the granting of public funds or credit to any corporation or public authority authorized to provide public transportation within the State." (emphasis added)

Although the Constitution clearly states the importance of public transit and the State's authority to fund it, the General Assembly has yet to take action on SB 572. The Civic Federation calls on the members of the Illinois General Assembly and Governor Blagojevich to pass SB 572 and secure the future of public transit in Illinois. The importance of a well-operated and fiscally viable public transit system to the well-being of the citizens, businesses, and economy of the Chicago region and, indeed, the entire State of Illinois cannot be exaggerated.

The Civic Federation also recognizes the critical need for new capital investments in the CTA, Metra, and Pace. However, we believe that the operating crisis can and should be addressed separately and immediately, rather than waiting to tie it to a capital plan.

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to Chicago Transit Authority Senior Vice President and Treasurer Dennis Anosike and Vice President for Finance and Comptroller Lynn Sapyta for their willingness to meet with us regarding the FY2008 Recommended Budget and answer many of our revenue and expenditure questions.

BUDGET HIGHLIGHTS

The Chicago Transit Authority has proposed a FY2008 budget of $1.0 billion. This is an 8.8% **decrease** from the original FY2007 budget of $1.1 billion. The original FY2007 budget included $110 million in public subsidy that never arrived, so service cuts and fare increases are scheduled for November 4, 2007 in order to end the year with a balanced budget. The projected FY2008 deficit of $158 million will require additional severe service cuts and fare increases in January 2008.

The FY2008 CTA budget contains the following important features:

- A 53.1% reduction in bus routes over current service levels.
- The introduction of peak pricing (higher fares during rush hour) and 11-63% increases for most fares. Reduced fares for students, seniors, and disabled persons will not be affected.
- There will be no transfer of capital funds to operations as in previous years.
- Personnel will decline by 2,276 full-time equivalent positions, or 20.9%, over the original FY2007 budget.
- Unlike last year, increased public funding is not assumed, and the FY2008 Recommended Budget is balanced.

The public subsidy for the CTA provided through a regional sales tax will increase only $1.5 million, or 0.3%, from $470.3 million in FY2007 to $471.8 million in FY2008. Public funding has failed to keep up with inflation since 1987. CTA operating expenses have routinely increased by more than the rate of inflation, and Public Act 94-0983 will require the CTA to begin making pension contributions in 2009 that are over $100 million above current levels. The existing public funding structure for the CTA is insufficient for the continuation of existing fare and service levels, and current statutory and collective bargaining constraints do not permit CTA to make many operational changes that would reduce expenses.

PROPOSED SERVICE REDUCTIONS AND FARE INCREASES

Unlike the FY2007 proposed budget, which assumed that $110 million in new operating assistance would be provided by the General Assembly, the FY2008 proposed budget is balanced and does not assume additional funding. It budgets for the severe service cuts and fare increases CTA will have to make in FY2008 in the absence of increased public subsidy in order to meet its $158.0 million deficit.

When new operating assistance from the General Assembly had not been provided by July 2007, the RTA ordered Metra, Pace, and CTA to revise their FY2007 budgets downward. Each agency did so, and planned to make service cuts and fare increases as necessary to finish FY2007 with a balanced budget. These changes were originally scheduled to take place in September 2007, but were postponed when the RTA accepted an offer from Governor Blagojevich to advance the full $91 million budgeted for FY2008 in reduced fare reimbursements to the CTA, Metra, and Pace. This is money that the State annually provides the service boards to help mitigate the cost of reduced fares for students, seniors, and disabled persons. The $24 million advanced to the CTA and allowed the agency to postpone its service cuts and fare increases until November 4, 2007. If no further public funding is made available by that date, the CTA will make service cuts and fare increases in order to end FY2007 with a balanced budget, and will make further cuts on January 6, 2008 in order to achieve a balanced budget for FY2008 and close the projected $158 million budget deficit.

The majority of service cuts are to bus service since rail service is significantly more cost effective and the CTA projects that rail cuts would bring relatively little savings.[1] The November 2007 service cuts will eliminate 39 bus routes and remove 314 buses from daily service. The only rail service affected will be the Purple Line Express, which, rather than being cut, may make all local stops from Howard to Belmont in order to accommodate riders switching to rail once their bus service has been terminated. These service changes are projected to result in a reduction of 419 transit operator full-time equivalent (FTE) positions and 155 operating support FTEs. Combined with 75 administrative and operating support cuts already made, the total FTE reduction for 2007 is expected to reach 649.[2]

The January 2008 service cuts will remove 43 additional bus routes and 421 buses from service. Combined with the November 2007 cuts, this represents a reduction of 53% of CTA bus routes. The January cuts will result in the elimination of 1,627 additional FTE positions. There are no proposed cuts to the rail system. Total positions would decline by 20.3% or 2,201, from 10,832 currently to 8,631 in FY2008.

CTA 2007 and 2008 Proposed Service Cuts						
			Full-Time Equivalent (FTE) Positions			
	Bus Routes	Buses	Scheduled Transit Operators	Operating Support	Administrative Personnel	TOTAL FTEs or Cuts
Current Service*	154	1,850	5,605	4,278	949	**10,832**
November 4, 2007 cuts	-39	-314	-419	-155	-0	**-574**
January 6, 2008 cuts**	-43	-421	-1,050	-475	-102	**-1,627**
TOTAL	**72**	**1,115**	**4,136**	**3,648**	**847**	**8,631**
TOTAL % reduction over current service	**-53.2%**	**-39.7%**	**-26.2%**	**-14.7%**	**-10.7%**	**-20.3%**

*This includes a reduction of 26 Operating Support and 49 Administrative positions that already took place in 2007.

**Includes an FY2008 budgetary addition of two Operating Support positions and elimination of 17 Administrative positions.

Source: Chicago Transit Authority President's 2008 Budget Recommendations and information provided by the CTA Budget Office, October 26, 2007.

These service cuts will be accompanied by fare increases. A structural change in CTA fares will be made with the introduction of peak hour pricing. On weekdays from 6:30am-9:30am and

[1] *Chicago Transit Authority President's 2008 Budget Recommendations*, p. 10.
[2] *Chicago Transit Authority President's 2008 Budget Recommendations*, p. 18, and information provided by the CTA Budget Office, October 26, 2007.

4pm-7pm, most fares will be $0.50 more than during non-peak hours. Reduced fare rates for students, seniors, and disabled persons will not increase in either November 2007 or January 2008. Fare increases are complicated somewhat by favorable rates to encourage the use of Chicago Cards, but in general fares will increase from 11 to 63% over current rates. Details are provided in the table below. The largest single-ride fare increase will be a peak hour cash rail ride, which will go from the current price of $2.00 to $3.25 in January 2008.

CTA 2007 and 2008 Proposed Fare Increases				
		Current (Effective 1/1/2006)	**Effective November 4, 2007**	**Effective January 6, 2008**
Regular	**Full Fare Cash***	$2.00	$2.50	$2.75
	Full Fare Transit Card	$1.75 bus, $2.00 rail	$2.00 bus, $2.50 rail	$2.25 bus, $2.75 rail
	Full Fare Chicago Card	$1.75	$2.00	$2.25
Peak	**Full Fare Cash***	$2.00	$2.50 bus, $3.00 rail	$2.75 bus, $3.25 rail
	Full Fare Transit Card	$1.75 bus, $2.00 rail	$2.00 bus, $3.00 rail	$2.25 bus, $3.25 rail
	Full Fare Chicago Card	$1.75	$2.00	$2.25 bus, $2.50 rail
Regular/Peak	**Transfer****	$0.25		
	Chicago Card Bonus***	10%		
Passes	**1 Day**	$5.00	$6.00	$7.00
	2, 3, 5 Day	$9, $12, $18	$10, $14, $21	$11, $15, $23
	Full Fare 7 Day	$20.00	$23.00	$25.00
	Full Fare 30 Day	$75.00	$84.00	$94.00
Reduced Fares				
Regular/Peak	**Cash***	$1.00		
	Transit Card	$0.85		
	Transfer**	$0.15		
Passes	**30 Day**	$35.00		

*Rail customers paying cash must use the cash to purchase a transit card using vending machines at each station.

**Transfers are not available for customers using cash.

*** Bonus = for every $20 purchase, $22 of value is added.

Source: Chicago Transit Authority President's 2008 Budget Recommendations p. 23.

APPROPRIATIONS

This section provides an analysis of the CTA's proposed FY2008 appropriations. This year, the CTA's budget will total over $1.0 billion, an 8.8% or $99.3 million decrease from the original FY2007 budget of $1.1 billion. Throughout this analysis, we compare the proposed FY2008 budget to the original FY2007 budget which assumed a $110 million additional public subsidy that would have allowed the CTA to continue to operate without cutting service or raising fares. This subsidy never arrived, so the Regional Transit Authority required CTA, Metra, and Pace to amend their FY2007 budgets mid-year.

Appropriations: FY2007 and FY2008

Total FY2008 appropriations of $1.0 billion represent an 8.8% or $99.3 million decrease from the original FY2007 budget of $1.1 billion. The Proposed FY2008 Budget includes $747.6 million in appropriations for labor costs, a $101.3 million or 12.1% decrease over FY2007. This drop reflects projected layoffs of 2,193 employees, including 562 layoffs scheduled for November 4, 2007. Appropriations for fuel will fall by $12.8 million in FY2008, a 20.8%

decrease due to cutting 53.0% of bus routes from current service levels. Power appropriations will rise by $1.7 million, or 6.2% due to the rising cost of electricity and the fact that rail service will not be cut. Appropriations for the provision for injuries and damages will increase 12.0%, or $3.0 million.

Other expenses will rise by 33.8%, or $18.7 million. This category includes utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees, commissions for the sale of fare media, new bus and rail fleet cleanliness initiatives, and new contract costs for the proposed outsourcing of CTA's non-revenue fleet maintenance. The increase primarily reflects new initiatives in cleanliness and safety. Roughly half of the increase in Other Expenses will be for safety improvements at CTA customer facilities (including concrete repair and replacement), new meshed fencing, and faster replacement of broken or etched glass.[3] CTA is proposing to contract with the City of Chicago Fleet Management Department to maintain its non-revenue vehicles, a change that is expected to provide more efficient vehicle repair and allow CTA to shift more repair personnel to revenue fleet vehicles.[4] Higher rates for gas, water, and electricity are expected to cost an additional $3.3 million in FY2008.[5] Additional funds are also being appropriated to improve the cleanliness of buses, rail cars, and rail stations by performing more in-depth cleaning, hiring additional cleaning staff, and replacing or resealing floors of rail cars and elevators.[6]

CTA Proposed Operating Budgets
By Object of Expenditure: FY2007 vs. FY2008

Appropriation by Object	FY2007	FY2008	$ Change	% Change
Labor	$ 850,332,000	$ 747,651,000	$ (102,681,000)	-12.1%
Material	$ 77,894,000	$ 72,311,000	$ (5,583,000)	-7.2%
Security	$ 35,334,000	$ 33,600,000	$ (1,734,000)	-4.9%
Fuel	$ 61,233,000	$ 48,467,000	$ (12,766,000)	-20.8%
Power	$ 28,057,000	$ 29,797,000	$ 1,740,000	6.2%
Provision for Injuries & Damages	$ 25,000,000	$ 28,000,000	$ 3,000,000	12.0%
Other Expenses	$ 55,301,000	$ 74,010,000	$ 18,709,000	33.8%
Total	**$ 1,133,151,000**	**$ 1,033,836,000**	**$ (99,315,000)**	**-8.8%**

Source: CTA Proposed Budgets, FY2007 and FY2008

Appropriations: Five-Year Trend

From FY2004 to FY2008, the CTA's total operating budget will increase by 10.4%, or $97.2 million. Fuel costs will have increased by 110.7% over the past five years despite the major bus service reduction in FY2008. Appropriations for security services will rise by 34.2% or $8.6 million, and the provision for injuries and damages will increase by 27.3%, or $6.0 million. Labor costs will have risen by only 8.7% over five years due to the layoffs in FY2008. There will be no appropriations for paratransit in FY2008 because paratransit services were transferred to Pace on July 1, 2006.

[3] Dennis Anosike, CTA Vice President for Finance, in an e-mail to the Civic Federation, October 23, 2007.
[4] *Chicago Transit Authority President's 2008 Budget Recommendations*, pp. 13-14.
[5] Dennis Anosike, CTA Vice President for Finance, in an e-mail to the Civic Federation, October 23, 2007.
[6] Dennis Anosike, CTA Vice President for Finance, in an e-mail to the Civic Federation, October 23, 2007.

CTA Proposed Operating Budgets By Object of Expenditure: FY2004 vs. FY2008				
Appropriation by Object	**FY2004**	**FY2008**	**$ Change**	**% Change**
Labor	$ 687,528,000	$ 747,651,000	$ 60,123,000	8.7%
Material	$ 66,000,000	$ 72,311,000	$ 6,311,000	9.6%
Purchase of Paratransit	$ 45,113,000	$ -	$ (45,113,000)	-100.0%
Security	$ 25,042,000	$ 33,600,000	$ 8,558,000	34.2%
Fuel	$ 23,000,000	$ 48,467,000	$ 25,467,000	110.7%
Power	$ 22,000,000	$ 29,797,000	$ 7,797,000	35.4%
Provision for Injuries & Damages	$ 22,000,000	$ 28,000,000	$ 6,000,000	27.3%
Other Expenses	$ 45,945,000	$ 74,010,000	$ 28,065,000	61.1%
Total	**$ 936,628,000**	**$ 1,033,836,000**	**$ 97,208,000**	**10.4%**

Source: CTA Proposed Budgets, FY2004 and FY2008

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: FY2007 and FY2008

The Proposed FY2008 Budget includes $562.0 million from system-generated revenue and $471.8 million in public funding through the RTA. Included in the system-generated revenue is $470.4 million in farebox revenue, a $2.0 million or 0.4% increase from FY2007. This reflects fare increases as well as ridership declines due to service cuts (see pages 5 and 13). Farebox revenue represents 83.7% of system-generated revenue in the FY2008 Budget. Investment income will decline in FY2008, by $0.4 million or 3.2%. This is likely due to lower cash balances than projected in the original FY2007 budget, as well as cuts in short-term interest rates by Federal Reserve Board of Governors.[7]

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 the City of 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. This represents $22.0 million in police services for FY2008, provided at no charge to the CTA.[8] The State of Illinois's reimbursement for reduced fares will increase slightly in FY2008, by $0.3 million or 0.8%, and advertising and concession revenue will increase by $2.4 million or 9.6%. Other revenue, which includes parking charges, filming fees, third-part contract reimbursements, and rental revenue will increase by $5.0 million, or 48.7%. A new lease agreement with the City of Chicago for the CTA facility at 120 N. Racine will increase rental income by just over $1.0 million. CTA also anticipates greater revenues from leased parking

[7] *Chicago Transit Authority President's 2008 Budget Recommendations*, p. 14.
[8] *Chicago Transit Authority President's 2008 Budget Recommendations*, p. 13.

spaces under elevated tracks and a lease with the RTA on the first floor of the CTA headquarters building on Lake Street.[9] A lease with Banco Popular will bring an additional $0.5 million in FY2008, and increased advertising revenues are expected from advertisements on the escalators in the State of Illinois Building. A new partnership with the City of Chicago to allow CTA employees to issue parking violation citations, as well as a new procurement card program with the Bank of America are other sources of new revenues for FY2008.[10]

CTA Budgeted Revenue: FY2007 Original & FY2008 Proposed				
Source	**FY2007***	**FY2008**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 468,334,000	$ 470,376,000	$ 2,042,000	0.4%
Reduced Fare Reimbusement	$ 32,000,000	$ 32,271,000	$ 271,000	0.8%
Advertising, Charter & Concessions	$ 24,990,000	$ 27,381,000	$ 2,391,000	9.6%
Investment Income	$ 12,120,000	$ 11,736,000	$ (384,000)	-3.2%
Required Contributions from Cook County & City of Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 10,250,000	$ 15,244,000	$ 4,994,000	48.7%
Total System-Generated Revenue	**$ 552,694,000**	**$ 562,008,000**	**$ 9,314,000**	**1.7%**
Public Funding through RTA	**$ 470,349,000**	**$ 471,828,000**	**$ 1,479,000**	**0.3%**
Proposed Funding from the General Assembly	**$ 110,108,000**	**$ -**	**$ (110,108,000)**	**100.0%**
Total	**$ 1,133,151,000**	**$ 1,033,836,000**	**$ (99,315,000)**	**-8.8%**

*This is the original FY2007 budget which included an anticipated $110 million in additional public subsidy for FY2007.

Source: CTA Proposed Budgets FY2007 and FY2008

The recovery ratio, which measures the amount of operating expenses recovered from operating revenues, is normally 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 FY2008, the RTA has required the CTA to recover at least 52.0% of its operating expenses through system-generated revenues. The CTA's FY2008 proposed budget estimates that the recovery ratio will be 57.13% for 2008. The high recovery ratio for FY2008 is more indicative of reduced public funding than increased system-generated revenue. The CTA forecast for total public funding in FY2007 is $537.2 million, compared to a total of $580.5 originally budgeted for FY2007 from RTA and General Assembly funding.

System-Generated Revenues: Five-Year Trend

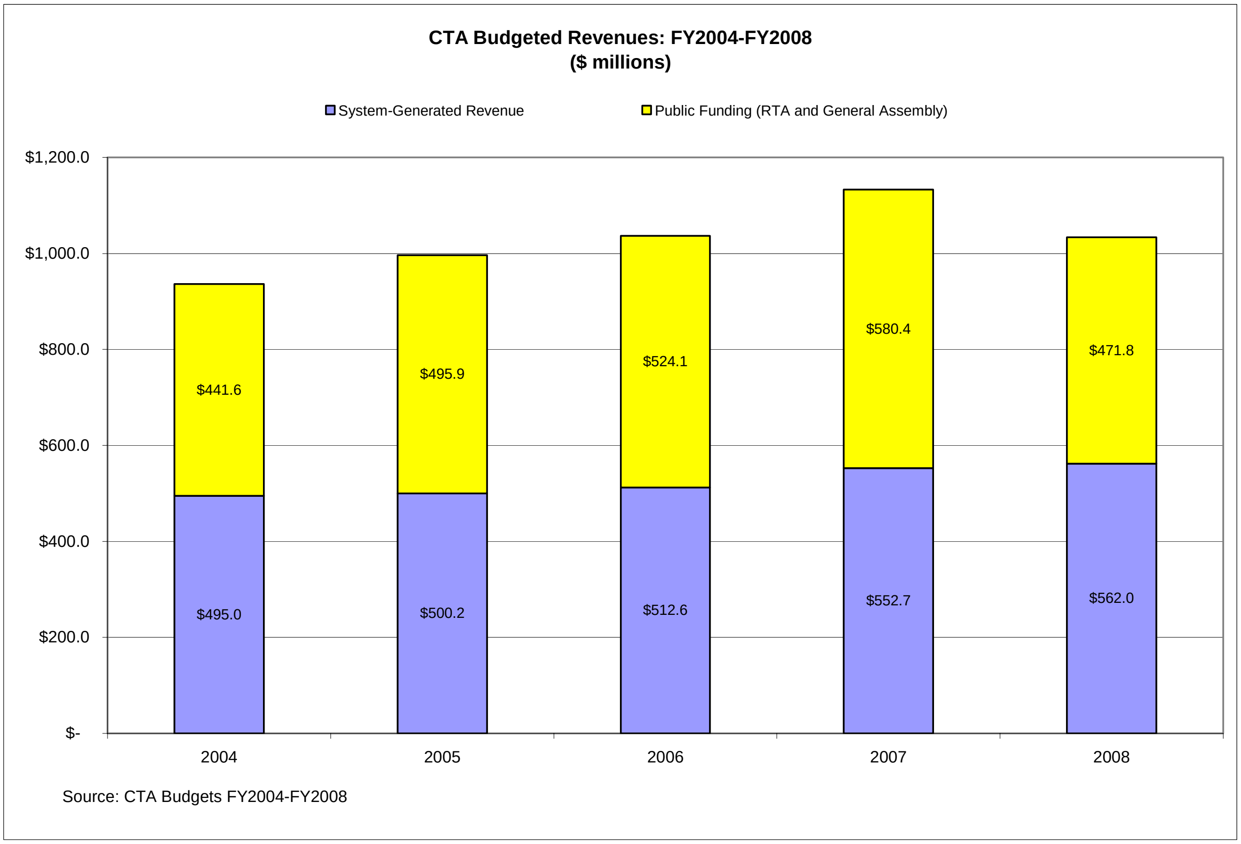
Comparing the CTA's FY2008 Proposed Budget with that of FY2004, total revenues are projected to have increased by 10.4%, with the largest percent increase coming from investment income (a projected rise of 291.2%) and the largest dollar increase from farebox revenue ($75.9 million). Farebox revenue is predicted to increase by 19.2%, but other revenue will decrease by 57.6%. Advertising, charter and concession revenues will increase by 12.9%, and reduced fare reimbursement revenues from the State of Illinois will remain nearly flat over this five year period.

[9] Dennis Anosike, CTA Vice President for Finance, in an e-mail to the Civic Federation, October 23, 2007.
[10] Dennis Anosike, CTA Vice President for Finance, in an e-mail to the Civic Federation, October 23, 2007.

CTA Budgeted Revenue: FY2004 - FY2008				
Source	**FY2004**	**FY2008**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 394,512,000	$ 470,376,000	$ 75,864,000	19.2%
Reduced Fare Reimbusement	$ 32,300,000	$ 32,271,000	$ (29,000)	-0.1%
Advertising, Charter & Concessions	$ 24,250,000	$ 27,381,000	$ 3,131,000	12.9%
Investment Income	$ 3,000,000	$ 11,736,000	$ 8,736,000	291.2%
Required Contributions from Cook County & City of Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 35,935,000	$ 15,244,000	$ (20,691,000)	-57.6%
Total System-Generated Revenue	**$ 494,997,000**	**$ 562,008,000**	**$ 67,011,000**	**13.5%**
Public Funding through RTA	**$ 441,631,000**	**$ 471,828,000**	**$ 30,197,000**	**6.8%**
Total	**$ 936,628,000**	**$ 1,033,836,000**	**$ 97,208,000**	**10.4%**

Source: CTA Proposed Budgets FY2004 and FY2008

The following exhibit illustrates system-generated revenues and public funding between FY2004 and FY2008.



Structure of Public Funding for the CTA from the RTA

The CTA expects to receive public funding from two sources in 2008: 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 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 of 0.75% equivalent to a total of 1.00% in tax revenue 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.[11]

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 $471.8 million in total sales tax revenue from the RTA in FY2008. This is only a $1.5 million, or 0.3%, increase over budgeted CTA sales tax revenues in FY2007. Of the $471.8 million, $303.3 is expected to come directly from the sales tax distribution formula and $168.5 million will be RTA discretionary funds, allocated from the 15% of total tax revenue retained by the RTA. There will be a decline of $6.8 million, or 3.9%, in the CTA share of RTA discretionary funds. This is because the State subsidy for paratransit is expected to remain flat, so RTA will shift more discretionary funds to Pace's paratransit service in order to ensure adequate funding for services to customers with disabilities.[12]

CTA Public Funding: FY2007 Original & FY2008 Proposed				
	FY2007	**FY2008**	**$ Change**	**% Change**
RTA Formula Sales Tax Revenues	$ 295,098,000	$ 303,341,000	$ 8,243,000	2.8%
RTA Discretionary Sales Tax Revenues	$ 175,251,000	$ 168,487,000	$ (6,764,000)	-3.9%
Proposed Total	**$ 470,349,000**	**$ 471,828,000**	**$ 1,479,000**	**0.3%**

*This is the original FY2007 budget which included an anticipated $110 million in additional public subsidy for FY2007.

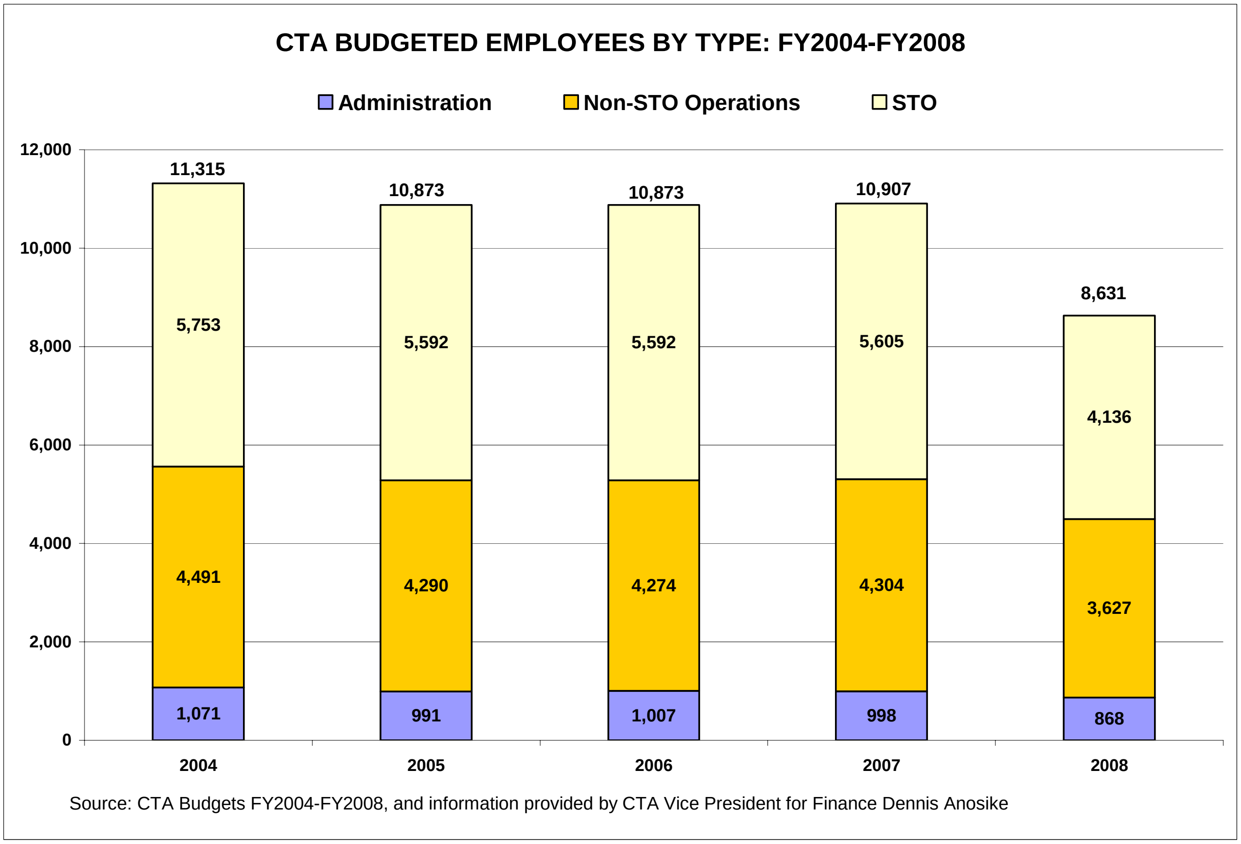
Source: CTA Proposed Budgets for FY2007 and FY2008, Appendix 4

[11] 70 ILCS 3615/4.03.

[12] Dennis Anosike, CTA Vice President for Finance, in an e-mail to the Civic Federation, October 23, 2007.

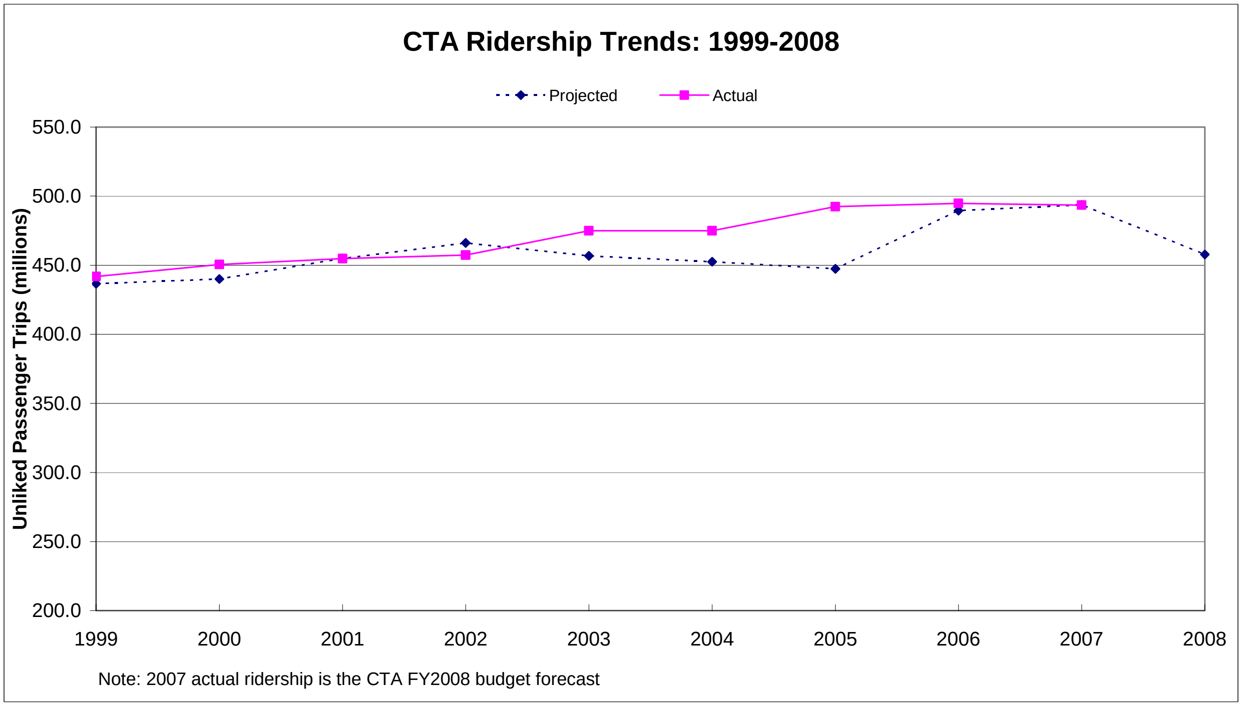
PERSONNEL TRENDS

The CTA plans to fund 8,631 positions in its FY2008. This is a 20.9% decrease of 2,276 positions from the FY2007 Original Budget. This decrease includes 130 administrative positions and 1,469 Scheduled Transit Operator (STO) positions. In FY2008, 10.1% of all positions will be administrative, 47.9% will be STO, and 42.0% will be non-STO operations.



RIDERSHIP

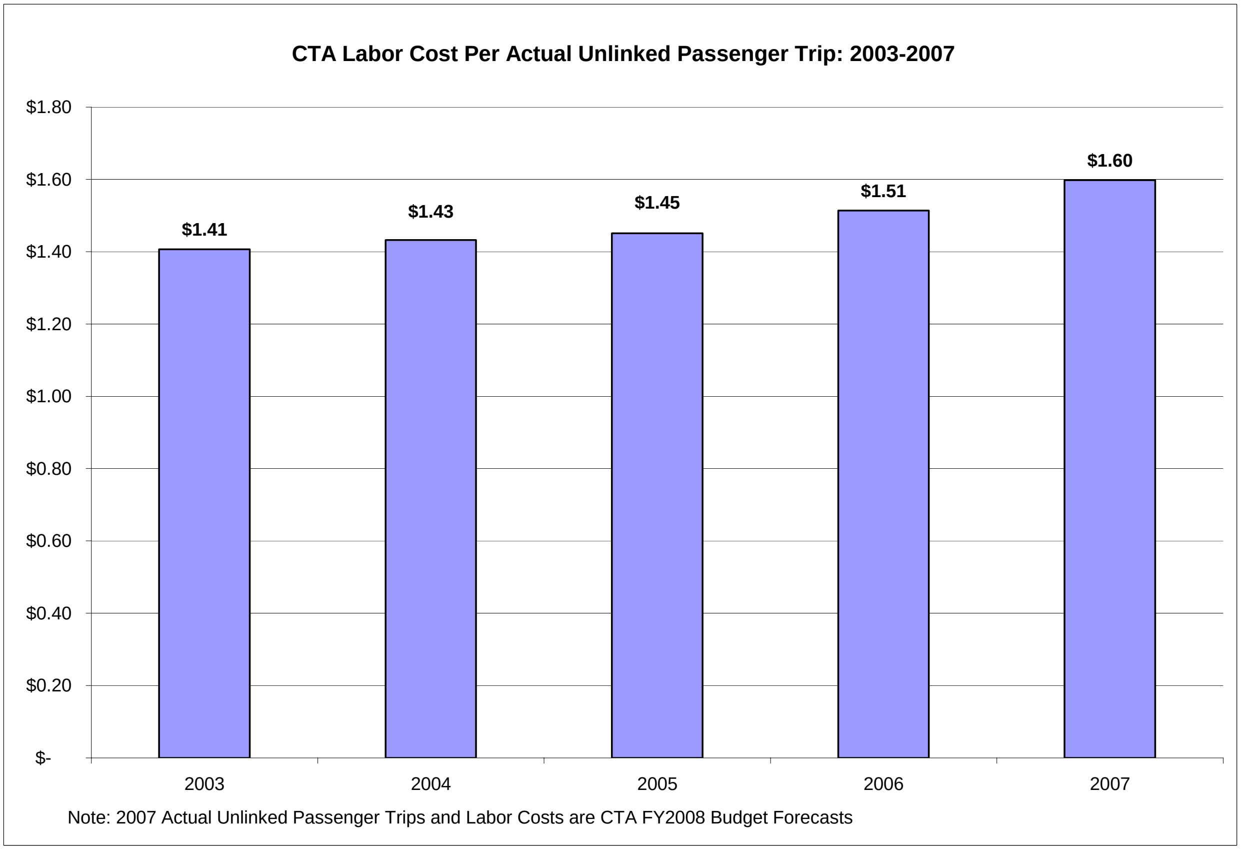
CTA projects that ridership will decrease by 7.3% in FY2008, from 493.7 million rides, as projected by the FY2007 forecast, to approximately 457.8 million rides in FY2008. This decline reflects service cuts described on page 5. Bus ridership is projected to account for 57.2% of all trips in FY2008 and rail ridership for 42.8%.



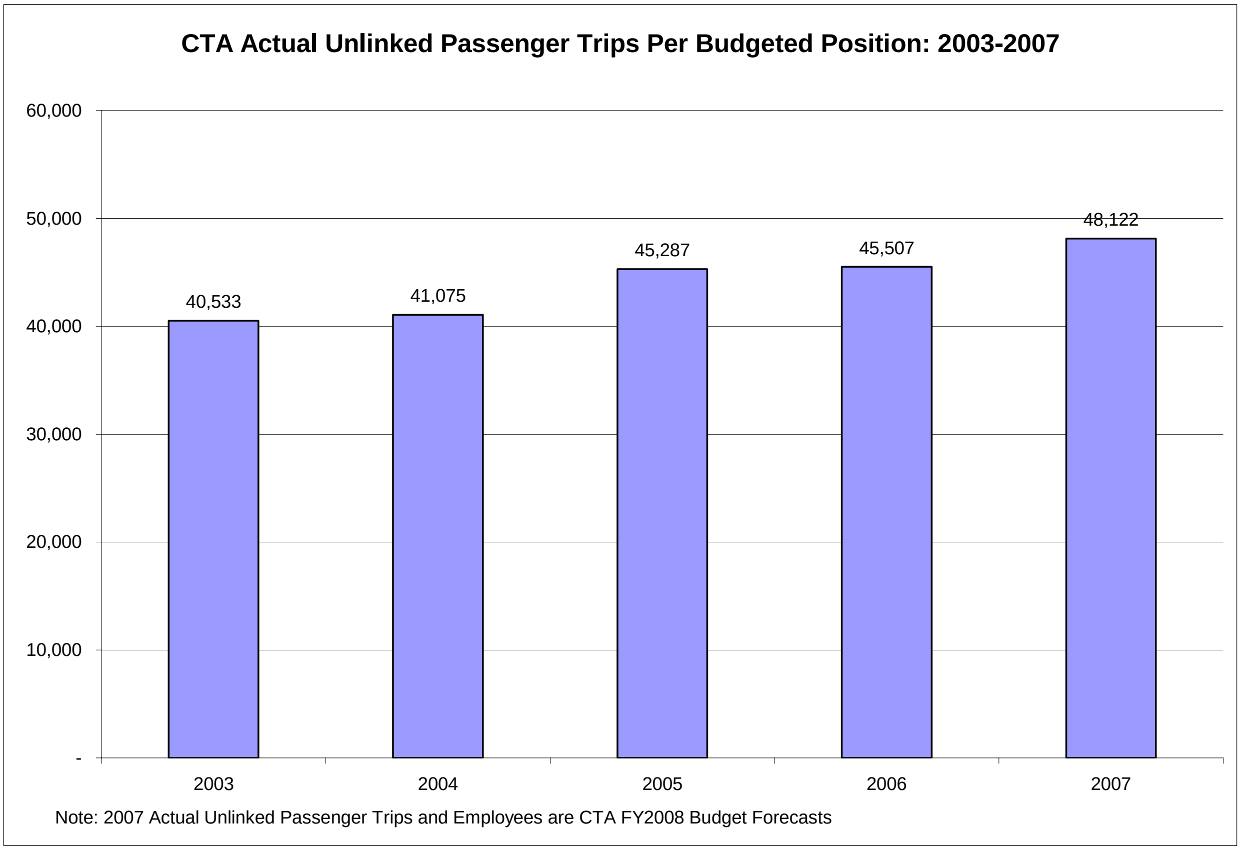
PRODUCTIVITY MEASURES

The Civic Federation uses three measures to assess 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. These figures are calculated based on data provided in the body and appendices of the CTA's FY2008 budget document.

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 dollar amount has risen from $1.41 in 2003 to $1.60 in 2007, a 13.5% increase. Between 2003 and 2007, labor costs rose 18.1%, while ridership grew by approximately 4.0%.



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 40,533 trips per employee in 2003 to 48,122 trips per employee in 2007. Ridership per employee rose substantially from 2004 to 2005 and from 2006 to 2007 as overall ridership improved and as headcount was reduced.



The table below shows unlinked passenger trips per administrative position. This trend generally resembles the trend for total positions above. The large productivity gains in 2005 and 2007 reflect cuts in administrative positions.

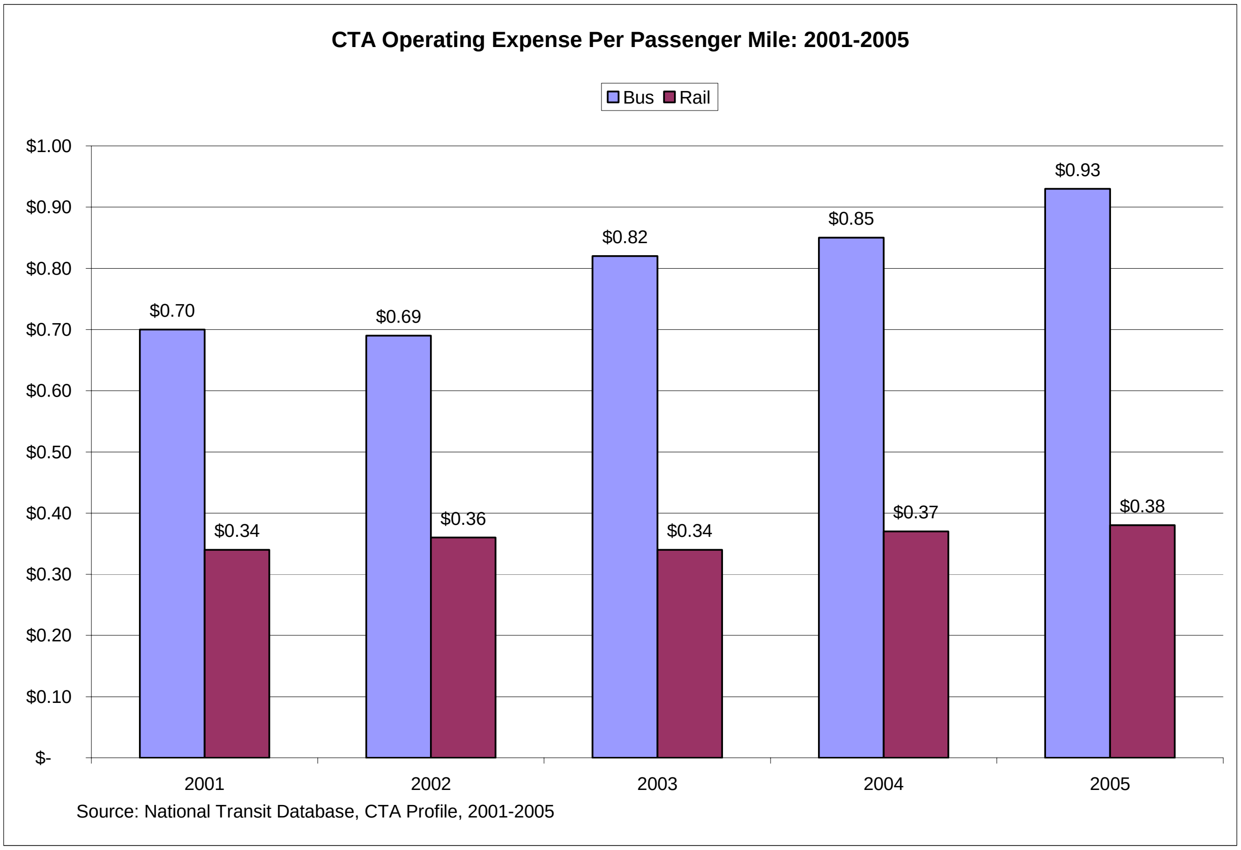
CTA Unlinked Passenger Trips Per Administrative Position: 2004-2007	
2004	443,465
2005	496,876
2006	491,363
2007	534,820

Note: The 2007 figure is a CTA FY2008 budget forecast

Additional Productivity Indicators

There are two other historic indicators that provide information about the productivity of CTA's operations. Unfortunately, the latest data available for these indicators is from 2005.

The chart below illustrates operating expense per passenger mile for bus and rail service between 2001 and 2005. 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 $0.34 and $0.38 per passenger mile. For buses, operating expense per passenger mile has been rising over time. This service's cost effectiveness decreased substantially in 2003, when costs rose from $0.69 in 2002 to $0.82 in 2003. Cost effectiveness decreased again in 2005, when costs rose from $0.85 in 2004 to $0.93 in 2005.



For rail transit, CTA's 2005 operating expense per passenger mile compared favorably with the mass transit systems in other major cities. Chicago's operating expense per passenger mile for rail service was the third lowest among the cities examined. Furthermore, from 2004 to 2005, the operating expense per passenger mile for CTA's rail service increased by only $0.01, the lowest increase incurred by any of the cities examined. Chicago's operating expense per passenger mile for bus service, however, was tied with Washington D.C. for second-highest among the cities examined. Of the six cities considered, only Boston's bus service was more expensive when measured by passenger mile. Chicago's operating expense per passenger mile for bus service increased from $0.85 in 2004 to $0.93 in 2005.

Selected Cities: Operating Expense Per Passenger Mile in 2005

	Bus		Rail
Boston	$ 1.03	Boston	$ 0.45
Washington, D.C.	$ 0.93	Los Angeles	$ 0.44
Chicago	**$ 0.93**	Washington, D.C.	$ 0.41
New York	$ 0.92	**Chicago**	**$ 0.38**
Philadelphia	$ 0.78	Philadelphia	$ 0.35
Los Angeles	$ 0.55	New York	$ 0.32

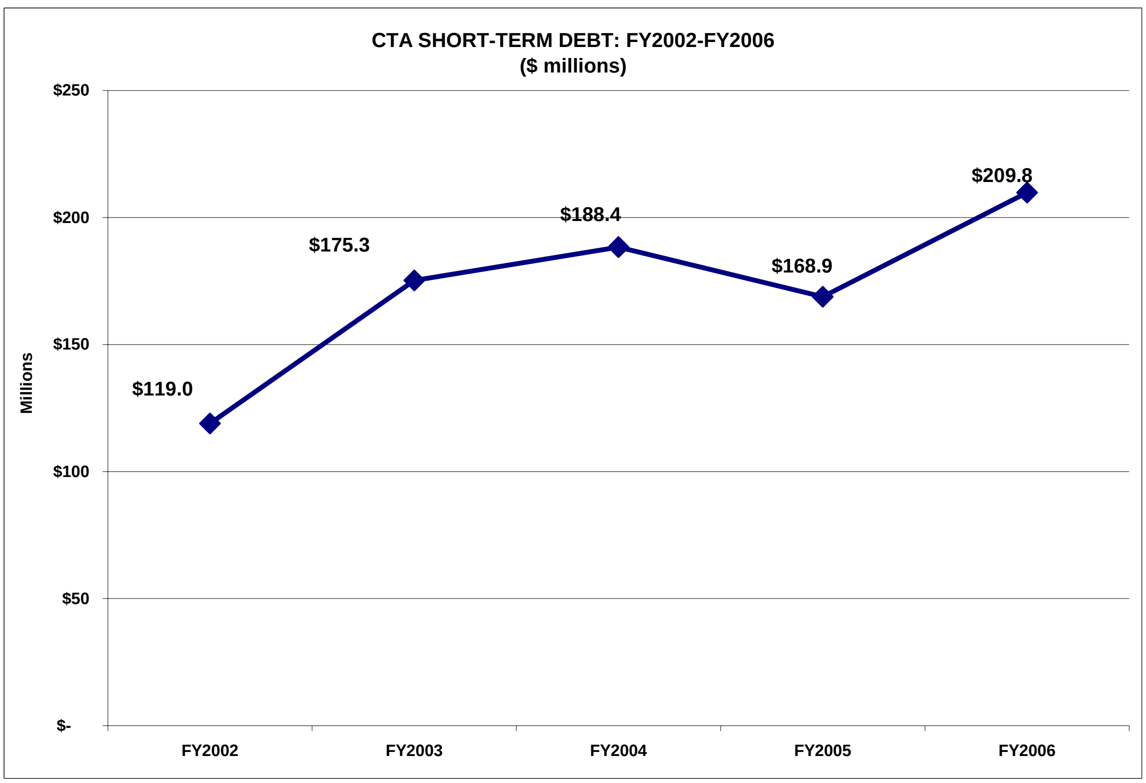
SHORT AND LONG-TERM DEBT TRENDS

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

Short-Term Debt Trends

Short-term debt is a financial obligation that must be satisfied within one year. A trend of increasing 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 the purpose of this analysis, short-term debt includes primarily accounts payable, advances and deposits, advances from the RTA, deferred passenger revenue, and deferred operating assistance. It does not include accrued payroll, the current portion of supplemental retirement plans or capital lease obligations, or the current portion of self-insurance reserves.[13]

CTA short-term debt increased in FY2006, rising by 24.2% or $40.9 million. This represents an increase from $168.9 million to $209.8 million, and was largely due to increased accounts payable. This increase came after a decrease in the prior year. Over the five-year period between FY2002 and FY2006, CTA short-term debt increased by 76.4%, rising from $119.0 million to $209.8 million. This trend bears watching if it continues.

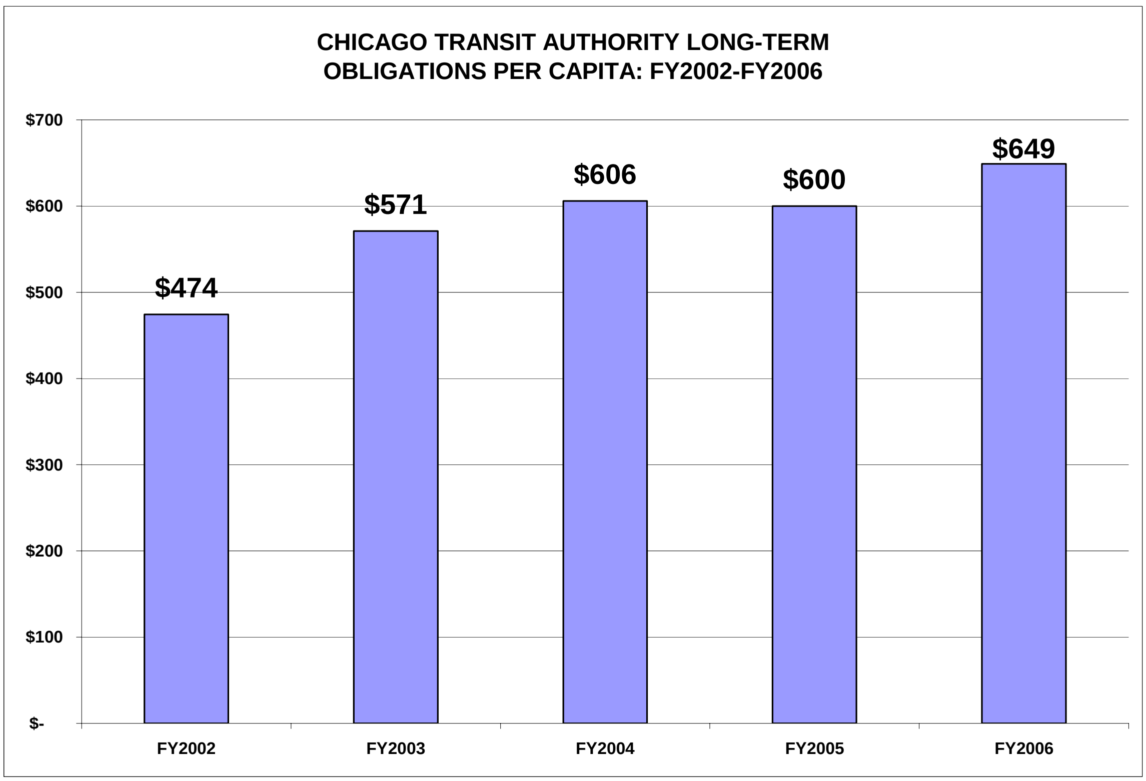


[13] Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2006 and 2005*, p. 13.

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 total amount of CTA long-term liabilities per year and divides it by the population served by the CTA. Until the 2000 census, this population was 3.7 million. In subsequent years, the service population increased slightly to 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 they are a potential sign of increasing financial risk.

In FY2002 long-term obligations per capita were $474. Since that time, long-term obligations per capita increased to $649, a 36.8% increase. This increase represents a rise from $1.8 billion in long-term liabilities in FY2002 to $2.5 billion five years later. The large increase is driven in part by the first-ever issuance of $207 million in bonds in 2003 and a subsequent $250 million bond issue in FY2004 in anticipation of grants from the federal government. A third bond series was issued on November 1, 2006, for $275 million. These large increases in long-term obligations over time bear watching. However, it is important to note that long-term obligations per capita did fall slightly between FY2004 and FY2005, dropping by 1.0%, from $606 to $600.



RETIREMENT SYSTEM

The CTA primary employees' pension fund is a defined benefit pension plan covering most full-time permanent union and nonunion employees. In FY2006 the fund had 9,710 active employees and 9,116 beneficiaries. The CTA also maintains small supplementary retirement plans for employees in certain employment classifications.[14]

The main employees' fund is governed by the terms and conditions of the 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 in Illinois, the CTA pension fund is exempted under state statute from reporting financial information about its assets, liabilities and investments.[15]

The CTA employee pension fund is severely underfunded, with a funded ratio of only 25.2% in FY2006. According to the fund's executive director, the trend toward declining funded ratios has been developing over the past 25 years, with the rapid deterioration of the CTA pension fund in recent years primarily due to insufficient contributions and escalating health care benefits exacerbated by investment losses.[16] In 2005, the fund actuaries informed the CTA Board of Directors that retiree health insurance account assets were projected to be depleted in 2007 and total fund assets were projected to be depleted in 2012.[17]

Public Act 94-0839, passed in the spring of 2006 as part of the FY2007 Budget Implementation Act, requires the CTA to make annual pension contributions beginning January 1, 2009 sufficient to bring the funded ratio to 90% by 2058 and prevent the depletion of fund assets expected to occur in 2012. 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 estimated that the 2009 total required employee and employer contribution would exceed $150 million, up from $51.7 million in 2005.[18] This substantial increase in employer 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 in state statute. Recent union negotiations were expected to yield some changes to pension provisions and contributions, considering the dire state of the pension fund. But despite the precarious status of the pension fund and the dramatic increases in

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[14] See Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2006 and 2005*, p. 44.
[15] See Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2006 and 2005*. Note 1 to the Financial Statements – Financial Reporting Entity – p. 19. See also 40 ILCS 5/22-101.
[16] Retirement Plan for Chicago Transit Authority Employees. *Basic Financial Statements and Management's Discussion and Analysis, Year Ended December 31, 2004*, p. 6.
[17] Presentation made by Fund actuaries to the CTA Board on September 14, 2005.
[18] 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.

employer contributions slated to begin in 2009, the July 18, 2006 arbitration award made no changes to either pension contributions or benefit levels.

In response to the dire state of the pension plan and the CTA's overall financial crisis, the CTA negotiated groundbreaking reforms with its union employees in the summer of 2007. If passed by the General Assembly, the reforms contained in Senate Bill 572 would stabilize the pension and retiree health care provisions by increasing employer and employee contributions, adjusting benefits, strengthening governance, issuing bonds, and providing ongoing oversight by the State Auditor General. Specifically, the reforms would:

- Change benefits for employees hired after January 1, 2008:
    - Reduced pension available at 55 years of age and 10 years of service (currently 3 years);
    - Full pension available at 64 years of age (currently 55) and 25 years of service;
    - CTA executive pension eliminated.
- Eliminate "bloc" voting on pension board (each member to vote independently);
- Establish an 11-member board of trustees: 5 CTA, 5 union, 1 expert selected by the RTA board;
- Authorize a $1.45 billion pension obligation bond, of which $1 billion would shore up the pension fund and $450 million would seed a new Retiree Healthcare Trust;
- Increase employer contributions from 6% to 12% of payroll, and "credit" the employer for debt service payments up to 6% of payroll;
- Increase employee contributions from 3% to 6% of payroll;
- Pension fund must stay over 60% funded through 2038 and reach 90% by 2059; the Auditor General will annually certify if contributions are sufficient, and if they are not, will require additional contributions be made according to this ratio: 2/3 CTA and 1/3 employees;
- Debt service on pension and health care bonds is to be paid from new CTA operating funds authorized by the General Assembly; the cap on total bonding is set at $1.78 billion; debt service in 2009 is at least 70% of 2012 debt service; 80% of 2012 debt service in 2010; 90% of 2012 debt service in 2011; level debt service required in 2012 and thereafter; CTA can take "credit" for capitalized interest payments against required pension contributions for 2008 only;
- Auditor General submits annual financial reports to the General Assembly.

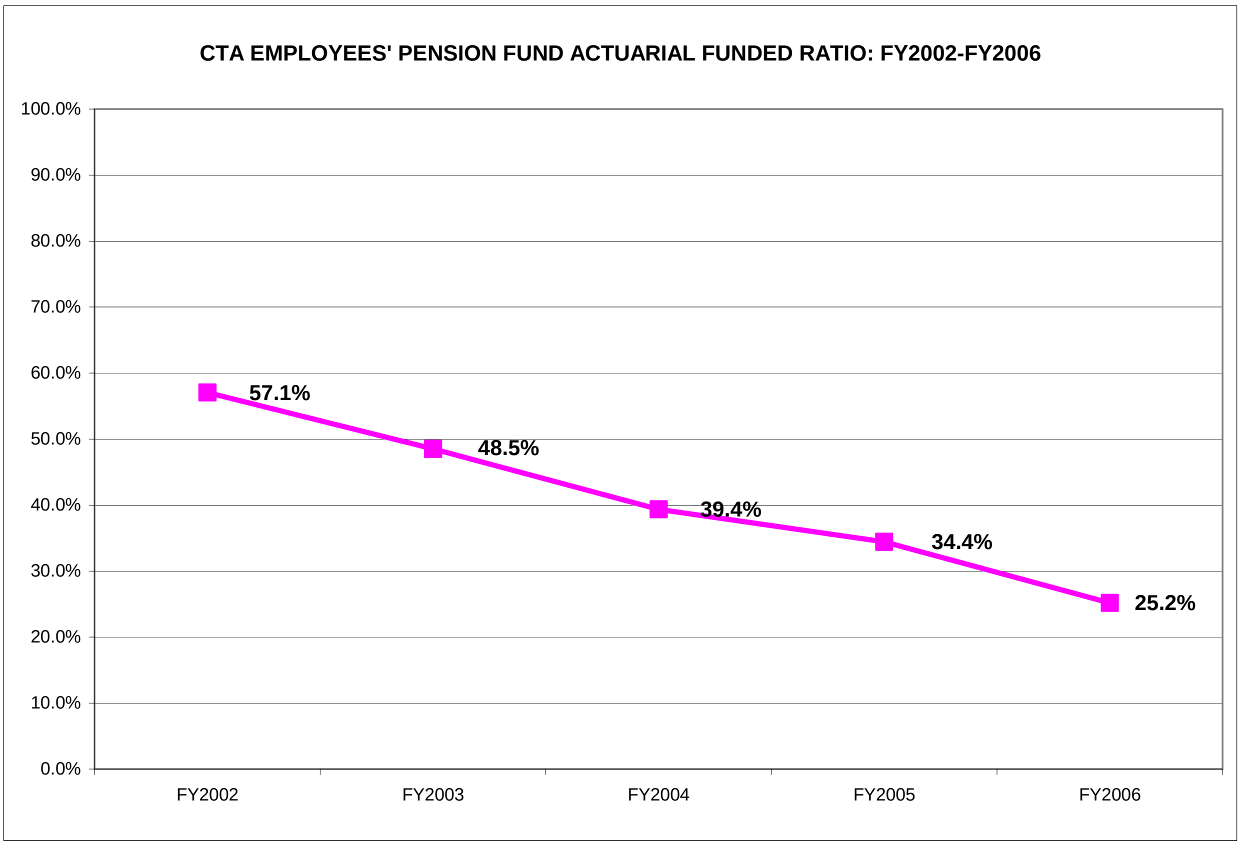
These reforms have been widely supported by the RTA, CTA, unions, Mayor Daley, and business and civic groups including The Civic Federation. They have not, however, found sufficient support from the Governor and the General Assembly.

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the CTA employees' pension fund: funded ratios, the value of unfunded liabilities, and investment rates of return. These figures were calculated using data available in the fund's FY2006 Actuarial Valuation. As noted in the valuation, the fund's actuarial methods and assumptions are collectively bargained, thus they do not always conform to Governmental Accounting Standards Board requirements. In the FY2006 valuation, the actuaries reported two sets of results, one meeting GASB requirements and the other using bargained assumptions. The bargained assumptions led to more favorable outcomes, but the GASB assumptions are considered more actuarially appropriate and are the ones reported below.

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.

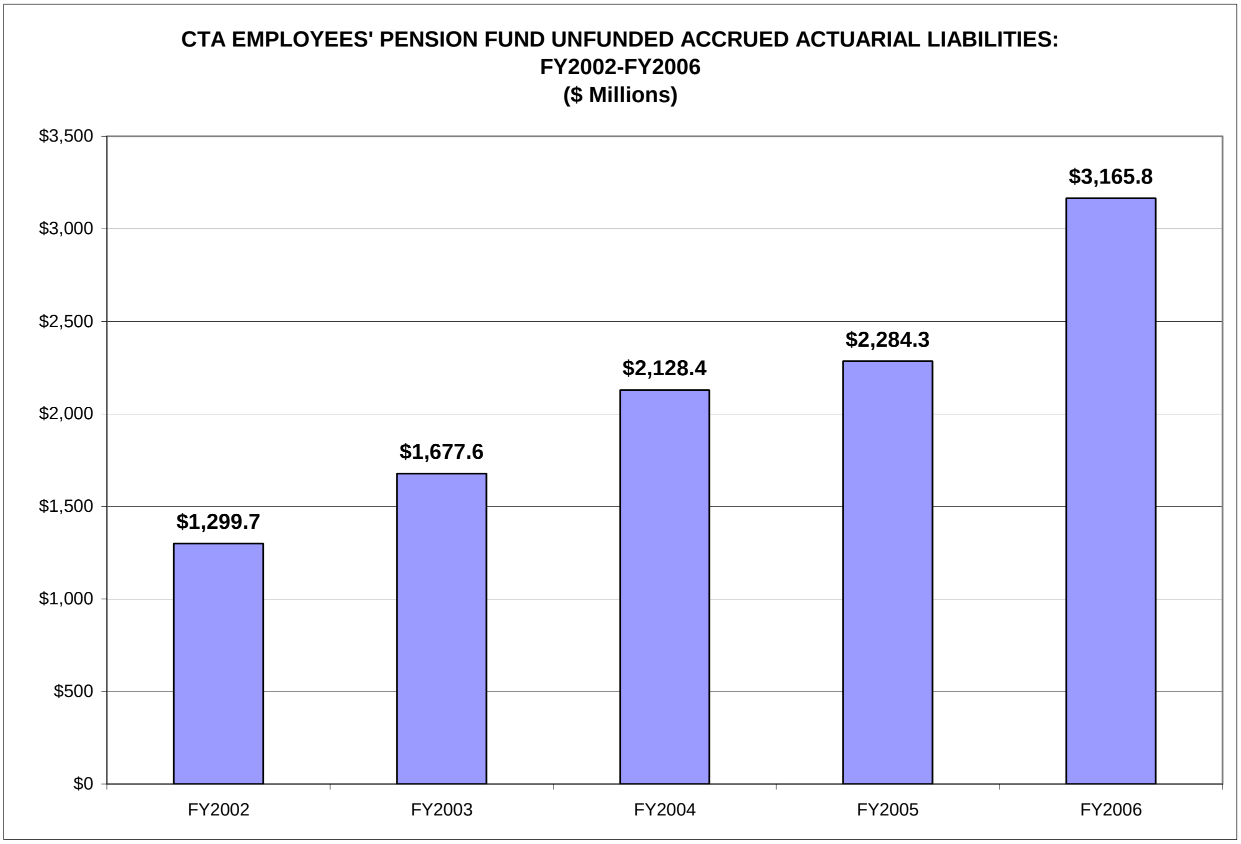
The funded ratio for the CTA pension fund fell by 31.9 percentage points between FY2002 and FY2006, declining from 57.1% to only 25.2%. The 25.2% ratio reflects combined pension and health insurance obligations. Beginning in FY2006, fund actuaries also calculated these ratios separately yielding a 40.8% ratio for pension benefits alone and a 3.3% ratio for health insurance.[19] The steady erosion of CTA Pension Fund ratio is a cause for alarm.



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 almost $3.2 billion in FY2006. This was a $1.9 billion or 143.6% increase over FY2002.

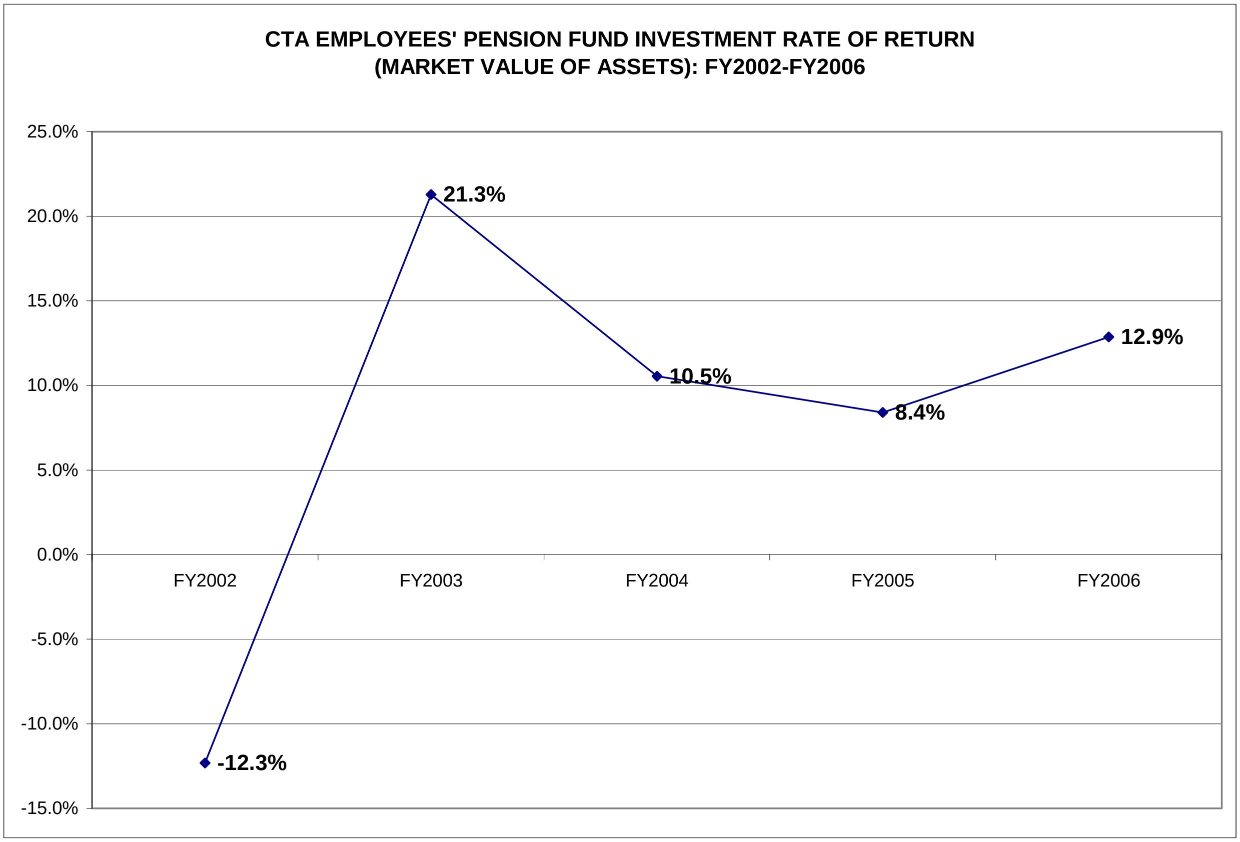
[19] *Retirement Plan for CTA Employees Actuarial Valuation as of January 1, 2007*, pp. 20 and 24.



Investment Rates of Return

The investment rate of return for the CTA Employees' Pension Fund was 12.9% in FY2006. This is an increase over the 8.4% return reported the previous year, and is greater than the actuarially assumed rate of return of 9%, causing an actuarial gain for FY2006. The 9% annual assumed investment rate of return was set by collective bargaining agreement. Fund actuaries warn that 9% is "an extremely aggressive assumption according to actuarial standards of practice," and warn that the fund has only a 27% likelihood of attaining that average rate of return over the next 25 years.[20]

[20] *Retirement Plan for CTA Employees Actuarial Valuation as of January 1, 2007*, p. 1.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following recommendations for improving the financial management of the Chicago Transit Authority.

Pass Senate Bill 572 Immediately

The Civic Federation believes that the CTA's financial crisis can only be solved through a comprehensive approach that addresses the agency's three most critical needs: 1) increased operational funding; 2) greater flexibility in the collective bargaining process; and 3) reform of unaffordable pension and retiree health care benefits.

Senate Bill 572, sponsored by Representative Julie Hamos, addresses all three of these needs. Increased funding alone will not fix the CTA's severe financial crisis. Any additional funding must be linked to reforms that will address CTA's high personnel costs that are driven by generous pension and retiree health care benefits. The Civic Federation commends CTA and its unions for agreeing to landmark pension and retiree health care reforms that would create a retiree health care trust, shore up the pensions, trim benefits, and increase employer and employee contributions. These reforms are contained in SB 572 and await State action.

The Civic Federation calls on the members of the Illinois General Assembly and Governor Blagojevich to pass SB 572 and secure the future of public transit in Illinois. The importance of a well-operated and fiscally viable public transit system to the well-being of the citizens, businesses, and economy of the Chicago region and, indeed, the entire State of Illinois cannot be exaggerated.

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

Develop a Performance Management Program

The Civic Federation commends the CTA for providing some productivity indicators it its budget document. Such information on the agency's performance over time and compared to other similar agencies allows the public and CTA officials to assess how effectively and efficiently CTA is fulfilling its mission. The Civic Federation recommends that the CTA take the next step and institute a performance management program such as the one Ron Huberman developed at the City of Chicago. A performance management program would collect more data at a detailed level and hold managers accountable for the productivity of their departments. It would raise the accountability standards of the CTA and provide decision-makers with better information on how to continually improve CTA operations.

Budget Format Improvements

The Civic Federation commends the CTA for producing a user-friendly and detailed budget document. We have two specific recommendations for further improving the budget:

- The Department Budget Schedule, Line Item Schedule, and Budgeted Positions pages were eliminated from the budget document in FY2008 and should be reintroduced next year.
- 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.

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