CHICAGO TRANSIT AUTHORITY
FY2005 PROPOSED BUDGET
Analysis and Recommendations

Prepared By
The Civic Federation
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EXECUTIVE SUMMARY

The Chicago Transit Authority proposes two budgets for FY2005, as required by the Regional Transit Authority. The Proposed Regional Mobility FY2005 budget includes an additional $82.5 million in public funding, for a total budget of $1.02 billion. The Proposed Gridlock FY2005 budget assumes no additional public funding, for a total budget of $911.7 million. The Civic Federation focuses the majority of our analysis and comments on the Gridlock Budget.

The CTA faced a $77.1 million deficit this year due to rising labor, paratransit, security, and fuel costs and relatively flat public funding. The Gridlock Budget is balanced by means of major service cuts, targeted fare and parking increases, and personnel reductions.

FY2005 Gridlock Budget Highlights

- Total operating appropriations of $911.7 million, or a 2.5%, $23.7 million decrease from the FY2004 Budget.
- Public funding from the RTA remains at 2002 levels, or $441.6 million.
- Budget is balanced with $22 million in administrative efficiencies and limited fare increases, $55 million in service cuts.
- Fare and parking increases are as follows: U-Pass up from 60 cents to 70 cents per day, paratransit fare doubles (up from $1.75 to $3.50), parking fees increase to $2.00 (up 25 or 50 cents).
- Service cuts include elimination of: 30 bus routes, portions of 9 bus routes, weekend service on 21 bus routes, and Owl service on all rail and all but 19 bus routes.
- As compared to the FY2004 Proposed Budget, 1,745 positions, or 16% of total positions, will be cut under the Gridlock scenario.

Civic Federation Position and Recommendations

- Public transportation is a **vital economic asset** to the entire Chicagoland region.
- **Adequate funding of all transit agencies** is essential for carrying out the RTA's very important role of congestion relief for commuters, and also to ensure that the region is able to continue as a transportation and logistics center.
- **The Civic Federation <u>opposes</u> the major service cuts proposed in the Gridlock Budget.** Such massive service cuts should be avoided in the short-term. Instead, base fares should be increased to $2.00, Owl service completely eliminated, and capital should be used for operating purposes this year only. In the absence of additional public funding, any remaining shortfall should be met through very limited service cuts.
- The **State of Illinois should provide short-term funding relief** this year for at least a portion of the CTA's budget shortfall.
- The **RTA funding formula should be reviewed**, and any changes should include a sunset clause to ensure future review of the RTA Act.
- **Paratransit costs should be excluded** from the recovery ratio calculation.
- The **RTA must assume a more responsible role** in solving the regional transit funding crisis, and avoid the potential cannibalization of one service board's resources by another.
- The RTA Board needs a leader and it is imperative that **a new RTA Chair** be appointed without delay.
- The CTA should more clearly identify in its budget book the sources of its **deficit** and the gap-closing measures taken to address the deficit.

INTRODUCTION

The Civic Federation recently concluded its analysis of the Proposed FY2005 Budget and the associated financial issues facing the Chicago Transit Authority (CTA). Based upon that analysis we offer the following comments.[1]

The Civic Federation would like to thank Chairman Brown, the members of the Board of Directors of the Chicago Transit Authority and President Frank Kruesi for this opportunity to comment on the proposed FY2005 budget. We would also like to commend the CTA's financial management team for their efforts in preparing this budget. We very much appreciate the willingness of the administration and the financial management team in answering our questions and responding to requests for additional information. We would like to thank the following financial management officials for providing Civic Federation staff with an informative briefing on the CTA's proposed FY2005 budget: Senior Vice President Dennis Anosike, Vice President for Finance and Comptroller Lynn Sapyta, General Manager of Service Planning Mary Kay Christopher and Vice President of Planning and Development Michael Shiffer. We would also like to thank CTA Board Chief of Staff Carl Lingenfelter for his assistance

The Civic Federation **commends** Chairman Brown and President Kruesi for moving to provide full disclosure of financial information from the CTA Employees' Pension Fund. Last year, we had urged the CTA to publicly make available the Fund's annual actuarial statements. Now, the statements and the information they contain about the Pension Fund's assets, liabilities, investment returns and beneficiaries, is available at www.ctapension.com. This is an important measure that improves the transparency of CTA finances and thereby increases public confidence in the CTA.

The CTA faces a $77 million deficit this year due to increased costs for fuel, labor, and paratransit services coupled with static sales tax receipts as the economic recession continues to depress local government revenues.

This year, the Regional Transit Authority (RTA) required the CTA, Metra, and Pace to each produce two budgets: one that assumes $82.5 million in additional funding from the State of Illinois for the CTA, $35 million for Metra, $17 million for Pace, and a second budget that assumes no additional funding. Therefore, the CTA has produced two budgets: a "Regional Mobility" budget that assumes that the General Assembly will provide additional funding in its November legislative session and a "Gridlock" budget that assumes no new funds.

The "Mobility" Budget proposes $1.02 billion in spending for FY2005. This is a 9.5%, or $88.9 million **increase** over the FY2004 Budget. The Mobility budget assumes $82.5 million in additional RTA funding. Because of proposed service increases, the budget projects an annual 1.9 million, 0.4% increase in transit rides, boosting the total number of rides annually to 447.4 million. This budget also eliminates 195 administrative and 140 service-related jobs.

[1] Unless otherwise noted, all data is from CTA Proposed Budgets. In some years, the Final Budget approved by the CTA Board may have differed from the Proposed Budge, but Proposed Budget figures are cited here for consistency of comparison.

The “Gridlock” budget assumes no new State money. Therefore, RTA funding to the CTA would be held to 2002 levels. This budget recommends an appropriation of $911.7 million, or a 2.5%, $23.7 million **decrease** from the FY2004 Budget. To balance the budget, the CTA proposes $22 million in fare increases and administrative cuts, and $55 million in service cuts, which includes laying off 1,216 service-related employees. The proposed service cuts include eliminating 30 bus routes, eliminating 24-hour “Owl” service on all rail and all but 19 bus routes, eliminating weekend service on 21 bus routes and eliminating a portion of 9 other bus routes. Many bus and rail routes will have increased wait times. The Gridlock budget also proposes raising the student U-Pass from 60 cents to 70 cents per day, doubling Paratransit and Taxi Access Program fares and increasing parking fees 25 cents or 50 cents to $2.00.

It is impossible to know at this point with any certainty if the General Assembly will respond positively to the CTA’s request for $82.5 million in new funds. Therefore, the Civic Federation focuses its FY2005 commentary on the CTA’s Gridlock Budget and the dramatic impact it may have on the region.

CIVIC FEDERATION POSITION

The Civic Federation and our many business members recognize that public transportation is a vital economic asset to the entire Chicagoland region. CTA, Metra, and Pace buses and trains annually transport millions of customers to employment, shopping, cultural, and recreational destinations. Public transportation significantly reduces congestion, making the area more attractive for businesses. This is particularly true in the case of the CTA, which serves 3.8 million residents of Chicago and 40 suburbs, provides over 440 million transit trips annually, and is the only transit option for many City residents. Adequate funding for the CTA, Metra, and Pace is essential for carrying out the RTA’s very important role of congestion relief for commuters, and also to ensure that the region an continue as a transportation and logistics center.

The Civic Federation strongly supports continued and increased public funding for all three of the transit service boards – CTA, Metra and Pace. The CTA today once again faces a serious funding challenge in both the short-term and the long-term. Even with the 25-cent fare increase implemented last year, rising fuel, labor, and paratransit costs coupled with flat sales tax revenues have generated a $77 million budget deficit this year. Filling this budget gap will require making painful choices. But, the actions taken this year will not address the Authority’s long-term structural funding problems, nor can they replace the need for a long-term region-wide transit funding and planning strategy.

The Civic Federation urges Governor Blagojevich, the General Assembly, the Regional Transit Authority, and all three service boards to move beyond historic arrangements and revisit the issue of regional transit funding structures and strategies. However, pending such long-term resolution of these issues, we believe the CTA must work creatively to protect the financial health and future of the system. As a result, we believe that major **service cuts proposed by the Chicago Transit Authority should be avoided at all costs in the short-term.**

A Base Fare Increase and Targeted Spending Reductions are Preferable to Service Cuts

Last year, The Civic Federation supported the FY2004 proposed CTA budget because it did not make major service cuts. We argued that reducing maintenance or making service cuts should be a last resort for the CTA because that would lead to a downward spiral of declining ridership and decreased public confidence in the system. Therefore, we endorsed the FY2004 proposed 25-cent fare increase that boosted the base fare to $1.75, and urged additional cuts in personnel. The Civic Federation's view has not changed. Fare increases coupled with targeted personnel and other cost reduction measures are a far more responsible strategy than the drastic service cuts proposed in the Gridlock Budget.

The Civic Federation believes that the State of Illinois should provide **short-term funding relief** this year for at least a portion of the CTA's budget shortfall. However, if Springfield does not provide this relief, we cannot support the major service cuts proposed in the Gridlock Budget. Such cuts are likely to exacerbate the CTA's funding problems and would represent an unwise disinvestment in the regional economy. However, if funding relief is not provided in the November legislative session, the CTA must craft reasonable budget alternatives that avoid irreparable harm to the transit system.

The CTA has already proposed the following $49 million in reasonable cost cutting and revenue enhancement measures for its FY2005 Gridlock Budget:

- $22 million in reductions from the elimination of 281 administrative positions coupled with increases in University Pass fares, non-mainline service paratransit fares and parking fees. The administrative cuts demonstrate an important commitment by the CTA to contain costs within its control. Without that commitment, The Civic Federation could not support any increased revenue enhancements;
- $16 million in reduced funding for the indemnity and damage reserve fund; [2]
- $11 million in savings by removing certain FY2005 service increases provided for in the Regional Mobility budget.

These measures are a good first step toward reducing the FY2005 budget gap. The Civic Federation offers the following alternative measures as a ways to close the CTA's FY2005 budget gap if additional resources are not forthcoming from Springfield:

- *Increasing base fares by 25 cents, from $1.75 to $2.00.* This measure could produce between $20 million and $25 million. The 25-cent fare increase last year generated $30 million with almost no perceptible decline on ridership. However, we recognize that there will likely be some ridership loss and diversion if the CTA implements a second increase in two years. Such risk of ridership loss is far preferable to the certain ridership loss created by service cuts, and it is worth noting that this would be only the second fare increase since 1991.

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[2] The Regional Mobility budget calls for funding the Injury and Damage Fund at $35 million, at the level suggested by the CTA's actuaries. However, the Gridlock budget proposes reducing that amount by $16 million.

- *Completely Eliminating 24 hour Owl Service could save $2.3 million*. Currently, CTA staff estimate that Owl Service costs $4.6 million a year. Under the Gridlock budget scenario, Owl service will be cut roughly in half, and so will the cost. No other major U.S. transit system except New York City operates 24-hour service. Although Owl service may be the only public option for some riders between 1a.m. and 4a.m, this may be a service the CTA can no longer afford. In addition, such a change might positively impact the cost of maintenance, repair, and security.
- *Diverting some capital funds to operating purposes for this year only*. It is never an ideal policy to shift capital funds to operating purposes. However, this option is still preferable to elimination of routes, which would guarantee ridership loss. The CTA has already proposed using $18 million in capital funds for paratransit expenses and $13 million for interest payments in FY2005. The RTA would allow the CTA to use an additional $82.5 million in federal capital funds for operating expenses for FY2005.[3]

The following chart summarizes the gap-closing measures presented in the CTA FY2005 Proposed Gridlock Budget scenario. To close a projected $77.1 million deficit, the CTA proposes $22 million in fare and parking increases, combined with $14 million in efficiencies and non-service personnel cuts. The balance of $55.1 million would come from service cuts.[4]

CTA FY2005 "GRIDLOCK BUDGET" GAP-CLOSING MEASURES ($ millions)		
Internal efficiencies and personnel cuts	$	14.0
Fare and parking increases	$	8.0
Service cuts	$	55.1
TOTAL	**$**	**77.1**

Source: CTA FY2005 Budget, p. 27

Summarizing the alternative gap-closing measures described above, the following chart closes the $77.1 million gap with a base fare increase, elimination of all Owl service, and the use of capital funds for operating expenses instead of $55.1 million in service cuts.[5]

ALTERNATIVE GAP-CLOSING MEASURES ($millions)		
Internal efficiencies and personnel cuts	$	14.0
Fare and parking increases	$	8.0
Base fare increase to $2.00	$	25.0
Eliminate all Owl service	$	4.6
One-time diversion of capital funds for operating	$	15.0
Additional efficiencies, personnel cuts, further Injury & Damages reduction, or limited service cuts	$	10.5
TOTAL	**$**	**77.1**

[3] Information provided by RTA Chief Financial Officer Joseph Costello, October 27, 2004. See footnote on page 12 of this document.
[4] This is the most detailed information available in the Budget Book. It does not provide a breakdown of the allocation of the cost of service cuts to personnel, fuel, etc.
[5] These Alternative Gap-Closing Measures are based on information provided in the Budget Book and by CTA staff.

These are, of course, all short-term measures that do not address the underlying structural problems in the CTA's revenue base. On the expense side of the ledger, the CTA must move aggressively to contain its labor costs in the long-term. Approximately 71% of the proposed Gridlock budget, or $646.4 million, is earmarked for labor-related costs. Even the "good news" Regional Mobility budget projects that employee benefits will increase by 14% from $87 million to $97 million. Clearly, over time, the CTA and its employees must find a way to contain these double digit benefit cost increases, including consideration of measures such as increased employee co-payments and joint purchasing of health insurance with other major local governments.[6]

The RTA Funding Formula Should be Reviewed

The General Assembly should **address the long-term structural funding problems** of the three regional transit service boards by **reviewing and revising the RTA Act's funding formula**. We are unconvinced by arguments that the RTA Act is immutable and should never be changed. In fact, virtually every government policy should be re-evaluated at reasonable intervals to ascertain if it still fulfills its original purpose and whether there are better or more efficient ways to meet that purpose.

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

One of the key reasons for review of the RTA Act is to evaluate the future financial stability of the CTA, which is a critical component of the region's transportation network. The CTA has been dealt a financial blow with the elimination of federal operating support. Today, it faces particularly acute long-term funding challenges for three reasons:

1) A drop in the portion of system-generated revenues from fares and passes;
2) Increased reliance on potentially unstable discretionary funds and a sales tax base that has grown much more slowly than the base for the other service boards; and,
3) Rapidly escalating paratransit costs.

All three of these factors contribute to a gradual, inexorable weakening of the CTA's revenue base. While additional cost cutting efficiencies can and should help the CTA, the solution to these problems cannot be solely addressed with spending reductions. In fact, deep spending cuts such as those proposed in the Gridlock Budget can further exacerbate the problem. Rather, part of the answer must be found in reviewing the CTA's revenue base.

[6] Chicago Transit Authority, *Proposed 2005 Annual Budget Summary*, p. 10

The CTA and Metra boards are required by the RTA to generate a majority of their operating revenues from their own source revenues.[7] However, due in part to declines in ridership over time, CTA fare and pass revenues have dropped from 90% of system-generated revenues to 80%. The Authority is increasingly dependent upon miscellaneous, less stable revenues such as federal grants, parking fees, advertising and concession revenues, third party contractor reimbursements, filming fees, and asset sales to make up the difference. The shift in funding reveals an inherent weakness in the CTA's revenue stream that can only be addressed by additional expenditure and service cuts or increased revenues.

The State of Illinois annually provides the RTA with funds that it then may allocate to the three transit service boards at its discretion.[8] Discretionary funds constitute a growing proportion of the CTA's public funding, even as the dollar amount declines. In FY2004, the CTA derived 40% of its public funding from these discretionary RTA funds, up from 36% in FY2001. However, the dollar amount of support provided from this source decreased from $188 million to $176 million, a 6% decline.

The CTA receives 100% of RTA sales tax receipts collected in the City of Chicago, 30% collected in suburban Cook County, and none collected in the Collar Counties. Between 1994 and 2003, sales tax revenues increased by 26% in the City of Chicago, 30% in the Cook County suburbs, and 51% in the Collar Counties. Therefore, even though the base from which the CTA derives its sales tax revenues is broader than that of Metra and Pace, the rate of growth for its portion of sales tax receipts has lagged behind the rate of growth enjoyed by the other service boards. In order to compensate for this, the CTA increasingly depends on public funding provided at the RTA Board's discretion. The slow growth of City sales tax revenues and the CTA's increased reliance on discretionary funds jeopardize the long-term financial health of the region's largest transit agency.

The CTA faces a third funding challenge with the escalating cost of providing **paratransit services**, which are required by the federal Americans with Disabilities Act (ADA). Paratransit costs are expected to increase by 51% between FY2001 and FY2005, from $32 million to $48 million. Since FY1997, partatransit costs have risen by 87%, or $22 million, and the average paratransit trip is expected to cost the CTA roughly $23 in 2004. The CTA currently recovers only 5.3% of paratransit costs from fares, which are set at a rate that allows maximum affordability for the disadvantaged group being served. However, the entire cost of this expensive service is included in the recovery ratio calculation that determines the percentage of CTA expenditures that must be paid for by system-generated revenues. Another expense over which the CTA does not have full control, the expense of providing passenger security, will be excluded from calculation of the recovery ratio beginning FY2005.[9] The Civic Federation believes that there is absolutely no sound policy reason not to exclude paratransit costs as well.

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[7] Pace's recovery ratio is set at approximately 40%.

[8] See page 22 of this document for a description of discretionary fund sources and allocations.

[9] The FY2005 exclusion of 100% of security costs from the recovery ratios for CTA and Metra is pending final RTA approval. Information provided by the RTA Chief Financial Officer, Joseph Costello, October 25, 2004.

RTA Must Assume a More Responsible Role in Solving the Regional Transit Funding Crisis

The Regional Transit Authority must play an active role in coordinating the six-county region's transportation needs and help the three service boards address financial and planning challenges. It is not merely a guardian of the status quo.

It is unreasonable to expect that three transit service boards with conflicting interests will negotiate amongst themselves to determine appropriate regional transportation policy. What is required is thoughtful deliberation and a united front to present the case for regional transit in Washington D.C., in Springfield, and in local communities. Only effective leadership from the RTA and an RTA Chair can achieve that goal**.** **Therefore, it is imperative that a new RTA Chair be appointed without delay.**

FINANCIAL ISSUES AND TRENDS

Nationwide Transit Challenges

The financial challenges facing the CTA reflect nationwide funding problems for transit agencies. In 2003, the American Public Transportation Association surveyed North American transit agencies to learn how they have responded to the economic slowdown that began in Spring 2001.[10] Of the 22 large transit agencies[11] that responded to the survey, 74% reported peak hour ridership declines and 59% experienced declines in state and local government funding since 2001.

The first step taken by these agencies was to cut costs by reducing administrative expenses (90%), freeze hiring (80%), reduce staff (74%), delay capital projects (68%), and defer maintenance (39%). After cutting costs, large agencies attempted to increase revenues by taking money from reserves if reserves were available (68%), and increasing fares (53%); 69% expect to raise fares within the next year. Finally, large transit agencies have chosen to delay implementation of new services (63%), reduce frequency of service (60%), abandon route segments (46%), and reduce fleet size (24%).

CTA $77.1 Million Budget Gap

Last year in our analysis of the CTA's FY2004 Proposed Budget, The Civic Federation raised concerns that these gap-closing measures, including the base fare increase, would only be sufficient to plug the FY2004 budget gap, and did not represent a long-term budget-balancing solution.[12]

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[10] American Public Transportation Association, "Impact of National Economic Slowdown on Public Transportation," October 2003. Available at http://www.apta.com/research/info/online/econimpactsurvey.cfm. This report follows up on a similar 2002 APTA survey.
[11] The survey defined "large" transit agencies as those with more than 30 million annual unlinked passenger trips.
[12] The Civic Federation, "Chicago Transit Authority FY2004 Proposed Budget: Analysis and Recommendations," October 30, 2004. Available at: http://www.civicfed.org/articles/civicfed_62.pdf

Indeed, the CTA faces a $77.1 million budget gap in FY2005. Under the Gridlock Budget, which assumes no increase in public funding, the CTA projects a FY2006 deficit of $89.7 million and 2007 deficit of $100.0 million, both of which the agency proposes at this time to meet through additional service cuts.

The deficit is driven by a combination of increased labor costs, rising fuel prices, a $1.7 million cut in State reimbursement for reduced fares, rising mandated but unfunded paratransit costs, and static amounts of public funding from sales taxes and discretionary RTA funds.

In the Regional Mobility budget, increased state funding and the reduction of 200 positions eliminates the deficit. However under the Gridlock scenario, the CTA proposes eliminating its deficit with the following methods:

- Raise the U-Pass from 60 cents to 70 cents per day.
- Double paratransit fares from $1.75 to $3.50 per trip.
- Increase parking fees from $1.50 or $1.75 to $2.00.
- Eliminate 1,216 Scheduled Transit Operator (STO) positions and 281 non-STO positions for total job cuts of 1,497.[13] The STO position reductions are directly related to deep cuts in service.
- Introduce major service cuts, which would include eliminating 30 bus routes, eliminating 24-hour "Owl" service on rail and all but 19 bus routes, eliminating weekend service on 21 bus routes and eliminating a portion of 9 other bus routes. Many bus and rail routes will have increased wait times.

Approximately 71% of the deficit or $55.1 million will be generated from service cuts. The remaining $22 million, or 29% of the total, will be derived from a combination of fare increases, reduced funding levels for items such as the CTA's Injury & Damages Fund, and the elimination of administrative positions.

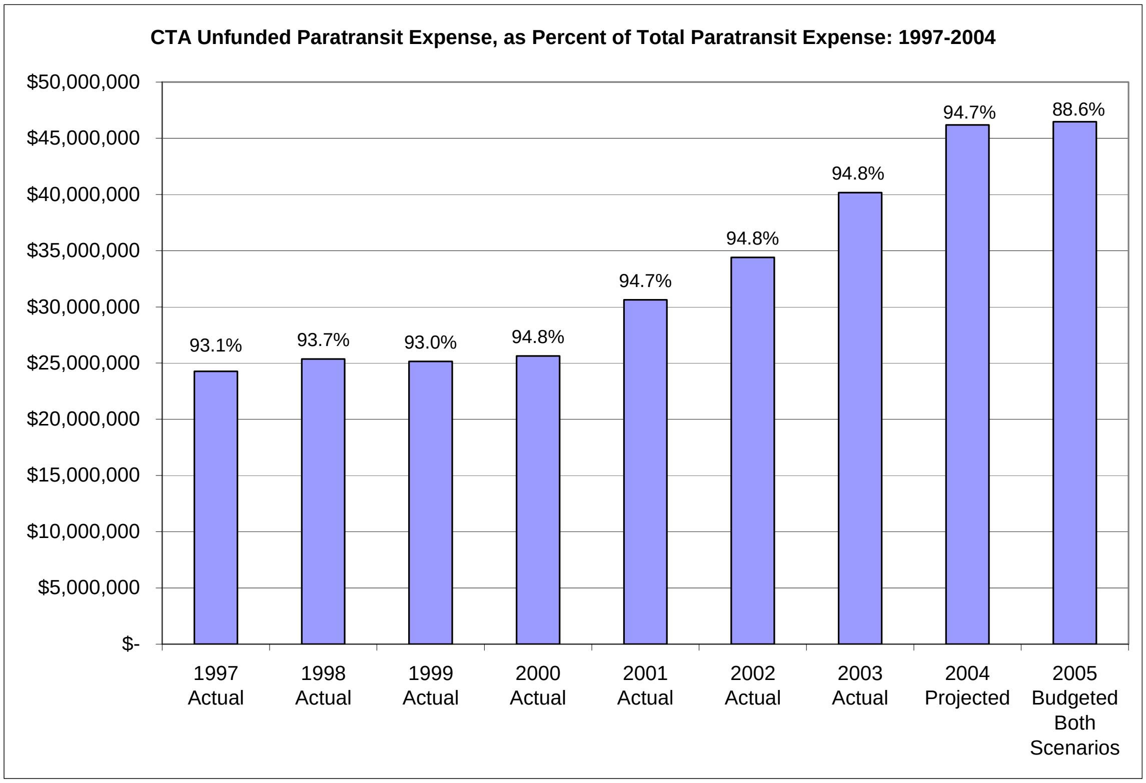
Paratransit Funding

The CTA provides paratransit services as required by the Federal Americans with Disabilities Act requirement without any dedicated cost reimbursement. Two types of service are available to persons who are unable to use the mainline transit services:[14] Special Services and the Taxi Access Program (TAP). The CTA purchases these services from private vendors. Paratransit users currently pay the CTA base fare of $1.75, but the CTA estimates that paratransit service will cost an average of $23.01 per trip by the close of 2004.

While increases in ridership are desirable, they also contribute exponentially to rising costs in the case of paratransit. Between 2001 and 2005, paratransit ridership is projected to rise from 1.4 million to 2.2 million passengers, an increase of 53%. As a result, annual unfunded paratransit services (total expenses minus revenues) are expected to grow from $30.6 million to $46.5 million over the same period. The proportion of total expenses not funded by fares or grants was

[13] The total position reduction of 1,497 is in comparison with the Final FY2004 Budget. As compared with the Proposed FY2004 Budget, 1,745 positions will be cut.
[14] The CTA reports that 99% of the mainline bus service is now ADA accessible.

94.8% in 2003. Due to the proposed paratransit fare increase described below, the unfunded portion of paratransit expenses is expected to drop to 87.2% in 2005.



In 2005, the purchase of paratransit services is expected to reach $52.2 million, an increase of $7.3 million, or 16%, over the FY2004 budgeted amount. Paratransit expenses represent 5.7% of the FY2005 Gridlock Budget.

In FY2004, the burden of paratransit expenses was somewhat mitigated by an agreement made between the RTA and the CTA. Under the agreement, the CTA was permitted to pay a portion of the cost of paratransit purchase from federal capital funds.[15] This allowed the CTA to fund $18 million, or 37%, of paratransit expenses with capital funds. The CTA proposes to again use $18 million in capital funds for paratransit expenses in FY2005.

To reduce the cost of paratransit, the CTA proposes increasing fares for paratransit services under both the Gridlock and the Regional Mobility budget proposals. The Special Service and the Taxi Access Program fares will rise to $3.50, or two times the base fare cash price—the maximum allowed by law. The mainline reduced service fare will remain at $0.85, which is

[15] Use of capital funds for the purchase of paratransit services from private vendors is based upon the Federal Transportation Administration (Section 5307) policy. Since a paratransit vendor spends approximately 50% of its budget on capital costs (the purchase of vehicles, etc.), the purchaser may use both federal capital funds and local operating funds to purchase the service. Such a funding arrangement requires RTA approval, which the CTA obtained for the first time for FY2004.

expected to motivate those riders who are able to use the mainline services to transition from paratransit to mainline.

In order to facilitate the transition of more paratransit riders to the mainline system, the CTA has focused on increasing the accessibility of mainline services through purchase of accessible buses and rehabilitation of "L" stations as part of the Brown Line rehabilitation project. These improvements, in conjunction with the increase in paratransit fares, are expected to slow paratransit ridership growth from an average of 14% between 2001 and 2004 down to a projected 5% average beginning in 2006. However, there will always be some riders who cannot use mainline service and will require paratransit service.

Fare Changes

The FY2005 fare changes apply to both the Regional Mobility and Gridlock Budgets. There is no base fare increase proposed, and the Transit Cards, Chicago Cards, Visitor Passes, and day passes will all remain unchanged.

Last year the CTA raised the base fare for the first time since 1991, from $1.50 to $1.75. This year the CTA will increase the cost of Paratransit and University Passes. Paratransit Special Services, Taxi Access Services (TAP) and Mobility Direct fare will all increase by 100% from $1.75 to $3.50. The Paratransit 30-day pass will also increase by 100% from $75.00 to $150.00. The University Pass will increase from $0.60 to $0.70, a change of 17%.

Full Fares	Current	Last Changed (Introduced)	Recommended for FY2005	Percent Change
Cash	$1.75	2004	$1.75	Unchanged
Full Fare Transit card	$1.75	2004	$1.75	Unchanged
Full Fare Chicago Card	$1.75	2004	$1.75	Unchanged
Chicago Card Bonus[16]	10%	(2002)	10%	Unchanged
Transfer[17]	$0.25	2004	$0.25	Unchanged
1-Day Pass	$5.00	(1998)	$5.00	Unchanged
2-Day Visitor Pass	$9.00	(1998)	$9.00	Unchanged
3-Day Visitor Pass	$12.00	(1998)	$12.00	Unchanged
5-Day Visitor Pass	$18.00	(1998)	$18.00	Unchanged

[16] For every $10 purchase, $11 of value is added to the card.
[17] Allows two additional rides within two hours of issuance.

Full Fare 7-Day Pass	$20.00	(1998)	$20.00	Unchanged
Full fare 30-Day Pass	$75.00	(1998)	$75.00	Unchanged

Reduced/Paratransit/ U-Pass Fares	**Current**	**Last Changed (Introduced)**	**Recommended for FY2005**	**Percent Change**
Cash (mainline bus & rail)	$0.85	2004	$0.85	Unchanged
Transit Card (mainline bus & rail)	$0.85	2004	$0.85	Unchanged
Transfer (mainline service)	$0.15	1991	$0.15	Unchanged
Paratransit Special Services	$1.75	2004	$3.50	100%
Taxi Access Program (TAP) & Mobility Direct	$1.75	2004	$3.50	100%
Paratransit 30-Day Pass	$75.00	1998	$150.00	100%
University Pass	$0.60	(1998)	$0.70	17%

Park n' Ride fees for both Cumberland and Midway will increase by 14%. At Rosemont and at all other CTA lots, fees will increase by 33%, from $1.50 to $2.00.

Park N' Ride Fees	**Current**	**Recommended For FY2005**	**Percent Change**
Cumberland and Midway (up to 12 hours)	$1.75	$2.00	14%
Rosemont (up to 18 hours)	$1.50	$2.00	33%
All other CTA lots (up to 24 hours)	$1.50	$2.00	33%

If it raised its base fare to $2.00, the CTA would be at or near the top of mass transit prices when compared to other cities in the United States. Although the base fares in New York City and Philadelphia are $2.00, these cities' transit agencies offer substantial volume discounts, less expensive monthly passes, and transfers in New York are free. Conversely, since January 2004, Los Angeles has lowered the base fare for bus and rail by $0.25 while their volume discount has decreased substantially, from 33% to 14%. In San Francisco, the base fare and the transfer have increased by $0.25 since last year and the monthly passes have increased from $40 and $10 to $60 and $20 respectively.

The following exhibit is a summary of selected mass transit fares as of October 2004.

	Bus	Rail	Volume Discount	Transfer	Monthly Pass
New York City	$2.00	$2.00	20% on farecard[18]	free	$70 regular, $35 reduced[19]
Philadelphia	$2.00	$2.00	35% on tokens[20]	$0.60	$70
Chicago	**$1.75**	**$1.75**	**10% on Chicago Card**	**$0.25**	**$75 regular, $35 reduced**
Los Angeles	$1.25 ($0.75 nights)	$1.25	14% on tokens[21]	$0.25	$52 regular $30 reduced
Minneapolis	$1.25 ($1.75 peak)	n/a	10% on farecard	free	$42 off-peak $66 peak $21 disabled
San Francisco	$1.50	$1.50	none	$0.25	$60 regular, $20 reduced
Houston	$1.00	n/a	20% on tokens[22]	free	$35 regular $15 reduced
Boston	$0.90	$1.00	none	$0.25	$31 bus $44 rail

CTA Ridership

Nationwide, mass transit ridership increased steadily in the late 1990s, climbing an average of 3.6% each year from 1997 to 2001. Ridership flattened and began to fall after 2001, due in large part to reduced employment levels.

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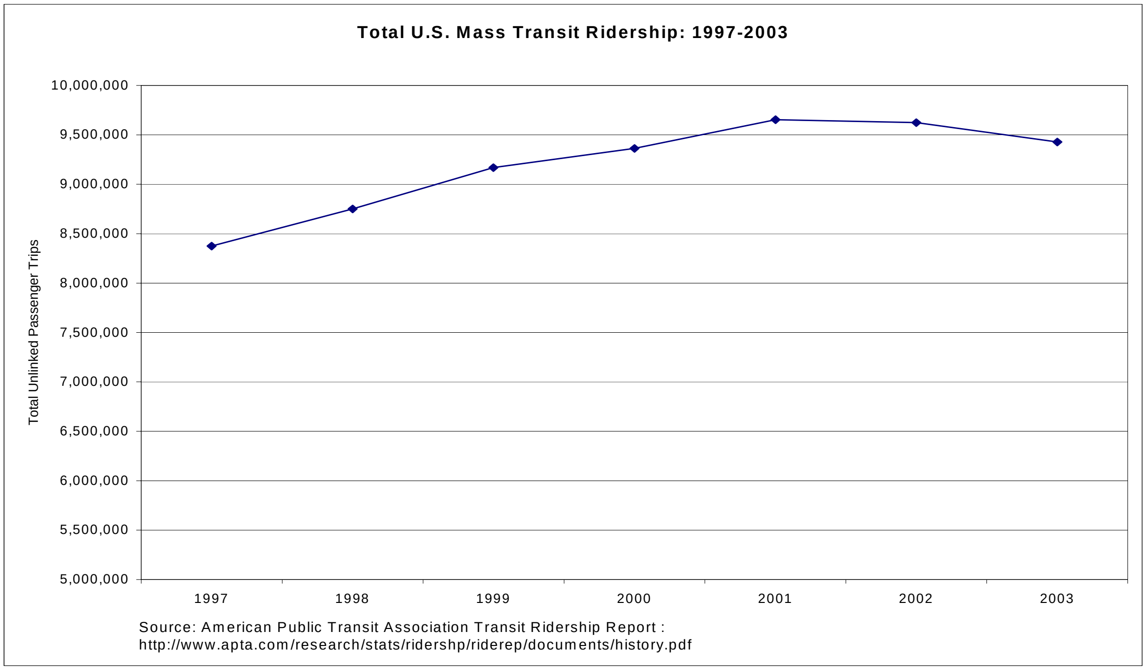
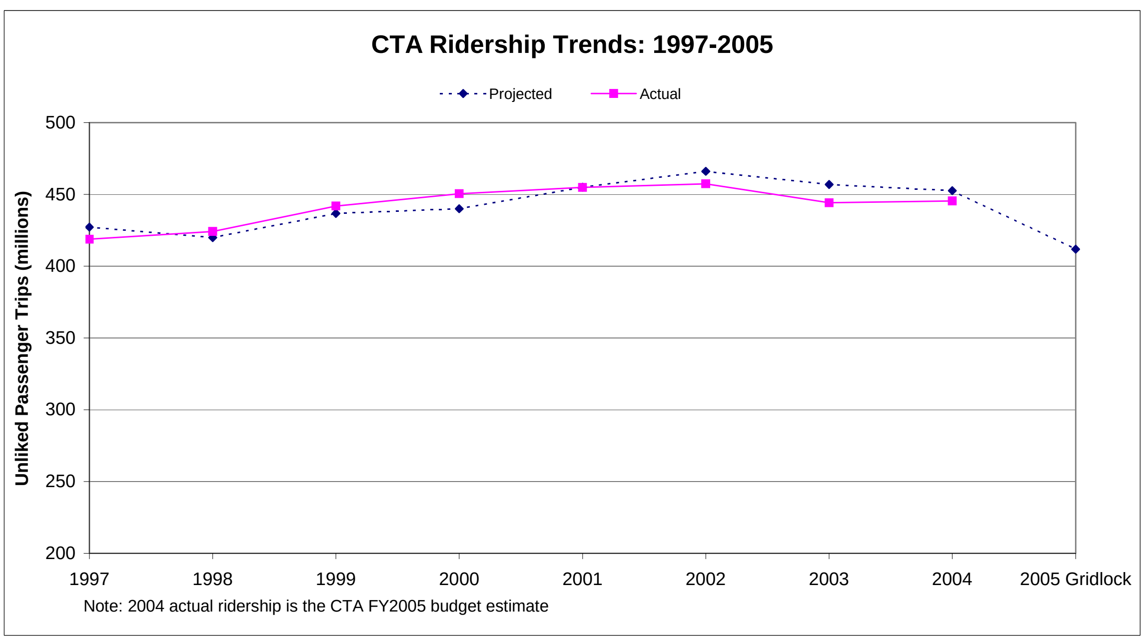
[18] Bonus on farecard purchases of $10 or more.
[19] The New York MTA Proposed 2005 Budget includes a raise to $76 from the current $70 per monthly Metrocard. In July 2004, transit officials proposed plans to raise this price to as much as $84. Public Hearings regarding these changes will occur during the week of November 8, 2004.
[20] Five tokens for $6.50.
[21] Ten tokens for $11.00.
[22] Ten tokens for $8.00.

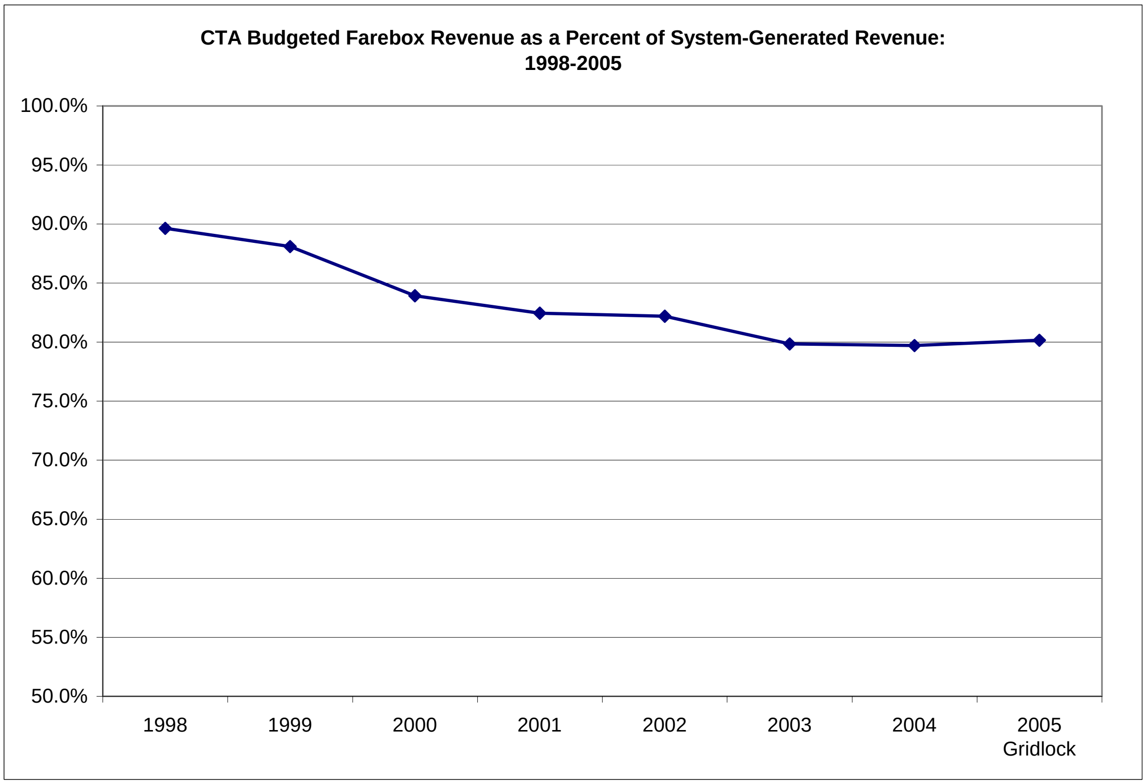


Reflecting nationwide trends, CTA ridership increased in the late 1990s, rising an average of 1.9% each year between 1997 and 2001. CTA ridership grew slightly in 2002, while ridership nationwide had already begun to fall. In 2003, CTA ridership declined 2.9%, or 13.1 million trips, from 2002 levels. Total unlinked trips for 2004 are expected to rise very slightly from 2003, increasing by .3%, or 1.4 million trips. CTA had anticipated a 1.5% ridership decline to result from the 2004 fare increases, but overall ridership remained steady in part due to some service increases along lakefront bus routes. Under the Gridlock scenario, the CTA's proposed service cuts are expected to cause a ridership decline of 33.6 million, or 7.5%.



Farebox Revenues

Ridership is the core of any transit agency, not only because moving riders is the primary purpose of mass transit, but also because farebox revenues are critical to finances. Farebox revenue represents 80-90% of the CTA's system-generated revenues in a given year, so ridership changes have a significant effect on revenue. However, due in part to CTA's efforts to seek out other sources of revenue, between 1998 and 2003, budgeted farebox revenue declined from nearly 90% to 80% of CTA generated revenue.



Service Cuts: 20% Reduction in Bus, Rail Operations Proposed

The Gridlock Budget proposes deep service cuts, primarily in the form of reductions in the CTA's bus operations. This section briefly presents the criteria used to determine these operational reduction proposals and outlines the specific cuts.

Criteria for Service Cuts

The service cuts were determined through an analysis that evaluated ridership, geographic distribution and federal mandates. CTA management decided to preserve several components of the system from the budget axe, including retaining 24-hour "Owl" service on some routes, preserving connections to other regional transit systems, and protecting transit access to growing markets.

The service cuts ultimately chosen have a greater impact on bus service than on rail operations. This is due to the fact that trains are inherently more productive than buses, having a greater ridership capacity but requiring only one operator. Consequently, operational costs per passenger are also lower. Specific bus routes were considered for reduction if the productivity per hour was lower than 75% of the system average for the time period being evaluated.

The service cuts and corresponding personnel reductions will lead to longer waiting periods for buses and trains. The service standards adopted in 2001, which call for a maximum wait of 30 minutes and 16 hours of service on key routes, will be suspended.[23]

System-Wide Service Cuts

Over 20% of existing CTA bus and rail operations will be eliminated on January 2, 2005 under the Gridlock budget scenario. More specifically, the service cuts will include:

- A 21.5% reduction in bus vehicle hours and 11% in rail vehicle hours;
- Elimination of 30 of the 152 existing bus routes;
- Elimination of weekend service on 21 bus routes;
- Elimination of a segment of the current route on 9 bus routes;
- Decreased service frequency and hours of service on many routes, including express bus routes;
- Restricting 24-hour Owl service to only 19 bus routes. However, waiting time for these routes will increase from 30 minutes to one hour.
- Eliminating 24-hour Owl service on all rail lines.

If additional funding is not provided in subsequent fiscal years, further service cuts are planned in FY2006 and FY2007. [24]

Operating Appropriations, Expenditures, and Revenues

The primary difference between the Regional Mobility Budget and the Gridlock Budget is that the Regional Mobility Budget scenario includes an $82.5 million increase in public funding, which would be provided by the General Assembly. The Gridlock Budget assumes no increase in public funds, but compensates by cutting service.

Appropriations and Expenditures

Budgeted expenses for paratransit, security, and other expenses (utilities, advertising and promotion, contractual services, leases and rentals, travel, training, seminars, dues, warranty and other credits, and general expenses) are identical in both scenarios. Expenditures for labor, material, fuel power and provision for injuries and damages are all lower in the Gridlock Budget

[23] The "frequency" standard recommends maximum wait time of 30 minutes. The "span-of-service" standard recommends 16 hours of service on key routes. Chicago Transit Authority, *Proposed 2005 Annual Budget Summary*, p. 28.
[24] Chicago Transit Authority, *Proposed 2005 Annual Budget Summary*, pp. 28-29.

than in the Regional Mobility Budget due to the proposed service cuts. The following exhibit compares the Regional Mobility and Gridlock Budget proposals.

CTA FY2005 OPERATING BUDGETS BY OBJECT OF EXPENDITURE: REGIONAL MOBILITY VS. GRIDLOCK				
	2005 Regional	**2005 Gridlock**	**$ Difference**	**% Difference**
Appropriation by Object				
Labor	$ 729,537,000	$ 646,444,000	$ (83,093,000)	-11.4%
Material	$ 65,333,000	$ 59,749,000	$ (5,584,000)	-8.5%
Purchase of Paratransit	$ 52,473,000	$ 52,473,000	$ -	0.0%
Security	$ 34,777,000	$ 34,777,000	$ -	0.0%
Fuel	$ 35,085,000	$ 27,465,000	$ (7,620,000)	-21.7%
Power	$ 24,526,000	$ 24,168,000	$ (358,000)	-1.5%
Provision for Injuries & Damages	$ 35,000,000	$ 19,000,000	$ (16,000,000)	-45.7%
Other Expenses	$ 47,646,000	$ 47,646,000	$ -	0.0%
TOTAL	**$ 1,024,377,000**	**$ 911,722,000**	**$ (112,655,000)**	**-11.0%**

Source: CTA Proposed Budget FY2005

The FY2005 Mobility Budget represents a 9.4%, or $87.7 million, increase over the FY2004 Proposed Budget. Paratransit expenses are expected to increase by $7.4 million, or 16.3%, while security costs will increase $9.7 million, or 38.9%. Fuel costs are projected to increase over 52%, rising from $23 million to $35.1 million. Security costs would increase by 38.9%, or $9.7 million over FY2004. The transfer to the Injuries and Damages Fund would be $35 million, or 59.1%, more than FY2004. The Mobility Budget includes some service increases, including weekend and evening service on the Blue Line Cermak (Douglas) branch. The following exhibit compares the Proposed FY2005 Regional Mobility Budget with the Proposed FY2004 Budget.

CTA PROPOSED OPERATING BUDGETS BY OBJECT OF EXPENDITURE: FY2004 vs. FY2005 REGIONAL MOBILITY				
	2004	**2005 Mobility**	**$ Change**	**% Change**
Appropriation by Object				
Labor	$ 687,528,000	$ 729,537,000	$ 42,009,000	6.1%
Material	$ 66,000,000	$ 65,333,000	$ (667,000)	-1.0%
Purchase of Paratransit	$ 45,113,000	$ 52,473,000	$ 7,360,000	16.3%
Security	$ 25,042,000	$ 34,777,000	$ 9,735,000	38.9%
Fuel	$ 23,000,000	$ 35,085,000	$ 12,085,000	52.5%
Power	$ 22,000,000	$ 24,526,000	$ 2,526,000	11.5%
Provision for Injuries & Damages	$ 22,000,000	$ 35,000,000	$ 13,000,000	59.1%
Other Expenses	$ 45,945,000	$ 47,646,000	$ 1,701,000	3.7%
TOTAL	**$ 936,628,000**	**$ 1,024,377,000**	**$ 87,749,000**	**9.4%**

Source: CTA Proposed Budgets FY2004, 2005

The Gridlock Budget proposes total operating expenditures of $911.7 million, a decrease of $24.9 million, or 2.7%, from the Proposed FY2004 budget of $936.6 million. The Gridlock Budget would cut $41 million in labor costs, a 6% decrease from the Proposed FY2004 Budget. Despite service cuts, costs for fuel and power would still increase by 19.4% and 9.9%, respectively, over FY2004. The Gridlock Budget would reduce the Provision for Injuries & Damages by $3 million as compared with FY2004. Between 2001 and 2003, the average annual Injury & Damages claim against the CTA was $28.8 million. In past years, CTA has used one-time revenues to shore up the Injury & Damages Fund Reserve, which had an unfunded liability of $32.0 in 2003, the last year for which data is available.[25]

CTA PROPOSED OPERATING BUDGETS BY OBJECT OF EXPENDITURE: FY2004 vs. FY2005 GRIDLOCK				
	2004	**2005 Gridlock**	**$ Change**	**% Change**
Appropriation by Object				
Labor	$ 687,528,000	$ 646,444,000	$ (41,084,000)	-6.0%
Material	$ 66,000,000	$ 59,749,000	$ (6,251,000)	-9.5%
Purchase of Paratransit	$ 45,113,000	$ 52,473,000	$ 7,360,000	16.3%
Security	$ 25,042,000	$ 34,777,000	$ 9,735,000	38.9%
Fuel	$ 23,000,000	$ 27,465,000	$ 4,465,000	19.4%
Power	$ 22,000,000	$ 24,168,000	$ 2,168,000	9.9%
Provision for Injuries & Damages	$ 22,000,000	$ 19,000,000	$ (3,000,000)	-13.6%
Other Expenses	$ 45,945,000	$ 47,646,000	$ 1,701,000	3.7%
TOTAL	**$ 936,628,000**	**$ 911,722,000**	**$ (24,906,000)**	**-2.7%**

Source: CTA Proposed Budgets FY2004, 2005

The Proposed FY2005 Gridlock Budget represents an increase of $42.5 million, or 4.9%, over the Proposed FY2001 Budget. Over this 5-year time period, labor costs increase by 3%, or $19 million, while paratransit and security expenses rise 76% and 52%, respectively. Material costs have fallen in recent years due to increased capital investment in new vehicles and infrastructure replacement.

CTA PROPOSED OPERATING BUDGETS BY OBJECT OF EXPENDITURE: FY2001 vs. FY2005 GRIDLOCK				
Appropriation by Object	**2001**	**2005 Gridlock**	**$ Change**	**% Change**
Labor	$ 627,446,000	$ 646,444,000	$ 18,998,000	3.0%
Material	$ 64,802,000	$ 59,749,000	$ (5,053,000)	-7.8%
Purchase of Paratransit	$ 29,825,000	$ 52,473,000	$ 22,648,000	75.9%
Security	$ 22,864,000	$ 34,777,000	$ 11,913,000	52.1%
Fuel	$ 21,600,000	$ 27,465,000	$ 5,865,000	27.2%
Power	$ 20,492,000	$ 24,168,000	$ 3,676,000	17.9%
Provision for Injuries & Damages	$ 30,000,000	$ 19,000,000	$ (11,000,000)	-36.7%
Other Expenses	$ 52,122,000	$ 47,646,000	$ (4,476,000)	-8.6%
TOTAL	**$ 869,151,000**	**$ 911,722,000**	**$ 42,571,000**	**4.9%**

Source: CTA Proposed Budgets FY2001, FY2005

CTA Revenues: System-Generated Revenue and Public Funding

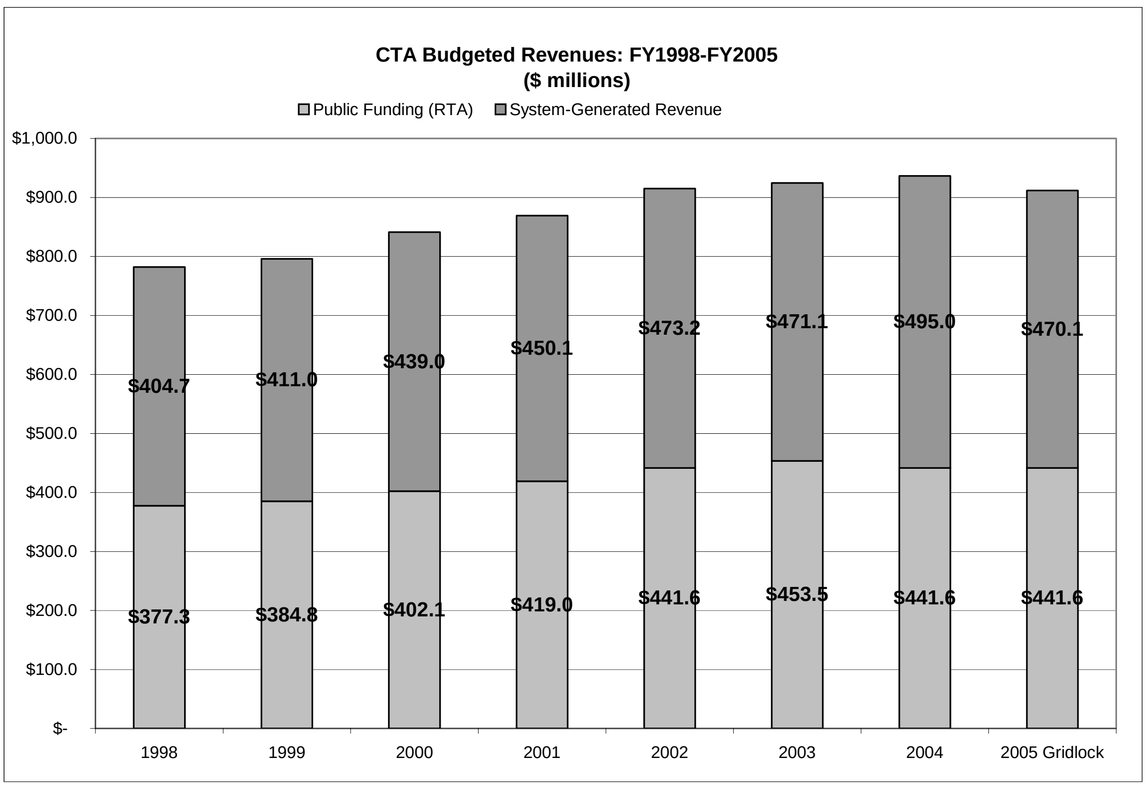
The Proposed FY2005 Gridlock Budget includes $470 million from system-generated revenue and $441.6 million in public funding through the RTA. Included in the system-generated revenue is $376.7 in farebox revenue, a $17.7 million decline from FY2004 due to proposed service cuts. Farebox revenue represents 80% of system-generated revenue in the Gridlock Budget. The State of Illinois reimbursement for reduced fares will decline by 5%, or $1.7 million, in FY2005. Advertising and concession revenue will be flat, at $24 million. Other revenue will decline by $24.9 million as a result of one-time revenue sources in FY2004.

[25] Chicago Transit Authority Financial Statements for the Year ended December 31, 2003 and 2002 and Supplementary Information and Independent Auditor's Report.

CTA BUDGETED REVENUE: FY2004 vs. FY2005 GRIDLOCK				
Source	**FY2004**	**FY2005 Gridlock**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 394,512,000	$ 376,793,000	$ (17,719,000)	-4.5%
Reduced Fare Reimbursement	$ 32,300,000	$ 30,590,000	$ (1,710,000)	-5.3%
Advertising, Charter, & Concessions	$ 24,250,000	$ 24,313,000	$ 63,000	0.3%
Investment Income	$ 3,000,000	$ 2,949,000	$ (51,000)	-1.7%
Required contributions from Cook County & City of Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other revenue	$ 35,935,000	$ 30,445,000	$ (5,490,000)	-15.3%
Total System-Generated Revenue	**$ 494,997,000**	**$ 470,090,000**	**$ (24,907,000)**	**-5.0%**
Public Funding through RTA	**$ 441,631,000**	**$ 441,632,000**	**$ 1,000**	**0.0%**
GRAND TOTAL	**$ 936,628,000**	**$ 911,722,000**	**$ (24,906,000)**	**-2.7%**

Source: CTA Proposed Budgets FY2004, FY2005

The following exhibit illustrates system-generated revenues and public funding between FY1998 and the FY2005 Gridlock Budget.



Public Funding of the CTA

The Chicago Transit Authority receives public funding from two sources: 1) RTA sales tax revenues collected in the City of Chicago and suburban Cook County and 2) discretionary operating funds provided by the State of Illinois and distributed by the RTA.[26]

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

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

The State of Illinois distributes to the RTA an additional sum, equal to the amount generated by a 0.25% sales tax in Cook County, from the Occupation and Use Tax Replacement Fund, making Cook County general merchandise sales tax revenues equivalent to a 1% rate. The RTA also has authority to levy taxes on automobile rentals, motor fuel, and off-street parking facilities, but has not exercised this authority (70 ILCS 3615/4.03).

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

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

The RTA projects that sales tax revenues in the six-county region will increase by 3.2% over the previous year by the close of FY2004, increasing from $651 million to $671 million. In FY2005, sales tax revenues are again projected to rise by 3.2%, or from $671 million to $693 million.[27] The CTA will receive approximately the same amount in sales tax revenues in FY2005 as in FY2004, or $265 million.

The RTA Act provides for transfers from the Illinois General Fund to the Public Transportation Fund in an amount equal to 25% of RTA total sales tax revenues. While approximately 60% of the CTA's public funding in FY2005 is to be derived from sales taxes, the remaining 40% will be generated from discretionary RTA funds. The RTA Act requires the Illinois State Treasurer

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[26] As required by law, the CTA also receives $5 million annually from local governments ($3 million from the City of Chicago and $2 million from Cook County). This amount, however, is considered system-generated revenue by the recovery ratio, not public subsidy. The City of Chicago also makes in-kind law enforcement contributions to the CTA.

[27] *Regional Transportation Authority 2003 Annual Budget and Five-Year Plan*, p. 2-3.

to transfer from the State General Revenue Fund into a special fund in the State Treasury called the "Public Transportation Fund" an amount equal to 25% of net revenues of RTA sales taxes. These transfers require annual appropriation by the General Assembly and are contingent on the certification of RTA budget compliance with the requirements of the RTA Act. Public Transportation Fund monies, $164 million in 2004, are allocated to the service boards at the discretion of the RTA. After it has budgeted for its own needs, the RTA may also distribute any remainder of its 15% share of sales tax revenue to the service boards at its own discretion. The amount of discretionary funds allocated to the CTA in FY2005 will decrease by 6.28% or $11 million, falling from $188 million to $176 million.

In FY2005, under its Gridlock scenario, the CTA expects to receive $265 million in sales tax revenues and $176 million in discretionary operating subsidies, for total RTA funding of $441 million. This is a 2.6% decrease from FY2004 budgeted public funding of $453 million.

Since FY2002, the proportion of public funding provided to the CTA from sales taxes has dropped from 64% to 60%. Conversely, the proportion provided from RTA discretionary operating funds has risen from 36% to 40%. The dollar amount of revenue provided by sales taxes has remained relatively constant.

PUBLIC FUNDING FOR CTA OPERATIONS: BUDGETED FY2001-FY2004 (In Thousands of Dollars)

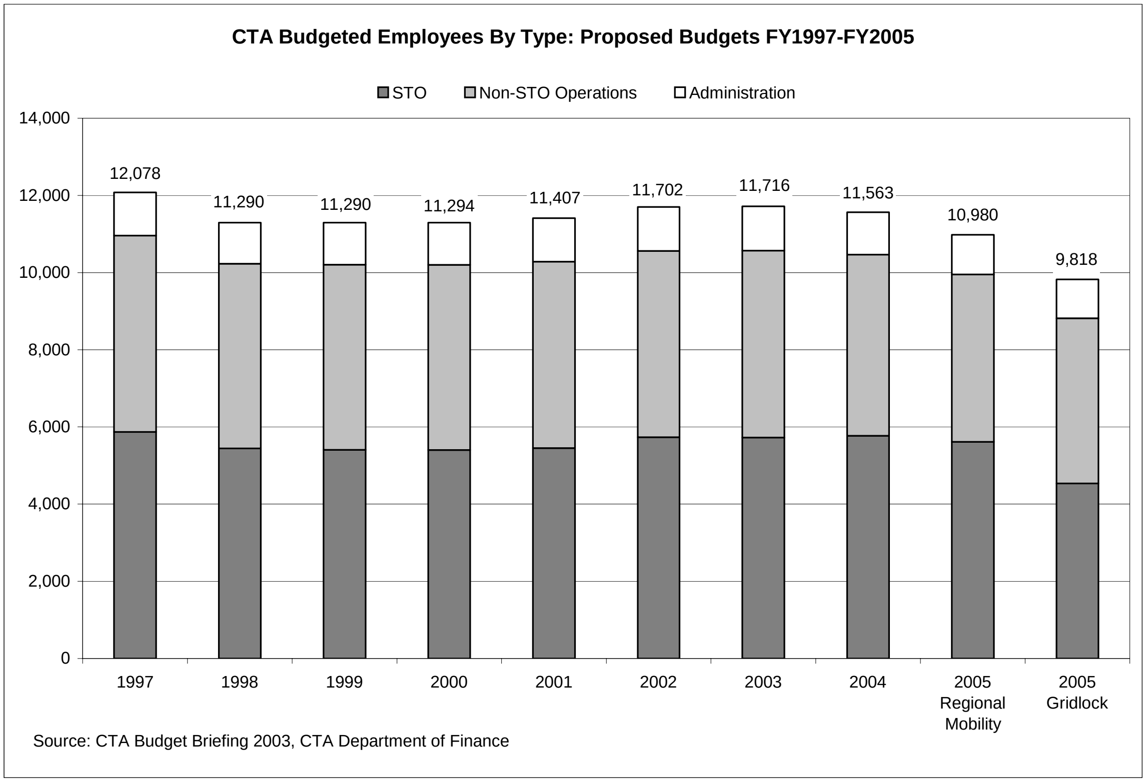
Source	FY2001	FY2002	FY2003	FY2004	FY01-FY04 $ Change	FY01-FY04 % Change
Sales Taxes - Chicago	$ 173,362	$ 178,495	$ 171,578	$ 171,535	$ (1,827)	-1.1%
Sales Taxes - Suburban Cook County	$ 92,717	$ 95,677	$ 93,551	$ 93,571	$ 854	0.9%
State Discretionary Operating Funds	$ 152,926	$ 167,460	$ 188,359	$ 176,525	$ 23,599	15.4%
Total Public Funding	**$ 419,005**	**$ 441,632**	**$ 453,488**	**$ 441,631**	**$ 22,626**	**5.4%**

Source: CTA Proposed Budgets FY2002, FY2003, FY2004, FY2005

PERSONNEL TRENDS

The CTA plans to fund 9,818 positions under the FY2005 Gridlock Budget. This is a reduction of 1,745 positions from the Proposed FY2004 Budget,[28] of which 1,233 of the proposed cuts are Scheduled Transit Operators (STO), 415 are in operations (non-STO), and 97 are administration positions. In the Gridlock Budget, 10.2% of positions would be administration, 46.2% would be STO, and 43.6% would be non-STO operations.

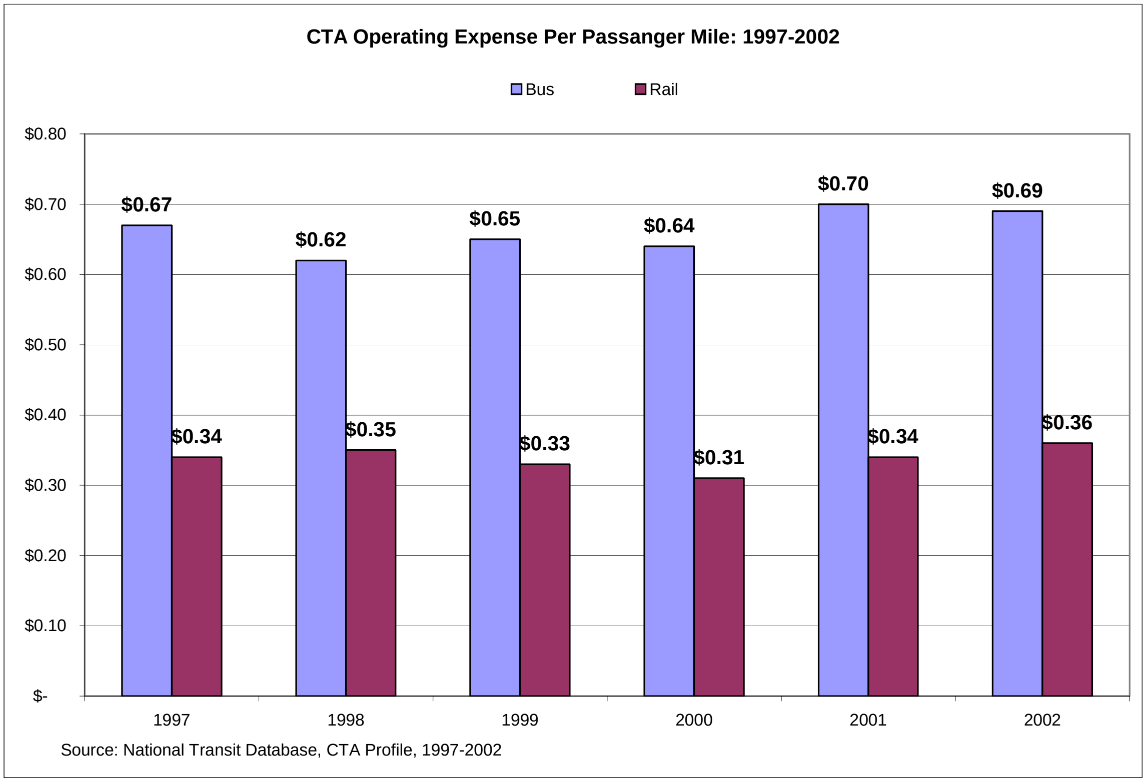
[28] The Proposed FY2004 Budget included 11,563 positions, but the Final FY2004 Budget reduced positions to 11,315. The Proposed Budget figures are used here for consistency of comparison.



PRODUCTIVITY MEASURES

The Civic Federation used three measures to assess the CTA's productivity over time. Based on an evaluation of these measures, we conclude that CTA productivity remained relatively stable from 1997-2004.[29] The chart below illustrates operating expense per passenger mile for bus and rail. As with all transit systems, rail service is more cost effective than bus service. The cost effectiveness of both services has remained quite constant, between $0.67 and $0.70 per passenger mile for bus and between $0.31 and $0.36 for rail.

[29] One productivity measure reported in the CTA FY2005 Proposed Budget came from the National Transit Database (NTD), to which the CTA submits data annually. NTD data is only available up to 2002.

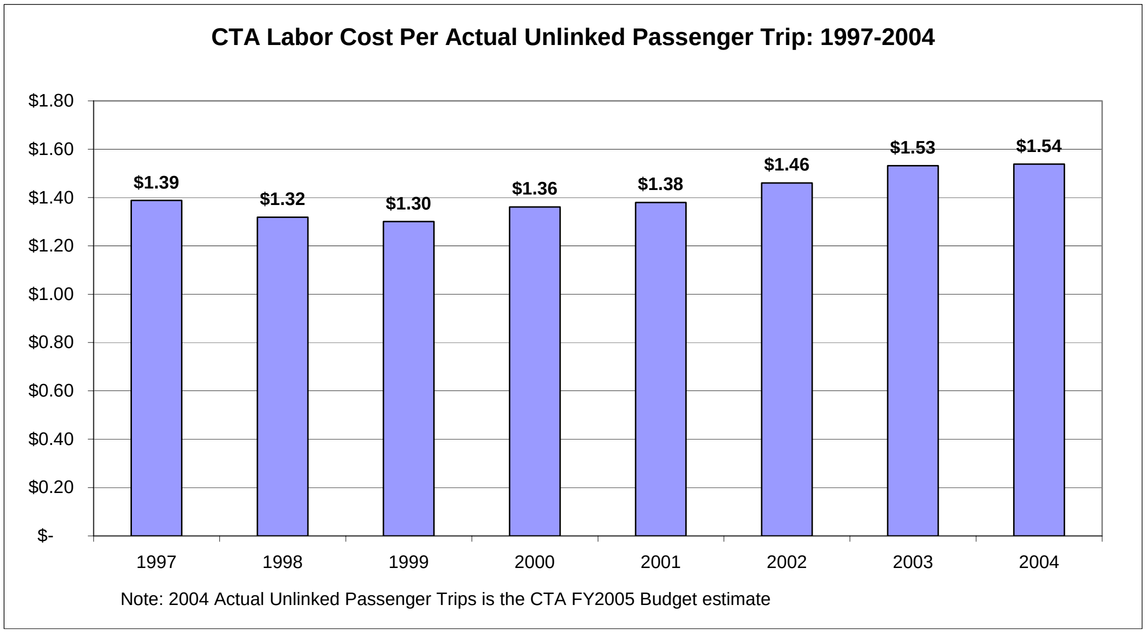


The CTA's 2002 operating expense per passenger mile compared favorably with the mass transit systems in other major cities.

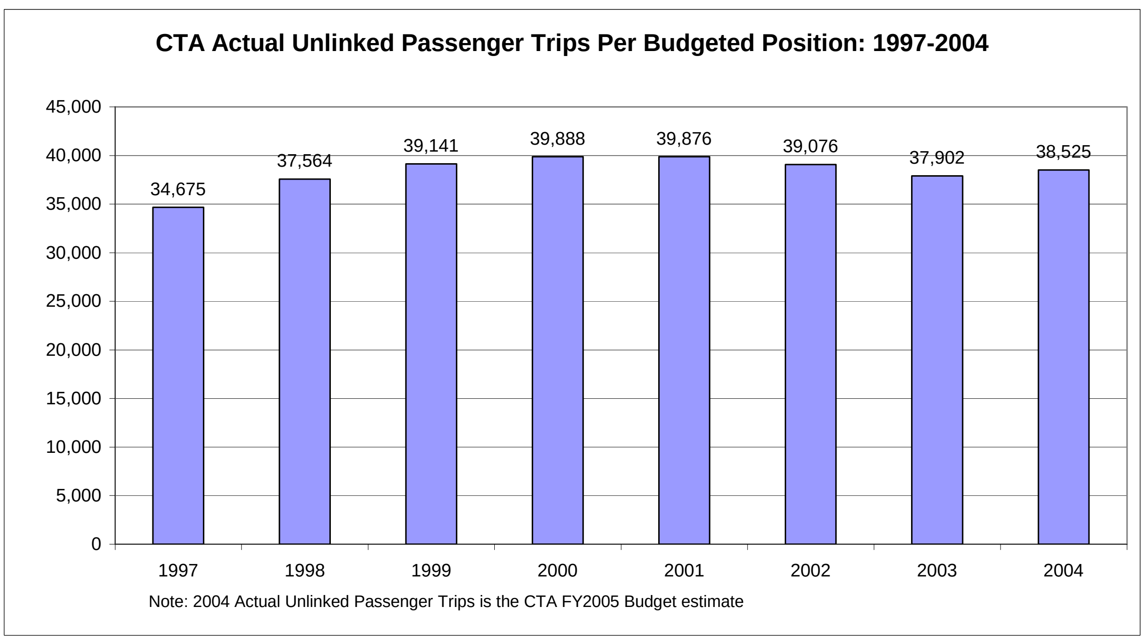
Selected Cities: Operating Expense Per Passenger Mile in 2002			
	Bus		Rail
Boston	$ 0.82	Los Angeles	$ 0.38
New York	$ 0.79	Boston	$ 0.37
Philadelhpia	$ 0.79	**Chicago**	**$ 0.36**
Washington D.C.	$ 0.76	Philadelhpia	$ 0.32
Chicago	**$ 0.69**	Washington D.C.	$ 0.32
Los Angeles	$ 0.49	New York	$ 0.29

Sources: CTA FY2005 Proposed Budget and National Transit Database 2002

Productivity can also be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. This figure has remained between $1.30 and $1.54 over the last eight years. Beginning in 2002, ridership declines resulted in higher labor costs per unlinked passenger trip.



A third measure of productivity is unlinked passenger trips per employee. In this case, a higher number of trips indicates higher productivity. The trend rose from 34,675 trips per employee in 1997 to 39,888 trips per employee in 2000, reflecting ridership increases over those years. Ridership per employee declined slightly after 2001 as ridership declined.



The table below shows unlinked passenger trips per administrative position. This trend reflects the general trend for total positions above, with the exception of the larger productivity gain in 2004 that reflects significant cuts in administrative positions last year.

CTA Unlinked Passenger Trips Per Administrative Position: 1997-2004	
1997	372,930
1998	400,094
1999	407,281
2000	409,918
2001	404,267
2002	400,000
2003	391,616
2004	405,701

SHORT AND LONG-TERM DEBT TRENDS

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

Short-Term Debt Trend: 70% Increase Since FY2001, from $115 million to $195 million

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt includes accounts payable, advances and deposits, deferred passenger revenue, and deferred operating assistance. It does not include accrued payroll, the current portion of supplemental retirement plan or capital lease obligation and the current portion of self-insurance reserves.[30]

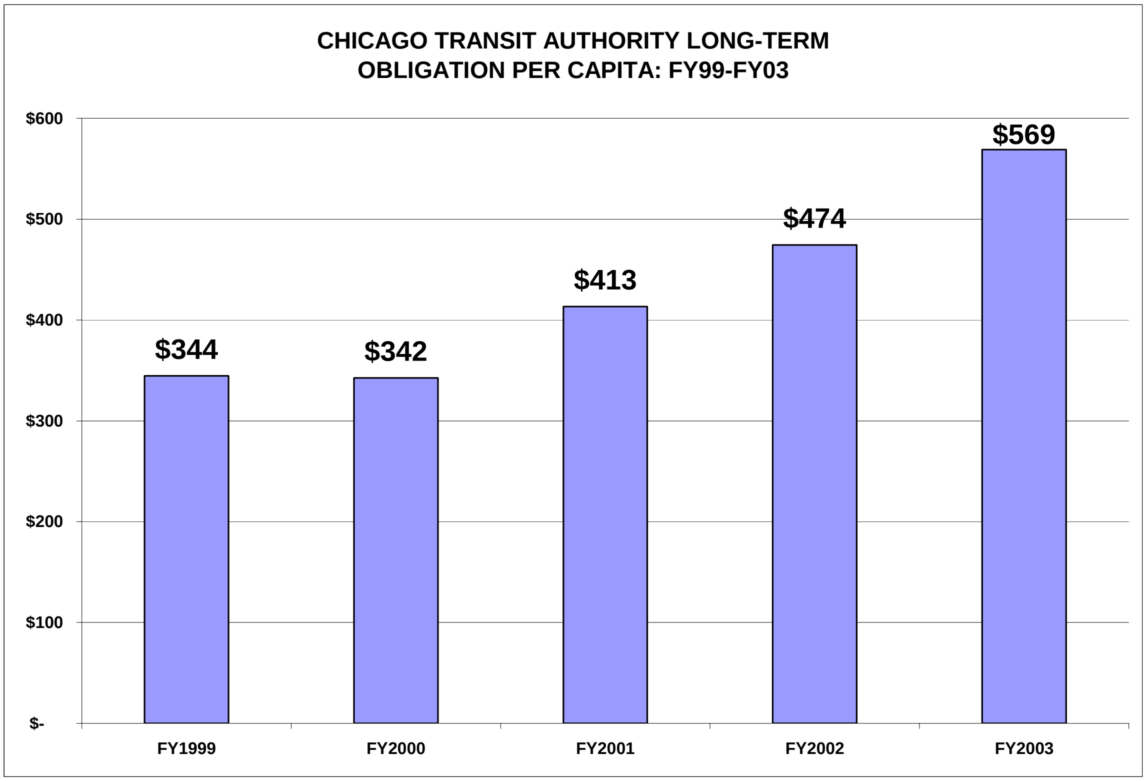
CTA short-term debt increased dramatically in FY2003, rising by 70%, or $80 million. This represents an increase from $115 million to $195 million. In the single year between FY2002 and FY2003 alone, short-term debt rose by $77 million, a 64.8% increase. Since FY1998, short-term debt has increased by 59.7%, from $122 million. Much of the increase in short-term debt was attributable to an $84 million advance from the RTA. In addition, 'other deferred revenue' increased from $0 in 2001 to $1.02 million in 2003. *The large increases over the 3-year and 6-year period are a cause for concern at this time.*

Long-Term Obligation Per Capita Trends: 65% Increase Between FY1999 and FY2003

Long-term obligation per capita is a measure of a government's ability to maintain its current financial policies. This analysis takes the amount of Chicago Transit Authority total long-term liabilities per year and divides it by the population served by the CTA. Until the 2000 census, this population was 3.7 million. In succeeding years, the service population increased slightly to 3.8 million. The CTA's long-term liabilities include self-insurance claims, capital lease obligations and bonds payable. Sharp increases should be monitored as a potential sign of increasing financial risk.

[30] Chicago Transit Authority, *Financial Statements for Years Ended December 31, 2003 and 2002.*

In FY1999, long-term obligations per capita were $344. Since FY1999, long-term obligations per capita increased to $569, a 65% increase. This increase represents a rise from $1.2 billion in long-term liabilities to $2.1 billion. The large 65% increase is driven in part by the first-ever issuance of $207 million in bonds in 2003 in anticipation of grants from the federal government. The large increase in long-term obligations bears watching.



CTA PENSION FUND TRENDS

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

Information about the CTA Employees' Pension Fund for several fiscal years is now available on their Web site at www.ctapension.com. This is in response to a longstanding Civic Federation request that the Fund fully and publicly disclose its actuarial valuation reports. We **commend** the Trustees of the Pension Fund for moving forward on this issue. Now the CTA joins all other major local government pension funds in providing taxpayers with full information on the finances of what is one of the largest local pension funds.

There are two CTA pension funds: the CTA Employees' pension fund and a separate supplemental retirement plan. The relatively small supplemental retirement plan covers CTA Board members as well as selected managers. This analysis focuses on the Employees' Pension fund. Participants, which included 10,170 active participants and 6,579 retired participants in FY2003.

The CTA Employees' Pension Fund is a defined benefit pension plan covering most full-time permanent union and nonunion employees. It is governed by the terms and conditions of the employees' collective bargaining agreements. The CTA has no direct oversight authority over the Fund, although it does appoint half of the members of the oversight committee governing the fund. In fact, under the guidelines set forth in the Governmental Accounting Standard Board's Statement Number 14, Fund is a legal entity separate and distinct from the CTA. Thus, its financial statements are not included in the Authority's financial statements. In addition, unlike virtually every other local pension fund, the Employees' Pension Fund is exempted under state statute from reporting financial information about its assets, liabilities and investments.[31]

Funded Ratios – Market Value of Assets: 26% Drop Between FY1999 and FY2003

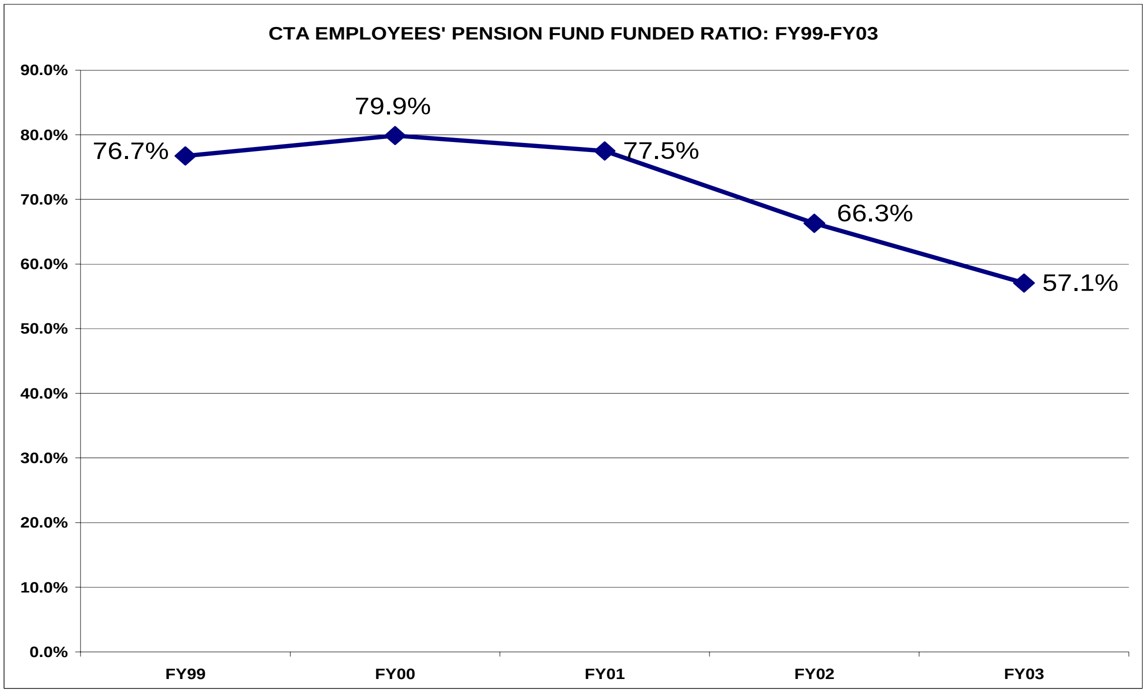
The following exhibit shows the funded ratio for the CTA Employees' Pension Fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.

The funded ratio for the Employees' Pension Fund fell by 26% between FY1999 and FY2003, declining from 76.7% to 57.1%. Since FY2000, the funded ratio has dropped by 29%, from 79.9% to 57.1%. Continued decline in subsequent years would raise concerns about the pension fund's funding levels.

The CTA Employees' Pension Fund auditors (Gabriel, Roeder, Smith & Co.) attribute the funding ratio decline to three reasons:

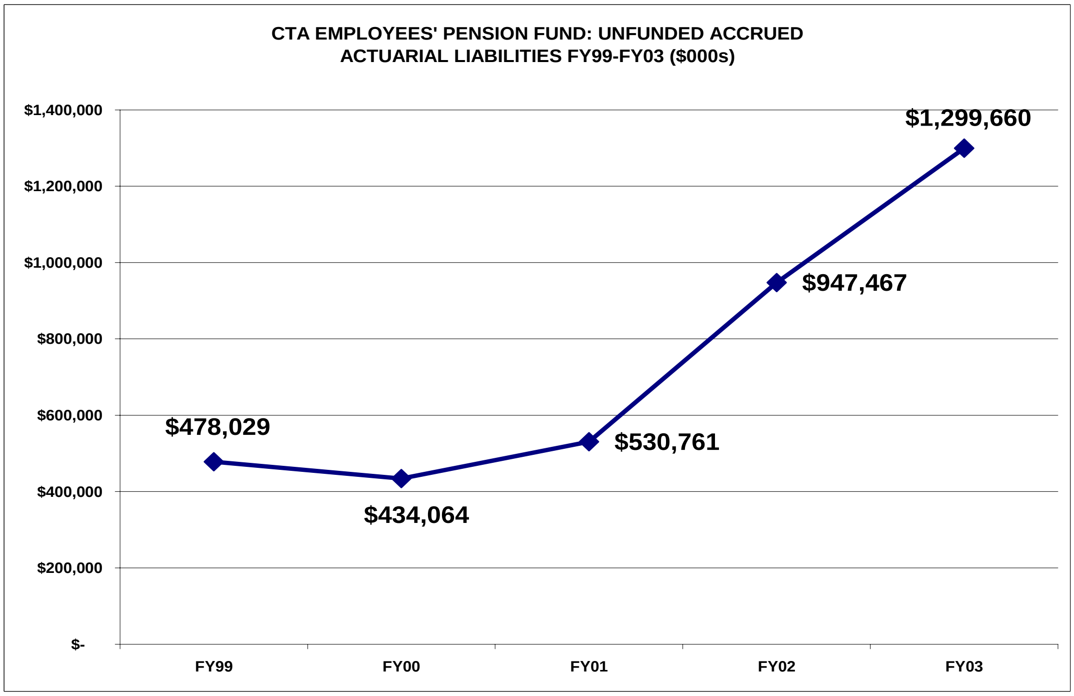
- A negative return on market investments (-12.7%)
- A larger than expected increase in healthcare claim costs
- A change in the dependent contribution rate. In the 2002 valuation, auditors assumed that the dependent contribution would reflect claims from 19995 to 2001. They modified that assumption for this audit to account for actual dependent contribution rates, which have not changed since 1995.

[31] See Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2003 and 2002*. Note 1 to the Financial Statements – Financial Reporting Entity – p. 18.



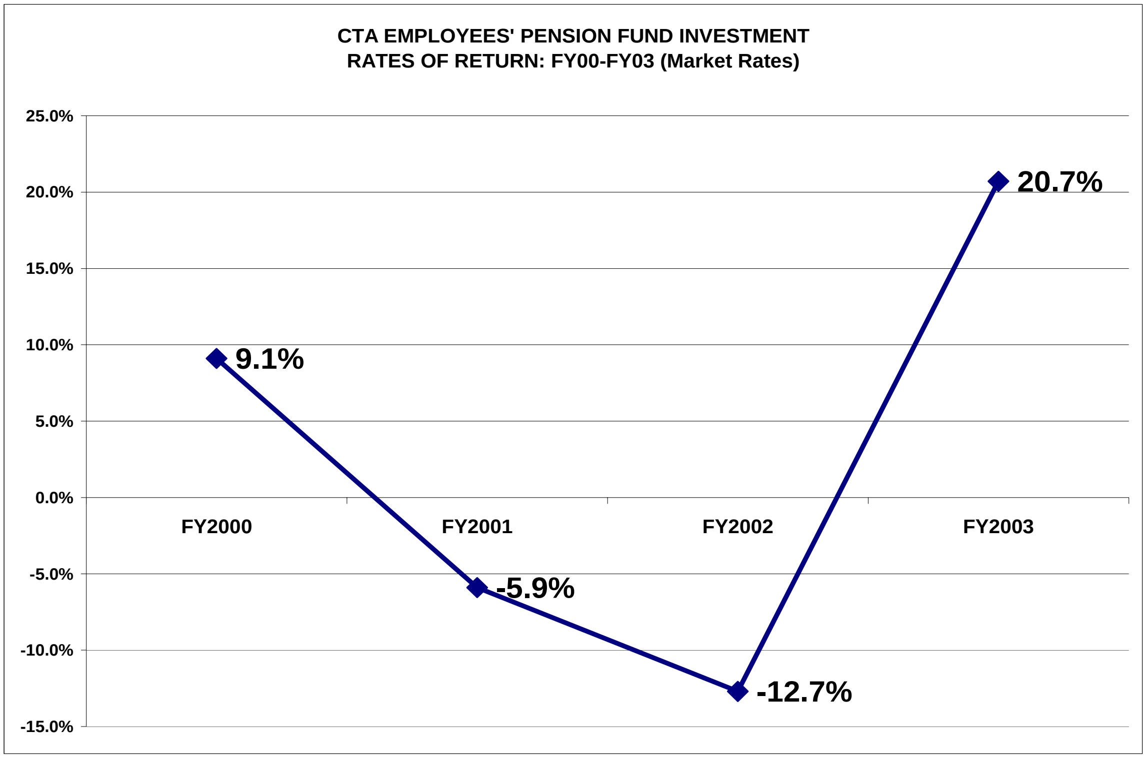
Unfunded Pension Liabilities: 172%, $821 Million Increase Between FY1999 and FY2003

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the Chicago Transit Authority's Employees' Pension Fund totaled approximately $1.3 billion in FY2003. This was an $821 million or 172% increase since FY1998. The rate of increase from FY2002 was 37%, or an increase from $947 million to nearly $1.3 billion.



Investment Rates of Return: 20.7% Positive Return in FY2003

Market value investment returns for the CTA Employees' Pension Fund were at 20.7% in FY2003. This is a sharp turnaround from the previous two fiscal years, when the Fund reported negative results far below the actuarially assumed rates of return. This change is a positive one and reflects improvements in the national and local economies.



CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation offers the following recommendations for addressing and improving the financial condition of the CTA.

Balance Budget without Crippling Service Cuts

Major service cuts by the Chicago Transit Authority should be avoided at all costs in the short-term. Fare increases coupled with targeted cost reduction measures are a far better strategy than the drastic service cuts proposed in the CTA's Gridlock Budget. Reducing maintenance or making service cuts should be a last resort for the CTA because these actions will inexorably lead to a downward spiral of declining ridership and decreased public confidence in the system.

The Civic Federation believes that the State should provide short-term funding relief this year for at least a portion of the CTA's budget shortfall, because major service cuts on the CTA would exacerbate its funding problems and represent a disinvestment in the regional economy.

However, if such relief is not provided in the November legislative session, the CTA must craft reasonable budget alternatives that will not do irreparable harm to the transit system.

We believe that the CTA should then move to close the remaining budget gap by considering some or all of the following three measures:

- **Increasing base fares by 25 cents,** from $1.75 to $2.00. This measure could produce between $20 million and $25 million.
- **Completely Eliminating 24 hour Owl Service** could save $2.3 million. Currently, Owl Service costs $4.6 million a year. Under the Gridlock budget scenario, owl service will be cut roughly in half under the Gridlock Budget, and so will the cost. No other major transit system in the U.S. except New York City operates 24-hour service. This may be a service Chicago can no longer afford.
- **Diverting some capital funds to operating purposes for this year only** It is never an ideal policy to shift capital funds to operating purposes. However, this option is still preferable to elimination of routes, which would guarantee ridership loss. The CTA has already proposed using $18 million in capital funds for paratransit expenses and $13 million for interest payments in FY2005. The RTA would allow the CTA to use an additional $82.5 million in federal capital funds for operating expenses for FY2005.[32]

Clearly Identify Sources of Deficit and Gap Closing Measures in Budget Book

Both of the CTA's budget proposals identify a $77.1 million deficit for FY2005. The Gridlock budget proposes sweeping personnel and service cuts. However, it is very difficult to clearly understand from the budget book what factors drive the deficit and what expenditure and revenue actions are being taken to close the budget gap. At a time when the CTA is seeking $82.5 million in new state funding, it is imperative that the Authority clearly and concisely lay out the drivers of its budget gap and the specific measures it proposes to close that deficit.

Exclude Unfunded Paratransit Costs from the Required Recovery Ratio

The Civic Federation supports removing paratransit costs from the base amount that is used to calculate the CTA's annual cost recovery ratio. We believe that paratransit costs should be excluded from the ratio just as other costs over which the CTA does not have full control, such as a portion of the expenses of providing passenger security, are excluded from the calculation.

The RTA Funding Formula Should be Reviewed

The General Assembly should address the long-term structural funding problems of the three regional transit service boards **by reviewing and revising the RTA Act's funding formula**. All government policies should be re-evaluated at reasonable intervals to ascertain if it still fulfills its original purpose and whether there are better or more efficient ways to meet that purpose.

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[32] Information provided by RTA Chief Financial Officer Joseph Costello, October 27, 2004. See footnote on page 12 of this document.

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

RTA Must Assume a Responsible Role in Solving the Regional Transit Funding Crisis

The Regional Transit Authority is supposed to play a key role in coordinating the six-county region's transportation needs and helping the three service boards address financial and planning challenges. It is not merely a guardian of the status quo.

It is unreasonable to expect that three transit service boards with conflicting interests will negotiate amongst themselves to determine appropriate regional transportation policy. What is required is thoughtful deliberation and a united front to present the case for regional transit needs before the federal government, in Springfield and in local communities. Only effective leadership from the RTA and an RTA Chair can achieve that goal. Therefore, it is imperative that a new RTA Chair be appointed without delay.