CHICAGO TRANSIT AUTHORITY
FY2004 PROPOSED BUDGET
Analysis and Recommendations

Prepared By
The Civic Federation
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EXECUTIVE SUMMARY

The Chicago Transit Authority proposes a FY2004 budget of $936 million. The CTA faced an $88 million deficit this year in large part because it projects that in 2004 there will be no growth in sales tax revenues, upon which the Authority relies for almost half of its budget. The budget is balanced by means of a fare increase from $1.50 to $1.75, savings from the elimination of 400 positions and $28 million in one-time revenues.

The Civic Federation **supports** the CTA's FY2004 operating budget. We believe the fare increase contained in this budget, the first since 1991, is justifiable because:

- The CTA has made some significant efforts over the past five years to control costs, including changing work rules to reduce staffing, introducing more effective risk management strategies and programs, streamlining administration, implementing inventory control and restructuring service. Since 1998, these efforts have saved nearly $545 million.
- The proposed budget does not make service cuts. Reducing maintenance or making service cuts should be a last resort because they could lead to declining ridership and decreased public confidence in the system.
- The CTA is a major economic and social asset to the Chicagoland region, providing many residents with their only means of transportation. It is important to keep it operating at full capacity and with maximum efficiency.

The Civic Federation **cautions** that if sales tax revenues do not rebound and if ridership declines by more than the 1.5% projected decrease, the CTA could face a multi-million dollar budget gap again next year. Therefore, the CTA must redouble its efforts to control costs and improve efficiency. Before any other revenue enhancements are pursued, the CTA should take the following steps:

- Develop, and seek public input into, a five to ten year long-term financial plan to deal with future contingencies including what future fare increases or service cuts will be needed if ridership continues to decline and sales tax revenues do not rebound.
- Reduce its management staff to generate additional cost savings. Although the proposed FY2004 budget projects a reduction of 153 management positions, the overall management staff has increased by 38 positions since 1998.
- Reverse negative trends in efficiency measurements. These negative trends are driven in part by decreases in ridership. If these trends continue, the CTA must make painful choices, including significant reductions in personnel and service.

The Civic Federation offers the following specific **recommendations** on the CTA FY2004 budget:

- The CTA must continue to aggressively bargain with its unions for improved work rules to bring about greater efficiencies in operations. The CTA must also continue to focus on ways to further contain health care costs, such as pursuing joint purchasing of health insurance with other local governments or requiring employees to contribute more to the cost of their health care.
- The CTA should launch an aggressive marketing campaign to educate riders about the Chicago Card and improve its ease of access. The CTA also should explore corporate sponsorship of the Chicago Card, which would allow corporations to pay a fee to the CTA in return for the right to promote their sponsorship of and other possible uses of the card.
- The Civic Federation is encouraged by the CTA's recent publication of financial information about its Supplemental Pension Fund. We remain concerned, however, that the $2 billion CTA Employees' Pension Fund does not publish an annual actuarial statement containing detailed financial information. All other major local pension funds publish such reports, including the four pension funds of the City of Chicago. Without such a report, the Federation and others are unable to determine the cause of the $423 million increase in the Fund's unfunded liabilities between 2001 and 2002, among other issues. We call upon the unions and the CTA to publish the Pension Fund's audited financial statements as soon as possible.

ANALYSIS OF THE CTA FY2004 BUDGET

The Civic Federation recently concluded its analysis of the draft FY2004 budget and the associated financial issues facing the Chicago Transit Authority. Based upon that analysis we offer the following comments.

The Civic Federation would like to thank Chairman Brown, the members of the Board of Directors of the Chicago Transit Authority (CTA) and President Frank Kruesi for this opportunity to comment on the proposed FY2004 budget. We would also like to commend the CTA's financial management team for their efforts in preparing this budget and their willingness to brief us on the Authority's financial status. We appreciate the openness and candor of the administration and the financial management team in answering our questions and responding to requests for additional information. We are especially grateful for an extremely informative briefing on the CTA's financial status provided by Senior Vice President Dennis Anosike; Executive Vice President for Management and Performance Dorval Carter; General Manager of Strategic Planning David Urbanczyk; and Vice President of Planning and Development Michael Shiffer.

The Civic Federation **supports** the CTA's FY2004 operating budget of $936.6 million, including the proposed 25-cent fare increase, from $1.50 to $1.75. We believe this increase, the first since 1991, is justifiable for three reasons:

1. The CTA has made some significant efforts over the past five years to control costs, including changing work rules to reduce staffing, introducing more effective risk management strategies and programs, streamlining administration, implementing inventory control and restructuring service. Since 1998, these efforts have saved nearly $545 million.
2. The proposed budget does not make service cuts. Reducing maintenance or making service cuts should be a last resort because they could lead to declining ridership and decreased public confidence in the system.
3. The CTA is a major economic and social asset to the Chicagoland region, providing many residents with their only means of transportation. It is important to keep it operating at full capacity and with maximum efficiency.

The CTA faces an $88 million deficit this year in large part because sales tax revenues have remained flat over the last few years as a result of the difficult economic conditions, both local and national. In addition, there has been a decline in the amount of federal support for CTA operations. In our view, the fare hike is a reasonable increase to help reduce that budget gap. And, in fact, some frequent riders can avoid the increase altogether by purchasing monthly passes or the Chicago Card.

The CTA has balanced the need for a fare increase by making reductions in operating costs over time. Since 1998, the Authority has implemented over $545 million in cost-saving measures, including changing work rules to reduce staffing, introducing more effective risk management strategies and programs, streamlining administration, implementing inventory control and restructuring service.

Although the Civic Federation supports the fare increase, we believe strongly that the CTA must continue to focus its efforts to improve productivity and reduce operational costs. We believe that the CTA must seek further reductions in its management staff to generate additional cost savings. Although the proposed FY2004 budget projects a reduction of 153 management positions, the overall management staff has increased by 38 positions since 1998.

Unfortunately, the CTA faces many daunting financial challenges in the near future in regard to operations. Nearly one-third of the gap-closing measures proposed in the FY2004 budget are short-term, non-recurring revenues such as asset sale proceeds and the use of capital funds for paratransit service reimbursements. If sales tax revenues do not rebound and if ridership declines by more than the 1.5% projected decrease, the CTA could face a multi-million dollar budget gap again next year.

Over the last 3 years, the CTA's labor cost per Unlinked Passenger Trip increased from $1.38 to $1.53. During the same time period, the number of Unlinked Passenger Trips per employee declined from 39,870 to 38,272. These negative trends are driven in part by decreases in ridership. This is why the Civic Federation supports efforts to maintain current service levels. Unfortunately, if these trends continue, the CTA must make painful choices, including significant reductions in personnel and service. The system cannot operate at current levels of staff and service if demand continues to decline.

It is likely there will be discussions in 2004 of re-examining financial formulas that distribute public funding available through the Regional Transit Authority (RTA). The Civic Federation has not formed a position on this issue, but will continue to research it and participate in discussions as they progress.

Because of the many long-term financial uncertainties facing the CTA, the Authority should develop and seek full public input into a long-term financial plan to deal with future contingencies including whether future fare increases or service cuts will be necessary if ridership continues to decline and sales tax revenues do not increase.

While the Civic Federation supports this budget, we continue to call for full disclosure of financial information from the CTA Employees' Pension Fund. The Fund **should be required** to issue an annual actuarial statement containing detailed financial information about assets, liabilities, investment returns and beneficiaries. All other major local pension funds publish such reports, including the four pension funds of the City of Chicago. The CTA Employees' Pension Fund, however, is exempted under state law from producing publicly released actuarial reports. While some information is provided in the CTA's audited financial statements, the information is not sufficiently complete or thorough. For example, between FY2001 and FY2002, the rate of increase in the Pension Fund's unfunded liabilities was 79%, or an increase from $530 million to $947 million. Without full disclosure, it is impossible to determine the reasons for this very large increase. Therefore, the Federation believes that the statute should be amended to mandate full and complete disclosure of information for the nearly $2 billion pension fund. We call upon the unions and the CTA to join with us to make this change happen.

In regard to the CTA's Supplemental Pension Plan, the Civic Federation has indicated in communications with the CTA Board and in media statements that we support **full public disclosure** of any changes to the CTA's pension plans.[1] Changes to the plan should be proposed, discussed and ultimately voted on at a public meeting. The taxpaying public should always have an opportunity to voice its opinion on financial issues that impact them. Therefore, we commend the CTA Board for rescinding the pension increases for management approved at the August Board meeting in executive session. In addition, we commend the CTA administration for posting the actuarial valuation report for the supplemental retirement plan on the Authority's web site on September 4, 2003.

FINANCIAL ISSUES AND TRENDS[2]

This section provides summaries of key issues likely to have an impact on the CTA's financial situation in the forthcoming fiscal year as well as expenditure and revenue trends.

[1] Letter from Laurence Msall to Valerie Jarrett, Chairman of the Board of Directors of the CTA, August 27, 2003.
[2] Unless otherwise noted, all data is from CTA budget documents.

Nationwide Transit Challenges

The financial challenges facing the CTA reflect nationwide funding problems for transit agencies. The American Public Transportation Association surveyed 114 North American transit agencies in August 2002 to learn how they responded to the economic slowdown following September 11th, 2001.[3] The APTA found that 74% of large transit agencies experienced ridership declines, resulting in decreased farebox revenues. The economic recession also caused drops in public funding for 54% of reporting agencies. The first step taken by large agencies was to cut costs by reducing administration expenses (91%), delaying capital projects (65%), reducing staff (48%), and deferring maintenance (22%). After cutting costs, large agencies attempted to increase revenues by taking money from reserves (if they had reserves), or increasing fares (61%). The APTA projects that almost 90% of large transit systems will have to implement a fare increase as a result of the economic downturn. Only a minority of agencies has chosen to reduce services (34%), since this strategy also reduces ridership.

CTA FY2004 Budget Gap: $88 million

The CTA's gap-closing actions are in line with those taken by other similar agencies. The CTA has chosen not to reduce service, but instead to cut administrative costs (17% of non-union positions will be lost to attrition over two years) and increase fares.

The CTA has projected an $88 million budget gap for FY2004, and included a number of gap-closing measures in its budget plans. The following table lists those measures. Twenty-eight million dollars, or 32% of the measures, are one-time revenue sources. However, the financial pressures facing the CTA are not expected to relent substantially in FY2005. This raises concerns that these gap-closing measures, including the base fare increase, will only be sufficient to plug the FY2004 budget gap, and are not a long-term budget-balancing solution.

CTA FY04 GAP-CLOSING MEASURES	
One-time Revenue Sources	
Sale of surplus property	$ 10,000,000
Capital cost for paratransit services	$ 18,000,000
SUBTOTAL ONE-TIME REVENUE	**$ 28,000,000**
Recurring Revenue Sources	
Labor expense reductions	$ 27,600,000
Additional concession/rental revenues	$ 2,300,000
Cell phone access/ ATM user fees	$ 400,000
Increased parking rates	$ 500,000
$0.25 base fare increase	$ 30,000,000
SUBTOTAL RECURRING REVENUE	**$ 60,800,000**
GRAND TOTAL	**$ 88,800,000**

Over the last six years, the CTA has undertaken a number of cost-cutting measures, totaling $554.8 million in savings. These measures are summarized below.

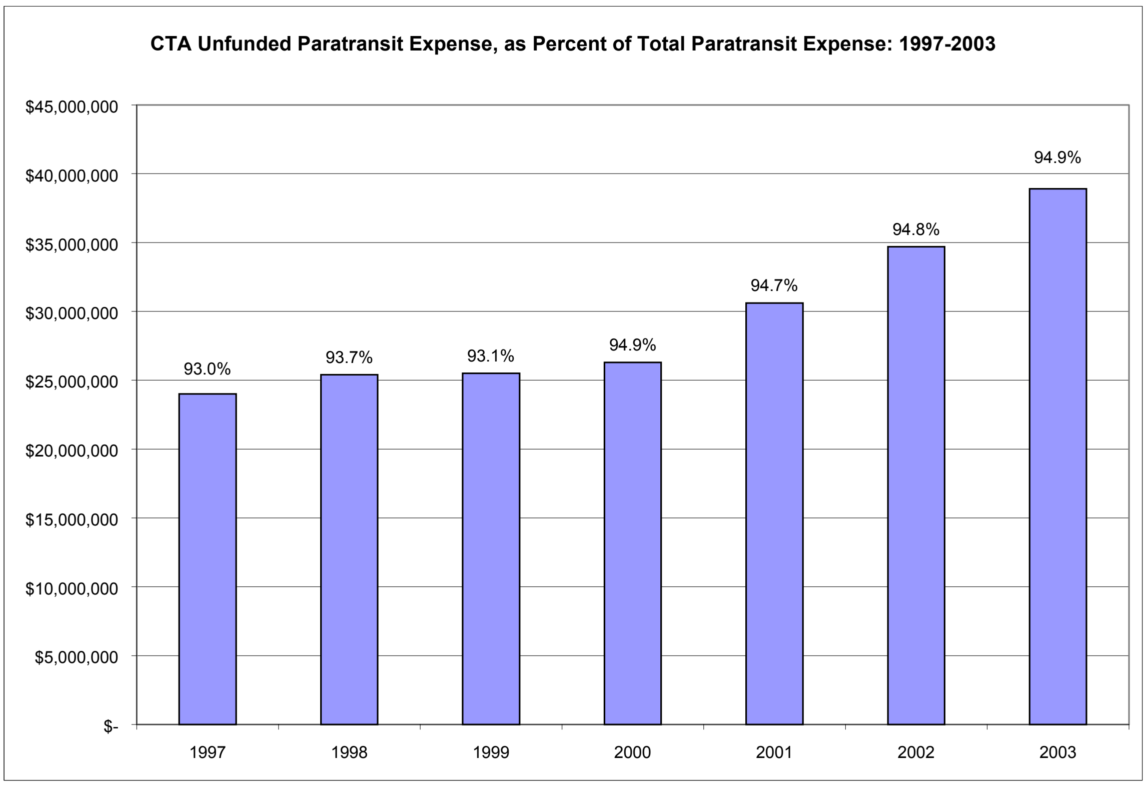
CTA Cost Cutting Measures: 1998-2003 (in millions of dollars)							
ACTION	**FY98**	**FY99**	**FY00**	**FY01**	**FY02**	**FY03**	**TOTAL**
Operating/Administration Cost Reduction	$62.5	$62.5	$62.5	$62.5	$62.5	$62.5	$375.0
Service Restructuring	$25.0	$25.0	$25.0	$25.0	$25.0	$25.0	$150.0
Parts Redesign	$0.0	$0.0	$0.0	$3.0	$3.0	$3.0	$9.0
Swap/Overtime/Hire Freeze	$0.0	$0.0	$0.0	$2.5	$3.5	$13.5	$19.5
Eliminate Vacation Buyback	$0.0	$0.0	$0.0	$0.0	$0.0	$1.3	$1.3
ANNUAL COST SAVINGS	**$87.5**	**$87.5**	**$87.5**	**$93.0**	**$94.0**	**$105.3**	**$554.8**

[3] *American Public Transportation Association,* "Impact of 2001-02 Economic Slowdown on Public Transportation", November 2002.

Paratransit Funding

The CTA provides paratransit services as part of the Federal Americans with Disabilities Act requirement. Two types of service are available to persons who are unable to use mainline transit service: Special Services and the Taxi Access Program. The CTA purchases these services from private vendors. Users pay the CTA base fare of $1.75 per trip (starting FY04), but each Special Services trip costs the CTA an average of $26.51, while each Taxi Access trip costs an average of $13.53. Ridership has increased 59% since 2000, from 1.2 million to 1.9 million trips annually.

The purchase of paratransit is very expensive for the CTA. While increases in ridership are desirable, they also contribute exponentially to rising costs. Over the last seven years, paratransit revenue has hovered between $1.4 million and $2.1 million, while paratransit expenses have risen from $25.8 million to $41.0 million. The following chart illustrates the increase in unfunded paratransit expenses (total expenses minus revenues). The proportion of total expense that is not funded by fares or grants has increased from 93% to 95%.



Funding paratransit is an ongoing financial issue for the CTA. There is no earmarked funding for paratransit, so increasing expenses must be covered by general revenues. In FY2004, the purchase of paratransit will cost the CTA $45 million, or 5% of its operating expenses. This is up $7.9 million, or 21.2%, from 2003.

The RTA and CTA made an agreement for FY2004 allowing the CTA to use $18 million of its capital funds to pay for the purchase of paratransit. CTA will still pay the full $45 million cost of paratransit purchase in FY2004, but only $27 million of that figure will come from operating funds. Justification for this agreement came from the Federal Transportation Administration (Section 5307) policy that, since the paratransit vendor spends approximately 50% of its budget on capital costs (purchase of vehicles, etc.), the purchaser may use both federal capital funds and local operating funds to purchase the service. Such a funding arrangement must be approved by the RTA, however, and it was for the first time this year.[4]

The high cost of paratransit makes it increasingly difficult for the CTA to generate sufficient revenues to meet the RTA recovery ratio requirement (52.9% in FY2004). In the future, the CTA would like to see the entire cost of paratransit excluded from the recovery ratio calculation. This would have the effect of requiring the CTA to generate less of its own revenue in order to meet the recovery ratio requirement.

One way to curb paratransit costs is to reduce paratransit use by transitioning paratransit riders to mainline service. Since 2000, paratransit ridership has grown an average of 12.5% each year. In 2005 and 2006, paratransit ridership growth is projected to slow to 4.0% and 3.0%, respectively, as the CTA anticipates more riders with disabilities to transition to mainline service following increased accessibility of buses and rehabilitation of "L" stations. Despite these improvements, there will always be riders who cannot use mainline service and will require paratransit service.

While at this time we have not formed an opinion on aggregate changes to the regional transit formulas, the Civic Federation does support removing paratransit costs from the base amount that is used to calculate the CTA's annual cost recovery ratio.

The cost recovery ratio measures the amount of operating expenses the CTA has to fund from revenues it generates. This ratio is set by the RTA. Actual paratransit costs skyrocketed by 50% in the last five years, from $27.2 million in FY1999 to a projected $41 million in FY2003. During that same period, paratransit fare revenues rose from $1.9 million to only $2.1 million. The Civic Federation supports subsidized transit for the disabled. The decision to provide these services is mandated by the Federal Americans with Disabilities Act and thus beyond the control of the CTA. Because of this, we do not believe that paratransit costs should be included in recovery cost calculations. This unfunded mandate effectively increases the amount of revenue that the CTA has to recover from its own source revenues. This year's proposed solution of paying for these costs out of capital funds is just a short-term fix. Other costs over which the CTA does not have full control, such as a portion of the expense of providing passenger security, are currently excluded from calculation of the recovery ratio. There is no sound policy reason for not excluding paratransit costs as well.

Fare Changes

The APTA projects that almost 90% of large transit systems will have to implement a fare increase as a result of the current economic downturn. In the FY2004 budget, the CTA has proposed its first base fare increase in twelve years. After reviewing dozens of fare change models, the CTA chose a base fare increase of $0.25, or 17%. Reduced fares will increase by $0.10, or 13%. Transfers will decrease from $0.30 to $0.25 in order to make a full fare transfer trip an even $2.00. The prices of unlimited-ride passes will remain the same in order to encourage riders to use them. The CTA expects more users to choose unlimited-ride passes and Chicago Cards, which retain the 10% bonus on purchases of $10 or more. FY2004 revenue from the fare changes is projected at $30 million, covering 34% of the FY2004 budget gap of $88.8 million.

[4] Interview with RTA budget officials, October 9, 2003.

At this time, Chicago Cards are only available at the CTA headquarters in the Merchandise Mart, or can be purchased by internet, phone or mail. The CTA intends to eventually make them available through supermarket chains and other locations where passes can be purchased.[5]

Single Ride Fares/Passes	Current	Last Changed (Introduced)	Recommended for FY2004	Percent Change
Cash	$1.50	1991	$1.75	17%
Full Fare Transit Card	$1.50	(1997)	$1.75	17%
Transit Card Bonus	10%	(1997)	0%	Eliminated
Full Fare Chicago Card	$1.50	(2002)	$1.75	17%
Chicago Card Bonus[6]	10%	(2002)	10%	Unchanged
Transfer[7]	$0.30	1995	$0.25	-17%
Paratransit/ TAP/ Mobility Direct	$1.50	1991	$1.75	17%
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
Full Fare 7-Day Pass	$20.00	(1998)	$20.00	Unchanged
Full Fare 30-Day Pass	$75.00	1998	$75.00	Unchanged

Reduced Single Ride Fares/Passes	Current	Last Changed (Introduced)	Recommended for FY2004	Percent Change
Cash	$0.75	1991	$0.85	13%
Reduced Fare Transit Card[8]	$0.75	(1997)	$0.85	13%
Reduced Fare Chicago Card	$0.75	(1997)	$0.85	13%
Transfer[7]	$0.15	1991	$0.15	Unchanged
Reduced Fare 30-Day Pass	$35.00	1998	$35.00	Unchanged

[5] Interview with CTA budget officials, October 10, 2003.
[6] For every $10 purchase, $11 of value is added to the card.
[7] Allows two additional rides within two hours of issue. Transfers will only be valid for travel in the same direction.
[8] Reduced Fare Chicago Cards will not be available until summer 2004. In the interim, Reduce Fare customers using the Reduced Fare Transit Card will receive the current 10% bonus.

The average fare per trip collected by the CTA is calculated by dividing the total amount of farebox revenue by the total number of Unlinked Passenger Trips. Due to reduced fares and discounts, the average fare collected is approximately half of the full base fare. In 2002, the CTA collected an average of $0.83 per trip. Following the 2004 fare increase, the average fare collected is expected to rise to $0.85 per trip.

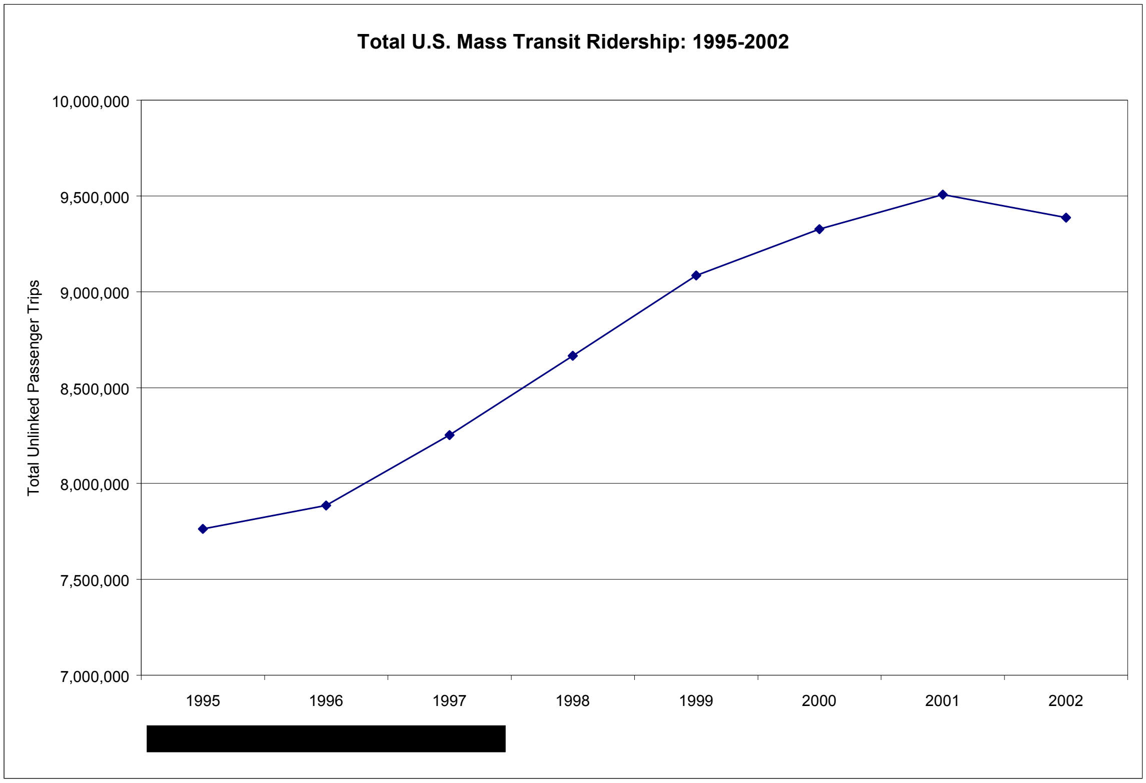
The fare changes place the CTA near the top of mass transit prices when compared to other major cities in the U.S. Although the base fares in New York City and Philadelphia are $2.00, these cities' agencies offer substantial volume discounts, less expensive monthly passes, and transfers in New York are free.

Selected Mass Transit Fares as of January 2004					
	Bus	**Rail**	**Volume Discount**	**Transfer**	**Monthly Pass**
New York City	$2.00	$2.00	20% on farecard[9]	free	$70 regular, $35 reduced
Chicago	$1.75	$1.75	10% on Chicago Card	$0.25	$75 regular, $35 reduced
Philadelphia	$2.00	$2.00	35% on tokens[10]	$0.60	$70
Los Angeles	$1.35 ($0.75 nights)	$1.35	33% on tokens[11]	$0.25	$12 reduced, $20-$30 student
Minneapolis	$1.25 ($1.75 peak)	n/a	10% on farecard	free	$42 off-peak, $66 peak, $21 disabled
San Francisco	$1.25	$1.25	16% on tokens[12]	free	$45 regular, $10 reduced
Houston	$1.00	n/a	20% on tokens[13]	free	$35 regular, $15 reduced, $9 youth
Boston	$0.75	$1.00	none	$0.25	$25 bus, $35 rail

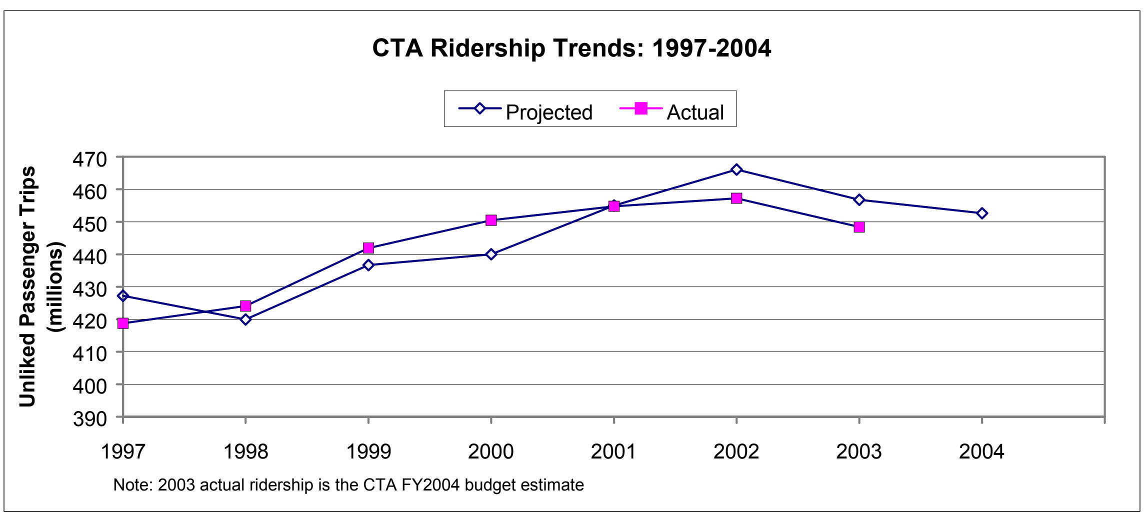
CTA Ridership

Reflecting nationwide trends, CTA ridership increased in the late 1990s, rising an average of 2.2% each year from 1997-2002. Ridership increases began leveling off in 2001 and dropped in 2003, contrary to CTA expectations, but mirroring a nationwide trend.

[9] Bonus on farecard purchases of $10 or more.
[10] Five tokens for $6.50
[11] Ten tokens for $9.00
[12] Ten tokens for $10.50
[13] Ten tokens for $8.00

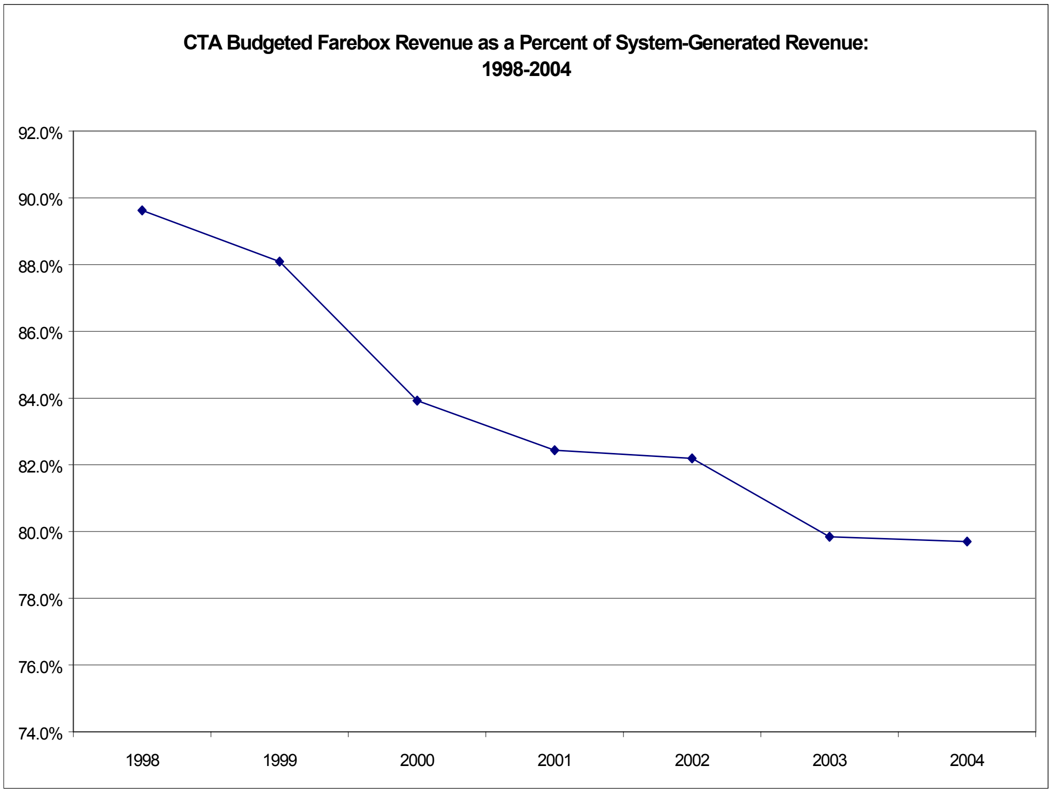


Transit agencies should expect a fare increase to cause a decline in ridership.[14] Ridership elasticity varies among agencies, reflecting their unique circumstances, but an APTA study calculates that, on average, cities with a population of 1 million or more should expect a ridership decrease of 3.6% for every 10% fare increase.[15] Considering simply the 17% CTA base fare increase, one would expect a 6.01% ridership decrease. However, the CTA projects a net ridership loss of no more than 1.5%, because it assumes that more riders will buy unlimited-ride passes and consequently will choose to take additional trips since there is no additional cost.[16] If this is the case, this greater usage of unlimited pass trips may not translate into significantly greater revenues. Nonetheless, increased ridership is itself desirable, as it justifies service expansion and improvement.



[14] "Effects of Fare Changes on Bus Ridership," *American Public Transit Association*, May 1991.
[15] Ibid.
[16] Interview with CTA budget officials, October 10, 2003.

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. Over the last seven years, budgeted farebox revenues as a percent of CTA-generated revenue has declined nearly ten percent as the agency has sought other sources of revenue.



Operating Appropriations, Expenditures, and Revenues

The FY2004 budget proposes total operating expenditures of $936.6 million, an increase of $12 million from the FY2003 budget of $924.6 million.

Appropriations and Expenditures

Labor expenses, at $687.5 million, account for 73% of the CTA's FY2004 expenditures. Seven percent of expenditures go to material, while 5%, or $45 million, is needed to purchase paratransit.

CTA OPERATING BUDGET BY OBJECT OF EXPENDITURE: FY2000, FY2003, FY2004

	2000		2003		2004	
Appropriation by Object	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Labor	$ 613,122,000	72.9%	$ 686,912,000	74.3%	$ 687,528,000	73.4%
Material	$ 64,745,000	7.7%	$ 67,466,000	7.3%	$ 66,000,000	7.0%
Purchase of Paratransit	$ 27,360,000	3.3%	$ 37,215,000	4.0%	$ 45,113,000	4.8%
Security	$ 21,007,000	2.5%	$ 24,813,000	2.7%	$ 25,042,000	2.7%
Fuel	$ 15,382,000	1.8%	$ 22,375,000	2.4%	$ 23,000,000	2.5%
Power	$ 20,066,000	2.4%	$ 21,296,000	2.3%	$ 22,000,000	2.3%
Provision for Injuries & Damages	$ 30,000,000	3.6%	$ 17,568,000	1.9%	$ 22,000,000	2.3%
Other Expenses	$ 49,401,000	5.9%	$ 46,922,000	5.1%	$ 45,945,000	4.9%
TOTAL	**$ 841,083,000**	**100.0%**	**$ 924,567,000**	**100.0%**	**$ 936,628,000**	**100.0%**

CTA Revenues: System-Generated Revenue and Public Funding

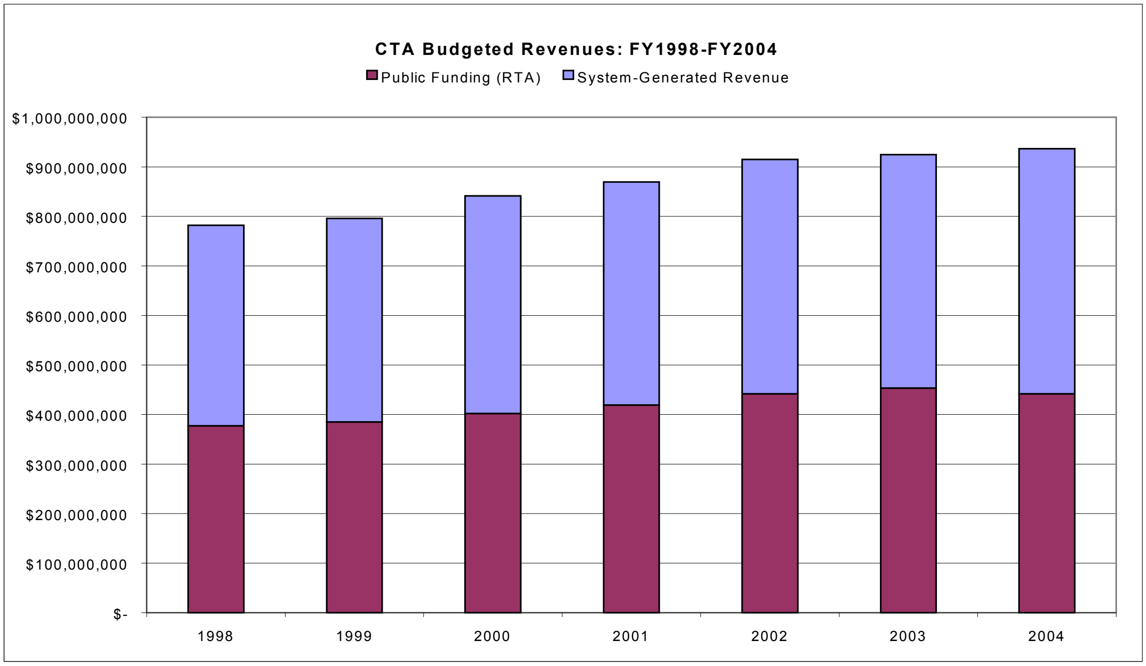
The FY2004 proposed operating budget includes $495 million from system-generated revenue and $441.6 in public funding through the RTA. Included in the $495 million of system-generated revenue is $394.5 million in farebox revenue. Farebox revenue is projected to increase by $18.4 million from the FY2003 budget of $376.1 million. Farebox revenue represents 79% of system-generated revenue in the FY2004 budget. As mandated by statute, the State of Illinois reimburses the CTA $32.3 million for reduced fares provided to students, seniors, and persons with disabilities. The RTA act also requires contributions of $3 million and $2 million from the City of Chicago and Cook County, respectively. "Other revenue" includes items such as the sale of property, rentals, and parking lot fees. "Other revenues" have increased since FY2000, as have Advertising, Charter and Concessions revenues. Farebox revenues have remained between 40% and 44% of total revenues. On average nationwide, farebox revenues cover less than 40% of operating costs.[17]

CTA BUDGETED REVENUE: FY2000, 2003, 2004	2000		2003		2004	
Source	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
System-Generated Revenue						
Fares and Passes	$ 368,389,000	43.8%	$ 376,132,000	40.7%	$ 394,512,000	42.1%
Reduced Fare Reimbursement	$ 34,220,000	4.1%	$ 32,300,000	3.5%	$ 32,300,000	3.4%
Advertising, Charter, & Concessions	$ 16,989,000	2.0%	$ 24,598,000	2.7%	$ 24,250,000	2.6%
Investment Income	$ 8,991,000	1.1%	$ 4,864,000	0.5%	$ 3,000,000	0.3%
Required contributions from Cook County & City of Chicago	$ 5,000,000	0.6%	$ 5,000,000	0.5%	$ 5,000,000	0.5%
Other revenue	$ 5,367,000	0.6%	$ 28,184,000	3.0%	$ 35,935,000	3.8%
Total System-Generated Revenue	**$ 438,956,000**	**52.2%**	**$ 471,078,000**	**51.0%**	**$ 494,997,000**	**52.8%**
Public Funding through RTA	**$ 402,126,000**	**47.8%**	**$ 453,488,000**	**49.0%**	**$ 441,631,000**	**47.2%**
GRAND TOTAL	**$ 841,082,000**	**100.0%**	**$ 924,566,000**	**100.0%**	**$ 936,628,000**	**100.0%**

The RTA Act mandates that the RTA region as a whole generate at least 50% of its own revenues needed for operations. This statutory amount is called the "Recovery Ratio". Specifically, the Act requires that the RTA Board set recovery ratios of at least 50% for Pace, Metra, and the CTA. The FY2004 CTA Required Recovery Ratio is 52.90%. Some adjustments are made to the calculation of the Recovery Ratio in order to accommodate certain operational costs. For the FY2004 budget, the Recovery Ratio calculation includes In-Kind revenue and In-Kind expenses for the Chicago Police Department, and excludes 15% of State Reduced Fare Subsidy and 1988 base year security expenses.

The remaining revenues needed to meet operational expenditures are public funds channeled through the RTA. In FY2004, public funding available to the CTA through the RTA will be $441.6 million. This represents a decrease of 2.6%, or $11.9 million, from FY2003, due to the lower sales tax forecast prepared by the State of Illinois Office of Management and Budget.

[17] *FitchRatings,* "Running for the Train: The Path Ahead for U.S. Transit," June 16, 2003.



RTA Funding Formula and Sales Tax Revenues

The RTA generates revenue from the equivalent of a 1% sales tax in Chicago and Suburban Cook County and a 0.25% sales tax in DuPage, Kane, Will, Lake & McHenry Counties. Specifically, the RTA levies taxes 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

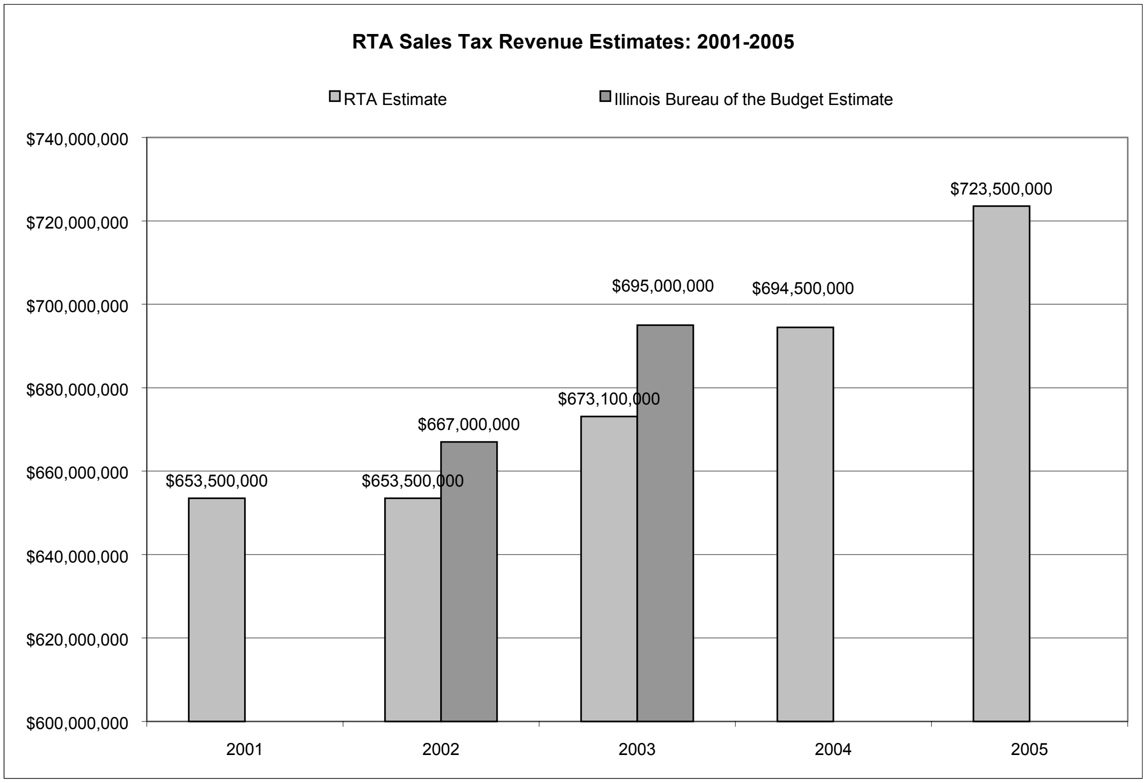
The RTA also has authority to levy a tax on automobile rentals but has not exercised this authority. The State of Illinois distributes to the RTA an additional sum, equal to the amount generated by a 0.25% sales tax in Cook County, from the Occupation and Use Tax Replacement Fund.

The RTA retains 15% of its tax revenue 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%**

In addition, the RTA Act requires the Illinois State Treasurer 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. This amount, $164 million in 2004, is subject to annual state appropriation. Public Transportation Fund monies 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. In recent years approximately one-third of CTA public funding has been discretionary RTA funds.

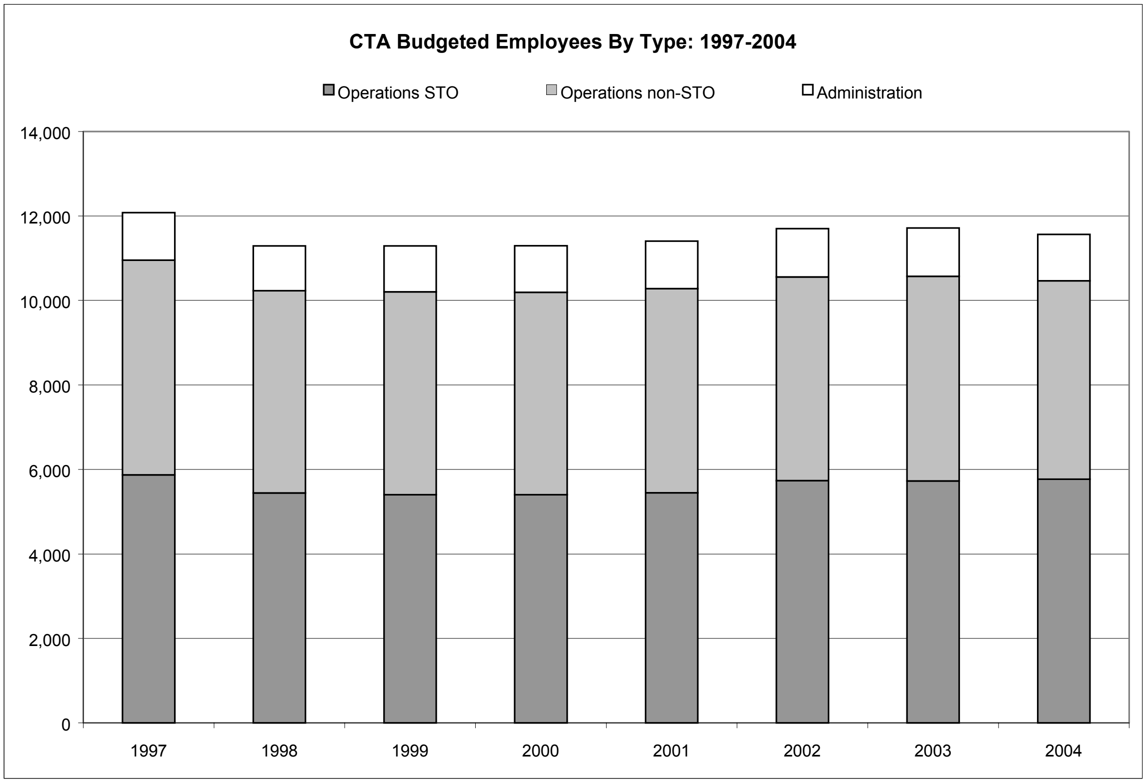
Public funding for the CTA provided by the RTA fell 2.6% between FY2003 and FY2004, from $453.5 million to $441.6 million. The RTA predicts flat sales tax revenues in Cook County and the collar counties for FY2004. The RTA's 2002 and 2003 tax revenue estimates were developed from Illinois Bureau of the Budget projections, but subsequently revised downward due to persistent economic stagnation. RTA's 2004 and 2005 growth estimates are based on their revised 2003 figures.[18]



Personnel Trends

The CTA plans to fund 11,563 positions in FY2004. In the FY2004 budget, approximately 9.5% of personnel are administration, while 49.9% are Scheduled Transit Operators (STO)[19] and 40.6% are non-STO operations personnel. Between 1999 and 2003, the CTA added 426 positions, an increase of 3.8%. The FY2004 budget is down 153 positions from 2003.

[18] *Regional Transportation Authority 2003 Annual Budget and Five-Year Plan.*
[19] The STO classification includes bus operators, motormen, conductors, and customer assistants.



Productivity Measures

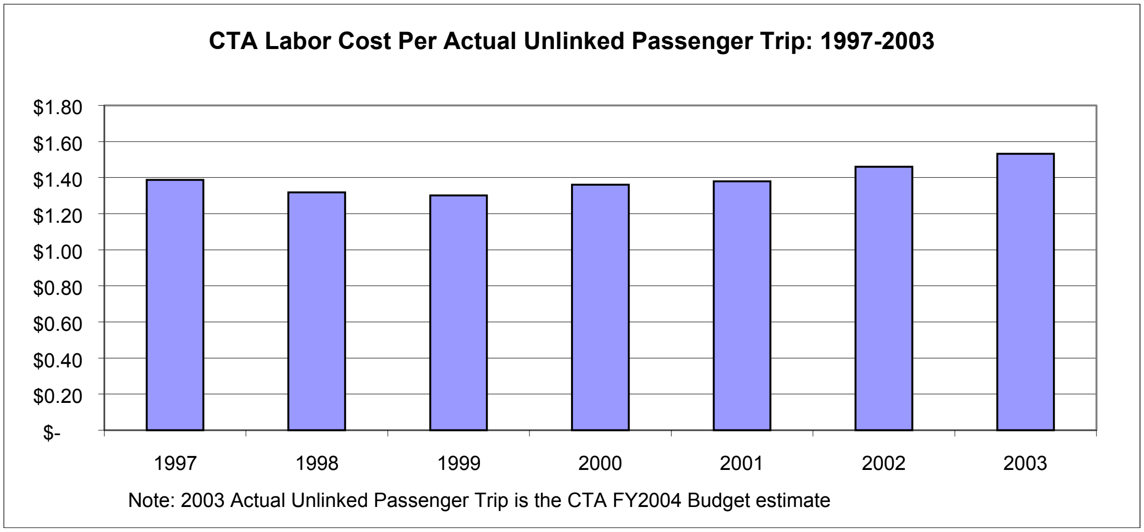
The Civic Federation used three measures to assess the CTA's productivity over time. Based on an evaluation of these measures, we conclude that CTA productivity remained relatively stable from 1997-2003.[20] The chart below illustrates operating expense per passenger mile for bus and rail. As with all 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 $0.34 for rail.

[20] One productivity measure reported in the CTA budget came from the National Transit Database (NTD), to which the CTA submits data annually. NTD data is only available up to 2001.

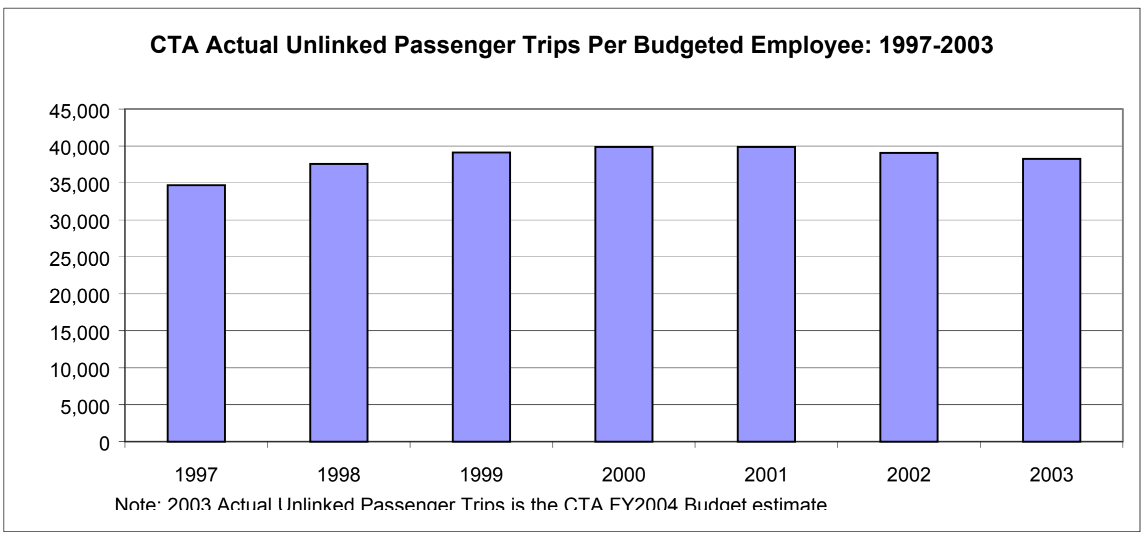
The CTA's operating expense per passenger mile compares favorably to the cost effectiveness of mass transit systems in other major cities.

Selected Cities: Operating Expense Per Passenger Mile in 2001			
	Bus		Rail
New York	$ 0.79	Los Angeles	$ 0.43
Philadelphia	$ 0.76	Boston	$ 0.41
Washington, D.C.	$ 0.72	**Chicago**	**$ 0.34**
Boston	$ 0.71	Washington, D.C.	$ 0.33
Chicago	**$ 0.70**	Philadelphia	$ 0.29
Los Angeles	$ 0.48	New York	$ 0.27

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 $1.53 over the last seven years. The labor cost per trip remained constant until 2001. In 2002 and 2003, ridership declines have resulted in higher labor costs per Unlinked Passenger Trip.



Yet another measure of productivity is Unlinked Passenger Trips per employee. In this case, a higher number of trips indicates higher productivity. This trend rose from 34,675 trips per employee in 1997 to 39,888 trips per employee in 2001, reflecting ridership increases over those years. Ridership per employee has since declined slightly, to 38,272 in 2003, as ridership has declined.



The table below shows Unlinked Passenger Trips per administrative employee. This trend reflects the trend for total employees illustrated above. In both cases, productivity peaked in 2000.

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

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 Trends: 3% Decrease Since FY1998

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.[21]

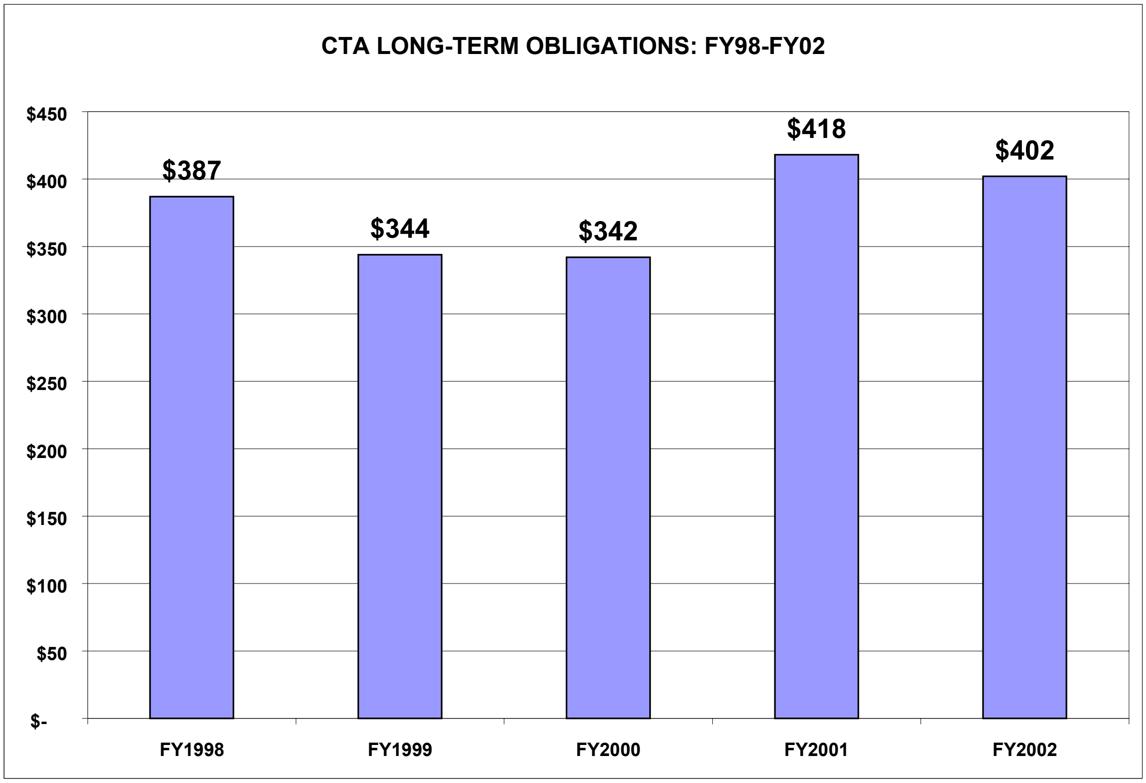
CTA short-term debt remained relatively constant over a 5-year period. In FY1998, short term debt totalled $122.7 million. Five years later, in FY2002, it was $118.9 million. This represents a decrease of 3%. The stability of short term debt as well as the slight decrease are positive trends.

Long-Term Obligation Per Capita Trends: 4% Increase Between FY1998 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 population. These liabilities include self-insurance claims and capital lease obligations. Sharp increases bear watching as a potential sign of increasing financial risk.

In FY1998, long-term obligations per capita were $387. This represents total long-term obligations of $1.4 billion divided by the CTA's 1998 service population of 3.7 million in 1998 (in succeeding years, the service population increased slightly to 3.8 million). Since FY1998, long-term obligations per capita increased to $402, a 4% increase. This is a modest increase and thus not a cause for concern.

[21] *Standard & Poor's,* "Research Summary: Chicago Transit Authority," June 1, 2003.



In March 2003, the Chicago Public Building Commission sold $119 million in Capital Grant Receipts Revenue Bonds on behalf of the CTA to help fund rehabilitation of the Douglas branch. The bonds are payable from annual lease payments to be made by the CTA to the PBC. The lease payments are equal to the debt service on the bonds and are a general obligation of the CTA payable from any lawfully available funds of the Authority. Because the lease payments are capitalized as an asset, annual lease payments will not be reflected as operating expenses.[22]

The issuance of these bonds was an action that is permitted under the CTA's enabling statute but a right not previously exercised. The usual practice is for the Regional Transit Authority to issue long-term obligations on behalf of the CTA and the two other service boards it oversees. Standard & Poor's gave the issue an 'AAA' rating and noted that the CTA's credit outlook was stable. The rating agency observed that the CTA faces many challenges in the future, including the need to procure new sources of funding to ensure that the transit system remains in good repair. S & P warned that any further issues of debt could have an adverse impact on credit ratings.

CTA PENSION FUND TRENDS

The Civic Federation used two measures to present a multi-year evaluation of the fiscal health of the CTA's pension funds: funded ratios and the value of unfunded liabilities. Information was not available on the investment rate of return for the funds.

There are two CTA pension funds: the CTA Employees' Pension Fund and a separate Supplemental Retirement Plan. The Supplemental Retirement plan covers CTA Board members as well as selected managers.

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 terns and conditions of the employees' collective

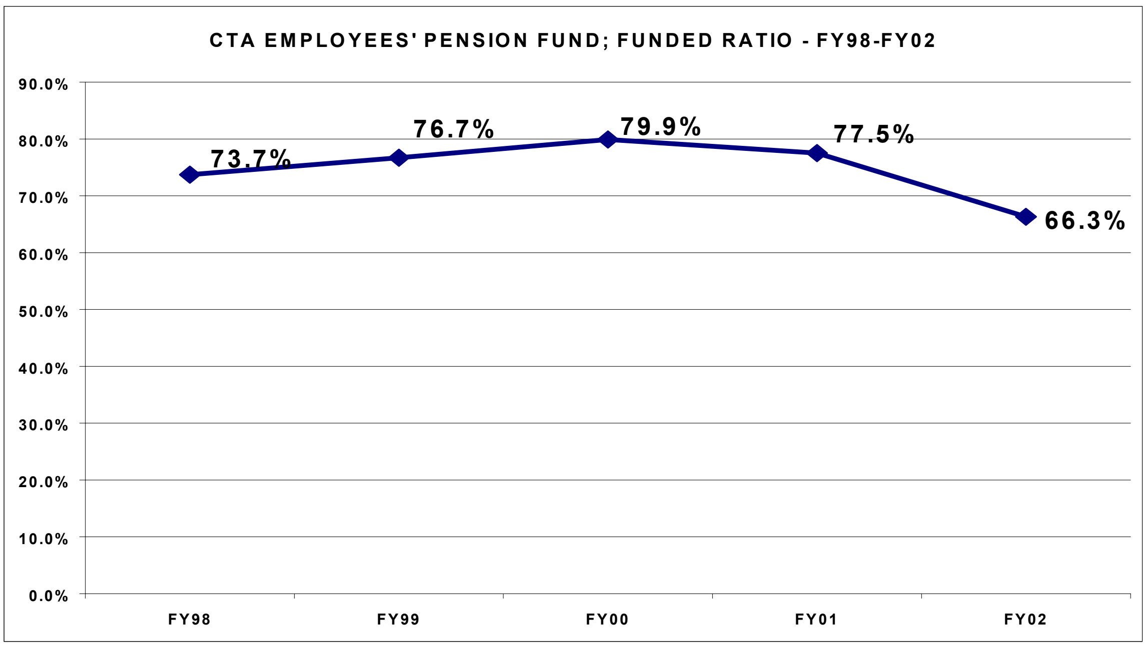
[22] Communication from Chicago Transit Authority, October 23, 2003.

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.[23]

Funded Ratios – Actuarial Value of Assets: Decline of 17% over 3-Year Period

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 averaged 75% between FY1998 and FY2002. However, the funded ratio fell by 17% between FY2000 and FY2002, declining from 79.9% to 66.3%. Since FY1998, the funded ratio has dropped by 10%, from 73.7% to 66.3%. A continued decline in subsequent years would raise concerns about the pension fund's funding levels.



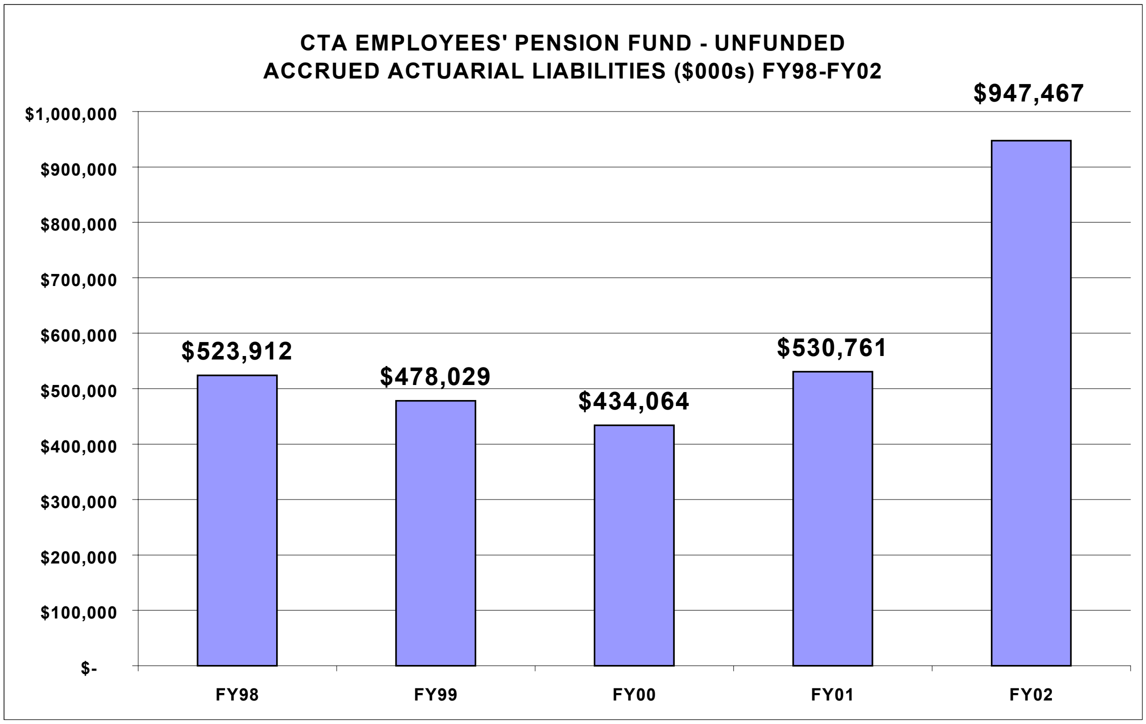
Information about the funded ratio for the CTA's Supplemental Pension Fund is presented by the CTA in two different ways. The first approach determines the funding ratio by including all assets in the fund as assets of the plan. According to this approach, the Supplemental Retirement Fund had a funded ratio of 60.4% in FY2003, the only year for which the Civic Federation was able to obtain information. This ratio was calculated from assets of $30.6 million and liabilities of $50.7 million.

A second approach, which is for disclosure purposes under the terns of GASB Statement Number 27 is summarized in the CTA's Financial Statements and in the Supplemental Retirement Plan's financial statements. This approach includes only employee contributions as assets of the Plan. According to this approach, the funded ratio in FY2003 was 0.63%.

[23] See Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2001 and 2001*. Note 1 to the Financial Statements – Financial Reporting Entity – p. 18.

Unfunded Pension Liabilities: $423 Million Increase Between FY98 and FY02

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 $947 million in FY2002. This was a $423 million or 81% increase since FY1998. The rate of increase from FY2001 was 79%, or an increase from $530 million to $947 million.



The unfunded liabilities for the Supplemental Pension Plan increased by 37% between FY1998 and FY2002, from $31.6 million to $43.4 million.

Unfunded Accrued Actuarial Liabilities: Supplemental Pension Plan		
FY98	$	31,651,082
FY99	$	41,490,842
FY00	$	43,427,430
FY01	$	41,490,852
FY02	$	43,427,430

CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations regarding the CTA's present and future financial situation.

Full Disclosure of Pension Information

We continue to call for full disclosure of financial information from the CTA Employees' Pension Fund. The Fund **should be required** to issue an annual actuarial statement containing detailed financial information about assets, liabilities, investment returns and beneficiaries. All other local pension funds publish such reports, including the four pension funds of the City of Chicago. The CTA Employees' Pension Fund, however, is exempted under state law from producing publicly released actuarial reports. While some information is provided in the CTA's audited financial statements, the information is not sufficiently complete or thorough. The Federation believes that the statute should be amended to mandate full and complete disclosure of information for the nearly $2 billion pension funds.

In regard to the CTA's Supplemental Pension Plan, the Civic Federation has indicated in communications with the CTA Board and in media statements that we support **full public disclosure** of any changes to the CTA's pension plans.[24] Changes to the plan should be proposed, discussed and ultimately voted on at a public meeting. The taxpaying public should always have an opportunity to voice its opinion on financial issues that impact them. Therefore, we commend the CTA Board for rescinding the pension increases for management approved at the August Board meeting in executive session. In addition, we commend the CTA administration for posting the actuarial valuation report for the supplemental retirement plan on the Authority's Web site on September 4, 2003.

Monitor Personnel Costs

The CTA has made efforts over the past five years to control costs, including reductions of approximately 400 positions through attrition and the elimination of vacancies in the FY2004 budget. In order to secure these projected costs savings, the CTA must continue to reduce its management staff and actively monitor the ongoing attrition program. Furthermore, it must search for ways to contain health care costs, such as pursuing joint purchasing of health insurance with other local governments or requiring employees to contribute more to the cost of their health care.

Aggressively Market the Chicago Card, Consider Corporate Sponsorship

The CTA predicts that the 2004 fare changes will cause more riders to choose the Chicago Card, which will retain the 10% bonus on purchases over $10.[25] The Chicago Card contains a microchip that uses a touchpad instead of requiring insertion into a machine like magnetic strip cards. Widespread usage of the Chicago Card would benefit the CTA because it allows riders to be processed more quickly and does not require a machine with moving parts, thus reducing the need for maintenance and repair. However, availability of the Chicago Card is still limited to phone, internet, and mail orders, or direct purchase at CTA offices in the Merchandise Mart. The CTA should launch an aggressive marketing campaign that would not only educate riders about the Chicago Card, but would make the Card easier to obtain.

The CTA should also consider other creative solutions that generate additional revenues from the Chicago Card. For example, the Authority should explore corporate sponsorship of the Chicago Card. Corporations would pay a fee to the CTA in return for the right to promote their sponsorship on their card.

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[24] Letter from Laurence Msall to Valerie Jarrett, Chairman of the Board of Directors of the CTA, August 27, 2003.
[25] Interview with CTA budget officials, October 10, 2003.