The Civic Federation

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CHICAGO TRANSIT AUTHORITY PRESIDENT'S FY2014 BUDGET RECOMMENDATIONS

Analysis and Recommendations

November 12, 2013

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EXECUTIVE SUMMARY

The Civic Federation **supports** the FY2014 proposed Chicago Transit Authority operating budget of nearly $1.4 billion because it will continue to meet Chicago's transit demands while holding fares flat and maintaining service levels. The CTA proposes to increase spending by approximately $30.8 million, or 2.3%, over last year's budget due primarily to rises in personnel-related costs.

The Civic Federation offers the following **key findings** on the FY2014 Recommended Budget:

- The total proposed FY2014 operating budget will be nearly $1.4 billion, a 2.3%, or $30.8 million, increase from the FY2013 approved budget;
- Labor expenses will be $973.7 million, which is an increase of $34.0 million, or 3.6%, over the FY2013 approved budget;
- FY2014 system-generated revenue is expected to be $676.0 million while public funding through the Regional Transportation Authority will be $708.9 million;
- Since FY2010 system-generated revenues will have increased by $81.9 million, or 13.8%, and public funding through the Regional Transportation Authority will have increased by $179.9 million, or 34.0%; and
- The CTA expects ridership to increase from the FY2013 forecast by 4.7 million rides, or 0.9%, to 534.6 million rides in FY2014.

The Civic Federation **supports** the following elements of the CTA's FY2014 budget:

- Producing an operating budget that does not include one-time revenue sources;
- Maintaining current fares and service levels; and
- Continuing to prudently manage personnel costs.

The Civic Federation has the following **concerns** about the FY2014 proposed budget:

- The FY2014 proposed budget anticipates receiving $21.5 million from the State of Illinois as a partial reimbursement for providing reduced fare rides. The FY2014 projection reflects an increase of approximately $5.6 million from the amount received from the State in FY2013 after accounting for a full year of the cut to the reduced fare subsidy. Rather than prudently planning for level funding from the State, the CTA is relying on State funds that may not be available;
- The FY2014 budget book does not include sufficient details on operating expenses or deficit-reduction measures implemented in FY2013 to account for the reduction in the State of Illinois' reduced fare subsidy; and
- Despite major reforms that have had a significantly positive impact on the CTA's pension fund, the health of the fund has recently taken a turn for the worse.

The Civic Federation offers the following **recommendations** to improve the CTA's financial situation:

- Improve the budget document by providing more detail about deficit reduction measures, labor expenditures by type, other expenses and full-time equivalent positions by department;
- Update the debt policy to prohibit refinancing of debt that extends the life of outstanding principal to reap near-term operating savings without reducing the actual total debt service owed and set forth a level-principal policy for new bond issuances;
- Monitor the health of the CTA pension fund;
- Undertake a study of the benefits and drawbacks of transitioning from a flat fare structure to a zone-based or peak-hour-based fare structure and make the results publicly available; and
- Develop a long-term financial plan to maintain the budgetary balance projected through FY2016 that takes into account ongoing capital needs and back loaded debt with models that present different options for aligning expenditures, revenues and service targets for future years.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the FY2014 proposed Chicago Transit Authority operating budget of nearly $1.4 billion because it accommodates Chicago's transit demands while holding fares flat and maintaining service levels. The CTA proposes to increase spending by approximately $30.8 million, or 2.3%, over last year's budget due primarily to rises in personnel-related costs.

The FY2014 proposed budget is possible because of efforts over the past two years to stabilize the CTA's finances. The FY2012 budget ended the CTA's deleterious pattern of transferring capital funds to the operating budget to cope with annual deficits. Additionally, in FY2012 the CTA and union members solidified a tentative agreement to curb labor costs that included significant work-rule adjustments, health care cost sharing, modest annual salary increases and job security. The FY2013 budget marked the first year since FY2006 in which the CTA did not use one-time revenue sources to support its operating budget. Thanks to these measures, the CTA projects balanced budgets through FY2016.

Although the FY2014 operating budget proposal would allow the CTA to remain on this sustainable path, the agency should develop a long-term financial plan to ensure that positive budgetary trends continue. Additionally, the agency still faces enormous capital funding challenges. The CTA estimates that it needs approximately $844 million annually to keep its capital stock in good repair. However, the five-year capital plan only provides for an average of $591 million in funding annually, which is a substantial funding gap.[1]

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the CTA President's FY2014 Budget Recommendations.

Producing an Operating Budget without One-Time Revenue Sources

The FY2014 proposed budget represents the second consecutive year in which the CTA has produced a budget that does not include one-time revenue sources. Prior to FY2013, the CTA had relied on at least one non-recurring revenue source to meet its operating obligations. These one-time revenue sources included transfers from capital funds, transfers from State funds in exchange for forestalling fare increases, transfers from prior year positive balance and most recently, savings generated from replacing a pension obligation bond debt service reserve with a surety bond.

[1] CTA President's FY2014 Budget Recommendations, p. 76.

Altogether, the agency had budgeted approximately $686.0 million of one-time revenue sources since FY2006. Between FY2006 and FY2011, the CTA transferred $391.9 million in capital funds to the operating budget. These transfers bridged annual budget gaps, but delayed much-needed infrastructure upgrades and stalled the upgrade of old equipment that is more expensive to maintain.

CTA Budgeted Non-Recurring Revenue Sources: FY2006-FY2014
(in $ millions)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	Total
Additional State Funds	$27.1 [1]	-	-	-	$83.0 [2]	$83.0 [2]	-	-	-	$198.1
Capital Transfers to Operating Budget*	$41.2	$83.9	-	$128.9	$89.7	$48.2	-	-	-	$391.9
Prior Year Resources	-	-	$20.0		-	-	-	-	-	$20.0
POB Reserve	-	-	-	-	-	-	$73.0 [3]	-	-	$76.0
Total Non-Recurring Revenue	**$68.3**	**$83.9**	**$20.0**	**$128.9**	**$172.7**	**$131.2**	**$73.0**	**$0.0**	**$0.0**	**$686.0**

*Actual data provided by the CTA, November 4, 2011.

[1] Illinois Department of Transportation grant to fund paratransit.

[2] Agreement between the Regional Transportation Authority, State of Illinois and CTA to accept State funding in exchange for holding fares constant for two years.

[3] The CTA replaced $78 million held in reserves for pension obligation bond (POB) debt service with a $4.7 million surety bond, freeing up a net of $73.3 million to be applied to the FY2012 debt service payment. This action produced a one-time operating budget savings of $73.3 million.

Source: CTA President's Budget Recommendations FY2007, p. 30; FY2008, p. 9; FY2009, p. 10; FY2010, p. 13; FY2011, p. 23; FY2012, p. 23; FY2013, p. 30; FY2014, p. 42.

By modernizing labor practices and implementing reasonable and necessary fare pass increases over the past two years, the CTA has taken significant steps toward matching its ongoing expenses with its recurring revenues. The Federation commends the CTA for continuing a fiscally responsible approach to balancing its budget.

Maintaining Fares and Service Levels

The FY2014 budget proposes no fare increases or service cuts. The last increase in base fares was in FY2009, when cash fares for the bus system increased from $2.00 to $2.25 and transit card fares increased from $1.75 to $2.00 for buses and from $2.00 to $2.25 for trains. Pass fares also increased by 20% that year. In FY2013 the CTA increased pass fares for daily, weekly and monthly passes, but held base fares flat. The CTA also implemented the Crowding Reduction Plan to reduce crowding on the busiest 48 bus and six rail routes, which was funded by the elimination of twelve under-used and duplicative bus routes.

Given the agency’s vital role as an economic asset to the City, the Civic Federation commends the agency for proposing a budget that will effectively continue to meet the demand for public transportation in the region.

Continuing to Prudently Manage Personnel Costs

The FY2014 proposed budget introduces a new health care structure for CTA employees that will go into effect on January 1, 2014. This change reflects a shift from four health maintenance organization (HMO) and preferred provider organization (PPO) plans offered to CTA employees with varying pricing models to one PPO plan that allows employees to select a cost structure most advantageous for them. The new structure represents an integrated benefit approach where all benefits are provided by one vendor, rather than the previous structure in which multiple vendors administered different benefits. This type of health benefits structure is more aligned with agencies similar to the CTA. The CTA anticipates that with the larger self-insured plan, the agency will have the ability to control costs by a streamlined and integrated approach and will also have enhanced reporting capabilities. The CTA estimates annual savings of approximately $5 million in administrative costs.[2]

Additionally, as part of the four-year agreement between the CTA and labor unions, the agency will be continuing the shift of customer service assistants from outsourced security contracts to in-house services through FY2014. The CTA has estimated that the shift to in-house employees will save over $1 million annually.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the CTA's proposed FY2014 operating budget.

Dependence on Increased Subsidy from State of Illinois

The State of Illinois provides a reduced-fare subsidy to the CTA as a partial reimbursement for the number of discounted and free rides given to students, seniors, veterans and people with disabilities. In 2013 the State reduced its reimbursement, which caused the CTA to lose approximately $6.9 million in FY2013 and would have caused the loss of over $8 million in the first half of FY2014. The Regional Transportation Authority (RTA) has committed to provide nearly $8.2 million to replace the reduced fare subsidy for the first half of FY2014.[3] In its proposed budget, the CTA notes that by July 2014 the agency anticipates prior State funding levels to be restored.[4] The CTA was additionally guided by the RTA to count on additional State reduced fare subsidy revenues in its FY2014 budget.[5] This is despite the State of Illinois' ongoing financial challenges, including the scheduled rollback of the 2011 income tax increase on January 1, 2015.

If the State does not increase funding in its FY2015 budget, the CTA will face a $5.6 million deficit mid-year, which could precipitate fare increases or service cuts.[6] The Civic Federation believes that it is overly optimistic to expect an increase in State funding levels for FY2014. Our fear is that the CTA may be relying too heavily on State funds without fully accounting for the State's continued fiscal deterioration.

The Civic Federation believes that a more prudent course given the State of Illinois' precarious fiscal position would be to prepare for State funding levels in FY2014 that would reflect a full year of the subsidy cut. The CTA could then prepare a budget that prioritizes what spending it would fund if the State were to increase the reimbursement next year. For example, due to funding uncertainty from the State of Illinois this year, City Colleges of Chicago's proposed FY2014 budget assumed a lower level of funding from the State. The budget book included a

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[2] Communication with the Chicago Transit Agency's budget staff, November 5, 2013.
[3] CTA President's FY2014 Proposed Budget, pp. 40 and 96.
[4] CTA President's FY2014 Proposed Budget, p. 40.
[5] Communication with the Chicago Transit Agency's budget staff, November 5, 2013.
[6] The $5.6 million amount is an estimate given to the Civic Federation by the Chicago Transit Agency's budget staff, November 12, 2013.

menu of items that would be incorporated into the budget if more resources from the State became available.[7]

Lack of Transparency in Budget Book

Although the CTA provides ample narrative in its budget book to help explain the initiatives put forth in the upcoming fiscal year, as well as updates to the current fiscal year, the Civic Federation is concerned that the budget book offers very little detail in a number of other areas.

The budget book does not provide sufficient detail on how the agency plans to eliminate the FY2013 deficit that was created by the State of Illinois' reduction of its reimbursement to the CTA for reduced-fare rides. The CTA estimates that the agency will lose approximately $6.9 million in the second half of FY2013, but does not provide any details on how this budget gap would be closed.[8] Such information, including measures the agency would implement throughout the rest of FY2013 and dollar estimates associated with each measure, should be included in the Executive Summary or FY2013 Forecast. Without these details, it can be difficult to ascertain whether the agency's FY2013 budget will be balanced by year-end.

Additionally, although labor expenses represent over 70% of total CTA operating expenses, the budget document does not provide detail on all components of labor expense. This information would provide greater transparency for a significant portion of the district's budget, including wages, healthcare, pension contributions, workers' compensation and payroll taxes for Social Security and Medicare. Similarly, the large category of "Other Expenses" presented in the budget includes a number of important components that should be shown separately, including utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees and interest on the outstanding pension obligation bonds.

Health of the CTA Pension Fund

Beginning in 2006, the Illinois General Assembly enacted a number of reforms that have had a significant effect on the CTA pension fund, and which the Civic Federation supported. The urgency for reform of the CTA pension fund arose from an actuarial projection that the fund would be unable to pay retiree healthcare costs by 2008 and would reach 0% funding by 2013 if nothing was done to boost assets or reduce liabilities. The fund's poor financial health was primarily the result of insufficient employer and employee contributions, early retirement programs, benefit increases and dramatic increases in the cost of healthcare over the past few decades.[9] The legislated reforms specifically addressed each of these issues.

Also included in the legislation was the deposit of $1.1 billion in pension obligation bond proceeds into the retirement fund and $528.8 million into a new Retiree Healthcare Trust. The infusion of funds brought the pension fund's market value of assets from 39.3% funded in

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[7] For more information on the City Colleges of Chicago's FY2014 budget, see the Civic Federation's website at http://www.civicfed.org/civic-federation/publications/CityCollegesFY2014.

[8] CTA President's FY2014 Proposed Budget, p. 32.

[9] Retirement Plan for Chicago Transit Authority Employees *Basic Financial Statements and Management's Discussion and Analysis for the Year Ended December 31, 2006*, p. 6.

FY2007 to 66.0% funded in FY2008 and dropped unfunded actuarial accrued liabilities from $1.6 billion in FY2007 to $646 million in FY2008.

However, since FY2008 unfunded liabilities have grown from $0.6 billion to nearly $1.2 billion in FY2012. The increase is due to a number of factors including a reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50%, unfavorable market conditions and a change in the valuation of assets from a smoothed valuation to market valuation, as well as employer contributions that were insufficient to prevent growth in the unfunded liability. During the same time, the market value funded ratio of the pension fund fell from 66.0% funded in FY2008 to 59.4% funded in FY2012. This triggered increased contributions by the CTA and employees that will raise the funded ratio above 60% by 2022. While the 2008 pension legislation included this self-adjusting mechanism, the fund's significant deterioration is a cause for concern.

Civic Federation Recommendations

The Civic Federation offers the following recommendations regarding the CTA's financial management.

Improve Budget Detail

The Civic Federation recommends that the CTA improve its budget documents by providing the details currently missing from the budget as outlined in the concerns section above.

The Federation recommends that the CTA budget be improved by adding detail on labor expenses including wages, healthcare, pension contributions, workers' compensation and payroll taxes for Social Security and Medicare. Similarly, the large category of "Other Expenses" presented in the budget should be broken down with its components shown separately, including utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees and interest on the outstanding pension obligation bonds.

The Civic Federation also recommends that the CTA provide more detail on full-time equivalent positions including scheduled transit operators (STO), non-STO operations positions and administrators. Further detail on positions by department would also help readers understand the staffing structure of the CTA.

Finally, the budget document currently provides one year of actual data and data for the current year's budget and proposed budget. Ideally, five years of data should be included to provide the reader with a clear understanding of budgetary trends. This would consist of three actual years, the current budget and the proposed budget.

Update Debt Management Policy and Guidelines

The CTA should update its debt policy to prohibit refinancing that extends the life of outstanding principal to reap near-term operating savings without reducing the actual total debt service owed. The CTA should also set forth a level-principal policy for new bond issuances.

The CTA enacted a debt policy in 2004 that prohibits the use of long-term debt for operating purposes and endeavors to avoid high cost borrowing for capital projects.[10] However, in recent years the CTA issued refunding bonds that reduced annual operating costs for debt service but extended the life of the principal owed. The CTA has also issued long-term capital bonds with principal payments delayed for over 10 years, greatly increasing the total interest cost of the bonds. Both of these debt procedures increase the overall cost of borrowing for the CTA and the total cost of providing government services.

On May 6, 2010, the CTA issued $90.7 million in capital refunding bonds to pay for $42.8 million in principal amounts due in FY2010 and $44.8 million due in FY2011. By refinancing this debt for 25 years the CTA freed up additional operating funds that would have otherwise been dedicated to debt service payments, a refinancing maneuver commonly referred to as a "scoop and toss." Although the refunding of the bonds provided short-term savings for the FY2010 and FY2011 budgets, the extension of the life of the bonds for 25 years greatly increased the total interest payments due on the originally borrowed funds. Further increasing the cost is the back loaded structure of the refunding bonds, which do not include principal payments until FY2027. The CTA will pay an additional $68 million in interest costs for this borrowing from FY2013 through FY2028.[11]

Although the CTA does not include refinancing debt as part of its recommended FY2014 budget, the Civic Federation remains concerned about its past use of "scoop and toss" refunding. The Federation opposes any future refinancing that extends the life of current debt and does not provide actual economic savings compared to total existing debt service costs.

The CTA issued capital improvement bonds on October 26, 2011 with principal payments delayed for 10 years. The 2011 Sales Tax Receipts Revenue bonds totaled $476.9 million in new funds for capital projects but will cost $504.4 million in total interest payments between FY2013 and FY2040.[12] The delay in principal payments leads to lower annual costs in the early years when the CTA is paying only interest on the loans but leads to a spike in annual debt service costs in FY2021, when principal payments begin, and much higher total interest costs over the life of the bonds.

The Civic Federation opposes the issuance of bonds with heavily back loaded principal amounts because of the increased interest cost and stress caused in future budget years by ballooning of debt service payments resulting from this structure.

The CTA should formalize additional debt policies to prohibit extensions of the life of existing debt in a way that only lowers near-term debt service payments. The CTA should also prevent any refinancing that does not create real economic savings compared to total existing debt service costs. Finally, the CTA should adopt a level principal policy that prevents the back loading of principal for future bond issuances, which greatly increases the cost of borrowing and the total cost of government operations.

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[10] CTA President's FY2014 Budget Recommendation, p. 99.
[11] CTA President's FY2014 Budget Recommendation, p. 108.
[12] CTA President's FY2014 Budget Recommendation, p. 114.

Monitor Pension Fund Health

Major reforms of the CTA pension plan passed by the Illinois General Assembly have had a significant positive effect, stabilizing the CTA pension fund beginning in FY2007. However, since FY2008 unfunded liabilities have grown from $0.6 billion to nearly $1.2 billion in FY2012. During the same time, the market value funded ratio of the pension fund fell from 66.0% funded in FY2008 to 59.4% funded in FY2012.

The plan's funded ratio first fell below the 60% threshold in FY2011, when it fell to 59.2% funded. The decline triggered increased contributions by the CTA and its employees. The rates needed to return the plan to 60% funded in ten years and all subsequent years through 2039 as required by statute were actuarially calculated to be 14.25% for the CTA (net of the 6% POB debt service credit) and 10.125% for the employees for plan years 2013 and 2014-2040. This was an increase from 11.3% for the CTA and 8.65% for the employees in plan year 2012.[13]

Although the CTA's pension plan is self-adjusting, it is important for the agency to closely monitor the fund to ensure that it remains financially sustainable in the future.

Study Zone Fare or Peak Hour Options

In FY2013 the CTA approved a $5.00 flat fee for passengers leaving O'Hare airport. This is a step forward for the agency since the additional fare will increase revenues while still providing a reasonable value for riders traveling from O'Hare airport to downtown.

The Civic Federation recommends that the CTA go further and study the options to transition from a flat fare structure to a zone-based fare structure, which would base the cost of a transit ride on the length traveled, or a peak hour option, which would charge users higher rates during rush hour. The results of the study should be made publicly available.

Implement a Formal Long-Term Financial Plan

The CTA has faced significant gaps between ongoing revenues and expenses in recent years, leading to a variety of actions including fare increases, service cuts, borrowing from the State of Illinois and using capital funds for operating purposes. While the CTA projects balanced budgets through FY2016, with ongoing capital needs and back loaded debt service costs coming due in future years, the Civic Federation recommends that the CTA undertake a formal long-term financial planning process in order to consider and model future options for the System under different scenarios, as well as performance targets.

Therefore, we recommend that the CTA undertake a four-stage financial planning process.[14] First, the President and Board articulate fiscal and programmatic goals and priorities informed by public input. Then the President and Board evaluate financial and service data in order to

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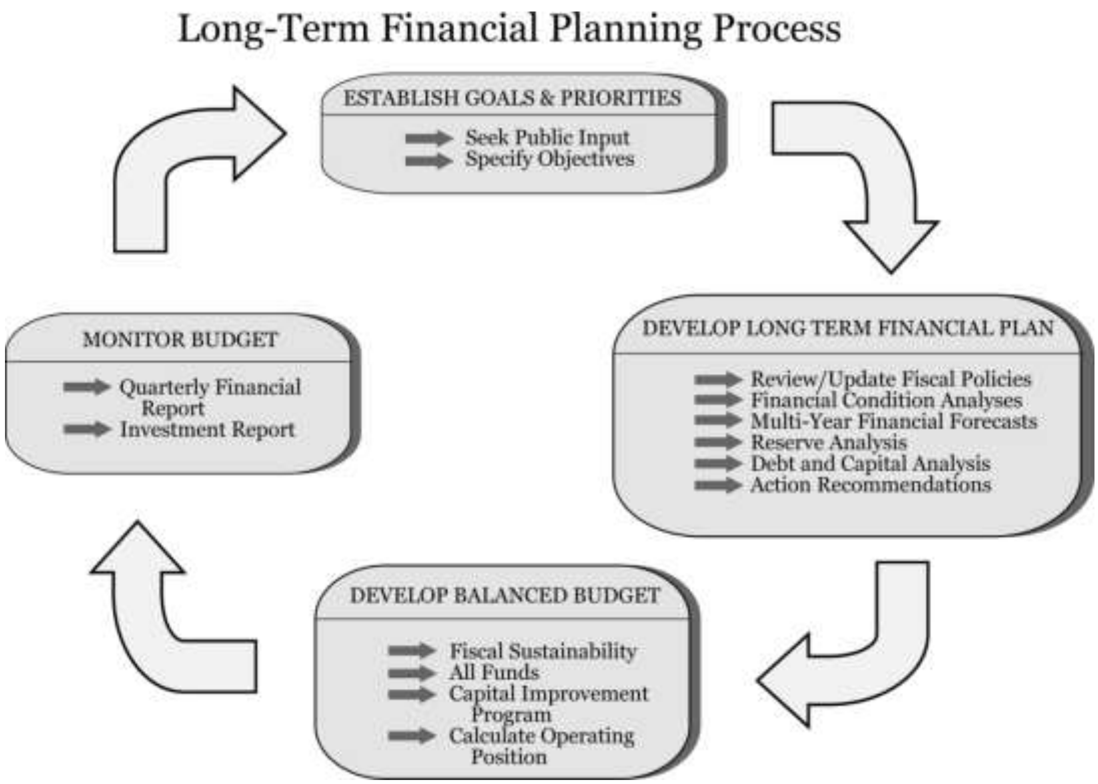
[13] State of Illinois Office of the Auditor General, *2012 Annual Review: Information Submitted by the Retirement Plan for CTA Employees,* November 2012, p. 3.

[14] The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document "Long-Term Financial Planning for Governments" available at http://www.gfoa.org/downloads/LTFPbrochure.pdf.

determine how to accomplish the goals and priorities. The written plan includes a review of the CTA's financial policies, a financial condition analysis that presents ten years of historical trend information, multi-year financial forecasts, a reserve fund analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced CTA budget that is fiscally sustainable each year. The budget would then be regularly monitored to ensure its viability by means of regular financial reports.



If the CTA chooses not to undertake a full long-term financial planning process, at a minimum an annual document should be produced that includes:

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added;
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable;
3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation; and
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to Chicago Transit Authority President Forrest Claypool, Chief Financial Officer Ron DeNard and Vice President of Budget, Management and Finance Tom McKone and their staffs for their willingness to answer our questions about the budget.

APPROPRIATIONS

This section provides an analysis of appropriations in the CTA's proposed FY2014 budget compared to previous years. This year, the CTA's operating budget will total $1.38 billion, a 2.3%, or $30.8 million, increase from the FY2013 adopted appropriation of approximately $1.35 billion.

Appropriations by Object: Two-Year and Five-Year Trends

The following charts and corresponding narratives review the CTA's operating budget by object, or category, of expenditure and by non-labor and labor expenses. Figures used in the analysis include actual expenditures for FY2010, FY2011 and FY2012; FY2013 adopted and revised appropriations; and proposed appropriations for FY2014.[15]

The "Other Expenses" category is the second largest expenditure category after labor expenses, which are described in more detail below. This category includes utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees and interest on the outstanding pension obligation bonds (POBs).[16] Other Expenses are projected to increase by 6.0%, or $14.1 million, between FY2013 and FY2014. The increase is in part attributable to investments in the new Ventra fare system, which involves transition of fare collections services from a CTA operator to a private contractor.[17]

Appropriations for power, or electricity, will increase by 18.4%, or $4.3 million, in FY2014 as a result of a regulated increase in electricity distribution charges for the State of Illinois.[18] Electricity for powering the rail lines continues to be purchased through a combination of wholesale advance block purchases and real-time pricing through strategic hedging.[19] Security costs will fall significantly by 39.4%, or $9.2 million, from $23.2 million to $14.1 million over the two-year period. This decline is the result of transitioning security services from a private contractor to full-time CTA employees.[20] These employees are referred to as customer service

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[15] Adopted appropriations refer to appropriations approved by the CTA Board of Trustees. Revised appropriations are forecasts for the fiscal year estimated by budget staff. FY2013 adopted appropriations are used in the analysis of non-labor expenses. FY2013 revised appropriations are used in the analysis of labor expenses, which are not provided in the CTA's FY2014 budget document. A breakdown of labor expenses was provided by the CTA to the Civic Federation upon request. This data only included revised appropriation data for FY2013. For data including the FY2013 Budget, FY2013 Forecast and FY2014 Proposed figures, see Appendix A on page 43 of this report.
[16] CTA President's FY2014 Budget Recommendations, p. 38.
[17] CTA President's FY2014 Budget Recommendations, pp. 38-39.
[18] CTA President's FY2014 Budget Recommendations, p. 38.
[19] CTA President's Budget Recommendations, FY2012, p. 27; FY2013, p. 37; FY2014, p. 38.
[20] CTA President's FY2014 Budget Recommendations, p. 38.

assistants; they respond to security issues and emergencies, as well as other customer inquiries. In FY2013 the CTA hired over 700 customer service assistants.[21]

Appropriations for fuel will decline in FY2014 by 7.8%, or approximately $5.1 million. The CTA uses a long-term fuel hedging strategy to manage its fuel costs and also reports that its more efficient fleet and scheduling is resulting in lower fuel costs.[22] Material expenses are expected to increase by 7.9%, or $4.5 million, primarily due to changes in the CTA's method of housing extra materials and parts inventory. During the CTA's transition to the new system in which a third-party vendor will manage the procurement and delivery of its inventory, a significant supply of extra materials and parts was discovered. The CTA will use this backlog supply before acquiring new inventory.[23]

The annual expense for provision for injuries and damages is actuarially calculated based on claims history and future projections. It changes considerably from year to year. There is no appropriation budgeted for FY2014 for this expense as the CTA expects to use reserve funds for any provisions that may be awarded in FY2014.[24] Approximately $11.8 million was budgeted for these provisions in FY2013, although the year-end forecast projects a net credit of $2.2 million.[25]

In a five-year comparison, the CTA's operating budget will increase by 11.8%, or $145.8 million, between the actual expenditures in FY2010 and proposed appropriations for FY2014.

Labor expenses have increased each year since FY2010. Following layoffs and service reductions in FY2010, labor expenses rose in FY2011 due to collectively bargained wage increases of 3.5% effective January 1, 2011 for members of the Amalgamated Transit Union and prevailing wage increases for members of the Craft Coalition unions.[26] Labor expenses increased again in FY2012 and FY2013. Labor expenses will constitute 70.3% of the proposed FY2014 operating budget, which is a small increase from 69.8% in revised FY2013 budget and 67.4% in FY2010. Labor expenses as a percentage of the total operating budget have averaged 69.6% over the past five years.

[21] CTA President's FY2014 Budget Recommendations, pp. 29 and 44.
[22] CTA President's FY2014 Budget Recommendations, p. 38.
[23] CTA President's FY2014 Budget Recommendations, p. 38 and information provided by the CTA, October 18, 2013.
[24] CTA President's FY2014 Budget Recommendations, p. 38.
[25] CTA President's FY2014 Budget Recommendations, p. 42.
[26] CTA President's FY2012 Budget Recommendations, pp. 18-19.

Fuel costs are estimated to increase by 15.7%, or $8.2 million, from FY2010 to FY2014. Spending for material, security, power and provision for injuries and damages are projected to fall. As described above, these reductions in spending are attributable to commodities hedging and price contracts as well as maintenance savings resulting from a newer and more efficient fleet.

CTA Operating Budget by Object of Expenditure: FY2010-FY2014
(in $ thousands)

Object	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adopted	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Labor	$ 835,143	$ 894,490	$ 921,884	$ 939,679	$ 973,700	$ 34,021	3.6%	$ 138,557	16.6%
Other Expenses	$ 167,240	$ 193,394	$ 134,789	$ 233,496	$ 247,572	$ 14,076	6.0%	$ 80,332	48.0%
Material	$ 80,077	$ 67,919	$ 85,437	$ 57,279	$ 61,800	$ 4,521	7.9%	$ (18,277)	-22.8%
Fuel	$ 52,063	$ 57,273	$ 62,908	$ 65,342	$ 60,246	$ (5,096)	-7.8%	$ 8,183	15.7%
Security	$ 33,319	$ 36,815	$ 37,468	$ 23,246	$ 14,087	$ (9,159)	-39.4%	$ (19,232)	-57.7%
Power	$ 28,208	$ 28,099	$ 25,020	$ 23,175	$ 27,444	$ 4,269	18.4%	$ (764)	-2.7%
Provision for Injuries & Damages	$ 43,000	$ 15,000	$ 24,000	$ 11,792	$ -	$ (11,792)	-100.0%	$ (43,000)	-100.0%
Total	**$ 1,239,050**	**$ 1,292,990**	**$ 1,291,506**	**$ 1,354,009**	**$ 1,384,849**	**$ 30,840**	**2.3%**	**$ 145,799**	**11.8%**

Note: Totals may differ from budget documents due to rounding.
Source: CTA President's Budget Recommendations: FY2011, p. 31; FY2012, p. 31; FY2013, p. 41; FY2014, p. 42; and information provided by CTA, November 4, 2011 and December 6, 2012.

Labor Expenses

The chart below displays a detailed breakdown for labor expenses over the five-year period from FY2010 to FY2014. This detailed breakdown is not provided in the CTA's budget document and was provided by the CTA to the Civic Federation upon request. The CTA provided revised appropriation data for FY2013; therefore the FY2013 labor appropriations used in the analysis below do not match the labor appropriations used in the preceding analysis, which reflect appropriations approved by the CTA Board.[27]

Base wages will increase by 3.5%, or $19.2 million, between FY2013 revised appropriations and the FY2014 proposed budget. Overall benefits costs will increase by 4.2%, or $17.5 million, over the two-year period. Expenses for sick day compensation will remain nearly flat as a result of revisions to CTA sick day policies implemented in 2012 and efforts to reduce employee absenteeism.[28]

[27] Adopted appropriations refer to appropriations approved by the CTA Board of Trustees. Revised appropriations are forecasts for the fiscal year estimated by budget staff.
[28] CTA President's Budget Recommendations, FY2013, p. 14 and FY2014, pp. 2 and 17.

Base wages will increase over the five-year period by 13.5%, or $67.0 million, while total benefits will also increase by 14.0%, or $52.8 million. Pension expenses will increase by the greatest amount, rising by 102.7%, or $58.7 million, from $57.2 million in FY2010 to $115.9 million in FY2014. Group insurance appropriations will also increase substantially, by 18.1%, or $20.3 million. Unemployment insurance and vacation expenses will fall over the same period, by $10.2 million and $12.8 million, respectively.

CTA Labor Expenses: FY2010-FY2014
(in $ thousands)

Object	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Revised	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Base Wages & Salaries	$ 498,395	$ 528,869	$ 538,628	$ 546,237	$ 565,439	$ 19,202	3.5%	$ 67,044	13.5%
Benefits									
Vacation	$ 53,319	$ 40,380	$ 44,210	$ 37,450	$ 40,542	$ 3,092	8.3%	$ (12,777)	-24.0%
Holiday	$ 24,076	$ 25,678	$ 25,440	$ 25,245	$ 25,162	$ (83)	-0.3%	$ 1,086	4.5%
Sick	$ 5,963	$ 6,232	$ 4,943	$ 3,957	$ 3,958	$ 1	0.0%	$ (2,005)	-33.6%
Jury Duty	$ 689	$ 731	$ 799	$ 1,170	$ 1,187	$ 17	1.5%	$ 498	72.2%
Workers' Comp	$ 55,700	$ 57,723	$ 60,129	$ 56,955	$ 53,943	$ (3,012)	-5.3%	$ (1,757)	-3.2%
Tuition Aid	$ 209	$ 657	$ 101	$ 111	$ -	$ (111)	-100.0%	$ (209)	-100.0%
FICA	$ 45,055	$ 47,151	$ 48,365	$ 44,026	$ 46,309	$ 2,283	5.2%	$ 1,254	2.8%
Unemployment Ins	$ 11,970	$ 3,143	$ 2,451	$ 836	$ 1,753	$ 917	109.7%	$ (10,217)	-85.4%
Group Ins	$ 111,958	$ 117,236	$ 127,794	$ 121,098	$ 132,256	$ 11,158	9.2%	$ 20,298	18.1%
Uniform Allowance	$ 1,643	$ 1,260	$ 1,394	$ 1,282	$ 1,187	$ (95)	-7.4%	$ (456)	-27.8%
Supplemental Retirement	$ 6,522	$ 7,308	$ 5,056	$ 3,065	$ 4,806	$ 1,741	56.8%	$ (1,716)	-26.3%
Incentive Retirement	$ 1,480	$ 1,567	$ 1,413	$ 1,337	$ 1,527	$ 190	14.2%	$ 47	3.2%
Pension	$ 57,193	$ 89,967	$ 98,487	$ 114,466	$ 115,915	$ 1,449	1.3%	$ 58,722	102.7%
Subtotal Benefits	**$ 375,776**	**$ 399,035**	**$ 420,582**	**$ 410,998**	**$ 428,546**	**$ 17,548**	**4.2%**	**$ 52,770**	**14.0%**
					$ -				
Fringe Benefit Offset	$ (20,487)	$ (14,110)	$ (17,481)	$ -	$ -	$ -	0.0%	$ 20,487	-100.0%
Other Labor Credits	$ (18,541)	$ (19,305)	$ (19,844)	$ (20,786)	$ (20,286)	$ 500	-2.4%	$ (1,745)	9.4%
Total	**$ 835,143**	**$ 894,490**	**$ 921,885**	**$ 936,449**	**$ 973,699**	**$ 37,250**	**4.0%**	**$ 138,556**	**16.6%**

Note: Totals may differ from budget documents due to rounding.
Source: Information provided by CTA, November 4, 2011; December 6, 2012; and November 5, 2013.

REVENUES

The CTA receives its operating funding both from system-generated revenues (revenues generated internally by the CTA, such as fares, concessions and advertising) and from public funding sources (sales taxes, which are distributed by the Regional Transit Authority, and the real estate transfer tax). Each of these revenue sources is examined below.

CTA Budgeted Revenues: Two-Year and Five-Year Trends

The following section will examine revenue trends from FY2010 to FY2014 using actual data for FY2010 through FY2012, FY2013 budget figures as approved by the CTA's Board of Trustees and FY2014 proposed budget figures.

The President's FY2014 Budget Recommendations include nearly $1.4 billion in revenues, which is a 2.3%, or $30.8 million, increase from the adopted FY2013 budget. Estimated year-end revenues for FY2013 are $13.1 million below budget because of lower than expected revenues from fares and passes and because of an unexpected cut in the State's subsidy of reduced fares.[29] The CTA anticipated significant growth in revenues from fares and passes in FY2013, with the increased rates for fare passes. Although forecasted revenues for fares and passes are lower than expected, they are still expected to grow by $26.3 million over FY2012 actual revenues. For the FY2013 year-end forecasts and FY2014 proposed budget figures, see Appendix B on page 44 of this report.

[29] CTA President's FY2014 Budget Recommendations, pp. 32-33.

The FY2014 revenue total includes $676.0 million from system-generated revenue and $708.9 million in public funding through the Regional Transit Authority (RTA). System-generated revenue in FY2014 will decrease by $25.0 million, or 3.6%, below the FY2013 adopted budget levels. However, over the five years to FY2014 system-generated revenue will increase by $81.9 million, or 13.8%. Farebox revenues, which represent 87.7% of system-generated revenue, will total $593.1 million in FY2014. This represents a 2.3%, or $14.2 million, decline from the FY2013 budget. The decline reflects a more conservative estimate of farebox revenue growth after FY2013 year-end estimates came in significantly lower than budget. The FY2014 budget projects a slight increase over FY2013 year-end forecasts due to a full year of fare changes that occurred throughout 2013, such as the O'Hare airport fee and increase to student fares, as well as the completion of Red Line construction.[30]

In FY2013 there were a number of increases to the rates of fare passes. However, base fares for bus and rail travel have not increased since FY2009 when fares were increased by $0.25 to $2.00 (transit card) and $2.25 (cash) for buses and to $2.25 for trains.[31] The CTA provides free rides to low-income seniors and people with disabilities per P.A. 96-1527, but as of FY2012 no longer provides free rides to all persons aged 65 or older.[32]

Advertising, charter and concession revenue will increase by $1.8 million, or 6.5%, from FY2013 to $29.7 million in FY2014. The increase reflects an increase in projected year-end FY2013 advertisement sales.[33] Over the past five years, revenue from advertising, charter and concessions has increased steadily by $7.0 million, or 31.1%. Investment income is expected to decline by approximately $135,000, or 21.5%, from FY2013. The decrease is in line with the low investment income trend since FY2010 and reflects the Authority's conservative cash investments and near zero federal funds rates.[34]

The annual payment of $5.0 million that the CTA receives by law from local governments – $3.0 million from the City of Chicago and $2.0 million from Cook County – is considered system-generated revenue rather than public subsidy.[35] The amounts contributed to the CTA by the City of Chicago and Cook County have remained unchanged since 1985. However, the City of Chicago also makes in-kind law enforcement contributions to the CTA.[36] This represents $22.0 million in police services for 2014, provided at no charge to the CTA. In addition, Cook County provides in-kind services through the Sheriff's Work Alternative Program, which assigns non-violent offenders to help CTA workers clean bus turnarounds and garages.[37]

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[30] CTA President's FY2014 Budget Recommendations, p. 39.
[31] In FY2009, cash fares for the bus system increased from $2.00 to $2.25 and transit card fares increased from $1.75 to $2.00 for buses and from $2.00 to $2.25 for trains. Pass fares increased by 20% with the exception of student passes. See CTA President's FY2009 Budget Recommendations, p. 17.
[32] The CTA must provide half fare rides to all people aged 65 or older per a federal requirement tied to funding.
[33] CTA President's FY2014 Budget Recommendations, p. 40.
[34] CTA President's FY2014 Budget Recommendations, p. 40.
[35] The CTA notes that in-kind revenues are included as system-generated revenues in its explanation of the statutory required contributions on page 40 of the FY2014 Budget Recommendations.
[36] CTA President's FY2014 Budget Recommendations, p. 40.
[37] CTA President's FY2014 Budget Recommendations, p. 40.

The State of Illinois annually provides the CTA with a partial reimbursement or subsidy for reduced fares. The CTA provides roughly 30 million reduced-fare trips per year to qualified riders that include seniors, veterans, uniformed officers and students. The amount provided during the CTA's FY2014 is expected to be $21.5 million, a decrease from the budgeted $28.3 million in FY2013, but in line with FY2013 year-end estimates of $21.5 million.[38] In July 2013, the State of Illinois reduced the subsidy for its FY2014 budget, which runs July 2013 to June 2014, resulting in an estimated $14.0 million loss of revenue for the CTA in its FY2013 and FY2014 budgets. The Regional Transportation Authority (RTA) has committed to providing the CTA with an additional $8.2 million to replace the loss of the reduced-fare revenues for the first half of 2014. The CTA expects that the subsidy will be restored to prior funding levels by July 2014.[39]

Other revenue, which includes parking charges, filming fees, third-party contract reimbursements and rental revenue, will decrease by $5.6 million, or 17.7%, to $26.3 million in FY2014. The projected decrease is largely due to a one-time non-capital grant received in FY2013.[40]

Public funding for the CTA will increase in FY2014 by 8.6% according to Regional Transportation Authority projections. This represents a $55.8 million increase, from $653.0 million to $708.9 million. This reflects approximately 51.2% of the system's resources in FY2014. The projected increase is due to continued improvement in sales tax receipts for the next year and the RTA's offset of the State's cut to the reduced-fare subsidy.[41] Public funding through the RTA includes: 1) all RTA sales tax revenues collected in the City of Chicago and part of those collected in suburban Cook County; 2) discretionary RTA funds generated by local sales taxes and a State General Fund sales tax match; and 3) a portion of the Chicago real estate transfer tax.[42] For details on the structure of public funding from the RTA, see page 18 of this analysis.

In its budget book, the CTA reports its recovery ratio, which measures the proportion of operating expenses recovered from operating revenues. The recovery ratio is an indicator of the CTA's financial performance and is determined by dividing system-generated revenues by operating expenses, excluding depreciation and other exempt expenses. It excludes security expenses, pension obligation bond debt services and includes some grant revenues. Because the CTA's reported recovery ratio excludes some expenses and includes other revenues, the ratio differs from the operating expenses and operating revenues as presented below. The RTA Act requires that the entire RTA region must achieve an annual recovery ratio of at least 50 percent. For FY2014 the CTA will recover 58.4% of its operating expenses through system-generated revenues.[43]

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[38] For the FY2013 year-end forecasts and FY2014 proposed budget figures, see Appendix B on page 44 of this report.
[39] CTA President's FY2014 Budget Recommendations, p. 40.
[40] CTA President's FY2014 Budget Recommendations, p. 40.
[41] CTA President's FY2014 Budget Recommendations, p. 41.
[42] The RTA sales tax was increased by 0.25 percentage points in 2008 and the CTA was provided a dedicated portion of the City of Chicago real estate transfer tax.
[43] CTA President's FY2014 Budget Recommendations, p. 42.

The five-year revenue trend reflects significant increases in RTA funding, revenues from fares and passes and public funding. Income from fares and passes will increase by $83.9 million, or 16.5%, largely due to ridership increases since FY2011 and the FY2013 fare structure changes. Public funding from the RTA will increase by 34.0%, or $179.9 million. Since FY2010, public funding has increased on average by approximately $74.1 million annually, which the CTA attributes to improving sales tax receipts in the region and higher returns from real estate transfer taxes in Chicago.[44]

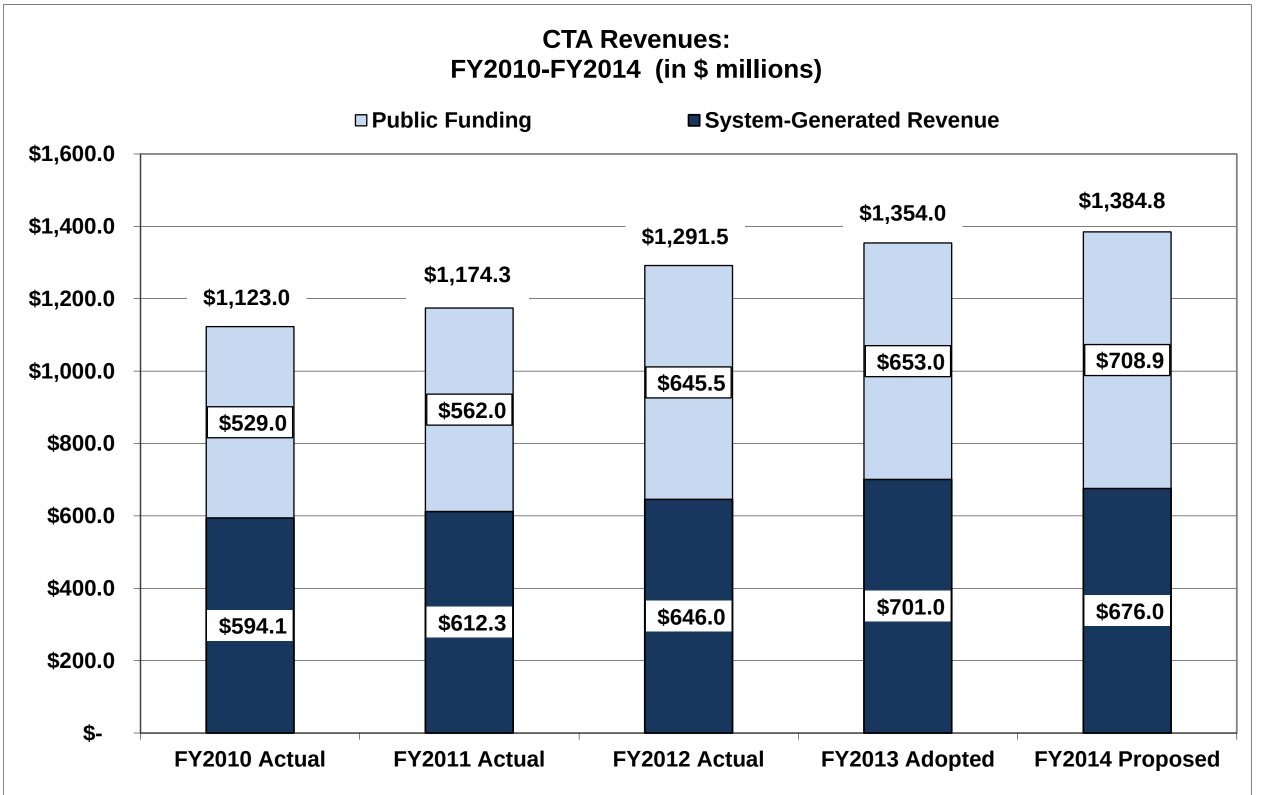
CTA Operating Budget Revenue: FY2010-FY2014
(in $ millions)

Source	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Adopted	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
System-Generated Revenue									
Fares and Passes	$ 509.2	$ 527.9	$ 548.8	$ 607.2	$ 593.1	$ (14.2)	-2.3%	$ 83.9	16.5%
Reduced Fare Reimbursement	$ 28.2	$ 26.0	$ 27.8	$ 28.3	$ 21.5	$ (6.9)	-24.2%	$ (6.8)	-24.0%
Advertising, Charter & Concessions	$ 22.6	$ 21.5	$ 25.7	$ 27.9	$ 29.7	$ 1.8	6.5%	$ 7.0	31.1%
Investment Income	$ 0.6	$ 0.6	$ 0.7	$ 0.6	$ 0.5	$ (0.1)	-21.5%	$ (0.1)	-21.2%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%
Other Revenue	$ 28.4	$ 31.4	$ 38.1	$ 32.0	$ 26.3	$ (5.6)	-17.7%	$ (2.1)	-7.4%
Total System-Generated Revenue	**$ 594.1**	**$ 612.3**	**$ 646.0**	**$ 701.0**	**$ 676.0**	**$ (25.0)**	**-3.6%**	**$ 81.9**	**13.8%**
Public Funding through RTA	**$ 529.0**	**$ 562.0**	**$ 645.5**	**$ 653.0**	**$ 708.9**	**$ 55.8**	**8.6%**	**$ 179.9**	**34.0%**
Fare Agreement with State	$ 83.0	$ -	$ -	$ -	$ -	$ -	-	$ (83.0)	-100.0%
Transfer from Capital-Preventive Maintenance Funds	$ 89.7	$ 118.0	$ -	$ -	$ -	$ -	-	$ (89.7)	-100.0%
Total	**$ 1,295.7**	**$ 1,292.3**	**$ 1,291.5**	**$ 1,354.0**	**$ 1,384.8**	**$ 30.8**	**2.3%**	**$ 89.2**	**6.9%**

Source: CTA President's FY2012 Budget Recommendations, p. 31; FY2013, p. 41; and FY2014, p. 42.

[44] CTA President's FY2014 Budget Recommendations, pp. 33 and 41.

The following exhibit illustrates system-generated revenues and public funding between FY2010 and FY2014. It does not include one-time revenue sources such as capital funds transferred to the operating budget (FY2010 and FY2011) or additional State loans provided in exchange for forestalling fare increases (FY2010). These revenue sources cannot be relied upon in any given year and as such would not provide an accurate trend analysis if it were included in total revenues for the past five years.



Source: CTA President's FY2012 Budget Recommendations, p. 31; FY2013, p. 41; FY2014, p. 42.

Structure of Public Funding for the CTA from the RTA

The CTA will receive public funding from three sources in FY2014: 1) RTA sales tax revenues collected in the City of Chicago and suburban Cook County; 2) discretionary RTA funds generated by local sales taxes and a State General Fund sales tax match; and 3) a portion of the Chicago Real Estate Transfer tax.

Legislation approved in 2008 provided for financial relief and pension reform for the CTA, authorized an increase in the RTA sales tax and authorized an increase in the City of Chicago real estate transfer tax to support the CTA.[45] The increase in the RTA sales tax provided additional revenue for collar counties (DuPage, Kane, Lake, McHenry and Will Counties) to use at their discretion for local road, transit and public safety projects. The RTA is authorized to levy a sales tax in the six-county region of northeastern Illinois at the following rates:

[45] See Public Act 095-0708.

- 1.00% sales tax on general merchandise in Cook County;
- 1.25% sales tax on qualifying food, drugs and medical appliances in Cook County; and
- 0.50% sales tax on general merchandise and qualifying food, drugs and medical appliances in DuPage, Kane, Lake, McHenry and Will Counties.[46]

The CTA also receives funds at a tax rate of 0.3% on real estate transfers in the City of Chicago.

Additional monies are provided by the State of Illinois to the RTA. The State Treasurer remits from the State General Fund an amount equal to 25% of RTA sales tax collections into a Public Transportation Fund. Revenues from that fund are remitted to the RTA on a monthly basis. The RTA uses these revenues to fund the needs of the three service boards as well as RTA operations, debt service and capital investment.[47] The RTA also has authority to levy taxes on automobile rentals, motor fuel and off-street parking facilities, but has not exercised this authority.[48]

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

RTA Sales Tax Distribution: FY2014

	Chicago Sales Tax Revenue	Suburban Cook Sales Tax Revenue	Collar County Sales Tax Revenue
CTA	100.0%	30.0%	0.0%
Metra	0.0%	55.0%	70.0%
Pace	0.0%	15.0%	30.0%
Total	**100.0%**	**100.0%**	**100.0%**

Source: CTA President's FY2014 Budget Recommendations, p. 94.

The next exhibit details public funding for the CTA provided through the RTA since FY2010. The CTA does not provide actual data for the sources of public funding in prior years, so the anticipated revenue for each source from proposed budgets is shown. Due to the significant differences between anticipated public funding revenues shown below and actual total public funding provided through the RTA as shown in previous exhibits in FY2010 through FY2012, comparisons are not applicable.

As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $523.6 million in total sales tax revenue from the RTA in FY2014. When compared to revenues anticipated in the FY2013 proposed budget, this is a $28.0 million, or 5.6%, increase. Of the $523.6 million, $335.6 million is expected to come directly from the sales tax distribution formula and $188.1 million will be RTA discretionary funds, allocated from the State sales tax match.

[46] An additional 0.25% sales tax is imposed on general merchandise and qualifying food, drugs and medical appliances in these counties that is to be used for public safety expenses and transportation projects.
[47] CTA President's FY2014 Budget Recommendations, p. 94.
[48] 70 ILCS 3615/4.03.

The CTA expects to receive an additional $11.7 million from real estate transfer taxes collected in Chicago compared to FY2013. The CTA will also receive $117.3 million in revenues from the RTA sales tax increase and State funding enacted in 2008 by PA 95-0708, which is an increase of $5.1 million, or 4.6%, from FY2013. In FY2014 the CTA anticipates receiving $8.2 million in additional funds from the RTA to offset the reduced reimbursement from the State of Illinois for reduced-fare rides.[49]

CTA Sources of Public Funding Through the RTA: FY2010-FY2014 (in $ millions)

	FY2010 Proposed	FY2011 Proposed	FY2012 Proposed	FY2013 Proposed	FY2014 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
RTA Formula Sales Tax Revenues	$ 257.7	$ 271.9	$ 301.4	$ 314.6	$ 335.6	$ 20.9	6.6%	$ 77.8	30.2%
RTA Discretionary Sales Tax	$ 89.1	$ 109.4	$ 168.7	$ 181.0	$ 188.1	$ 7.1	3.9%	$ 99.0	111.1%
Sub-Total RTA Sales Tax	**$ 346.8**	**$ 381.2**	**$ 470.1**	**$ 495.7**	**$ 523.6**	**$ 28.0**	**5.6%**	**$ 176.8**	**51.0%**
Real Estate Transfer Tax (Chicago)	$ 25.0	$ 24.0	$ 28.0	$ 36.2	$ 47.9	$ 11.7	32.2%	$ 22.9	91.4%
Real Estate Transfer Tax (25% Public Transportation Fund)	$ -	$ 6.0	$ 7.0	$ 9.1	$ 12.0	$ 2.9	32.2%	$ 12.0	-
Sales Tax and PTF per PA 95-0708	$ 108.4	$ 118.1	$ 111.5	$ 112.1	$ 117.3	$ 5.1	4.6%	$ 8.8	8.2%
Federal Preventative Maintenance Funds (5307)	$ 128.6	$ -	$ -	$ -		$ -	-	$ (128.6)	-100.0%
Working Cash Borrowing	$ 56.1	$ -	$ -	$ -	$ -	$ -	-	$ (56.1)	-100.0%
ICE Fund*	$ 5.0	$ -	$ -	$ -	$ -	$ -	-	$ (5.0)	-100.0%
Reduced Fare Reimbursement Replacement	$ -	$ -	$ -	$ -	$ 8.2	$ 8.2	-	$ 8.2	-
Total	**$ 670.0**	**$ 529.3**	**$ 616.6**	**$ 653.0**	**$ 708.9**	**$ 55.8**	**8.6%**	**$ 38.9**	**5.8%**

Note: Totals may differ due to rounding. All figures are anticipated revenues from the President's Budget Recommendations and as such, the total public funding presented for FY2010-FY2012 differ from actual figures in the previous exhibits.

*Innovation, Coordination and Enhancement (ICE) Fund.

Source: CTA President's FY2010 Budget Recommendations, p. 67; FY2011, p. 86; FY2012, p. 90; FY2013, p. 94; FY2014 p. 96.

PERSONNEL

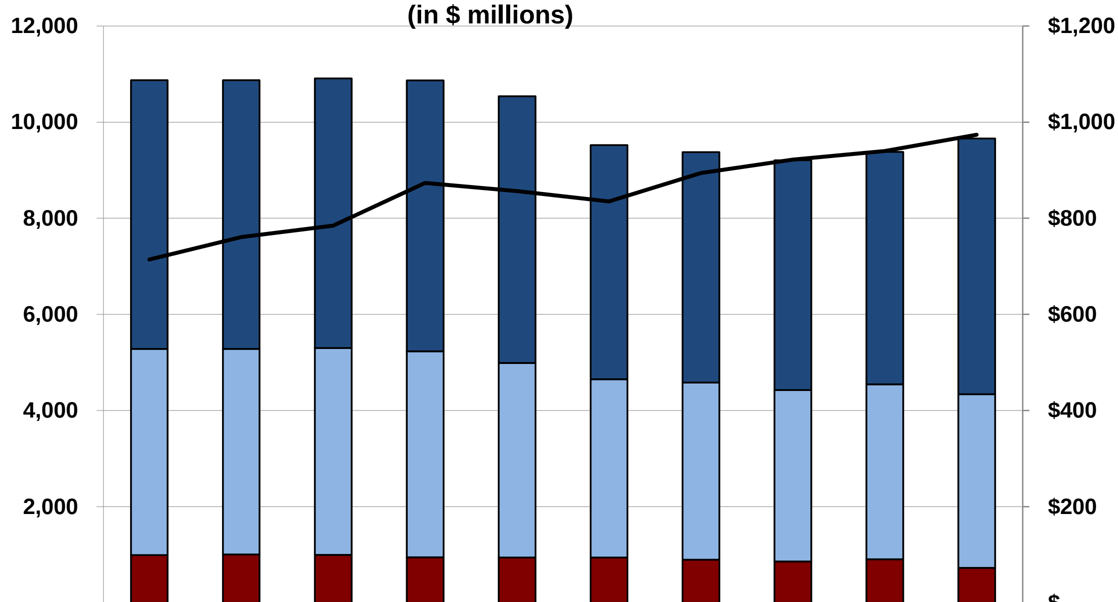
The CTA plans to fund 9,661 positions in FY2014. This is an increase of 3.0%, or 280 positions, from the FY2013 adopted budget. This includes an increase of 486 scheduled transit operation (STO) positions and decreases of 180 administrative positions and 26 non-STO operating positions.[50] The increase in STO positions is attributable to the hiring of additional customer service assistants, who respond to customer inquiries, security issues and emergencies. In FY2013 the CTA hired over 700 customer service assistants.[51] Over the past ten years, the budgeted CTA workforce has declined by 11.1% or 1,212 positions.

[49] CTA President's FY2014 Budget Recommendations, p. 41.
[50] STO represents Scheduled Transit Operations and includes staffing for bus and rail operations.
[51] CTA President's FY2014 Budget Recommendations, pp. 29 and 44.

The ten-year decline includes reductions of:

- 264 administrative positions, or 26.6%;
- 270 STO positions, or 4.8%; and
- 678 non-STO operating positions, or 15.8%.

CTA Labor Appropriations and Budgeted Positions by Type: FY2005-FY2014
(in $ millions)



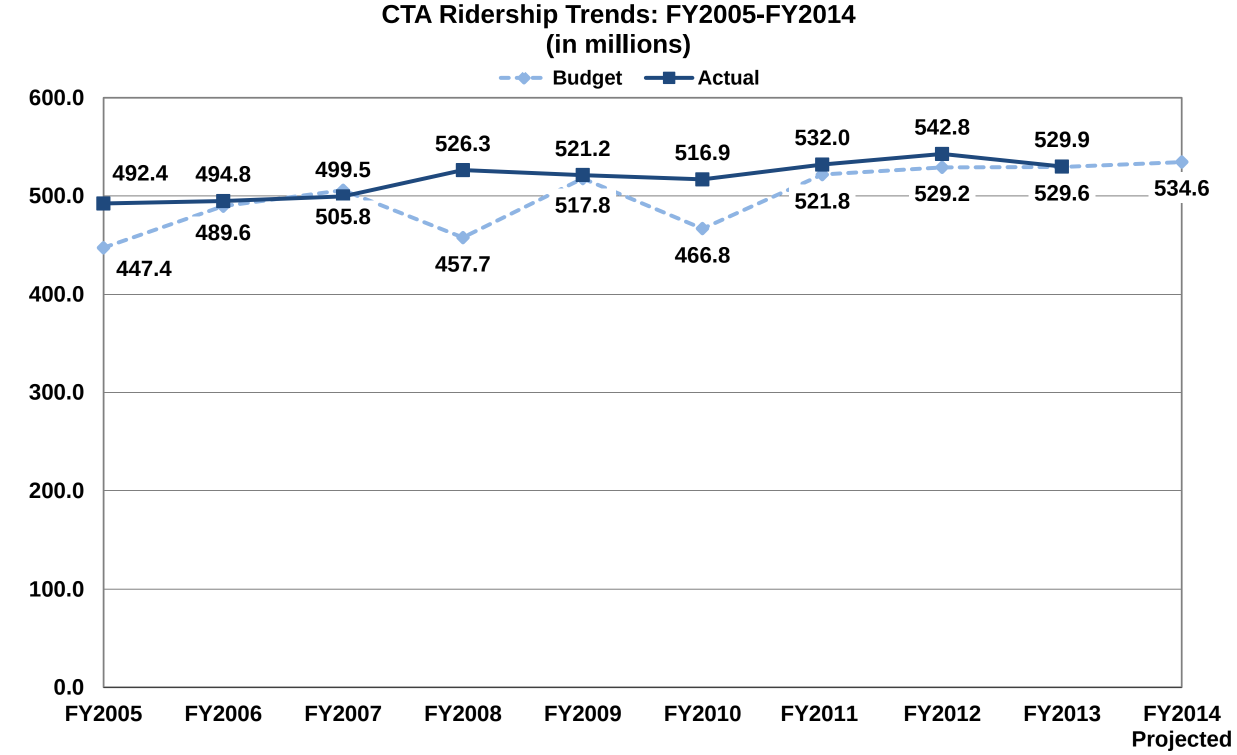
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
TOTAL	10,873	10,873	10,907	10,867	10,540	9,520	9,377	9,206	9,381	9,661
STO	5,592	5,592	5,605	5,634	5,552	4,868	4,796	4,778	4,836	5,322
Non-STO Operations	4,290	4,274	4,304	4,287	4,045	3,709	3,684	3,569	3,638	3,612
Administration	991	1,007	998	946	943	943	897	859	907	727
Labor ($)	$714.3	$760.8	$784.8	$873.6	$856.5	$835.1	$893.8	$921.9	$939.7	$973.7

Note: STO represents Scheduled Transit Operations and includes staffing for bus and rail operations.
Source: Information provided by CTA, November 4, 2011; December 6, 2012; and November 6, 2013; and CTA President's Budget Recommendations FY2005-FY2014.

RIDERSHIP

The CTA projects that ridership will be 534.6 million rides in FY2014. The FY2014 ridership is projected to be an increase of 4.7 million rides, or 0.9%, from the FY2013 forecast. The terms "ridership" and "unlinked passenger trips" refer to total number of rides. Each passenger is counted each time that passenger boards a vehicle (bus or rail).[52]

Ridership has fallen slightly from its peak in FY2012 of 542.8 million rides. The CTA attributes the high number of rides in FY2012 to increasing parking rates and particularly favorable weather that year. The drop in ridership in FY2013 was due to extensive track work on the Red Line and the implementation of increased rates for fare passes.[53]



Note: FY2013 actual ridership is the CTA FY2013 forecast.
Source: CTA President's FY2014 Budget Recommendations, p. 135; FY2009-FY2012 Budget Recommendations.

PENSION FUND

The Civic Federation analyzed three indicators of the fiscal health of the CTA's pension fund: funded ratios, unfunded actuarial accrued liabilities and investment rate of return. This section presents multi-year data for those indicators and describes recent reforms to the CTA's pension benefits and contributions.

[52] CTA President's FY2014 Budget Recommendations, p. 182.
[53] Communication with the CTA's budget staff, October 18, 2013.

Plan Description

The Retirement Plan for Chicago Transit Authority Employees is a single-employer contributory defined-benefit governmental plan covering all full-time CTA permanent employees. Recent changes to Illinois statutes have codified most aspects of the plan into state statute. The plan is governed by an 11-member board of trustees composed of five members appointed by the CTA management, five members appointed by the Amalgamated Transit Union and one appointed by the Regional Transportation Authority.[54]

In FY2012 the Fund had 8,317 active employees and 9,591 beneficiaries for a ratio of 0.87 active members for every beneficiary.[55] This ratio has fallen from 1.24 in FY2003 as the number of active members has declined and the number of beneficiaries has risen. This trend puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

Chicago Transit Authority Pension Fund Membership: FY2003-FY2012			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2003	10,376	8,399	1.24
FY2004	10,751	8,877	1.21
FY2005	10,644	8,998	1.18
FY2006	9,710	9,116	1.07
FY2007	9,635	9,215	1.05
FY2008	9,689	9,356	1.04
FY2009	9,865	9,275	1.06
FY2010	8,932	9,310	0.96
FY2011	8,751	9,418	0.93
FY2012	8,317	9,591	0.87
Ten-Year Change	**-2,059**	**1,192**	**-0.4**
Ten-Year % Change	**-19.8%**	**14.2%**	**-29.8%**

Source: Retirement Plan for CTA Employees Financial Statements, FY2003-FY2012.

Recent Reforms

Major reforms of the Chicago Transit Authority (CTA) pension plan passed by the Illinois General Assembly have had a significant effect on the CTA pension fund beginning in FY2007.

The urgency for reform of the CTA pension fund arose from the actuarial projection that the fund would be unable to pay retiree healthcare costs by 2008 and reach 0% funding by 2013 if nothing was done to boost assets or reduce liabilities. The fund's poor financial health was primarily the result of insufficient employer and employee contributions, early retirement programs, benefit

[54] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2012*, p. 17.
[55] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2012*, p. 17.

increases and dramatic increases in the cost of healthcare over the past few decades.[56] The legislated reforms specifically addressed each of these issues.

Passed in the spring of 2006 as part of the FY2007 Budget Implementation Act, Public Act 94-0839 required that beginning January 1, 2009 the CTA and its employees make annual pension contributions sufficient to bring the funded ratio to 90% by the end of 2058. The Act specified that payments are to be made as a level percentage of payroll, and that post employment healthcare benefits provided by the pension fund were to be excluded from the actuarial calculations used to determine required contributions. The 50-year schedule and 90% funding target are similar to the funding plan for the State of Illinois' five retirement systems.[57]

The second piece of CTA pension reform legislation, Public Act 95-0708, was passed on January 18, 2008 and made changes to the pension and retiree healthcare benefits and contributions. More specifically, employee and employer contributions were increased to 6% and 12% of payroll, respectively, which doubled their previous contribution rates of 3% and 6%. The employer, however, will receive a "credit" for pension obligation bond debt service payments of up to 6% of payroll.

In addition to the baseline 6% and 12% employee and employer contributions, the legislation also set funded ratio standards; if these standards are not met, additional employer and employee contributions are triggered. P.A. 95-0708 adjusted the 50-year schedule forward one year to 2059 and required that the fund maintain a minimum 60% funded ratio through FY2039. If the fund falls below this requirement, then the combined contribution is increased with the employer paying two-thirds of the increased contribution and employees covering the remaining one-third of the increased contribution. The same two-thirds/one-third increased contribution standard applies to the second requirement, which states that beginning in FY2040 the fund must maintain a contribution schedule that is sufficient to bring total assets of the plan to 90% by FY2059. Going forward from FY2060, the fund must collect a minimum contribution amount needed to maintain the funded ratio at or above 90%.

In FY2011, the plan funded ratio fell below the 60% threshold, to 59.2% funded, triggering increased contributions by the CTA and employees. The rates needed to return the plan to 60% funded in ten years and all subsequent years through 2039 as required by statute were actuarially calculated to be 14.25% for the CTA (net of the 6% POB debt service credit) and 10.125% for the employees for plan years 2013 and 2014-2040. This was an increase from 11.3% for the CTA and 8.65% for the employees in plan year 2012.[58]

The legislation also changed benefits for employees hired after January 18, 2008, raising the years-of-service requirement for the reduced pension benefit available at 55 years of age from 3

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[56] Retirement Plan for Chicago Transit Authority Employees *Basic Financial Statements and Management's Discussion and Analysis for the Year Ended December 31, 2006*, p. 6.
[57] See the Civic Federation, "The State of Illinois Retirement Systems: Funding History and Reform Proposals," (October 26, 2006). http://www.civicfed.org/articles/civicfed_220.pdf
[58] State of Illinois Office of the Auditor General, *2012 Annual Review: Information Submitted by the Retirement Plan for CTA Employees*, November 2012, p. 3.

years to 10 years of service. The legislation raised the age requirement for receiving an unreduced pension from 55 years of age to 64 years of age and 25 years of service.

P.A. 95-0708 required that no less than $1,110,500,000 in pension obligation bond proceeds be deposited into the retirement fund and no less than $528,800,000 be deposited into a new Retiree Healthcare Trust. The infusion of $1.1 billion into the retirement fund was expected to raise its funded ratio to approximately 80%.[59]

The effects of these two pieces of legislation were first realized in the FY2007 pension financial statements. As a result of legislation that created the separate Retiree Healthcare Trust, healthcare liabilities for the pension fund decreased from $1.8 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[60] The FY2008 actuarial valuation for the CTA fund assumed that by June 30, 2009 the pension fund will no longer bear any responsibility for funding retiree healthcare benefits.[61]

The CTA Fund actuaries adjusted the retirement probability assumptions due to the changes in retirement eligibility age, required years of service and healthcare eligibility that took effect January 18, 2008. These assumption changes reduced the FY2007 actuarial liabilities by $28.0 million.[62]

In fiscal year 2011, the Retirement Fund actuaries changed demographic assumptions and changed the actuarial asset valuation method from the five-year smoothed method to the market value, which recognizes gains and losses between actual and expected returns immediately. This contributed to the decrease in funded ratio between FY2010 and FY2011 from 70.1% to 59.2%.[63]

Funded Ratios – Actuarial Value of Assets

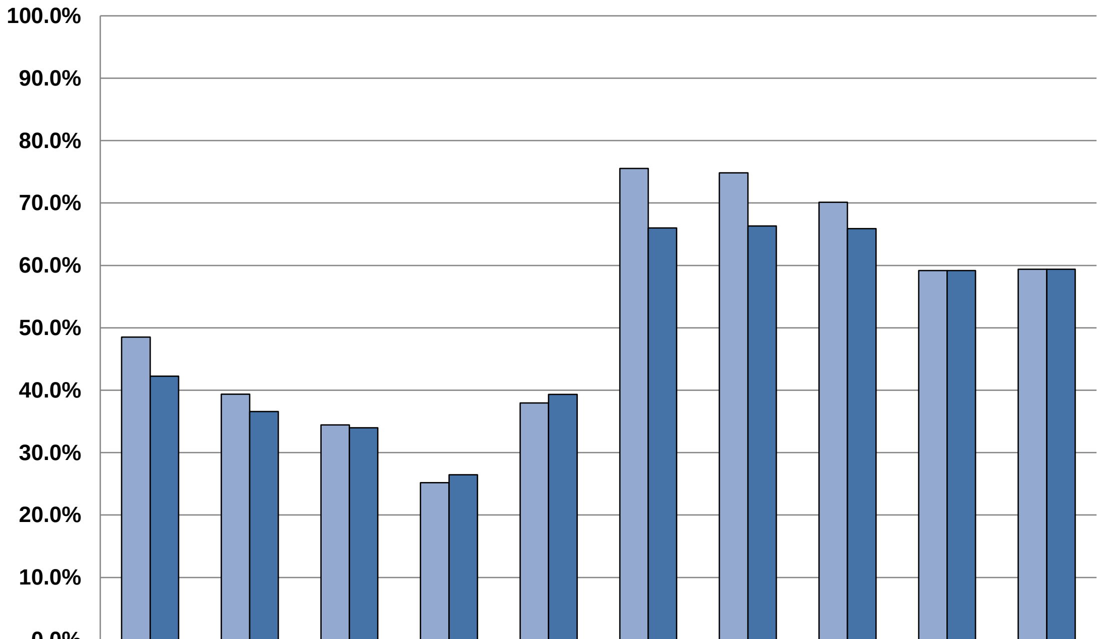
The following exhibit shows the actuarial funded ratio for the CTA Employees' Pension Fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations. The funded ratio for the CTA pension fund was 48.5% on an actuarial value basis in FY2003 and declined to 25.2% in FY2006 before climbing to 75.6% in FY2008. The increase in the funded ratio is largely attributed to the creation of the separate Healthcare Trust Fund for CTA employees.[64]

The trust fund was created in May 2008 and assumed full responsibility for healthcare funding, payment and administration on July 1, 2009. FY2008 audited CTA pension data reflected the infusion of $1.1 billion in bond proceeds, nearly doubling its total actuarially-valued assets. This cash infusion raised the CTA pension fund's funded ratio from 38.0% in FY2007 to 75.6% in

[59] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 3. Actual year-end funded ratio on a smoothed actuarial basis in FY2008 was 75.6%.
[60] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[61] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2009*, p. 4.
[62] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 4.
[63] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
[64] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 15 note b.

FY2008. The FY2009 actuarial value funded ratio dropped slightly to 74.8% due to changes in population, actuarial assumptions, payroll and investment return.[65] The FY2010 ratio declined to 70.1% primarily due to a reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50% and because the effects of the FY2008 market decline were still being recognized.[66] As noted above, the FY2011 ratio declined sharply primarily because of a change from smoothed asset valuation to market valuation but also because of unfavorable market conditions in 2011.[67] The funded ratio remained level for FY2012 at 59.4%.

CTA Employees' Pension Fund Funded Ratios: Actuarial Value of Assets and Market Value of Assets: FY2003-FY2012



	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Actuarial Value	48.5%	39.4%	34.4%	25.2%	38.0%	75.6%	74.8%	70.1%	59.2%	59.4%
Market Value	42.3%	36.6%	34.0%	26.5%	39.3%	66.0%	66.3%	65.9%	59.2%	59.4%

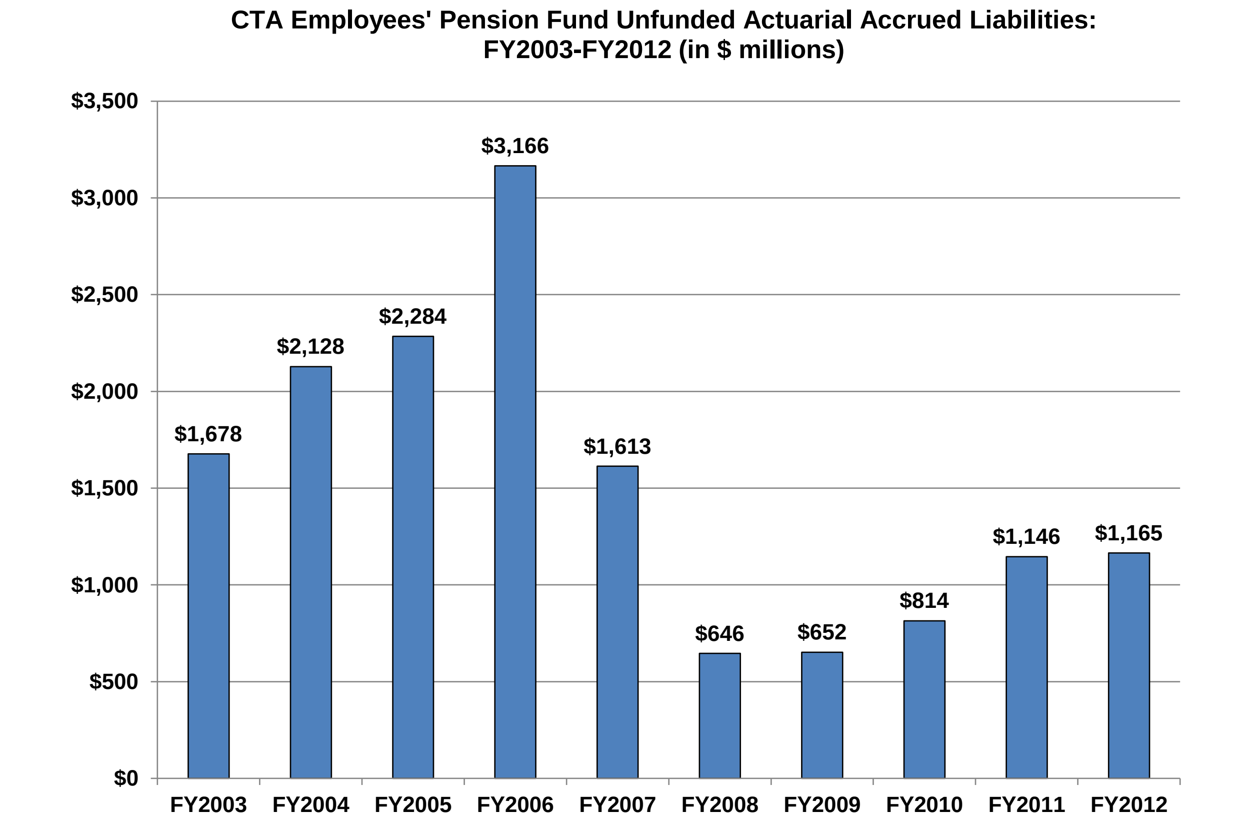
Note: Due to a change in the accounting for pension fund assets effective in FY2011, the market value and actuarial value are equal for that year and all subsequent years.
Source: Retirement Plan for CTA Employees Financial Statements, FY2003-FY2012.

Unfunded Actuarial Accrued Liabilities

Unfunded actuarial accrued liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the CTA pension fund grew from $1.7 billion in FY2003 to almost $3.2 billion in FY2006 before falling to $0.6 billion in FY2008. This $2.5 billion decline resulted from the one-time employer contribution of $1.1 billion in pension obligation bond proceeds. Unfunded liabilities rose to $0.8 billion in FY2010 due to a reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50% and because the effects of the FY2008 market decline were still being recognized. Unfunded

[65] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2010*, p. 1.
[66] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 2, 2011*, p. 1. The discount rate assumption was reduced in order to better reflect the expected long-term investment return on plan assets.
[67] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.

liabilities rose again in FY2011 to $1.1 billion due to unfavorable market conditions and a change in the valuation of assets from a smoothed valuation to market valuation, which recognized 2011 losses immediately. Unfunded liabilities increased slightly in FY2012 as a result of insufficient employer contributions not completely offset by greater than expected investment returns.

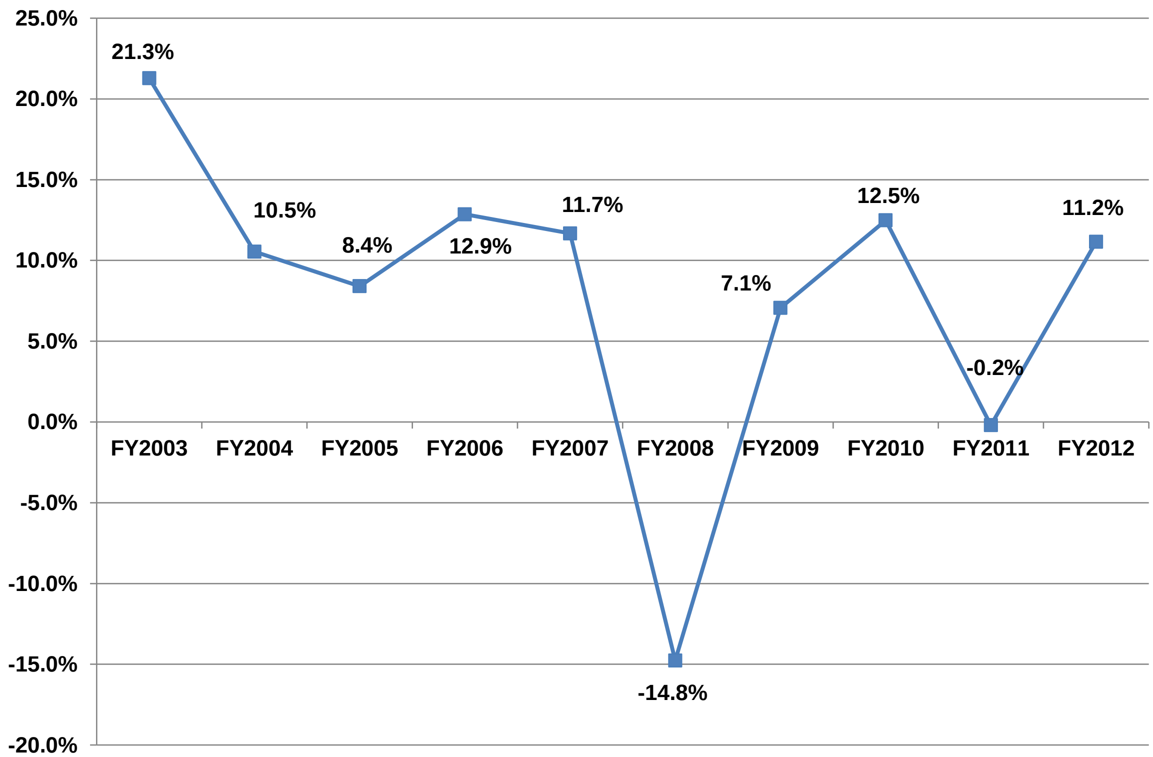


Source: Retirement Plan for CTA Employees Financial Statements, FY2003-FY2012.

Investment Rates of Return

Over the ten years between FY2003 and FY2012, the investment rate of return for the CTA Employees' Pension Fund started at a high of 21.3% in FY2003 and reached a low of -14.8% in FY2008.[68] The -14.8% return for FY2008 was better than the benchmark portfolio and the returns of many other pension funds because most of the $1.1 billion of the pension obligation bond proceeds was held in cash during the financial market crisis of the fall of 2008.[69] Since FY2008, returns have fluctuated, rising to 12.5% in FY2010, before falling to -0.2% in FY2011 and rebounding to 11.2% in FY2012. The average return between FY2003 and FY2012 was 7.0%, less than the assumed rate of return of 8.5%.

CTA Employees' Pension Fund Investment Rate of Return: FY2003-FY2012



Source: Retirement Plan for CTA Employees Actuarial Valuations, FY2003-FY2012.

OTHER POST EMPLOYMENT BENEFITS

Public Act 95-0708 created a separate Retiree Healthcare Trust to manage and fund CTA retiree health benefits and a one-time pension obligation bond of which no less than $528.8 million in proceeds was deposited into the trust. As a result, healthcare liabilities for the pension fund decreased from $1.8 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[70] The

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[68] This section is not updated for FY2011 because the FY2011 actuarial valuation for the CTA Retirement Fund was not publicly available as of the date of publication.
[69] Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.
[70] P.A. 95-0708; Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.

CTA and the CTA pension fund have no further funding obligations regarding retiree health insurance. The healthcare trust is administered by the CTA pension fund Executive Director. As of January 1, 2013 the Chicago Transit Authority Retiree Healthcare Trust reported total present value of projected benefits of $645.7 million and total income and assets of $813.4 million, for a 126.0% coverage ratio.[71]

SHORT-TERM LIABILITIES

The CTA's financial statements are only for business-type activities as it is financed and operated in a manner similar to a private business. There are no governmental activities.[72]

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The CTA currently reports no short-term debt but does include the following short-term liabilities in the report of net assets in its annually issued Audited Financial Statements and Supplementary Information:[73]

- *Accounts Payable*: Monies owed to vendors for goods and services;
- *Accrued Payroll*: Employee pay and benefits carried over from the previous year;
- *Accrued Interest Payable:* Interest that is owed on deposits or bonds payable in the next fiscal year;
- *Advances and Deposits:* Security deposits on rents and concessions, various grant deposits and other deposits required from vendors that do business with the CTA; and
- *Advance from the RTA:* Funds provided by the RTA for future capital projects.

In FY2012 the CTA reported that total short-term liabilities increased by nearly $55.8 million, or 16.8%, from the previous year. Since FY2008 all short-term liabilities have decreased by $57.0 million, or 17.1%. The single largest short-term liability reported in FY2012 was accounts payable and accrued expenses at $144.3 million. This liability rose by 25.8% or $53.5 million, accounting for most of the total two-year increase in short-term liabilities. Much of this increase is related to increased capital project activity.[74] It is also important to note that accounts payable and accrued expenses declined by 30.3% or $62.8 million between FY2008 and FY2012.

CTA Short-Term Liabilities for Business-Type Activities by Category: FY2008-FY2012
(in $ thousands)

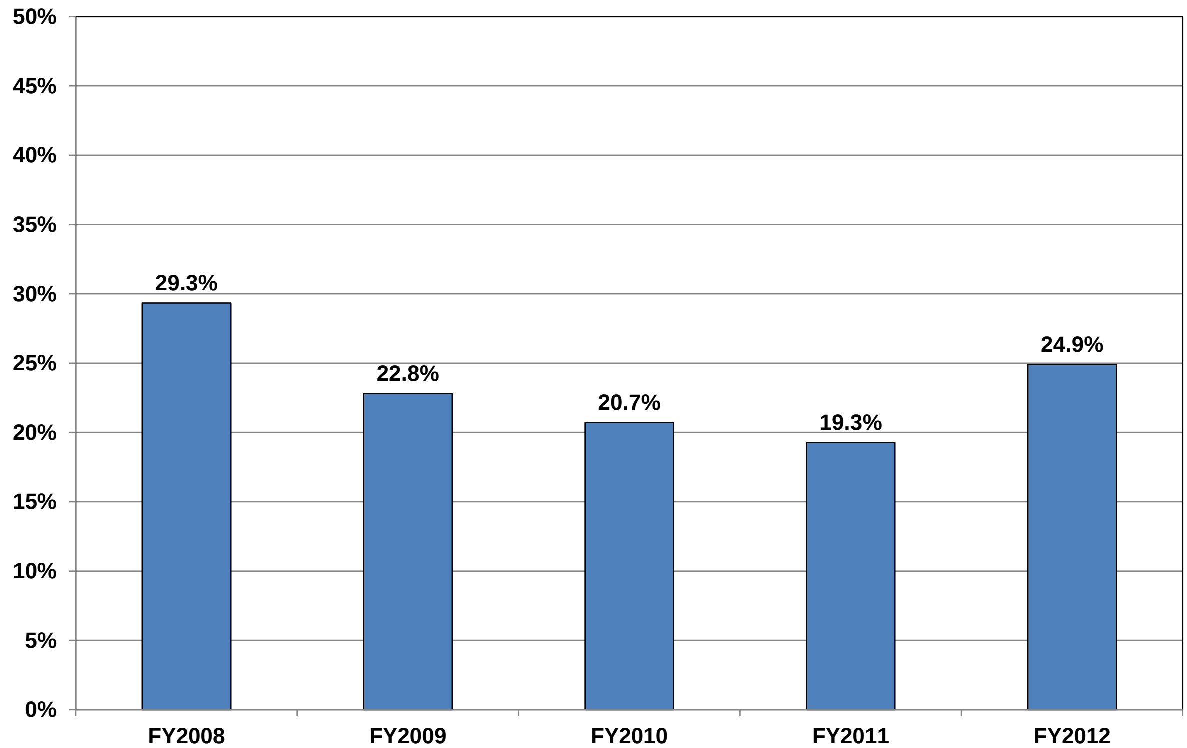
Liability	FY2008	FY2009	FY2010	FY2011	FY2012	Two Year $ Change	Two Year % Change	Five Year $ Change	Five Year % Change
Accounts Payable & Accrued Expenses	$ 207,026	$ 129,198	$ 98,463	$ 90,746	$ 144,256	$ 53,510	25.8%	$ (62,770)	-30.3%
Accrued Payroll	$ 95,456	$ 90,717	$ 101,964	$ 98,489	$ 102,081	$ 3,592	3.8%	$ 6,625	6.9%
Accrued Interest Payable	$ 16,909	$ 13,081	$ 19,460	$ 21,451	$ 21,107	$ (344)	-2.0%	$ 4,198	24.8%
Advances and Deposits	$ 2,508	$ 1,581	$ 9,511	$ 9,392	$ 8,440	$ (952)	-38.0%	$ 5,932	236.5%
Advances from RTA	$ 10,949	$ 8,451	$ -	$ -	$ -	$ -	0.0%	$ (10,949)	-100.0%
Total	**$ 332,848**	**$ 243,028**	**$ 229,398**	**$ 220,078**	**$ 275,884**	**$ 55,806**	**16.8%**	**$ (56,964)**	**-17.1%**

Source: CTA Audited Financial Statements FY2008-FY2012.

[71] Chicago Transit Authority Retiree Healthcare Trust, *Actuarial Valuation as of January 1, 2013*, p. 2.
[72] CTA FY2011-FY2012 Financial Statements, Note 2: Summary of Significant Accounting Policies, p. 21.
[73] CTA FY2011-FY2012 Audited Financial Statements, p. 14.
[74] CTA FY2011-FY2012 Audited Financial Statements, p. 5.

Increasing short-term liabilities in a government's operating funds as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[75] The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. Between FY2008 and FY2012, short-term liabilities averaged 23.4%, falling steadily from 29.3% in FY2008 to 19.3% in FY2011 before rising to 24.9% in FY2012. The increase between FY2011 to FY2012 is due primarily to the two-year $53.5 million increase in accounts payable and accrued expenses liabilities noted above.

CTA Short -Term Liabilities as % of Total Operating Revenues: FY2008-FY2012

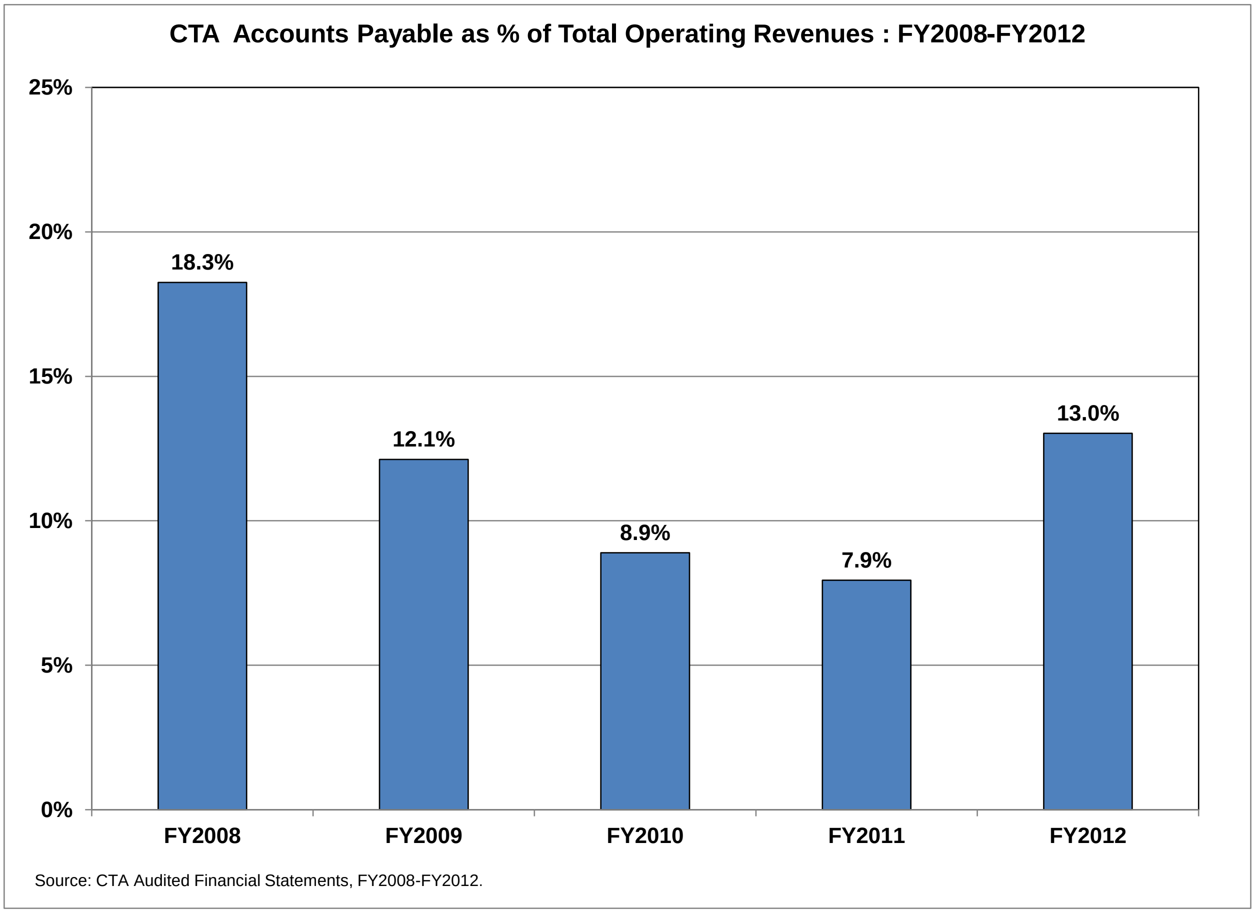


Source: CTA Audited Financial Statements, FY2008-FY2012.

[75] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), pp. 77 and p. 169.

Accounts Payable Ratio

Over time, rising amounts of accounts payable compared to operating funds may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The CTA's ratio of accounts payable to operating revenues decreased from 18.3% to 7.9% between FY2008 and FY2011 before rising to 13.0% in FY2012. The overall decrease since FY2008 was a positive sign.



Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.[76]

[76] Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations.* (Upper Saddle River, NJ, 2001), p. 476.

In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a government, including:

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit. Cash and cash equivalents reserved for damage reserve are amounts set aside to fund the annual injury and damage obligations as required by Section 39 of the Metropolitan Transportation Authority Act;[77]
- *Investments*: Any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: Monetary obligations owed to the government including grants, property taxes and interest on loans;
- *Prepaid Expenses*: Asset on a balance sheet arising as a result of an entity making payments for goods and services to be received in the near future, such as for an insurance policy;[78] and
- *Derivative Instrument:* Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.[79]

The CTA's current ratio was 2.5 in FY2012, the most recent year for which data is available. In the past five years, the Authority's current ratio averaged 2.4, which is above the benchmark of 2.0. From FY2008 to FY2012, the current ratio increased from 1.6 to 2.5. This is a positive trend.

CTA Current Ratio for Business-Type Activities: FY2008-FY2012
(in $ thousands)

	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Asset									
Cash and cash equivalents	$ 61,672	$ 59,542	$ 111,579	$ 119,467	$ 124,090	$ 4,623	3.9%	$ 62,418	101.2%
Cash and cash equivalents reserved for damage reserve	$ 5,894	$ 85,090	$ 102,361	$ 107,920	$ 121,395	$ 13,475	12.5%	$ 115,501	1959.6%
Investments	$ 1,000	$ 1,007	$ 26,999	$ 3,020	$ 1,000	$ (2,020)	-66.9%	$ -	0.0%
Grants receivable due from the RTA	$ 258,832	$ 205,633	$ 196,141	$ 228,966	$ 246,638	$ 17,672	7.7%	$ (12,194)	-4.7%
Grants receivable: Capital Projects from federal & state sources	$ 21,115	$ 33	$ 39	$ 5,098	$ 33	$ (5,065)	-99.4%	$ (21,082)	-99.8%
Grants receivable: unbilled work in progress	$ 58,459	$ 85,000	$ 63,991	$ 64,107	$ 92,536	$ 28,429	44.3%	$ 34,077	58.3%
Grants receivable: Other	$ 506	$ 70	$ 1,928	$ 1,131	$ 809	$ (322)	-28.5%	$ 303	59.9%
Accounts receivable, net	$ 29,762	$ 19,443	$ 23,773	$ 26,881	$ 40,772	$ 13,891	51.7%	$ 11,010	37.0%
Materials and supplies, net	$ 102,919	$ 92,805	$ 63,522	$ 58,501	$ 46,056	$ (12,445)	-21.3%	$ (56,863)	-55.3%
Prepaid expenses and other assets	$ 4,426	$ 5,887	$ 5,883	$ 5,502	$ 5,399	$ (103)	-1.9%	$ 973	22.0%
Derivative instrument	$ -	$ -	$ 2,158	$ -	$ 172	$ 172	--	$ 172	-
Total Current Assets	**$ 544,585**	**$ 554,510**	**$ 598,374**	**$ 620,593**	**$ 678,900**	**$ 58,307**	**9.4%**	**$ 134,315**	**24.7%**
Current Liability									
Accounts Payable & Accrued Expenses	$ 207,026	$ 129,198	$ 98,463	$ 90,746	$ 144,256	$ 53,510	25.8%	$ (62,770)	-30.3%
Accrued Payroll	$ 95,456	$ 90,717	$ 101,964	$ 98,489	$ 102,081	$ 3,592	3.8%	$ 6,625	6.9%
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Advances and Deposits	$ 2,508	$ 1,581	$ 9,511	$ 9,392	$ 8,440	$ (952)	-38.0%	$ 5,932	236.5%
Advances from RTA	$ 10,949	$ 8,451	$ -	$ -	$ -	$ -	0.0%	$ (10,949)	-100.0%
Total Current Liabilities	**$ 332,848**	**$ 243,028**	**$ 229,398**	**$ 220,078**	**$ 275,884**	**$ 55,806**	**25.4%**	**$ (56,964)**	**-17.1%**
Current Ratio	**1.6**	**2.3**	**2.6**	**2.8**	**2.5**				

Source: CTA Audited Financial Statements, FY2008-FY2012.

LONG-TERM LIABILITIES

This section presents information about long-term liability trends of the CTA. It includes information about all long-term obligations, long-term debt, long-term debt per capita and bond ratings.

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[77] CTA FY2011-FY2012 Audited Financial Statements, p. 22.
[78] See http://www.investopedia.com/terms/p/prepaidexpense.asp#ixzz1bEsrAQ9P.
[79] CTA FY2011-FY2012 Audited Financial Statements, p. 67.

Total Long-Term Liabilities

Long-term liabilities are the obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. The CTA's long-term liabilities include:

- *Self Insurance Claims:* The CTA is self-insured against future liabilities arising from personnel, property and casualty claims. The annual CAFR reports amounts needed to finance these future liabilities;
- *Bonds Payable, Capital Lease Obligations and Certificates of Participation:* These are amounts reported for different types of tax supported long-term debt, including general obligation debt, lease obligations and certificates of participation;
- *Net pension obligations (NPO):* The cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt;
- *Net OPEB Obligation:* The cumulative difference (as of the effective date of GASB Statement 45) between the annual Other Post Employment Benefits (i.e., employee health insurance) cost and the employer's contributions to its OPEB Plan; and
- *Other Long-Term Liabilities*: These are primarily working cash borrowings.

Between FY2008 and FY2012 total CTA long-term liabilities increased by 21.0%, or just over $1.0 billion, rising from $5.0 billion to $6.0 billion. In the two-year period between FY2011 and FY2012 they decreased slightly by 0.6%.

Most long-term liabilities are bonds payable and capital lease obligations. In FY2012 these two categories combined accounted for 93.1% or $5.6 billion of all long-term liabilities. During the five years reviewed, these categories averaged 93.3% of all long-term obligations.

In 2008 the CTA issued $1.9 billion in pension obligation and retiree healthcare revenue bonds to increase funding in the CTA's pension fund and create a retiree health trust.[80] Since January 1, 2009 all retiree benefits are now paid from the Retiree Healthcare Trust established by Public Act 95-708, not the CTA.[81] The liabilities shown below for the net OPEB obligation represent debt service on the retiree healthcare bonds.

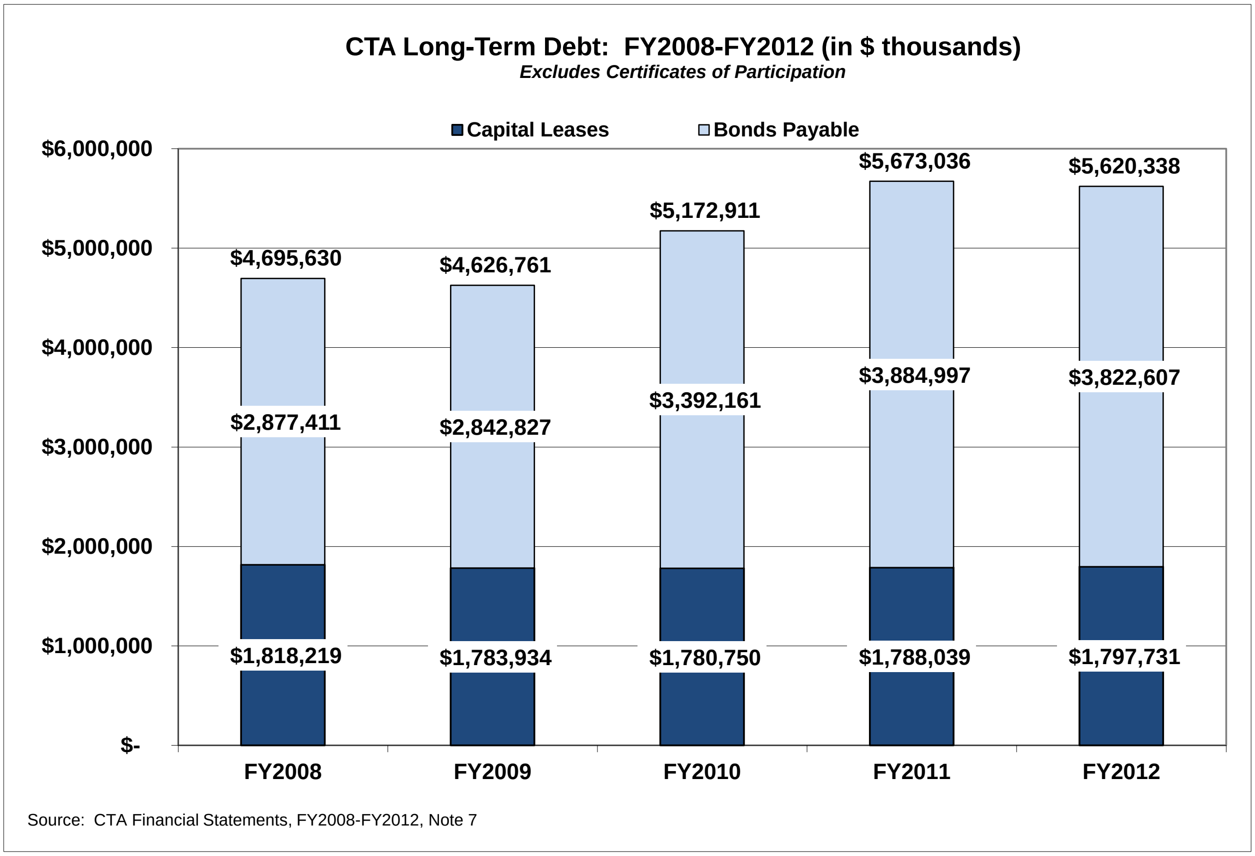
CTA Long-Term Liabilities by Category: FY2008-FY2012 (in $ thousands)									
	FY2008	FY2009	FY2010	FY2011	FY2012	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Self insurance claims	$ 196,866	$ 203,444	$ 222,227	$ 253,001	$ 257,071	$ 4,070	1.6%	$ 60,205	30.6%
Capital lease obligations	$1,818,219	$1,783,934	$1,780,750	$1,788,039	$ 1,797,731	$ 9,692	0.5%	$ (20,488)	-1.1%
Bonds payable	$2,877,411	$2,842,827	$3,392,161	$3,884,997	$ 3,822,607	$ (62,390)	-1.6%	$ 945,196	32.8%
Certificates of Participation	$ 76,908	$ 72,014	$ 66,887	$ 61,514	$ 55,886	$ (5,628)	-9.1%	$ (21,022)	-
Net Pension Obligation	$ 17,335	$ 16,707	$ 16,269	$ 15,757	$ 38,277	$ 22,520	142.9%	$ 20,942	120.8%
Net OPEB Obligation	$ 434	$ 1,666	$ 2,874	$ 3,687	$ 3,934	$ 247	6.7%	$ 3,500	806.5%
Other Long-term liabilities	$ 3,863	$ 60,591	$ 68,859	$ 65,180	$ 61,210	$ (3,970)	-6.1%	$ 57,347	1484.5%
Total	**$4,991,036**	**$4,981,183**	**$5,550,027**	**$6,072,175**	**$ 6,036,716**	**$ (35,459)**	**-0.6%**	**$1,045,680**	**21.0%**

Source: CTA Audited Financial Statements, FY2008-FY2012 Note 7: Long-Term Obligations.

[80] CTA FY2010 Audited Financial Statements, p. 50.
[81] CTA FY2010 Audited Financial Statements, p. 60.

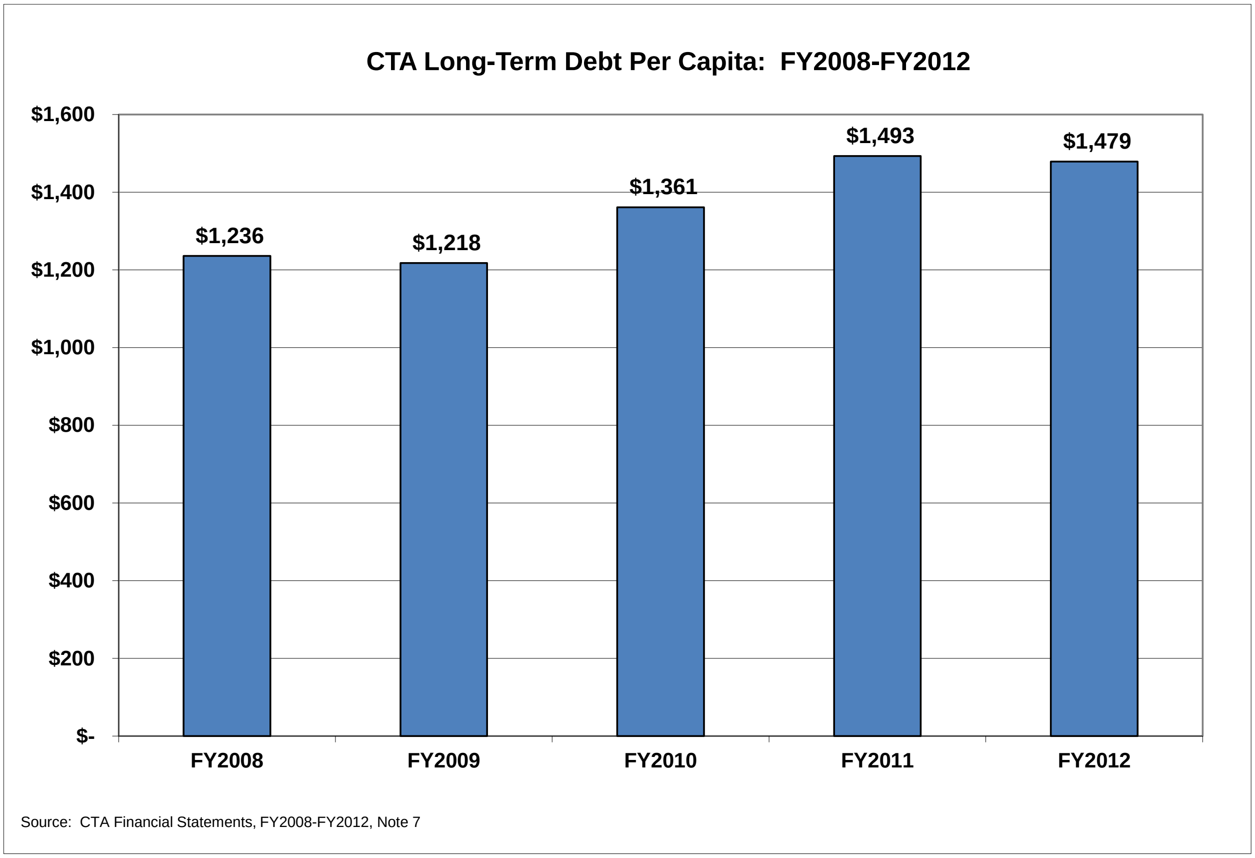
Long-Term Debt

Increases over time in a government's long-term tax-supported debt bear watching as a potential sign of rising financial risk. The exhibit that follows shows long-term debt trends for capital leases and bonds payable between FY2008 and FY2012. It excludes the relatively small amount spent on certificates of participation. The CTA's long-term debt increased by 19.7% or $924.7 million between FY2008 and FY2012. This is an increase from $4.7 billion to $5.6 billion. In the two-year period between FY2011 and FY2012, long-term debt fell slightly by $52.7 million or 0.9%.



Long-Term Debt Per Capita

A common ratio used by ratings agencies and other public finance analysts to evaluate long-term debt trends is debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. The following analysis takes the amount of Chicago Transit Authority total long-term debt per year[82] and divides it by the population served by the CTA. At the 2000 census, this population was 3.7 million. In succeeding years, the service population increased slightly to 3.8 million. In FY2008 long-term debt per capita was $1,236. Since that time, long-term debt per capita increased to $1,479, a 19.7% increase. Long-term debt per capita fell slightly by 1.5% between FY2011 and FY2012.



[82] This excludes certificates of participation, as noted previously.

Debt Service Ratio

Pension obligation debt service, retiree healthcare funding and lease payments on Public Building Commission debt are the only debt service paid out of the CTA's operating budget. The source of debt service funding for other CTA bonds is federal capital grants.[83] Between FY2010 and FY2014, pension obligation bond debt service as a percentage of operating appropriations will average 9.6%, which is below the range of 15% to 20% considered high by the ratings agencies.[84] See the Appropriations section on page 11 of this analysis for more information about the pension obligation bond debt service.

CTA Debt Service as a Percentage of Appropriations: FY2010-FY2014			
	Debt Service	Total Appropriation	Ratio
FY2010	$ 76,784,513	$ 1,239,050,000	6.2%
FY2011	$ 103,336,000	$ 1,306,451,000	7.9%
FY2012	$ 141,386,832	$ 1,262,905,000	11.2%
FY2013	$ 156,574,008	$ 1,358,831,000	11.5%
FY2014	$ 156,577,659	$ 1,401,247,000	11.2%

Source: CTA President's FY2014 Budget Recommendations, p. 110.

Current CTA Bond Ratings

The CTA's outstanding debt is assigned the following ratings:

CTA Credit Ratings				
	Sales/Transfer Tax Receipt Revenue Bonds	Sales Tax Receipts Revenue Bonds	Building Revenue Bonds (PBC Debt)	Capital Grant Receipts Revenue Bonds
Moody's	Aa3	A1	A2	A1
S&P	AA	AA	A	A
Fitch	Not rated	Not rated	Not rated	BBB

Sources: CTA President's FY2014 Budget Recommendations, p. 100 and Moody's Investor's Services, "Moody's downgrades Chicago Transit Authority (IL) sales tax revenue bonds to A1; outlook revised to negative," October 25, 2013.

On October 25, 2013, Moody's Investors Services downgraded outstanding CTA sales tax revenue bonds to A1 from Aa3 and changed the outlook to negative from stable. The action also affected $77 million in capital lease bonds issued by then Chicago Building Commission which were downgraded to A2. Moody's provide several reasons for the downgrade:[85]

1. In light of growing credit pressures on other governments such as the State of Illinois, Cook County and the City of Chicago, the political will to increase CTA revenues has declined.

[83] Information provided by CTA Budget Office November 4, 2011.
[84] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's Investors Services, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.
[85] Moody's Investors Services, "Moody's downgrades Chicago Transit Authority (IL) sales tax revenue bonds to A1; outlook revised to negative," October 25, 2013.

2. The CTA faces an enormous problem with deferred maintenance and capital needs which will require funding from additional bond issues and other sources at a time when state and federal support is likely to continue declining.
3. State of Illinois funding for the CTA is not stable because of the State's large backlog of matching payments. This situation may be exacerbated by the impeding rollback of the State's recent income tax increase and its massive pension deficits.
4. The CTA's increasing pension funding challenges may increase fiscal strain on its operating budget.

CTA CAPITAL PLAN FY2014-FY2018

The CTA estimates that it needs approximately $844 million annually to keep its capital stock in good repair. This would total $4.2 billion over the five-year period. However, the five-year capital program for FY2014 to FY2018 proposed by the CTA President only provides for an average of $591 million in funding annually, which is a substantial funding gap.[86]

The following chart shows the CTA's proposed capital spending for FY2014-FY2018 by the source of funding. New funding will pay for 63.6%, or $1.9 billion of the identified capital projects. Federal funds will account for 46.9% of all funding and state subsidies will account for 16.8%. The remaining 36.4% of all capital funding, or just over $1.0 billion, will be funded from the CTA bond program, RTA bond funds and TIF distribution.

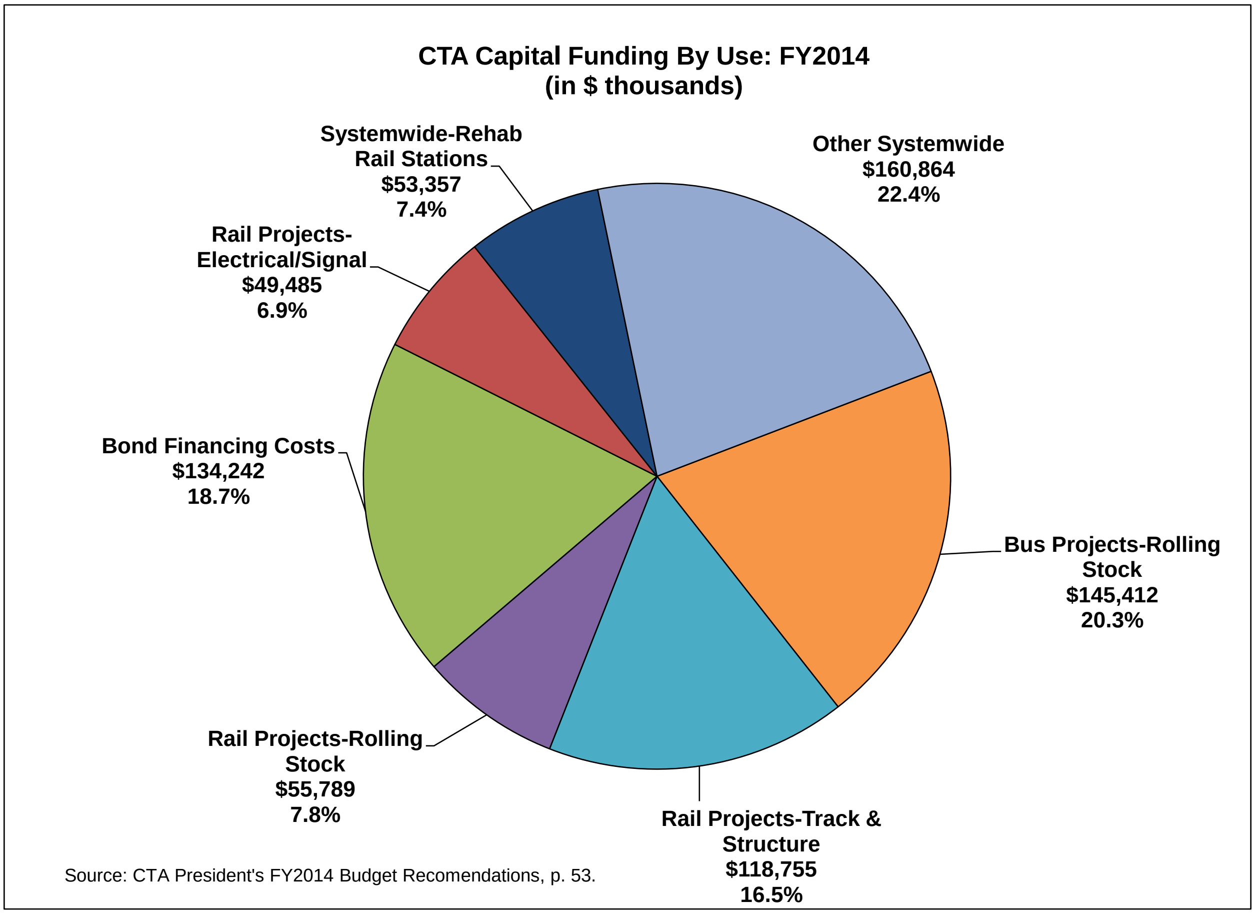
CTA Capital Funding by Source: FY2014-FY2018 (in $ millions)

Source	FY2014	FY2015	FY2016	FY2017	FY2018	$ Total	% of Total
New Funding Available							
Federal Funding	$ 268,562	$ 264,506	$ 277,714	$ 283,131	$ 292,936	$ 1,386,849	46.9%
State Funding	$ 198,642	$ 100,000	$ 197,540	$ -	$ -	$ 496,182	16.8%
Subtotal New Funding Available	**$ 467,204**	**$ 364,506**	**$ 475,254**	**$ 283,131**	**$ 292,936**	**$ 1,883,031**	**63.6%**
RTA Bond	$ 50,000	$ -	$ -	$ -	$ -	$ 50,000	1.7%
Service Board (TIF Chicago)	$ 25,700	$ -	$ -	$ -	$ -	$ 25,700	0.9%
CTA Bond Program	$ 175,000	$ 380,000	$ 445,000	$ -	$ -	$ 1,000,000	33.8%
Total	**$ 717,904**	**$ 744,506**	**$ 920,254**	**$ 283,131**	**$ 292,936**	**$ 2,958,731**	**100.0%**

Source: CTA President's FY2014 Budget Recommendations p. 70.

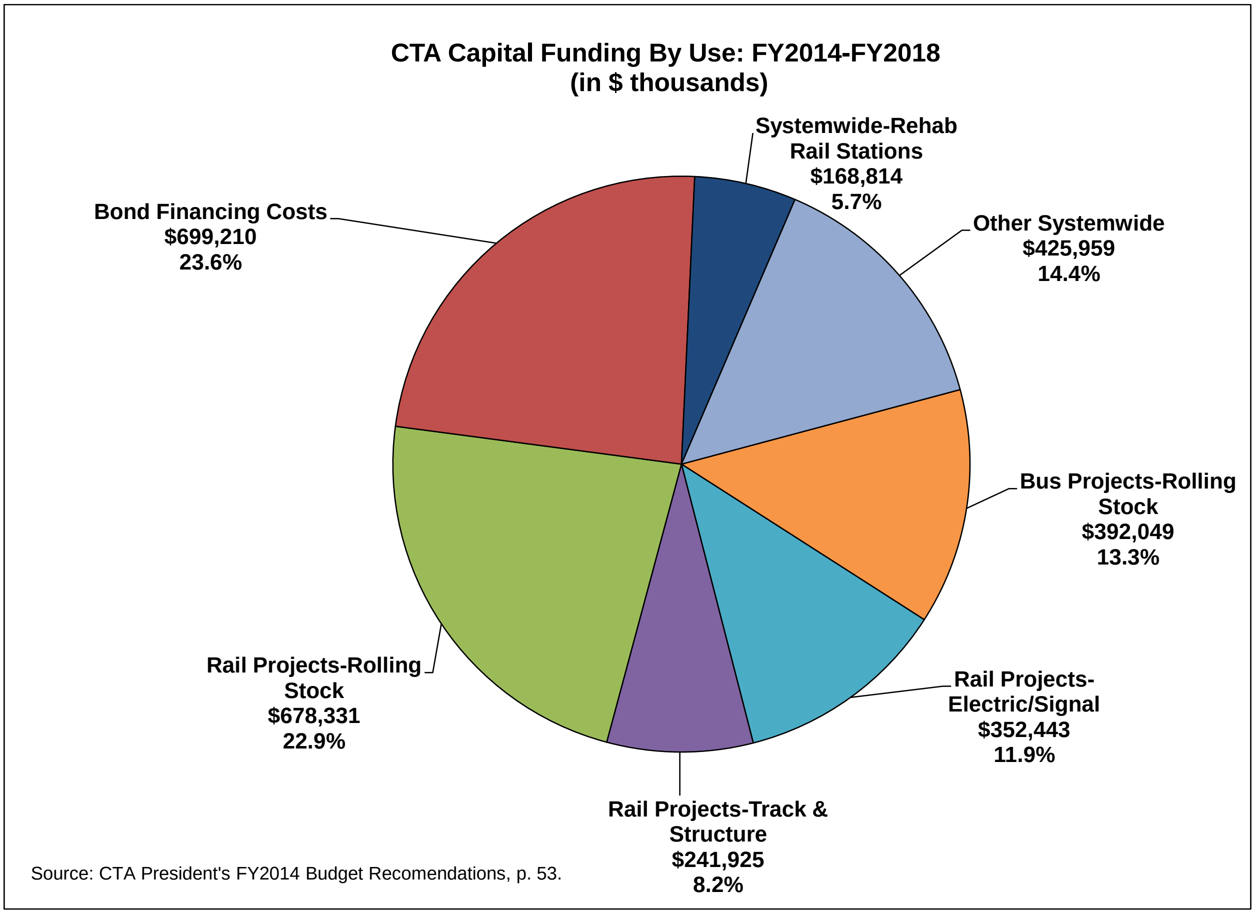
[86] CTA President's FY2014 Budget Recommendations, p. 76.

CTA capital funding by use in FY2014 is shown in the next exhibit. Bus rolling stock[87] projects will spend $145.4 million, or 20.3%, of FY2014 funding while rail rolling stock projects will use $55.8 million, or 7.8%. Bond financing costs will total $134.2 million, or 18.7% of the total. Rail track and structure projects will consume 16.5% or $118.8 million. Approximately $53.4 million will be spent rehabilitating rail stations.



[87] Rolling stock refers to equipment used for transportation, including buses and trains.

A five-year breakdown of CTA capital funding is shown next. Bond financing costs will be the biggest use of funds, at $699.2 million or 23.6% of the total. This will be followed by rolling stock for rail projects at $678.3 million. Bus rolling stock projects will use $392.0 million, or 13.3%.



CTA Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[88]

- A comprehensive inventory of all government-owned assets, with description of useful life and current condition;
- A narrative description of the CIP process including how criteria for projects were determined and whether materials and meetings were made available to the public;
- A five-year summary list of all projects and expenditures by project that includes funding sources for each project;

[88] National Advisory Council on State and Local Budgeting Recommended Practice 9.10: Develop a Capital Improvement Plan, p. 34; Government Finance Officers Association, Best Practices, Development of Capital Planning Policies, October 2011.

- Criteria for projects to earn funding in the capital budget including a description of an objective and needs-based prioritization process;
- Publicly available list of project rankings based on the criteria and prioritization process;
- Information about the impact of capital spending on the annual operating budget for each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

Once the CIP process is completed, the plan should be formally adopted by the governing body and integrated into its long-term financial plan. There should be opportunities for public input into the process. A well-organized and annually updated CIP helps ensure efficient and predictable execution of capital projects and helps efficiently allocate scarce resources. It is important that a capital budget prioritize and fund the most critical infrastructure needs before funding new facilities or initiatives.

The checklist that follows assesses how well the CTA's CIP conforms to best practice guidelines. It is important to note that the CTA develops its CIP in accordance with guidelines established by the Regional Transportation Authority (RTA). The annual RTA budget includes five-year capital program information for CTA, Metra and Pace, the three service boards it oversees. The information RTA provides includes:

- Five-year summaries of capital program expense by category for the CTA, Metra and Pace;
- A discussion of capital impact on operations;
- A discussion of the amount of capital funds available for the RTA's ten-year plan; and
- A discussion of capital impact on maintenance operations.

The CTA CIP, as published in its annual budget conforms to most best practice guidelines. However it does not provide a description of the CIP process, whether stakeholder input is included in CIP development and/or if there is a formal CIP public hearing prior to adoption.

Chicago Transit Authority Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	No
• *A five-year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	Yes
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	Yes
• *The time frame for fulfilling capital projects?*	Information provided for 5-year periods
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in the budget document
• *Is the CIP available on the Web?*	Yes, in the budget document
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	No information in CIP
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No information in CIP
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	No information in CIP
Is the CIP formally approved by the governing body of the government?	It is approved with the budget
Is the CIP integrated into a long term financial plan?	Unclear

APPENDIX A

CTA Operating Budget by Object of Expenditure: FY2013 Adopted, FY2013 Revised & FY2014 Proposed (in $ thousands)							
Object	**FY2013 Adopted**	**FY2013 Revised**	**FY2014 Proposed**	**Revised to Proposed $ Change**	**Revised to Proposed % Change**	**Adopted to Proposed $ Change**	**Adopted to Proposed % Change**
Labor	$ 939,679	$ 936,449	$ 973,700	$ 37,251	4.0%	$ 34,021	3.6%
Other Expenses	$ 233,496	$ 237,994	$ 247,572	$ 9,578	4.0%	$ 14,076	6.0%
Material	$ 57,279	$ 54,984	$ 61,800	$ 6,816	12.4%	$ 4,521	7.9%
Fuel	$ 65,342	$ 64,332	$ 60,246	$ (4,086)	-6.4%	$ (5,096)	-7.8%
Security	$ 23,246	$ 24,091	$ 14,087	$ (10,004)	-41.5%	$ (9,159)	-39.4%
Power	$ 23,175	$ 25,285	$ 27,444	$ 2,159	8.5%	$ 4,269	18.4%
Provision for Injuries & Damages	$ 11,792	$ (2,208)	$ -	$ 2,208	-100.0%	$ (11,792)	-100.0%
Total	**$ 1,354,009**	**$ 1,340,927**	**$ 1,384,849**	**$ 43,922**	**3.3%**	**$ 30,840**	**2.3%**

Note: Totals may differ from budget documents due to rounding.

Source: CTA FY2014 President's Budget Recommendations, p. 42.

APPENDIX B

CTA Operating Budget Revenue: FY2013 & FY2014 (in $ millions)				
Source	**FY2013 Forecast**	**FY2014 Proposed**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 575.1	$ 593.1	$ 18.0	3.1%
Reduced Fare Reimbursement	$ 21.5	$ 21.5	$ -	0.0%
Advertising, Charter & Concessions	$ 29.7	$ 29.7	$ -	0.0%
Investment Income	$ 0.5	$ 0.5	$ -	0.0%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ -	0.0%
Other Revenue	$ 36.7	$ 26.3	$ (10.4)	-28.3%
Total System-Generated Revenue	**$ 668.4**	**$ 676.0**	**$ 7.6**	**1.1%**
Public Funding through RTA	**$ 672.6**	**$ 708.9**	**$ 36.3**	**5.4%**
Total	**$ 1,340.9**	**$ 1,384.8**	**$ 43.9**	**3.3%**

Source: CTA President's FY2014 Budget Recommendations, p. 42.