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CIVIC FEDERATION SUPPORTS SENSIBLE CTA BUDGET
Fare Increases Necessary and Appropriate to Offset Free Rides and Fuel Costs

The Civic Federation announced its **support** today for the Chicago Transit Authority's fiscally responsible $1.3 billion FY2009 spending plan in a 32-page report released on the Federation's Web site, www.civicfed.org. The Federation will testify at the CTA's budget hearing on Wednesday, October 29, 2008.

The CTA faces a $42.2 million deficit in FY2009 as a result of Governor Blagojevich's ill-considered free rides for seniors program, skyrocketing fuel costs, and decreased real estate transfer tax revenues. With this budget, the CTA will close that deficit while maintaining service levels at a time of dramatically increased ridership. "Mass transit is a critical component of Chicago's economy," said Civic Federation President Laurence Msall. "The Federation applauds the CTA for reducing expenses and avoiding service cuts that would be costly to the economic health of the region during an economic downturn."

The CTA is instead balancing its budget through a prudent combination of fare increases and personnel reductions. The Civic Federation supports the 25 and 50 cent bus and rail fare increases as a necessary and appropriate way for the CTA to offset rising operating costs. All governments that fund programs and services with user fees should ensure those fees cover a significant portion of their operating expenses and periodically raise them when required.

Labor costs consume 67.0% of the entire Chicago Transit Authority operating budget. Thus, raising fares alone would have been insufficient to stabilize the CTA's FY2009 spending plan. The CTA therefore plans to eliminate 623 full-time equivalent positions, but to concentrate the cuts in the areas of administration, management, and support staff rather than front-line operations to in order to maintain service levels. The Civic Federation supports this difficult, but necessary decision.

The Civic Federation has one major **concern** with regard to the CTA's long-term financial management and condition: the **dire lack of capital funding from the State of Illinois**. The CTA's capital improvement plan has identified $8.6 billion in funding necessary to keep its infrastructure in good repair, but the State has firmly committed to provide only $1.8 billion of that amount. "It is our hope that Governor Blagojevich and the Illinois General Assembly can reach consensus soon on a capital program," said Msall. "Without more State capital funding, the already poor condition of the CTA's infrastructure will deteriorate further."

In its analysis, the Federation calls on the Illinois General Assembly to repeal the free rides for seniors program imposed by Governor Blagojevich and substitute it with one that is limited to low-income seniors. "The Civic Federation can find no sound public policy reason to provide free rides for affluent seniors who are able to pay," said Msall. The free rides program for seniors, the disabled, and military personnel will cost the CTA at least $35.8 million in FY2009. The Federation further recommends that the State restore the reimbursement for reduced fares it has traditionally provided to all RTA service boards.

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

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CHICAGO TRANSIT AUTHORITY
FY2009 PROPOSED BUDGET
Analysis and Recommendations

Prepared By:
The Civic Federation
October 29, 2008

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EXECUTIVE SUMMARY

The Chicago Transit Authority (CTA) proposes a FY2009 budget of $1.3 billion. This is a 9.5% increase from the amended FY2008 budget of $1.2 billion. In order to close a $42.2 million deficit, the budget is balanced with bus and rail fare increases ranging from 25 to 50 cents per ride, a 0.25 percentage point sales tax increase, revenue from a portion of the Chicago real estate transfer tax and the elimination of 623 full-time equivalent positions. No reductions in bus or rail service will occur.

The Civic Federation **supports** the CTA's FY2009 budget of $1.3 billion as a responsible short-term plan to provide critical mass transit services to the Chicagoland population. The CTA's proposed fare increases of 25 to 50 cents per ride, combined with personnel reductions, are a reasonable means of offsetting the mounting costs of the free ride programs mandated by Governor Blagojevich, decreased real estate transfer tax revenues and skyrocketing energy and fuel costs.

It is necessary and appropriate for the CTA to raise fares at this time to meet its rising operating costs. All governments that fund programs or services with user fees and charges such as fares should periodically review their fee structures, making sure that the fees cover a significant portion of their operating expenses. The new bus and rail fares are still offer a significant cost-savings when compared to the cost of driving and parking automobiles. In our view, reasonable and periodic fare increases to cover rising fuel and operating costs are necessary.

The free rides program for seniors, the disabled and military personnel will cost the CTA at least $35.8 million in FY2009. Governor Blagojevich's across-the-board grant of free rides to seniors, regardless of income, was unfortunate and ill-considered. There is no sound public policy reason to provide free rides for affluent seniors who are able to pay and help defray the cost of providing public transit. Consequently, we call on the Illinois General Assembly to repeal the free rides for seniors program and substitute a program that is limited to low income seniors, thereby providing responsible relief to those who truly need it.

The FY2009 CTA budget is balanced in part through the elimination of 623 full-time equivalent (FTE) non-operating positions. As personnel costs consume 67.0% of the entire operating budget, the CTA has had little choice this year but to make personnel cuts to balance its operating budget. Therefore, we support this necessary and prudent action.

The Civic Federation is concerned about the overall lack of State capital planning and especially the State's responsibility for mass transit infrastructure for the CTA, Metra and Pace. The CTA estimates its future capital needs will total $8.6 billion, of which the State currently plans to provide only $1.8 billion in relatively firm commitments. The lack of adequate capital planning from the State means further deferrals of maintenance and deterioration of capital assets. The longer the CTA must wait to repair or replace capital assets the more expensive the process becomes. In addition, a lack of State funds often translates into the inability to access federal capital dollars that require State and/or local funding matches. It is our hope that Governor Blagojevich and the Illinois General Assembly can reach consensus soon on a capital program that includes a rational discussion of critical infrastructure funding needs and a transparent multi-year capital improvement plan.

FY2009 Budget Highlights:

- Cash fares for the bus system will increase by 12.5%, from $2.00 to $2.25. Transit card fares will increase from $1.75 to $2.00 for buses and from $2.00 to $2.25 for trains. Pass fares will increase by 20%, with the exception of student passes, and Chicago Card users will no longer receive a 10% bonus.
- Fare and pass revenues are projected to total $519.2 million in FY2009, a $55.7 million or 12.0% increase over the FY2008 amended budget projection of $463.5 million.
- Receipts from the real estate transfer tax are expected to increase by $4.3 million or 7.1% in FY2009, rising from $63.0 million to $67.5 million.
- Labor expenses for FY2009 are projected to total $890.6 million, constituting 67.0% of the operating budget. This is a $14.2 million or 1.6% increase over FY2008 amended budget labor expenses of $876.4 million.
- Public funding for the CTA from the Regional Transportation Authority (RTA) will increase by 48.9% in FY2009, rising from $485.4 million to $723.0 million. Public funding includes: 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.
- The FY2009 CTA budget eliminates 623 full-time equivalent positions. These cuts are primarily in administrative, management, support staff and capital funded positions.
- Fuel costs are estimated to total $102.9 million in FY2009, a $13.0 million or 14.5% increase over the FY2008 amended budget estimate of $89.9 million.
- No new capital funding is included in the FY2009 proposed budget.

Issues the Civic Federation Supports:

- The Civic Federation supports the CTA's proposed fare increases as a reasonable means of offsetting the ill-considered and expensive free ride programs mandated by Governor Blagojevich, decreased real estate transfer tax revenues and skyrocketing energy and fuel costs.
- Due to the critical importance of CTA service to the Chicagoland economy, as well as quality of life, the Civic Federation applauds the CTA for its decision to maintain current service levels in the FY2009 budget.
- We congratulate the CTA leadership for moving forward on a performance management system that, when fully implemented, should lead to improved operations and an enhanced riding experience for all customers.

Issue of Concern:

- The Civic Federation is concerned about the lack of capital funding provided to the CTA from State sources. The State of Illinois is neglecting its responsibility as a steward for Illinois' critical infrastructure assets. At a minimum, the State should be annually updating and publicly reporting on the condition of transportation assets and the needs of all State road and transit projects. The CTA's FY2009-2013 capital improvement plan requires approximately $8.6 billion in funding to keep its infrastructure in good repair but the State has committed to providing only $1.8 billion for the CTA's capital needs with no recognition of the additional unmet needs or how they might be funded. Failing to secure State capital funds contributes to the CTA's inability to adequately fund repair and maintenance of the Authority's capital assets.

Civic Federation Recommendations:

- The free ride program for seniors should be repealed by the General Assembly and replaced by an income-tested program that targets relief to those who need it.
- The State of Illinois should restore the reimbursement for reduced fares it has traditionally provided to all three RTA service boards. Governor Blagojevich's veto of this subsidy cost the CTA over $32.0 million in its FY2009 budget.
- The CTA budget format could be improved with bring back the Department Budget Schedule, Line Item Schedule, and Budgeted Positions pages that were eliminated from the budget document in FY2008 and by providing personnel information that breaks out full-time equivalent positions by category.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the CTA's FY2009 budget of $1.3 billion as a responsible short-term plan to provide critical mass transit services to the Chicagoland population. The CTA's proposed fare increases of 25 to 50 cents per ride, along with personnel reductions, are a reasonable means of offsetting the cost of the free ride programs mandated by Governor Blagojevich, decreased real estate transfer tax revenues and skyrocketing energy and fuel costs.

It is necessary and appropriate for the CTA to raise fares at this time to meet its rising operating costs. The new fares are still a tremendous bargain compared to the cost of driving and parking automobiles. All governments that fund programs or services with user fees and charges should periodically review their fee structures, ensuring that fees cover a significant portion of their operating expenses. Simply put, reasonable periodic fare increases designed to cover rising costs are necessary.

The free rides program for seniors, the disabled and military personnel will cost the CTA at least $35.8 million in FY2009. As many as 400,000 seniors have taken advantage of the program; 250,000 of these seniors used to be enrolled in a reduced fare program and the remainder paid full fare.[1] Governor Blagojevich's across-the-board grant of free rides to seniors, regardless of income, was ill-considered. We find no sound public policy reason to provide free rides for affluent seniors who are able to pay and help defray the cost of providing public transit. Exempting a large pool of individuals from paying their fair share of expenses simply shifts the cost onto others, many of whom are the working poor. The free rides program has also helped contribute to the CTA's multi-million dollar deficit, leading to higher fares for all. We call on the Illinois General Assembly to repeal the free rides for seniors program and substitute a program that is income-tested, providing relief to those who most need it.

The FY2009 CTA budget is balanced in part through the elimination of 623 full-time equivalent (FTE) administrative, management and support staff positions. The CTA's financial situation

[1] Mary Wisniewski. "Seniors Can't Pass Up Free Rides," Chicago Tribune, October 20, 2008.

this year leaves it little choice but to make personnel cuts. Since labor costs consume 67.0% of the entire operating budget raising fares alone would not have been sufficient to stabilize the Authority's FY2009 spending plan. Therefore, we support this necessary action and applaud the CTA for being able to maintain the current level of service even with these substantial personnel cuts.

The Civic Federation has one overriding concern related to the CTA's long-term finances: the dire lack of capital funding for mass transit from the State of Illinois. The CTA estimates its future capital needs will total $8.6 billion, of which the State will provide only $1.8 billion in actual support. The lack of a State infrastructure improvement program has caused the CTA to transfer millions of capital dollars into operations to cover budget shortfalls in recent years. A lack of adequate capital dollars from the State means further deferrals of maintenance and deterioration of capital assets. The longer the CTA must wait to repair or replace capital assets the more expensive the process becomes. In addition, a lack of State funds often translates into the inability to access federal capital dollars that require State and/or local funding matches. It is our hope that Governor Blagojevich and the Illinois General Assembly will reach consensus soon on a capital program that includes a rational discussion of critical infrastructure funding needs and a transparent multi-year capital improvement plan.

Issues the Civic Federation Supports

The Civic Federation supports the following issues related to the FY2009 CTA budget.

<u>Fare Increases</u>

The CTA proposes increasing bus and rail fares as part of its plan to eliminate the $42.2 million budget gap in FY2009. The most significant changes will be:

- An increase in full fare transit card and Chicago Card rides on buses from $1.75 to $2.00 per ride;
- An increase in full fare transit card rides on rail from $2.00 per ride to $2.25;
- An increase in full fare Chicago Card rides on rail from $1.75 to $2.25 per ride;
- The elimination of the 10% Chicago Card bonus; and
- An increase in cash bus fares from $2.00 to $2.25.

The Civic Federation **supports** the CTA's proposed fare increases as a reasonable means of offsetting the ill-considered and expensive free ride programs mandated by Governor Blagojevich, decreased real estate transfer tax revenues and skyrocketing energy and fuel costs. For the first time since 1998 CTA *pass* fares will increase, yet the new cost of pass fares will still be below 1998 levels when adjusted for inflation. Reduced fares for students will not be increased.

With the fare increases, farecard bus fares will be similar to what is charged in the mass transit systems in New York City and Philadelphia. Cash fares for buses and farecard charges for rail will rise above those for most other major urban centers. However, the cost of using public transit in Chicago remains a tremendous bargain compared to the cost of driving:

- According to the Energy Information Administration, the average cost of gas in Chicago as of October 13, 2008 was approximately $3.64 per gallon.[2]
- The median monthly parking rate in Chicago is $310 and $30 per day, according to Colliers International, a real estate firm.[3]
- According to the American Public Transportation Association (APTA), the average monthly parking rate in the average American city's downtown business district is $143. This figure was included in APTA's monthly "Transit Savings Report" published on October 6, 2008. The report includes figures of transit savings for consumers of public transit and states that Chicago public transit users, on average, save $971 monthly and $11,650 annually.[4]

All governments that fund programs or services with user fees and charges should periodically review their fee structures. While it is appropriate to subsidize services that provide an important public good such as mass transit, user fees and charges should cover a significant portion of the operating expenses. In concrete terms, that translates into the necessity of reasonable and periodic increases to cover rising costs. Therefore, we find it appropriate for the CTA to raise fares at this time to meet its rising operating costs.

Personnel Reductions

In order to balance its FY2009 budget, the CTA administration made the difficult but necessary decision to eliminate 632 full-time equivalent positions. Of this number, 396 FTEs are positions associated with the operating budget, 101 are positions funded in through the capital budget and 135 are FTEs associated with construction projects. The job cuts are targeted in non-operating administrative, management and support staff positions. It is particularly unfortunate that the CTA must eliminate 101 capital positions that should be brought back in future years. However, a severe lack of capital funds means that the Authority has insufficient resources to pay for this capital work, and the associated personnel positions, in FY2009.[5]

The approach of eliminating non direct service positions results in significant cost savings for the entire agency while still maintaining current levels of service. Despite a 3.0% cost of living increase for all union employees in FY2009, the CTA will be able to limit its personnel cost growth to 1.6% over FY2008 amended budget figures due to staff reductions.

The Civic Federation believes that the CTA's financial situation this year leaves it little choice but to make personnel cuts. Raising fares alone would not be sufficient to stabilize the Authority's FY2009 spending plan. Therefore, we support this necessary and prudent action.

[2] See http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html.
[3] See http://www.colliers.com/Markets/Charlotte/News/2008_ParkingSurvey
[4] Figures were calculated using data on parking rates and gas prices. See http://www.apta.com/media/releases/081006_users_save.cfm.
[5] Information provided by CTA President Ron Huberman, September 4, 2008.

Maintaining Current Service Levels

The Civic Federation **applauds** the CTA for its decision to maintain current service levels in the FY2009 budget. Unlike the situation in previous years, there is no discussion of reducing service in 2009.

Mass transit is a critical component of the Chicagoland economy. The viability of the entire region as a logistics and transportation center depends on the continued maintenance of service by the CTA. Maintaining high levels of service is important to the commuting public; high fuel costs have increased CTA ridership as it provides a cost effective alternative to driving. Finally, utilization of mass transit significantly reduces pollution, greatly enhancing the quality of life for all residents if the region.

We believe that the CTA should continue to explore rationalizations of its service delivery model through increased use of technology and operation efficiencies, such as the elimination of owl service on trains. The rail transit systems in Boston, Los Angeles and Washington, D.C. do not operate on a 24 hour basis. However, in these difficult economic times when so many residents of Chicago and its suburbs rely on mass transit, we are pleased that CTA service will remain intact.

Performance Management

In 2007 the CTA launched a performance management system. The ultimate purpose of this effort is to improve operations and enhance the riding experience of customers.

The program began by reviewing Bus Operations, Rail Operations, Facilities Maintenance and Construction business units and now embraces all other departments who are responsible for coordinating their operations to match performance-based goals or targets.

The FY2009 budget shows performance goals for CTA departments for both FY2008 (to date) and FY2009[6], with the goals reported for a series of key metrics. For example, one of the goals for Facilities Maintenance, Construction and Engineering for FY2008 and FY2009 is the percentage of work orders backlog being less than 15%. We presume that as data are collected future budgets and reports will show actual results as well as goals.

All governments should develop and implement a performance management system. A sound financial planning process involves tracking and improving the productivity of operations. We **congratulate** the CTA leadership for moving forward on a performance management system.

Issues of Concern

The Civic Federation has one major concern related to the CTA's long term financial management and condition – the lack of both capital planning and rational funding from the State of Illinois.

[6] CTA FY2009 Proposed Budget, pp. 46-50.

Lack of Capital Funding from the State of Illinois

CTA faces, along with Metra and Pace, significant challenges in fulfilling its enormous capital needs. With the expiration of the Illinois FIRST capital program almost four years ago and the State's repeated failure to develop and fund a comprehensive capital plan since then, state capital funds are no longer available to provide a match to federally-funded capital improvement programs for transit. The lack of both state and federal funds has greatly exacerbated the problem of a deteriorating transit infrastructure.

The CTA's FY2009-2013 capital improvement plan requires $8.6 billion in funding needed to keep its infrastructure in good repair. Of that amount, $3.0 billion is funded while $5.6 billion is unfunded. However, $1.2 billion of the $3.0 billion "funded" amount is based on a projection that the State of Illinois will provide replacement dollars for Illinois FIRST. There is no guarantee that this will occur. Therefore, only $1.8 billion of the $3.0 billion in critical state funding actually represents a hard commitment to future CTA capital needs funding.[7]

Failing to secure State capital funds contributes to the CTA's inability to adequately fund repair and maintenance needs of the Authority's capital assets. In 2009, 659 of the CTA's 1,190 rail cars are considered past their useful life and should be replaced. However, funds will be available only to pay for only 350 new rail cars.[8]

Due to past budget shortfalls, the CTA has had to transfer capital funds into the operating budget. In 2007, the CTA transferred $53.4 million of funding earmarked for rail and bus overhaul into the operating budget. The transfer of these funds was necessary and supported by the Civic Federation to deal with the CTA's short-term fiscal imbalance, but it has a negative impact on operations in the long-term. Deferring basic maintenance leads to increases in asset failure and forces the Authority to use operating funds to pay for what should be a capital expense. Due to deferring maintenance on CTA bus and rail cars in FY2007, the CTA will have to pay an additional $750,000 in maintenance costs in FY2008 and an additional $42.2 million in maintenance costs in FY2009.[9]

The Civic Federation believes Illinois must establish a long-term capital improvement program to identify a funding source and provide needed dollars for key investments throughout the State of Illinois. Such a program must include funding for mass transit, including the CTA, which is a critical component of the northeastern Illinois economy. Unfortunately, neither Governor Blagojevich nor the Illinois General Assembly has advanced a plan that we are confident would meet the legitimate needs of the transit agency or provide full transparency for taxpayers.

Governor Blagojevich proposed a $25.0 billion capital program entitled "Illinois Works", funded by a partial concession of the state lottery in his FY2009 budget. The Civic Federation opposed that proposal because the State has failed to prepare, and make publicly available, a sufficiently detailed multi-year capital improvement plan. The plan must include criteria used to assess capital needs, a multi-year capital improvement needs inventory, and information that shows

[7] CTA FY2009 Proposed Budget, p. 27.
[8] CTA FY2009 Proposed Budget, p. 27.
[9] CTA FY2009 Proposed Budget, pp. 28-29.

when projects will be undertaken and how each will be funded. We believe that citizens deserve transparent and detailed multi-year plans *before* being asked to support the extraordinary action of selling a state asset to allow for the appropriation of billions of dollars. Without a detailed and publicly available Capital Improvement Plan and Illinois' history of questionable legislative member initiatives, it is impossible to determine how the $25.0 billion spending program would be prioritized.[10]

The Civic Federation urges Governor Blagojevich and Illinois General Assembly to develop and implement a capital budget that is based upon a transparent capital improvement plan as soon as possible.

Civic Federation Recommendations

The Civic Federation offers a number of recommendations intended to improve the CTA's financial condition and improve transparency.

Repeal Free Rides for All Seniors Program

The cost of the free ride programs for senior citizens, the disabled and military personnel mandated by the State of Illinois will cost the CTA approximately $35.8 million in FY2009. Governor Blagojevich's across-the-board grant of free rides to seniors, regardless of income, was ill-considered. We see no sound public policy reason to provide free rides for affluent seniors who are able to pay and help defray the cost of providing public transit. Exempting such a large pool of individuals from paying their fair share of expenses simply shifts the cost onto others riders, many of whom are the working poor. It has helped contribute to the CTA's multi-million dollar deficit and led to the need for higher fares for all. A far more rational approach to address equity concerns would have been to means test such a program. In that way, assistance would be targeted at those individuals who truly need it.

The Civic Federation calls on the Illinois General Assembly to pass legislation in its next session repealing the free ride program and to replace it with a means-tested program

Restore Reimbursement for Reduced Fares

CTA received reimbursements for revenues lost due to providing reduced fares to senior and disabled riders until 2008 when the reimbursement was eliminated. The CTA hopes to win restoration of at least part of this $37.3 million subsidy; it has budgeted $16.1 million in the FY2009 budget at the direction of the RTA.

The Civic Federation believes that the State of Illinois should restore the reimbursement amount for reduced fares it has traditionally provided to all three RTA service boards. There was no sound basis for the elimination of this important mass transit subsidy.

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[10] The Civic Federation. "State of Illinois FY2009 Recommended Operating Budget: Analysis and Recommendations." p. 7 (May 12, 2008).

Budget Format Improvements

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

- The Department Budget Schedule, Line Item Schedule, and Budgeted Positions pages that were eliminated from the budget document in FY2008 should be reintroduced; and
- Personnel information that breaks out FTEs by category – Operations, STO and Administration – should be provided in the Budget Book in addition to information currently provided about positions by area.

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to Chicago Transit Authority President Ron Huberman, Chief Financial Officer Dennis Anosike, Budget Director Paul Fish, Executive Vice President for Management and Performance Dorval Carter and their staff for their willingness to meet with us regarding the FY2009 Recommended Budget and answer many of our budget questions.

FY2009 BUDGET DEFICIT

The CTA proposes a FY2009 budget of $1.3 billion, a 9.5% or $114.8 million increase over the amended FY2008 budget of $1.2 billion. CTA projected an operating deficit of $42.2 million for FY2009 caused by both a reduction in revenues and expenditure increases:[11]

- Revenue reductions:
  - $35.8 million in expenses to cover the cost of free rides for seniors as mandated by Governor Blagojevich's amendatory veto of the mass transit bailout bill earlier this year; and
  - $17.5 million decrease in expected Real Estate Transfer Tax proceeds.

- Expenditure increases:
  - $12.9 million increase in fuel costs;
  - $4.6 million increase in the cost of energy;
  - $16.0 million increase in provision for injuries and damages;
  - $5.3 million increase in material expenses for items such as parts, sheet metal, steel, asphalt and wire and cable; and
  - $31.5 million interest cost for the CTA's recent Pension Obligation Bond issue.

The budget deficit of $42.2 million will be closed through a combination of the following methods:

[11] Revenue and expenditure figures taken from a communication between the Civic Federation and Dennis Anoiske, Chief Financial Officer for the CTA, October 21, 2008.

- *Personnel reductions*: The CTA proposes to eliminate 623 full-time equivalent positions, including 396 FTE support and supervisory employees, 101 FTE capital positions and 135 FTE construction positions.

- *Fare Increase*: Increases in cash and Chicago Card fares ranging from 25 to 50 cents per ride depending on the type of transit and payment method and the elimination of the 10% bonus for fare purchases made on a Chicago Card.

- *Sales Tax Increase*: Increased revenues resulting from an 0.25 percentage point increase in the RTA sales tax in the northeastern Illinois region.

MASS TRANSIT FUNDING AND REFORM LEGISLATION

Historic mass transit funding and structural reform legislation was approved in 2008 by the General Assembly.[12] These reforms significantly improved the financial condition of the RTA and its three component service boards - CTA, Metra and Pace. The legislation also provided for comprehensive reform of the CTA's pension and retiree healthcare systems.

Revenue Enhancements

The reform legislation authorized increases in the RTA sales tax and in the City of Chicago real estate transfer tax to support the CTA.[13] The RTA was authorized to levy a sales tax in the six-county region of northeastern Illinois at the following rates:

- 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.[14]

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

CTA Personnel Benefit Reform

The omnibus mass transit funding and structural reform legislation included significant reforms negotiated between the Chicago Transit Authority and its labor unions. The healthcare cost containment reforms included:

- Establishing an independent healthcare trust that will be the sole provider of CTA retiree benefits after January 1, 2009;

[12] See Illinois P.A. 95-708.
[13] See Illinois P.A. 95-708.
[14] An additional 0.25% sales tax will be imposed on general merchandise and qualifying food, drugs, and medical appliances in these counties that to be used for public safety expenses and transportation projects.

- Requiring active employees to contribute at least 3.0% of their compensation for retiree healthcare on a pre-tax basis (previously they contributed nothing);
- Requiring retirees and dependents to contribute up to 45.0% of their coverage (previously retirees paid nothing and dependents paid 20.0% of the cost of coverage);
- Making healthcare is available to retirees at age 55 and after 10 years of service (previously 3 years of service); and
- Limiting retiree healthcare benefits to no more than 90.0% in network, 70.0% out of network (previously benefits included 100% indemnity coverage).

APPROPRIATIONS

This section provides an analysis of the CTA's proposed FY2009 appropriations. Throughout this analysis we compare the proposed FY2009 budget to the FY2008 budget amended in July of 2008.[15] This year, the CTA's budget will total over $1.3 billion, a 9.5% or $114.8 million increase from the amended FY2008 budget of $1.2 billion.

Appropriations: Two Year Trend

Total FY2009 appropriations of $1.3 billion represent a 9.5% or $114.8 million increase from the amended FY2008 budget of $1.2 billion. The proposed FY2009 Budget includes $890.6 million in appropriations for labor costs, a $14.3 million or 1.6% increase over FY2008.

CTA management will reduce 396 positions from the FY2008 amended operating budget including 210 fewer administrative positions and 186 fewer maintenance and facilities operations positions.[16] Management will also reduce 101 capital positions and has plans to eliminate 135 full-time equivalent positions for bus and rail (STO) operators including track flagmen, Customer Assistance employees and tower men associated with construction projects.[17] The CTA will decrease construction activity in FY2009 and will eliminate capital positions accordingly, although these positions must be filled again in future years for new construction projects.[18]

Appropriations for fuel will increase by $12.9 million in FY2009, a 14.4% increase. Power appropriations will rise by $4.6 million, or 13.1%, due to the rising cost of electricity and to meet the CTA's increased need for power as more slow zones have been eliminated and more trains are operating at full-speed.[19] Appropriations for the provision for injuries and damages will increase 114.3%, or $16.0 million.

Other expenses will rise by 95.2%, or $64.8 million. This category includes utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting,

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[15] The comparison to the amended budget is necessary for accuracy as the a funding increase was authorized in early 2008 that resulted in dramatically different spending plan for the CTA.
[16] CTA FY2009 Proposed Budget, p. 13.
[17] CTA FY2009 Proposed Budget, p. 13; Ron Huberman, CTA President, FY2009 Budget Press Conference, October 9, 2008.
[18] CTA FY2009 Proposed Budget, p. 13; Ron Huberman, CTA President, FY2009 Budget Press Conference, October 9, 2008.
[19] Meeting between the Civic Federation and CTA President Ron Huberman, October 8, 2008.

engineering, legal and consulting services, banking fees, commissions for the sale of fare media, new bus and rail fleet cleanliness initiatives and new contract costs for the outsourcing of CTA's non-revenue fleet maintenance. The increase in this category is primarily attributable to the additional $35.0 million in pension obligation bond interest the CTA must pay in FY2009 pursuant to the recently-enacted mass transit reform legislation.[20]

CTA Proposed Operating Budgets By Object of Expenditure: FY2008 vs. FY2009				
Appropriation by Object	**FY2008***	**FY2009**	**$ Change**	**% Change**
Labor	$ 876,350,000	$ 890,623,000	$ 14,273,000	1.6%
Other Expenses	$ 68,011,000	$ 132,790,000	$ 64,779,000	95.2%
Fuel	$ 89,919,000	$ 102,852,000	$ 12,933,000	14.4%
Material	$ 92,430,000	$ 94,763,000	$ 2,333,000	2.5%
Power	$ 35,330,000	$ 39,944,000	$ 4,614,000	13.1%
Security	$ 33,600,000	$ 33,441,000	$ (159,000)	-0.5%
Provision for Injuries & Damages	$ 14,000,000	$ 30,000,000	$ 16,000,000	114.3%
Total	**$ 1,209,640,000**	**$ 1,324,413,000**	**$ 114,773,000**	**9.5%**

*FY2008 figures reflect FY2008 amended budget approved in July 2008.

Source: CTA FY2009 Proposed Budget p. 20.

Appropriations: Five Year Trend

From FY2005 to FY2009, the CTA's total operating budget will increase by 33.0%, or $328.3 million. Fuel costs will increase by 204.0% over the past five years. Appropriations for security services will decrease by 3.8% or $1.3 million, and the provision for injuries and damages will increase by 57.9%, or $11.0 million. Labor costs will rise by 23.9% or $172.1 million over the five years period. There will be no appropriations for paratransit in FY2009 as paratransit services were transferred to Pace on July 1, 2006.[21]

CTA Proposed Operating Budgets By Object of Expenditure: FY2005 vs. FY2009				
Appropriation by Object	**FY2005***	**FY2009**	**$ Change**	**% Change**
Labor	$ 718,538,000	$ 890,623,000	$ 172,085,000	23.9%
Other Expenses	$ 47,646,000	$ 132,790,000	$ 85,144,000	178.7%
Fuel	$ 33,837,000	$ 102,852,000	$ 69,015,000	204.0%
Material	$ 65,332,000	$ 94,763,000	$ 29,431,000	45.0%
Purchase of Paratransit	$ 52,473,000	$ -	$ (52,473,000)	-100.0%
Power	$ 24,526,000	$ 39,944,000	$ 15,418,000	62.9%
Security	$ 34,777,000	$ 33,441,000	$ (1,336,000)	-3.8%
Provision for Injuries & Damages	$ 19,000,000	$ 30,000,000	$ 11,000,000	57.9%
Total	**$ 996,129,000**	**$ 1,324,413,000**	**$ 328,284,000**	**33.0%**

*FY2005 numbers reflect FY2005 budget amended in 2005.

Source: CTA FY2006 Proposed Budget; FY2009 Proposed Budget, p. 20.

[20] Communication between the Civic Federation and Dennis Anoiske, Chief Financial Officer for the CTA, October 21, 2008.

[21] CTA FY2006 Proposed Budget, p. iv.

REVENUES

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

System-Generated Revenues: Two-Year Trend

The Proposed FY2009 Budget includes $601.1 million from system-generated revenue and $723.0 million in public funding through the RTA.

Public funding through the RTA includes: 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. Largely because of the 0.25 percentage point increase in the RTA sales tax and dedicated portion of the Chicago real estate transfer tax approved in 2008, public funding dollars will increase by 48.9% in FY2009, rising from $485.4 million to $723.0 million.

System-generated revenue includes $519.2 million in farebox revenue, a 12.0% rise from the previous year, reflecting in part the proposed increase in fares. Farebox revenue represents 86.3% of all system-generated revenue in the proposed budget. Investment income will decline by $0.4 million or 0.6%. The projected decrease is due to lower projected cash balances and lower rates of return.[22]

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 according to the recovery ratio. The amounts contributed to the CTA by the City of Chicago and Cook County have remained unchanged since 1985. The City of Chicago does, however, also make in-kind law enforcement contributions to the CTA. This represents $22.0 million in police services for FY2009, provided at no charge to the CTA.[23]

The State of Illinois annually provides the CTA with a reimbursement or subsidy for reduced fares. The amount provided is typically approximately $32.0 million per year. However, recently Governor Blagojevich vetoed the subsidy. The CTA is estimating in their FY2009 budget that half of the reimbursement amount, or approximately $16.1 million, will eventfully be restored by General Assembly. The loss of these funds has contributed to the CTA deficit this year.

Advertising, charter and concession revenue will increase by $12.5 million or 44.6%. The large increase is due to increased revenues from vehicle and platform advertising and billboard sales.

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[22] *Chicago Transit Authority President's 2009 Budget Recommendations*, p. 18.
[23] *Chicago Transit Authority President's 2009 Budget Recommendations*, p. 14.

Also, the CTA has entered into a contract for the marketing of concession space and the implementation of transit oriented developments.[24]

Other revenue, which includes parking charges, filming fees, third-part contract reimbursements, and rental revenue, will increase by $1.0 million or 7.7%.

CTA Budgeted Revenue: FY2008 Ameneded & FY2009 Proposed				
Source	**FY2008 Amended**	**FY2009 Proposed**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 463,467,000	$ 519,213,000	$ 55,746,000	12.0%
Reduced Fare Reimbusement	$ 32,300,000	$ 16,100,000	$ (16,200,000)	-50.2%
Advertising, Charter & Concessions	$ 28,000,000	$ 40,500,000	$ 12,500,000	44.6%
Investment Income	$ 6,340,000	$ 6,300,000	$ (40,000)	-0.6%
Required Contributions - Cook County & Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 13,000,000	$ 14,000,000	$ 1,000,000	7.7%
Total System-Generated Revenue	**$ 548,107,000**	**$ 601,113,000**	**$ 53,006,000**	**9.7%**
Public Funding through RTA	**$ 485,400,000**	**$ 723,000,000**	**$ 237,600,000**	**48.9%**
Additional Public Funding	$ 136,432,000	$ -	$ (136,432,000)	-100.0%
Capital-Preventive Maintenance	$ 20,000,000	$ -	$ (20,000,000)	-100.0%
Prior Year Positive Balance	$ 20,000,000	$ -	$ (20,000,000)	-100.0%
Total	**$ 1,209,939,000**	**$ 1,324,113,000**	**$ 114,174,000**	**9.4%**

Source: CTA FY2009 Proposed Budget.

The recovery ratio, which measures the amount of operating expenses recovered from operating revenues, is a significant indicator of the CTA's performance. The ratio is determined by dividing system-generated revenues by operating expenses, excluding depreciation and other exempt expenses. The RTA Act requires that the entire RTA region must achieve an annual recovery ratio of at least 50 percent. For FY2009, the RTA has required the CTA to recover at least 52.0% of its operating expenses through system-generated revenues.

Recommended Changes in CTA Fare Structure

The CTA recommends an increase in its fare structure in the FY2009 budget. The most significant changes will be:

- An increase in full fare transit card and Chicago Card rides on buses from $1.75 to $2.00 per ride;
- An increase in full fare transit card rides on rail from $2.00 per ride to $2.25;
- An increase full fare Chicago Card rides on rail from $1.75 to $2.25 per ride;
- The elimination of the 10% Chicago Card bonus; and
- An increase in cash bus fares from $2.00 to $2.25.

[24] *Chicago Transit Authority President's 2009 Budget Recommendations*, p. 18.

Recommended CTA Fare Structure: FY2009		
CTA Fare Types	Current Fare Structure (Effective 1/1/2006)	Proposed Fare Structure (Effective 1/1/2009)
Full Fare Transit Card Bus	$1.75	$2.00
Full Fare Transit Card Rail	$2.00	$2.25
Full Fare Chicago Card Bus	$1.75	$2.00
Full Fare Chicago Card Rail	$1.75	$2.25
Full Cash Fare (Bus Only)	$2.00	$2.25
Transit Card or Chicago Card Transfer	$0.25	$0.25
Chicago Card Bonus	10%	Eliminated
1-Day Pass	$5.00	$6.00
2-Day Visitor Pass	$9.00	Eliminated
3-Day Visitor Pass	$12.00	$15.00
5-Day Visitor Pass	$18.00	Eliminated
7-Day Pass	$20.00	$24.00
Full Fare 30-Day Pass	$75.00	$90.00
U-Pass	-	20% Increase
Reduced Fare Transit Card or Chicago Cards	$0.85	Unchanged
Reduce Fare Cash (Bus Only)	$1.00	Unchanged
Reduce Fare Transit Card or Chicago Care Transfer	$0.15	Unchanged
Reduced Far 30-Day Pass	$35.00	Unchanged

Source: CTA 2009 Budget Recommendations p. 17.

The proposed CTA fare changes will push CTA cash fares for buses and farecard charges for rail above those for many other major urban centers. Farecard bus chares will be similar to what is charged in New York City and Philadelphia.

Selected Regular Mass Transit Fares from Major Urban Areas					
	Bus	Rail	Volume Discount	Transfer	Monthly Pass
Chicago*	$2.25 cash/ $2.00 card	$2.25	None	$0.25	$90.00
New York City	$2.00	$2.00	15% with farecard	Free	$81.00
Philadelphia	$2.00	$2.00	38% with tokens	$0.75	$78.00
Minneapolis	$1.75 regular/ $2.25 peak	N/A	10% with farecard	Free	$113.50
Boston	$1.50	$2.00	18% with farecard	Free w/ card	$59.00
San Francisco**	$1.50	$1.50-$8.00***	6.25% with farecard	Free - $1.25	N/A
Washington D.C.	$1.35	$1.65-$4.50***	None	Free to $0.45	N/A
Los Angeles	$1.25	$1.25	None	$0.30	$62.00

*Reflects proposed CTA rate increases.

**SF rates compare Muni bus system and BART light rail system.

***DC and SF rail transit operators use a zone fare system; the fare ranges for SF are estimates.

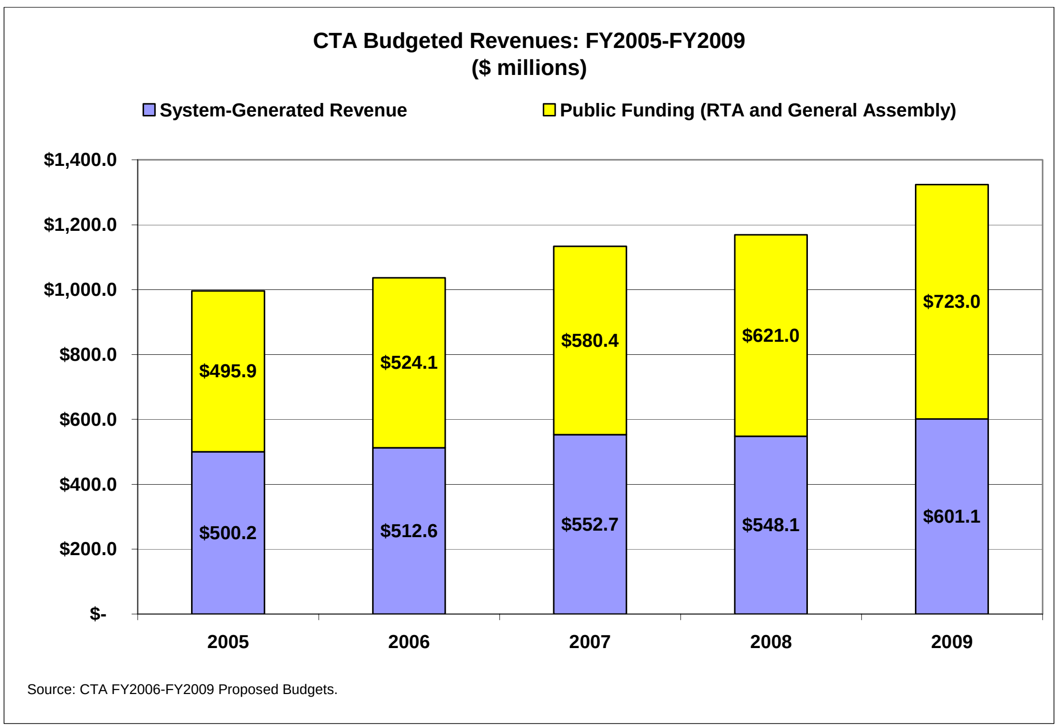
System-Generated Revenues: Five-Year Trend

Comparing the CTA's FY2009 Proposed Budget with the FY2005 budget, total revenues are projected to increase by 31.6%, with the largest percent increase coming from advertising, charter and concession revenues (a projected rise of 66.7%) and the largest dollar increase from public funding through the RTA ($227.1 million). Farebox revenue is predicted to increase by 26.8%, but Other revenue will decrease by 62.2%. Investment income will increase by 52.9%, and reduced fare reimbursement revenues from the State of Illinois will decline by 47.4%.

CTA Budgeted Revenue: FY2005 - FY2009				
Source	**FY2005**	**FY2009**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 409,500,000	$ 519,213,000	$ 109,713,000	26.8%
Reduced Fare Reimbursement	$ 30,590,000	$ 16,100,000	$ (14,490,000)	-47.4%
Advertising, Charter & Concessions	$ 24,300,000	$ 40,500,000	$ 16,200,000	66.7%
Investment Income	$ 4,120,000	$ 6,300,000	$ 2,180,000	52.9%
Required Contributions f- Cook County & Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 37,010,000	$ 14,000,000	$ (23,010,000)	-62.2%
Total System-Generated Revenue	**$ 510,520,000**	**$ 601,113,000**	**$ 90,593,000**	**17.7%**
Public Funding through RTA	**$ 495,883,000**	**$ 723,000,000**	**$ 227,117,000**	**45.8%**
Total	**$ 1,006,403,000**	**$ 1,324,113,000**	**$ 317,710,000**	**31.6%**

Source: CTA FY2006 Proposed Budget and CTA FY2009 Proposed Budget.

The following exhibit illustrates system-generated revenues and public funding between FY2005 and FY2009.[25]



[25] In FY2008, the CTA received $485.4 million in public funding through the RTA as well as an additional $136.4 million for total public funding of $621.0 million.

Structure of Public Funding for the CTA from the RTA

The CTA will receive public funding from three sources in 2009: 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 RTA, 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.[26] The RTA is authorized to levy a sales tax in the six-county region of northeastern Illinois at the following rates:

- 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.[27]

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

Additional funds are also 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 funds in fund the needs of the three service board as well as RTA operations, debt service and capital investment.[28] The RTA also has authority to levy taxes on automobile rentals, motor fuel, and off-street parking facilities, but has not exercised this authority.[29]

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

RTA Sales Tax Distribution: FY2009			
	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%

As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $500.4 million in total sales tax revenue from the RTA in FY2009. This

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26 See Public Act 095-0708.

27 An additional 0.25% sales tax will be imposed on general merchandise and qualifying food, drugs, and medical appliances in these counties that to be used for public safety expenses and transportation projects.

28 *Chicago Transit Authority President's 2009 Budget Recommendations*, p. 52.

29 70 ILCS 3615/4.03.

is a $0.9 million, or 0.2% decrease over budgeted CTA sales tax revenues in FY2008.[30] Of the $500.4 million, $302.4 is expected to come directly from the sales tax distribution formula and $198.0 million will be RTA discretionary funds, allocated from the 15% of total tax revenue retained by the RTA. The CTA share of RTA discretionary funds will be flat from FY2008. While the RTA estimates that the CTA would receive as much as $84.0 million from the Chicago real estate transfer tax., the CTA budget is predicated on an assumption that the tax will only generate $67.5 million due to the current economic downturn. this accounts for the discrepancy between the $723.0 million amount included in the FY2009 budget as "public funding through the RTA" versus the $739.7 million figure proposed by the RTA.

CTA Public Funding:
FY2008 & FY2009 Proposed

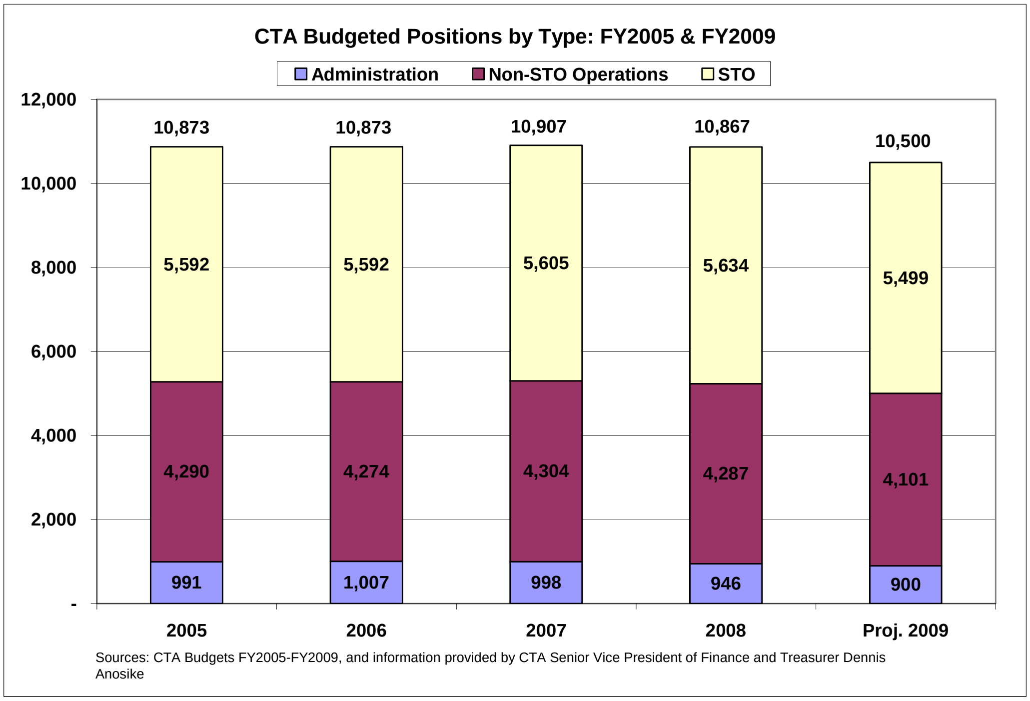
Funding Source	FY2008	FY2009	$ Change	% Change
RTA Formula Sales Tax Revenues	$ 303,341,000	$ 302,401,000	$ (940,000)	-0.3%
RTA Discretionary Sales Tax Revenues	$ 198,059,000	$ 198,059,000	$ -	0.0%
Real Estate Transfer Tax	$ 63,000,000	$ 84,000,000	$ 21,000,000	33.3%
Net Balance of Sales Tax/Public Transportation Fund for Service Board Funding	$ 57,432,000	$ 155,293,000	$ 97,861,000	170.4%
Proposed Total	**$ 621,832,000**	**$ 739,753,000**	**$ 117,921,000**	**19.0%**

Source: CTA FY2009 Proposed Budget p. 54, Appendix A-2.

PERSONNEL TRENDS

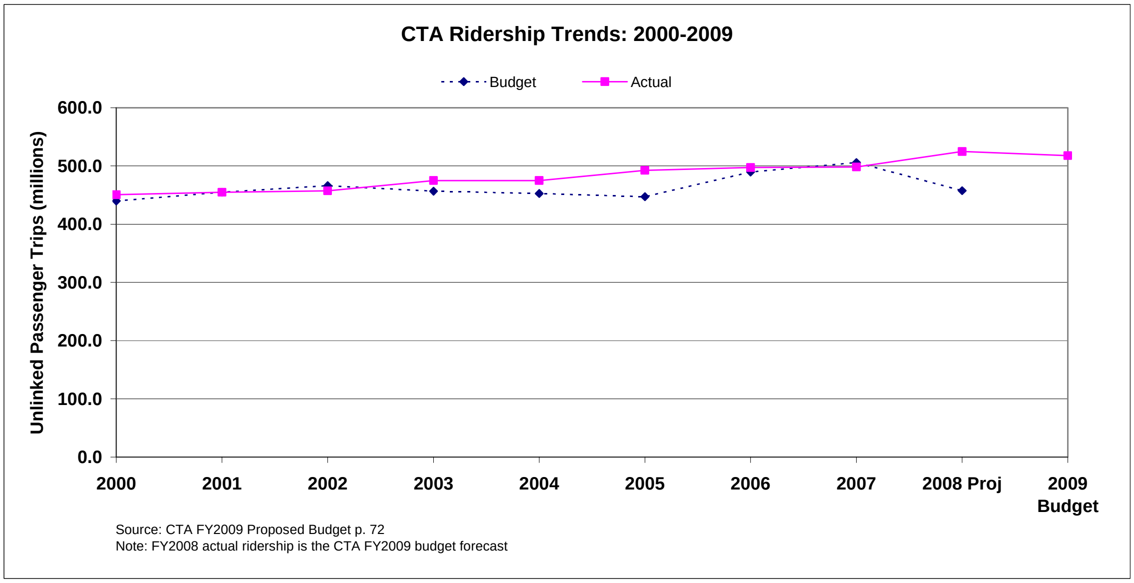
The CTA plans to fund 10,500 positions in its FY2009. This is a 3.9% decrease of 367 positions from the FY2008 Amended Budget. This decrease includes the elimination of 46 administrative positions, 135 Scheduled Transit Operator (STO) positions and 186 non-STO operating positions. In FY2009, 8.6% of all positions will be administrative, 52.4% will be STO, and 39.1% will be non-STO operations. In addition, the CTA will eliminate 236 positions funded with capital funds.

[30] While other governments are predicting larger decreases in sales tax revenues, the RTA is predicting only a slight decrease in sales tax revenue for FY2009. The RTA calculates the revenue estimates for sales tax and requires the CTA to use their estimate. Communication between the Civic Federation and Dennis Anoiske, Chief Financial Officer for the CTA, October 21, 2008.



RIDERSHIP

CTA projects that ridership will decrease slightly in FY2009, from 524.9 million rides, as forecast in the amended FY2008 budget, to approximately 517.8 million rides in FY2009. This 0.12% decline reflects an anticipated reduction from the proposed fare increase and the impact of the economic downturn.



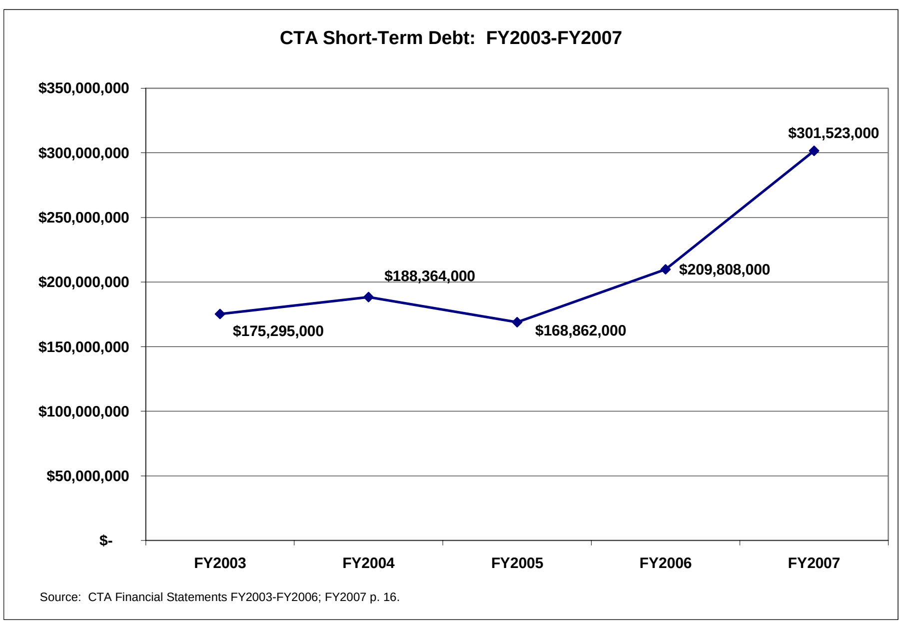
SHORT AND LONG-TERM DEBT TRENDS

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

Short-Term Debt Trend

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt includes primarily accounts payable, advances and deposits, advances from the RTA, deferred passenger revenue, and deferred operating assistance. It does not include accrued payroll, the current portion of supplemental retirement plans or capital lease obligations, and the current portion of self-insurance reserves.[31]

CTA short-term debt increased in FY2007, rising by 43.7% or $91.7 million. This represents an increase from $209.8 million to $301.5 million, and was largely due to increased accounts payable as well as increased in the Advances and Deposits line item. The increase in accounts payable is attributable to the increase in capital construction activity, including increased accrued laibility for capital related invoices and retention fees on construction contracts. Advances and Deposits increased due to a rise in state grant deposits for the purchase of buses. Advances and Deposits also increased due to the inclusion of unspent grant deposits related to Illinois' reduced fare grant advanced to the CTA in late 2007. Over the five-year period between FY2003 and FY2007, CTA short-term debt increased by 72.0%, rising from nearly $175.3 million to $301.5 million. This large increase bears watching.



[31] Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2006 and 2005*, p. 13; *FY2007* p. 16.

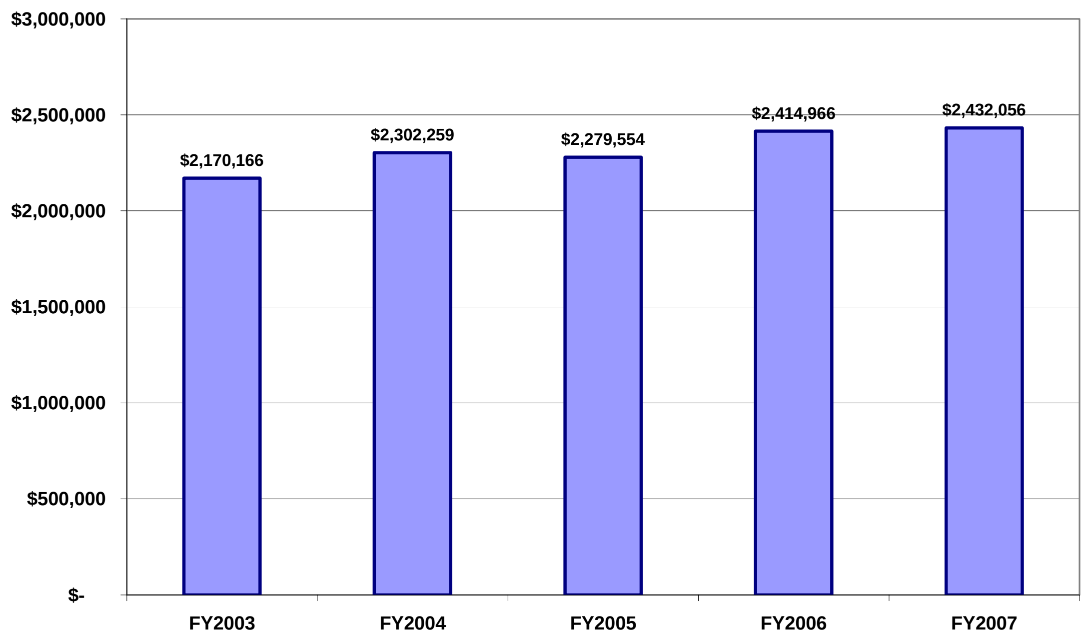
Long-Term Debt Trend

For purposes of this analysis, long-term debt includes bonds payable, capital lease obligations and self-insurance claims. It does not include accrued pension costs or other post employment healthcare costs.

Total Long-Term Liabilities

Total long-term liabilities increased during the past two year period, rising from nearly $2.41 billion in FY2006 to approximately $2.43 billion in FY2007, an increase of nearly $17.0 million or 0.7%. During the 5-year period between FY2003 and FY2007, long-term debt increased from nearly $2.2 billion to approximately $2.4 billion, a 12.1% or $261.9 million increase. The increase is driven in part by the first-ever issuance of $207 million in general obligation bonds in 2003 and a subsequent $250 million bond issue in FY2004 in anticipation of grants from the federal government. A third bond series was issued on November 1, 2006, for $275 million.

CTA Long-Term Debt: FY2003-FY2007 (in $ thousands)

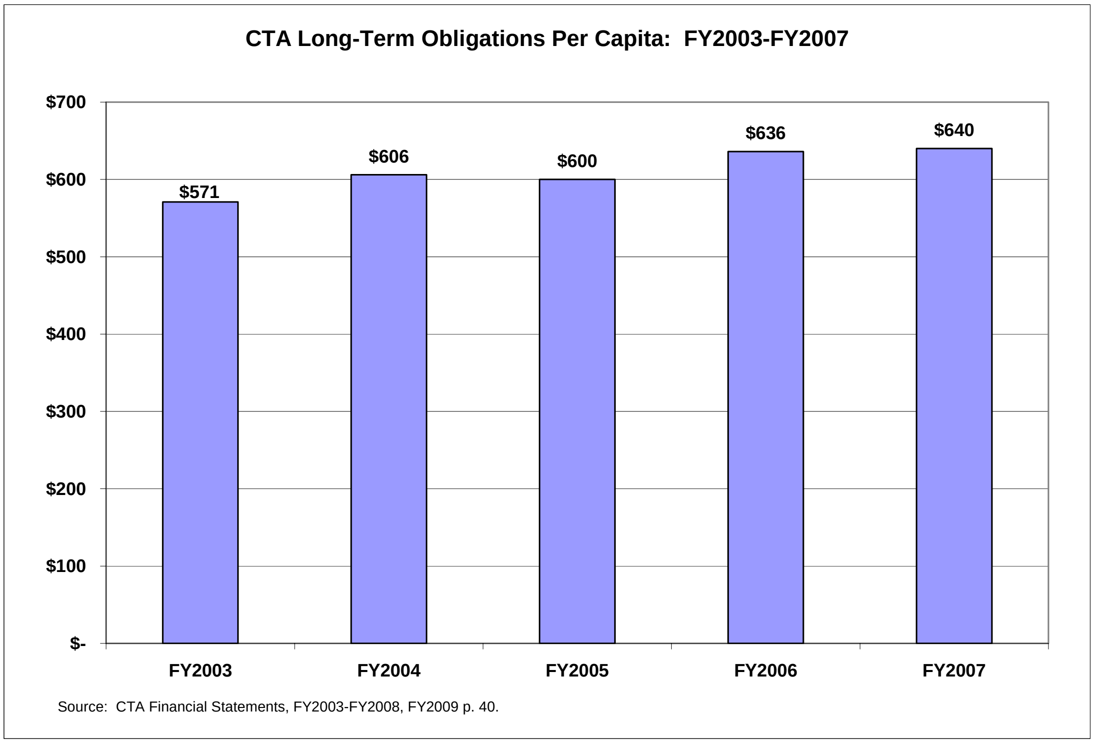


Source: CTA Financial Statements FY2003-FY2006, FY2007 p. 40.

Per Capita Long-Term Liabilities

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.

In FY2003 long-term obligations per capita were $571. Since that time, long-term obligations per capita increased to $640, a 12.1% increase. Between FY2006 and FY2007, long term obligations per capita rose slightly by 0.6%, or from $636 to $640.

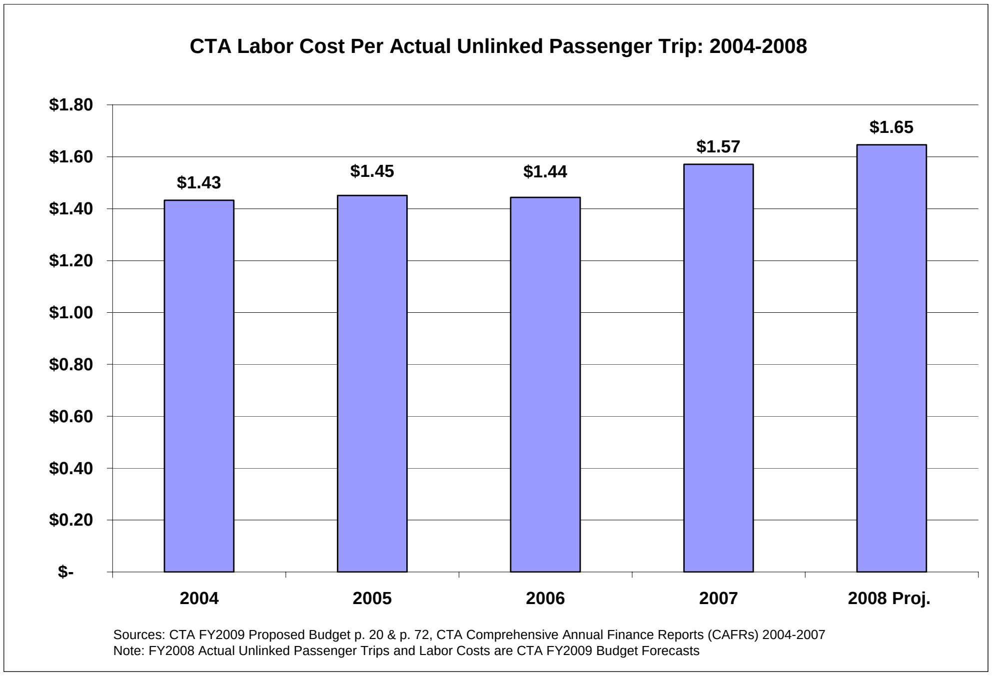


PRODUCTIVITY MEASURES

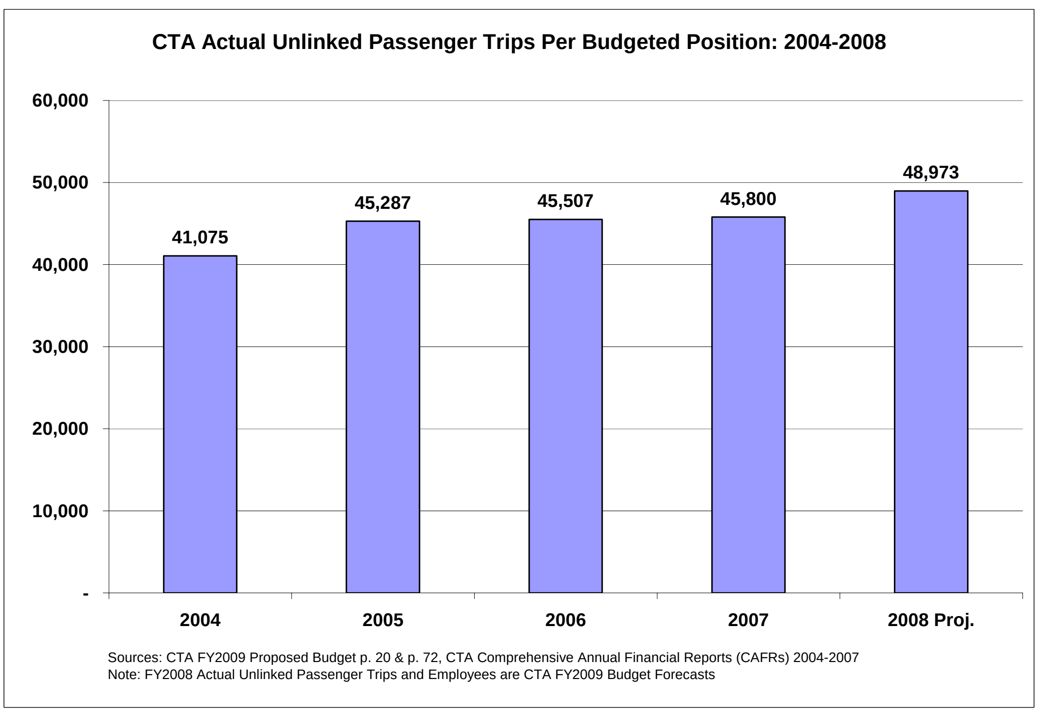
The Civic Federation uses three measures to assess CTA's productivity over time: labor cost per actual unlinked passenger trip, actual unlinked passenger trips per budgeted position, and operating expense per passenger mile.[32]

Productivity can be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. In the last five years this dollar amount has risen from $1.43 in 2008 to $1.65 in 2008, a 15% increase. Between 2004 and 2008, labor costs rose 12.1%, while ridership grew by 28.9%.

[32] Unlinked passenger trips are a single journey by one passenger on a transit vehicle. CTA FY2009 Proposed Budget, p. 84.



A second measure of productivity is unlinked passenger trips per employee. In this case, a higher number of trips indicates higher productivity. This trend shows that the number of trips per budgeted position has been increasing, rising from 41,075 trips per employee in 2004 to a projected 48,973 trips per employee in 2008. Ridership per employee rose substantially between 2004 and 2005 and between 2007 and 2008 as overall ridership improved and as employee headcount was reduced.



The table below shows unlinked passenger trips per administrative position. This trend generally resembles the trend for total positions above. The large productivity gains in 2005, 2007 and 2008 reflect cuts in administrative positions.

CTA Unlinked Passenger Trips per Administrative Position: FY2004-FY2008	
FY2004	415,076
FY2005	464,815
FY2006	461,104
FY2007	500,541
FY2008*	562,567

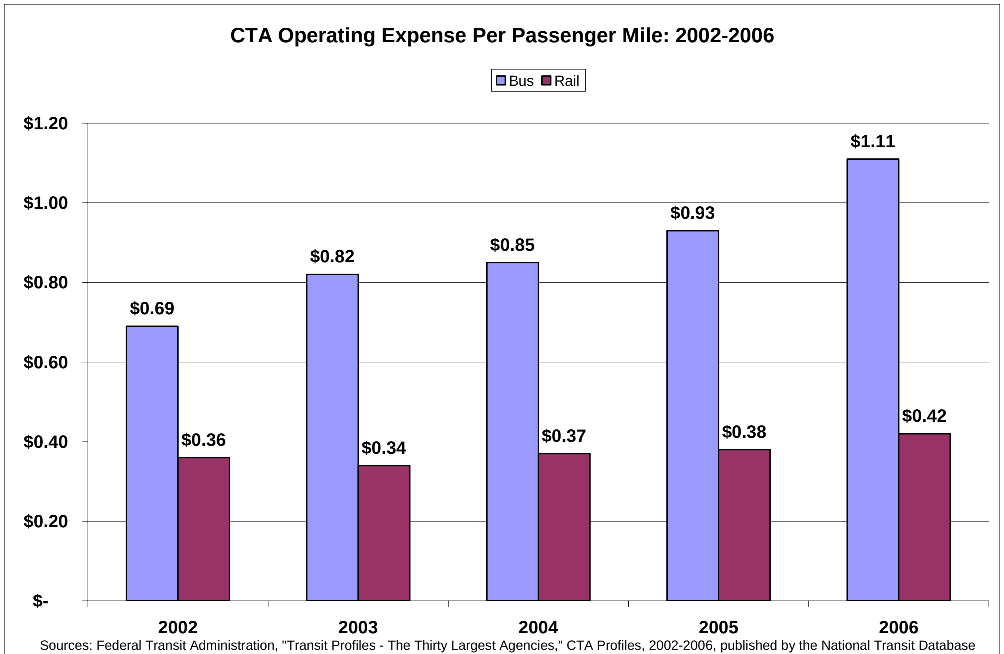
*Projected

Source: CTA FY2009 Proposed Budget p. 72; Data provided by CTA Senior Vice President of Finance and Treasurer Dennis Anosike.

Additional Productivity Indicators

There are two other historic indicators that provide information about the productivity of CTA's operations. The latest data available for these indicators is provided for 2006 by the Federal Transit Administration's National Transit Database Program.

The chart below illustrates operating expense per passenger mile for bus and rail service between 2002 and 2006. As with all transit systems, rail service is more cost effective than bus service. The cost effectiveness for rail service increased from $0.38 per passenger mile to $0.42 per passenger mile. For buses, operating expense per passenger mile has risen steadily over time. Bus service's cost effectiveness decreased substantially in 2003, when costs rose from $0.69 in 2002 to $0.82 in 2003. Cost effectiveness decreased between 2005 and in 2006, when costs rose from $0.93 to $1.11.



Sources: Federal Transit Administration, "Transit Profiles - The Thirty Largest Agencies," CTA Profiles, 2002-2006, published by the National Transit Database Program, CTA FY2009 Proposed Budget p. 75-76

For rail transit, CTA's 2006 operating expense per passenger mile is comparable with the mass transit systems in other major cities. Chicago's operating expense per passenger mile for rail service was the third lowest among the cities examined. Rail service operating expense per passenger mile increased 10.5% from $0.38 to $0.42 between 2005 and 2006. Chicago's operating expense per passenger mile for bus service, however, was tied with Washington D.C. for second-highest among the cities examined. Of the six cities considered, only Boston's bus service was more expensive when measured by passenger mile. Chicago's operating expense per passenger mile for bus service increased from $0.93 in 2005 to $1.11 in 2006 or 19.4%.

Operating Expense Per Passenger Mile for Selected Cities 2006 Data			
	Bus		Rail
Boston	$ 1.39	Boston	$ 0.44
Washington, D.C.	$ 1.11	Washington, D.C.	$ 0.41
Chicago	**$ 1.11**	**Chicago**	**$ 0.42**
New York	$ 1.02	Los Angeles	$ 0.38
Philadelphia	$ 0.91	Philadelphia	$ 0.36
Los Angeles	$ 0.57	New York	$ 0.32

Sources: Federal Transit Administration, "Transit Profiles - The Thirty Largest Agencies," CTA Profiles, 2002-2006, published by the National Transit Database Program, CTA FY2009 Proposed Budget p. 75-76

PENSION FUND

The CTA employees' pension fund is a defined benefit pension plan covering most full-time permanent union and nonunion employees. In FY2007, the Fund had 9,635 active employees and 9,215 beneficiaries.[33] The CTA also maintains small supplementary retirement plans for employees in certain employment classifications.

Recent Changes to Funding Sources

The main employees' fund is governed by the terms and conditions of the collective bargaining agreements. The CTA has no direct oversight authority over the Fund, although it does appoint half of the members of the fund's board of trustees. In fact, under the guidelines set forth in the Governmental Accounting Standard Board's Statement Number 14, the Fund is a legal entity separate and distinct from the CTA. Thus, its financial statements are not included in the Authority's financial statements. In addition, unlike virtually every other local pension fund in Illinois, the CTA pension fund is exempted under state statute from reporting financial information about its assets, liabilities and investments.[34]

In recent years the CTA pension fund has experienced rapid deterioration, primarily due to insufficient contributions and escalating health care benefits exacerbated by investment losses.[35] In 2005, the Fund actuaries informed the CTA Board of Directors that retiree health insurance

[33] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2008*, p. 6.
[34] See Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2006 and 2005*. Note 1 to the Financial Statements – Financial Reporting Entity – p. 19. See also 40 ILCS 5/22-101.
[35] Retirement Plan for Chicago Transit Authority Employees. *Basic Financial Statements and Management's Discussion and Analysis, Year Ended December 31, 2004*, p. 6.

account assets were projected to be depleted in 2007 and total fund assets were projected to be depleted in 2012.[36] Two pieces of legislation were recently enacted in response to the dire state of the pension plan and the CTA's overall financial crisis.[37]

First, legislation passed in the spring of 2006 as part of the State of Illinois FY2007 Budget Implementation Act requires the CTA to make annual pension contributions beginning January 1, 2009 sufficient to bring the funded ratio to 90% by 2058 and prevent the depletion of fund assets expected in 2012.[38] The legislation specifies that payments are to be made as a level percentage of payroll, and that post employment healthcare benefits provided by the pension fund are to be excluded from the actuarial calculations used to determine required contributions.

Second, the CTA negotiated groundbreaking reforms with its union employees in the summer of 2007. These reforms were passed by the General Assembly and signed into law by Governor Rod Blagojevich on January 18, 2008.[39] The legislation stabilizes the pension and retiree health care provisions by increasing employer and employee contributions, adjusting benefits, strengthening governance, issuing bonds, and providing ongoing oversight by the State Auditor General. Specifically, the reforms:

- Establish an independent healthcare trust to solely manage and provide CTA retiree benefits that will take effect after January 1, 2009;
- Change benefits for employees hired after January 1, 2008:
    - Reduced pension available at 55 years of age and 10 years of service (up from 3 years);
    - Full pension available at 64 years of age (currently 55) and 25 years of service;
- Establish an 11-member board of trustees: 5 CTA, 5 union, 1 expert selected by the RTA board;
- Authorize a $1.45 billion pension obligation bond, of which $1.1 billion would shore up the pension fund and $450 million would seed a new Retiree Healthcare Trust;
- Increase employer contributions from 6% to 12% of payroll, and "credit" the employer for debt service payments up to 6% of payroll;
- Increase employee contributions from 3% to 6% of payroll;
- Pension fund must stay over 60% funded through 2039 and reach 90% by 2059; the Auditor General will annually certify if contributions are sufficient, and if they are not, will require additional contributions from the CTA and employees;
- Debt service on pension and health care bonds is to be paid from new CTA operating funds authorized by the General Assembly; the cap on total bonding is set at $1.78 billion; debt service in 2009 is at least 70% of 2012 debt service; 80% in 2010; 90% in 2011; level debt service required in 2012 and thereafter; CTA can take "credit" for capitalized interest payments against required pension contributions for 2008 only;
- Auditor General annual submits financial report to the General Assembly.

[36] Presentation made by Fund actuaries to the CTA Board on September 14, 2005.
[37] Illinois Public Act 94-0839; Illinois Public Act 95-708.
[38] IL Public Act 94-0839.
[39] IL Public Act 95-0708.

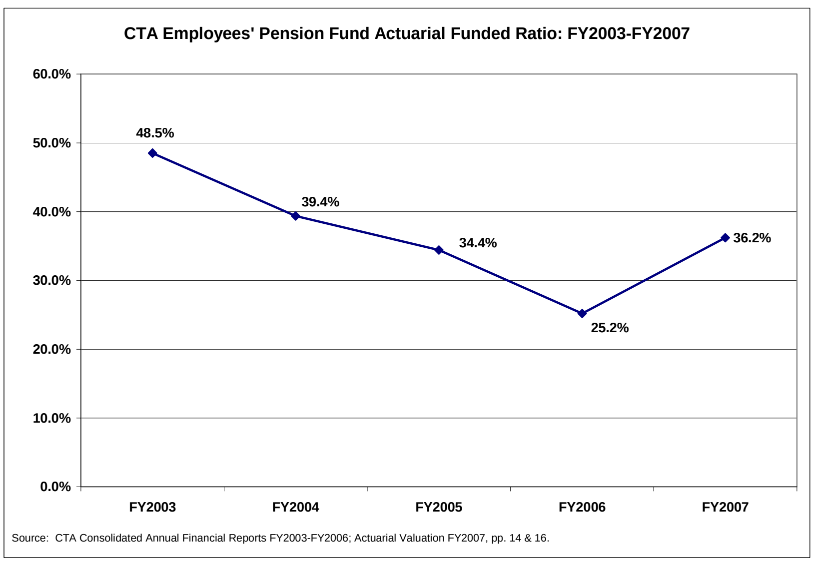
These reforms were widely supported by the RTA, CTA, unions, Mayor Daley, and business and civic groups including The Civic Federation.

Pension Fund Indicators

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. These figures were calculated using data available in the Fund's FY2007 Actuarial Valuation. As noted in the valuation, the Fund's actuarial methods and assumptions are collectively bargained, thus they do not always conform to Governmental Accounting Standards Board (GASB) requirements.[40] In the FY2007 valuation, the actuaries reported two sets of results: one meeting GASB requirements and the other using bargained assumptions. The bargained assumptions led to more favorable outcomes, but the GASB assumptions are considered more actuarially appropriate and are used below.

Funded Ratios – Actuarial Value of Assets

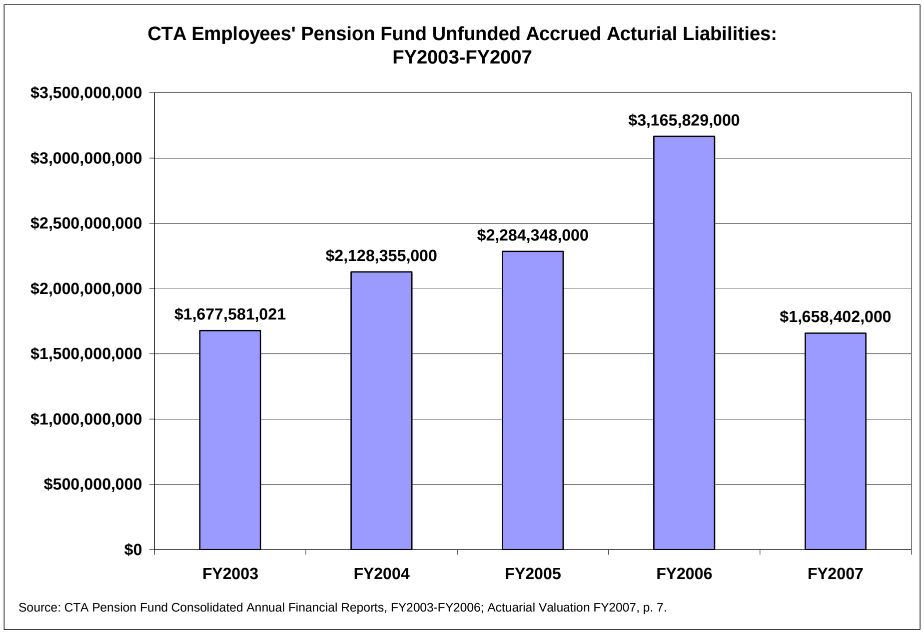
The following exhibit shows the actuarial funded ratio for the CTA Employees' Pension Fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations.
The funded ratio for the CTA pension fund fell by 23.3 percentage points between FY2003 and FY2006, declining from 48.5% to only 25.2%. The 25.2% ratio reflects combined pension and health insurance obligations. In FY2007, the funded ration for the pension fund rose to 36.2%, an 11.0 percentage point increase. The increase in the funded ratio is largely attributed to the creation of the separate Healthcare Trust Fund for CTA employees.[41] The trust fund will assume responsibility for health care costs on January 1, 2009, which means the health care liability assumed by the pension fund only reflects one year of payments. This reduces the overall liabilities of the fund.



[40] See GASB homepage at http://www.gasb.org/ (last visited on October 14, 2008).
[41] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2008,* p. 4.

Unfunded Pension Liabilities

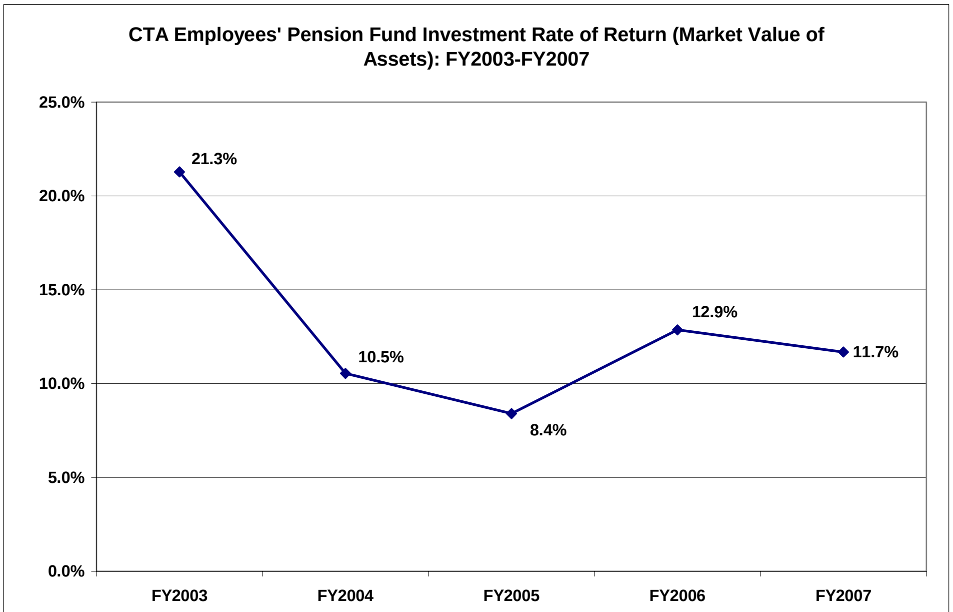
Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the CTA pension fund totaled almost $3.2 billion in FY2006 but decreased to nearly $1.7 billion in FY2007. This was a $1.5 billion or 47.6% decrease from FY2006. Between FY2003 and FY2007, unfunded liabilities fell by $19.2 million or 1.1%.



Investment Rates of Return

The investment rate of return for the CTA Employees' Pension Fund was 11.7% in FY2007. This is a decrease from the 12.9% return reported the previous year, but it is greater than the actuarially assumed rate of return of 8.75%. The 8.75% annual assumed investment rate of return was set by collective bargaining agreement and lowered from the previous discount rate of 9.0%. The reduction was recommended to help produce assumptions that are not unreasonable in the aggregate.[42]

[42] See *CTA Retirement Plan for Employees Actuarial Valuation as of January 1, 2008*, p. 2.



Source: CTA Consolidated Annual Financial Reports, FY2003-FY2006; Actuarial Valuation FY2007, p. 11.

OTHER POST EMPLOYMENT BENEFITS

The CTA bailout legislation approved by the General Assembly in early 2008 established an independent healthcare trust to manage and provide CTA retiree benefits. After January 1, 2009, the trust will be solely responsible for providing retiree healthcare benefits.

The annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer. The ARC represents the amount need to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period to not exceed 30 years. The exhibit below shows the components of the annual cost of OPEB for both the employees' plan and the small supplemental/board plans. The total net OPEB obligation rose by 28.0% between 2006 and 2007, or from $515.3 million to $659.7 million.

OPEB Costs for CTA Retiree Heathcare Plan (in $ thousands)

	Employees' Plan	Supplemental Plan	Total
Annual Required Contribution	$159,021	$556	$159,577
Interest on OPEB Obligation	$25,769		$25,769
Adjustment to ARC	($31,929)		($31,929)
Annual OPEB Expense	$152,861	$556	$153,417
Contributions Made	**($8,728)**	**($334)**	**($9,062)**
Increase (decrease) in net OPEB Obligation	$144,133	$222	$144,355
Net OPEB Obligation - 12/31/06	**$515,374**		**$515,374**
Net OPEB Obligation - 12/31/07	**$659,507**	**$222**	**$659,729**

Source: CTA FY2007 CAFR, p. 53.

OPEB Plan Funded Status – Employees' Plan

As of January 1, 2007 the employees' plan for retiree healthcare benefits was 3.3% funded. The actuarial accrued liability for the benefits was $1.76 billion and the actuarial value of assets was

$58.8 million. This resulted in an unfunded actuarial accrued liability of over $1.7 billion. The supplemental plan had no assets and thus a 100% unfunded liability.

CTA OPEB Funded Status		
	Employees' Plan	**Supplemental Plan**
Actuarial Accrued Liability	$1,765,884,000	$6,278,000
Actuarial Value of Assets	$58,856,000	$0
Unfunded Actuarial Accrued Liability	$1,707,028,000	$6,278,000

Source: CTA FY2007 CAFR, p. 54.