CHICAGO TRANSIT AUTHORITY
FY2010 PROPOSED BUDGET:
Analysis and Recommendations

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The Civic Federation
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EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Transit Authority's (CTA) proposed FY2010 budget of $1.29 billion. This is a 3.0% decrease from the proposed FY2009 budget of $1.32 billion. Facing significant public funding short falls, CTA plans to close its $300.9 million deficit with fare increases ranging from 25 to 75 cents per ride, the elimination of 1,021 full-time equivalent positions, reductions in bus and rail service and the transfer of capital funds into general operating funds. The transfer of capital funds into operating funds and the cost of providing free rides to senior citizens under the *Seniors Ride Free* program pose serious long-term challenges that CTA will have to address in order to ensure the fiscal sustainability of its capital and operating funds.

The Civic Federation offers the following **key findings** on the FY2010 Recommended Budget:

- The total proposed FY2010 CTA budget will decrease by 3.0%, declining from $1.32 billion to nearly $1.29 billion. This is a $39.4 million decrease from the proposed FY2009 budget;
- Appropriations for employee compensation, including salaries and benefits, will decrease by 4.3% in FY2010, declining from $890.6 million to $852.1 million. Since FY2006 compensation costs have risen by 13.8%, or $103.2 million;
- Fuel costs are expected to decline by $39.0 million, or 37.9%, from $102.9 million in FY2009 to $63.9 million in FY2010, due to proposed service changes, lower fuel prices and more fuel efficient buses;
- Fare and pass revenues are projected to total $604.4 million in FY2010, an $85.2 million or 16.4% increase over the FY2009 proposed budget projection of $519.2 million;
- Real estate transfer tax revenues for all funds are projected to decrease to $25.0 million in FY2010, a 70.2% or $59.0 million decline from FY2009 revenue projections;
- Total sales tax revenues for all funds are projected to total $455.1 million;
- Public funding for CTA will decrease from FY2009 budgeted levels of $739.8 million to $670.0 million, a decrease of $69.8 million, or 9.4%;
- Cash fares and transit card fares for the bus system will increase by 11.1%, from $2.25 to $2.50 for regular buses and by 33.3% from $2.25 to $3.00 for express buses. Cash fares and transit card fares for rail service will increase by 33.3% from $2.25 to $3.00;
- CTA ridership is projected to decline from 517.8 million in FY2009 to 466.8 million in FY2010, a 9.8% decrease over the two-year period;
- A total of 1,021 positions will be eliminated, reducing the District's overall number of full-time equivalent positions to 9,479 or by 9.7% from FY2009 proposed figures; and
- CTA projects it will receive $745.4 million in new funding for capital projects in FY2010 from federal and state sources, as well as the RTA and by issuing its own bonds, as a part of a five-year capital program of $2.8 billion.

The Civic Federation **supports** the following painful but necessary elements of the CTA's proposed budget that must be done to close the deficit and balance the FY2010 budget:

- Proposed fare increases that will increase regular bus fares to $2.50 and rail fares to $3.00;
- Targeted service reductions that are designed to maintain service coverage while ensuring cars are being used to total capacity; and

- Balanced management and administrative efficiencies, which include staffing reductions, furlough days and salary freezes for non-union employees and performance based budgeting.

However, the Civic Federation has **concerns** about the FY2010 proposed budget including:

- CTA's statutory obligation to provide free rides to senior citizens, regardless of ability to pay, that has contributed to the CTA's multi-million dollar deficit and will continue to require higher fares for all; and
- CTA plans to use $90 million in capital funds for its FY2010 operating budget. This practice has been employed every fiscal year since FY2006 and signals that the CTA may have a structural deficit.

The Civic Federation offers the following **recommendations** to improve the Chicago Transit Authority's financial management, including:

- Urging the Illinois General Assembly to repeal the *Seniors Ride Free* program;
- Encouraging CTA to explore more incentives for smart card usage in order to leverage the advance payments received from users who load monthly allowances onto each card;
- Once revenues return to previously-projected levels, formulate plans to create a reserve fund to pay for emergencies and contingencies as they arise;
- Developing, along with the RTA, a universal fare-card that would allow passengers to easily transfer between CTA, Metra and Pace transit options; and
- Undertake a study of transitioning from a flat fare structure to a zone-based or peak-hour-based fare structure.

CIVC FEDERATION POSITION

The Civic Federation **supports** CTA's FY2010 proposed budget. This year, the CTA's operating budget will total approximately $1.29 billion, a 3.0% or $39.4 million **decrease** from the proposed FY2009 budget of $1.32 billion. Faced with a significant decline in public revenues, the CTA employed the appropriate balance of administrative cuts, fare increases and service reductions. While the fare increases are steep, they are reasonable in light of the predicted continuing decrease in revenues flowing to the CTA in FY2010.

Public funding for the CTA comes from three sources: 1) sales tax revenue; 2) state matching funds; and 3) revenue from the real estate transfer tax. The sales tax revenue, distributed by the RTA, is the primary source of public funding for the CTA.[1] Total FY2010 public revenues will be $213 million less than anticipated. This amount represents over two-thirds of the CTA's FY2010 deficit of $300.9 million.

The current funding structure, which relies heavily on these public funding sources, places a serious strain on the System when revenues fall. This fact is evidenced by the current share of total CTA revenues that is comprised of system-generated funds. By law, system-generated revenues must cover at least 50% of the CTA's annual operating expenses, minus pension obligation bond debt service expenses and in-kind services, grant-funded revenues and passenger

[1] CTA President's FY2010 Budget Recommendations, p. 19.

security costs. In FY2008 and FY2009 the system has provided 57.1% and 52.7% of total revenues, respectively. The CTA is projecting that in FY2010 system-generated revenues will total 67% of all operating expenses.[2] This share is 17% higher than what is required by law, and demonstrates the pressure placed on the System to make up for the public funding shortfall.

While public funding shortfalls are a major deficit driver for the CTA in FY2010, personnel costs, the *Seniors Ride Free* program and the Illinois General Assembly's failure to fully fund reduced fares have also contributed to the CTA's budget shortfall.

Over the past few years the CTA has cut administrative staff in an attempt to right-size its oversight operations while maintaining its transit services. Salary freezes, furlough days and lay-offs have been implemented for non-union employees while union employees agreed to restructure their pension and health care benefit plans. For FY2010 the CTA is proposing to maintain the pay freezes for non-union employees and lay-off other employees.

The reductions in funding for FY2010, however, are so deep that administrative cuts alone are not sufficient to close the budget gap. Service reductions and fare increases are required to produce a balanced budget that meets all obligations to both riders and employees. The CTA worked to strike an appropriate balance between service reductions and fare increases to minimize the hardship on residents across Chicago. Some of the service efficiencies the CTA is proposing to implement include reducing frequencies on bus and rail routes to ensure cars are being used to total capacity. The reduction in frequencies will also result in longer waiting times, which the CTA is working to mitigate by fully integrating its Bus Tracker system so customers will know exactly when a bus will arrive.

The Civic Federation applauds the CTA for facing this funding crisis head on and proposing a responsible budget that will allow it to live within its means. The CTA proposes a budget that satisfies all of its financial obligations, including a $79 million increase in Pension Obligation Bond interest expenses and additional required employer pension contributions of $28 million, without turning to taxpayers or relying on yet another state intervention. Given the dire situation of state finances, relying on additional state funding would be unwise. While service reductions and fare increases are not desirable options, they are the best solutions for the CTA as they work to provide reliable, affordable and equitable transit service to the City of Chicago.

President Rodriguez and his staff will need to work to fix the problems that will continue to erode CTA's finances in the future. The first issue that must be addressed is the *Seniors Ride Free* program; the Civic Federation calls on the Illinois General Assembly and Governor to repeal this program. According to a study commissioned by the Regional Transportation Authority, the annualized loss from the *Seniors Ride Free* program for 2009 across the three service boards will range between $25.1 million and $76.3 million.[3] The same study projects that the senior population for the Chicago region will double between 2000 and 2030, thereby

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[2] CTA President's FY2010 Budget Recommendations, p. 5.
[3] DiJohn, Joseph, et al. *Analysis of the RTA Seniors and People with Disabilities Ride Free Programs- Review Draft.* September 2009.

increasing the annual revenue losses for the program to a range of between $58.8 million and $172.7 million, assuming no increase in fares, by 2030.[4]

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 public transit. The program added 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 is to provide reduced fares to low-income riders. When compared to the $83.3 million proposal for increased fare revenues, the estimated $60 million FY2010 cost for the *Seniors Ride Free* program is unconscionable.

The Civic Federation calls on the Illinois General Assembly and Illinois Governor Pat Quinn to repeal the ill-advised *Seniors Ride Free* program. Governor Quinn first articulated his support for the repeal of this program.[5] We hope Governor Quinn stands by this statement instead of caving to political pressures and will support a repeal measure that removes a growing financial burden on an already cash-strapped agency.

The CTA must also address its growing reliance on using capital funds for operating expenses. Since FY2006 the System has transferred capital funds to its operating fund. Including the FY2010 proposed transfer, the transfers of capital funds over this five-year period will total $343.6 million. Currently the System is predicting an estimated $6.8 billion in unmet capital needs through FY2014 necessary to bring its system into a state of good repair.[6]

The Civic Federation has supported CTA budgets in the past that have used capital funds for operating expenses as a means to solve short-time crises. This year the CTA announced its plan to lobby legislators in Springfield for reduced restrictions on the use of capital funds for operating expenses. This signals that the CTA intends to transfer capital funds to the operating fund as an ongoing budget-balancing strategy. The CTA's constant need to use capital funds for operating expenses is an indication that the Authority may have a structural deficit. Consistently borrowing from capital funds to pay for operating expenses is also a poor long-term financial practice. Instead of seeking legislative authority to continue dipping into its much-needed capital funds, the Authority should be looking to continue right-sizing its operations and develop adequate reserves once the economy recovers, thereby negating the need to access its capital funds on an annual basis.

Issues the Civic Federation Supports

There are several steps CTA has proposed in the FY2010 budget that the Civic Federation supports.

Balancing Fare Increases with Service Reductions

The CTA is proposing both service reductions and fare increases as part of its plan to eliminate its FY2010 $300.9 million budget deficit. A breakdown of the fare increases includes:

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[4] DiJohn, Joseph, et al. *Analysis of the RTA Seniors and People with Disabilities Ride Free Programs- Review Draft.* September 2009.
[5] Editorial, *Chicago Tribune*, October 20, 2009.
[6] CTA President's FY2010 Budget Recommendations, p. 29.

- An increase in bus fares to $2.50 per ride from $2.00, with $3.00 charged for express bus service;
- An increase in rail fares to $3.00 per ride from $2.25;
- An increase in the cost for passes, with a full-fare 30 day pass rising to $110 per month from $86 per month.

The fare increases will yield an additional $83.3 million in FY2010. The CTA will also be reducing frequency across all bus lines by 13.7% and across all train lines by 9.8%. The reduction in frequency will be spread across the day to impact the fewest number of customers.

The Civic Federation supports the CTA's fare increase, coupled with the service reductions, as it is a balanced, measured approach to dealing with the funding shortfall.

Continuing to Implement Management and Administrative Efficiencies

The CTA is proposing to eliminate 1,021 positions this year, including the elimination of both union positions and non-union positions. In addition to staffing reductions, non-union employees will take furlough days and have their salaries frozen for the fourth consecutive year. The CTA is also continuing to use performance-based budgeting.

The Civic Federation commends the CTA for making these painful yet necessary decisions. No one group can shoulder the entire burden of filling the budget gap; employees and riders must both make sacrifices.

Civic Federation Concerns

The Civic Federation has a number of concerns regarding the CTA's proposed FY2010 budget.

Continuation of the Free Rides Program

As part of a FY2009 funding package for the CTA, then-Illinois Governor Rod Blagojevich signed into law legislation that granted free transit rides to senior citizens, along with military personnel and low-income disabled riders. 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 public transit. Exempting such a large pool of individuals from paying their fair share of expenses simply shifts the cost onto other riders, many of whom are the low-income workers. It has contributed 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 be to provide reduced fares only for low-income riders. In that way, assistance is targeted to those individuals who truly need it.

The Illinois General Assembly must commit to work to repeal the free rides program. The System proposed an equitable transit funding plan for FY2010, but allowing the free rides program to continue without question places an unfair burden on the majority of CTA riders to subsidize free rides for others who could afford to pay their fair share.

When compared to the $83.3 million proposal for increased fare revenues, the estimated $60 million cost for the free rides program is unconscionable. According to a study commissioned by the Regional Transportation Authority, the annualized loss from the *Seniors Ride Free* program for 2009 across the three service boards will range between $25.1 million and $76.3 million. The same study projects that the senior population for the Chicago region will double between 2000 and 2030, thereby increasing the annual revenue losses for the program to range between $58.8 million and $172.7 million, assuming no increase in fares, by 2030.

The Civic Federation calls on the Illinois General Assembly and Illinois Governor Pat Quinn to repeal the ill-advised *Seniors Ride Free* program. Governor Quinn first articulated his support for the repeal of this program. We hope Governor Quinn stands by this statement instead of caving to political pressures and will support a repeal measure that removes a growing financial burden on an already cash-strapped agency.

Ongoing Use of Capital Funds for Operating Expenses

In FY2010 the CTA is proposing to use $90 million in capital funds for its operating budget. This is not, unfortunately, the first time the CTA has proposed to use capital funds for operating expenditures. In FY2009 the CTA used $128 million in capital funds for maintenance activities to offset operating costs.[7] The same holds true for FY2006 ($41.2 million), FY2007 ($63.5 million) and FY2008 ($20.0 million).[8]

The CTA's capital funding situation is dire enough without these funds being annually tapped to fill operating budget deficits. Capital funds transferred to the operating budget have totaled $343.6 million over the past five years, and have reduce the total new funding for capital projects by 13.3% in that period. The CTA reduces annual capital appropriations for maintenance in order to make the additional funding for operations available. According to the CTA, although the transfer from the capital budget helps achieve a balanced budget in the short term, it inevitably causes a higher annual operating cost to maintain the same level of service on a neglected bus and rail infrastructure.[9]

As part of its FY2010 budget, CTA leadership is expressing its desire to lobby state legislators to loosen the restrictions on transferring capital dollars to operating funds. While the need for operating dollars for the CTA is great, its capital needs are just as large. According to the CTA's own assessment, the system-wide capital need currently totals $7 billion.

Given the system's looming capital needs and the negative effects capital transfers have on its future finances, the Civic Federation strongly encourages the CTA to develop an alternate plan for funding future operating expenses. Continuing its multi-year approach of using capital funds to prop up its operating needs is not an optimal strategy.

[7] CTA President's FY2010 Budget Recommendations, p. 14.
[8] CTA President's FY2010 Budget Recommendations, p. 34.
[9] CTA President's FY2010 Budget Recommendations, p. 34.

Eliminating Incentives for Smartcard Use

This year the CTA will completely eliminate incentives for smartcard use by its passengers. After cutting back some incentives last year, the System this year is proposing a flat fee structure. The Civic Federation encourages the CTA to return to an incentive program as a means of encouraging transit riders to use smart cards. While implementing this incentive does result in some lost revenue for the System, Smart cards promote efficiency and reduce loading times.

Rising Accounts Payable as a Percentage of Operating Costs

Over time, rising amounts of accounts payable compared to operating funds may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[10] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. CTA showed a positive trend by reducing its short-term liabilities compared to total operating revenue between FY2007 to FY2008 from 36.7% to 34.7%, but has seen this ratio increase 5.7% over the past five years.

CTA's ratio of operating funds accounts payable to operating revenues increased 10.1 percentage points from FY2004 to FY2008. The ratio of unpaid bills to revenue for the CTA was at its lowest in FY2005 at 7.7% but has increased dramatically since then rising to 18.3%. The Civic Federation cautions the CTA to closely watch its rising amount of accounts payable each year as this may be an early indication of a future structural budget problem.

Civic Federation Recommendations

The Civic Federation offers the CTA the following recommendations regarding ways that the CTA might improve its short- and long-term financial management and fulfill its long-term financial obligations.

Illinois General Assembly Must Eliminate Seniors Ride Free Program

The existing *Seniors Ride Free* program, which began on March 17, 2008, is estimated to cost the CTA $60.0 million in FY2010. According to a study commissioned by the Regional Transportation Authority, the annualized loss from the *Seniors Ride Free* program for 2009 across the three service boards will range from $25.1 million to $76.3 million. The same study projects that the senior population for the Chicago region will double between 2000 and 2030, thereby increasing the annual revenue losses for the program to range between $58.8 million and $172.7 million, assuming no increase in fares, by 2030.

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

The Civic Federation recommends that the CTA advocate for repealing the existing *Seniors Ride Free* program. The existing CTA Reduced Fares program should be used to offer fare relief to low-income seniors, disabled individuals, active military and disabled veterans, in addition to the students who are currently enrolled in the reduced fare program.

Reinstate Incentives for Smartcard Use

The Civic Federation believes that the CTA should reinstate incentives for smart card usage on both buses and trains. Creating incentives that increase smart card use will not only result in more efficient loading of transit vehicles, it will also provide the system with lump sums of money up front from users who load large monthly allowances onto each card, leveraging the time value of money.

Formulate Plans to Create Reserve Fund

It is important for all governments to maintain a healthy fund balance to pay for emergencies or contingencies as they arise. The Government Finance Officers Association (GFOA) recommends that general purpose governments maintain a Corporate or General Fund balance ratio of 5% to 15% of operating expenditures or revenues. For the CTA, this would require a reserve of at least $64.3 million in FY2010. The National Advisory Council on State and Local Budgeting, via Practice 4.1, advises local governments to adopt a fund balance policy to explicitly outline the acceptable uses for the reserve funds.

The Civic Federation encourages the CTA to formulate to plan for create a reserve fund once revenues return to previously-projected levels. We also encourage the System to adopt a corresponding formal fund balance policy to guide this action. While setting aside funds, even during strong economic conditions, may be difficult, the CTA’s lack of reserves has negatively impacted its ability to deal with the current economic downturn. In order to help mitigate service reductions and fare increases during future economic downturns, the CTA should make concrete plans to develop a healthy reserve fund it can turn to when revenues fall below projected levels.

Universal Fare Card

The Civic Federation strongly recommends that the CTA work with the RTA to implement a long-overdue universal fare card. This pass would allow passengers to travel and transfer seamlessly between CTA, Metra and Pace transit options, creating an easier process for using mass transit on trips that include the City of Chicago and the surrounding suburban communities. Ease of transfer may increase ridership, and at a time when ridership is projected to decrease by 9.8%, the CTA should pursue available options to increase the attractiveness of its service.

Study Zone Fare or Peak Hour Options

The Civic Federation recommends that the CTA study the options to transition from a flat fare structure to a zone-based fare structure, which would base the cost of a transit ride on the length traveled, or a peak hour option, which would charge users higher rates during rush hour. Other large transit systems in the United States employ zone transit fares, including Washington D.C.’s metro system and San Francisco's BART system. The option of transitioning to a peak-hour fare system is currently being debated by the New York City transit system.

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to Chicago Transit Authority President Richard Rodriguez, Chief Financial Officer Karen Walker, VP of Budget and Capital Finance Paul Fish, Executive Vice President for Management and Performance Dorval Carter and their staff for their willingness to meet with us regarding the FY2010 Recommended Budget and answer many of our budget questions.

APPROPRIATIONS

This section provides an analysis of the CTA's proposed FY2010 appropriations.

Appropriations by Object: Two-Year Trend

Total FY2010 appropriations of $1.29 billion represent a 3.0% or $39.4 million decrease from the proposed FY2009 budget of $1.32 billion. The proposed FY2010 Budget includes $852.1 million in appropriations for labor costs, a $38.5 million or 4.3% decrease over FY2009.

Appropriations for fuel will decrease by nearly $39.0 million in FY2010, a 37.9% decrease, due to proposed service changes, lower fuel costs and more fuel efficient buses.[11] Material expenses are projected to decline in FY2010 by 18.0% or $17.0 million. This decrease is attributable to service level reductions and a reduction in maintenance costs as a result of the Authority's receipt of additional capital preventative maintenance funds.[12] Power appropriations will fall by $1.8 million, or 4.4%. Appropriations for the provision for injuries and damages will decrease 6.7%, or $2.0 million.

Other Expenses is the only appropriations category projected to increase in FY2010, rising by 44.6%, or $59.2 million. This category includes utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees, commissions for the sale of fare media, new bus and rail fleet cleanliness initiatives and new contract costs for the outsourcing of CTA's non-revenue fleet maintenance.

[11] CTA President's FY2010 Budget Recommendations, p. 16.
[12] CTA President's FY2010 Budget Recommendations, p. 16.

CTA Proposed Operating Budget by Object of Expenditure: FY2009 & FY2010				
Appropriation	**FY2009**	**FY2010**	**$ Change**	**% Change**
Labor	$ 890,623,000	$ 852,081,000	$ (38,542,000)	-4.3%
Other Expenses	$ 132,790,000	$ 192,004,000	$ 59,214,000	44.6%
Fuel	$ 102,852,000	$ 63,879,000	$ (38,973,000)	-37.9%
Material	$ 94,763,000	$ 77,724,000	$ (17,039,000)	-18.0%
Power	$ 39,944,000	$ 38,176,000	$ (1,768,000)	-4.4%
Security	$ 33,441,000	$ 33,181,000	$ (260,000)	-0.8%
Provision for Injuries & Damages	$ 30,000,000	$ 28,000,000	$ (2,000,000)	-6.7%
Total	**$ 1,324,413,000**	**$ 1,285,045,000**	**$ (39,368,000)**	**-3.0%**

Source: CTA President's FY2009 Budget Recommendation p. 20; and FY2010 Budget Recommendation, p. 20.

Appropriations by Object: Five-Year Trend

From FY2006 to FY2010, the CTA's total operating budget will increase by 24.0%, or $248.4 million. Fuel costs will increase by 33.1% over the past five years. Appropriations for security services will decrease by 6.1% or $2.2 million, and the provision for injuries and damages will decrease by 15.2%, or $5.0 million. Labor costs will rise by 13.8% or $103.2 million over the five-year period. There will be no appropriations for paratransit in FY2010 as paratransit services were transferred to Pace on July 1, 2006.[13]

CTA Proposed Operating Budgets by Object of Expenditure: FY2006 & FY2010				
Appropriation	**FY2006**	**FY2010**	**$ Change**	**% Change**
Labor	$ 748,922,000	$ 852,081,000	$ 103,159,000	13.8%
Other Expenses	$ 50,232,000	$ 192,004,000	$ 141,772,000	282.2%
Fuel	$ 48,000,000	$ 63,879,000	$ 15,879,000	33.1%
Material	$ 67,088,000	$ 77,724,000	$ 10,636,000	15.9%
Purchase of Paratransit	$ 29,582,000	$ -	$ (29,582,000)	-100.0%
Power	$ 24,526,000	$ 38,176,000	$ 13,650,000	55.7%
Security	$ 35,335,000	$ 33,181,000	$ (2,154,000)	-6.1%
Provision for Injuries & Damages	$ 33,000,000	$ 28,000,000	$ (5,000,000)	-15.2%
Total	**$ 1,036,685,000**	**$ 1,285,045,000**	**$ 248,360,000**	**24.0%**

Source: CTA President's FY2006 Budget Recommendations, p. 20; FY2010 Budget Recommendations, p. 20.

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, and the real estate transfer tax). Each of these revenue sources will be examined in turn.

CTA Budgeted Revenues: Two-Year Trend

The Proposed FY2010 CTA Budget includes nearly $1.29 billion in revenues, a 3.0% decrease from prior year revenues of $1.32 billion. The revenue total includes $697.7 million from

[13] CTA President's FY2006 Budget Recommendations, p. iv.

system-generated revenue, $497.3 million in public funding through the Regional Transit Authority and $90.0 million in funds transferred to the operating budget from capital preventive maintenance funds.

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. Even though the RTA sales tax was increased by 0.25 percentage points in 2008 and the CTA was provided a dedicated portion of the City of Chicago real estate transfer tax, public funding will decrease substantially in FY2010, falling by 31.2%. This represents a $225.7 million decrease, from $723.0 million to $497.3 million.

System-generated revenue in FY2010 will include $604.4 million in farebox revenue, a 16.4% increase from the previous year, reflecting in part the proposed increase in fares. Farebox revenue represents 86.6% of all system-generated revenue in the proposed budget. Investment income will decline by $4.5 million or 70.9%. The projected decrease is due to lower projected cash balances and lower investment rates of return.[14]

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 2010, provided at no charge to the CTA.[15]

The State of Illinois annually provides the CTA with a reimbursement or subsidy for reduced fares. The amount provided in FY2010 will be $16.1 million. Until FY2008 the amount annually granted was approximately $32.0 million.

Advertising, charter and concession revenue will decrease by $17.6 million or 43.5%. The large decrease is due the impact of the current negative economic situation.

Other revenue, which includes parking charges, filming fees, third-part contract reimbursements, and rental revenue, will increase by $33.4 million or 239.2%.

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[14] CTA President's FY2010 Budget Recommendations, p. 18.
[15] CTA President's FY2010 Budget Recommendations, p. 16.

CTA Budgeted Revenue: FY2009 & FY2010				
Source	**FY2009**	**FY2010**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 519,213,000	$ 604,417,000	$ 85,204,000	16.4%
Reduced Fare Reimbusement	$ 16,100,000	$ 16,100,000	$ -	0.0%
Advertising, Charter & Concessions	$ 40,500,000	$ 22,876,000	$ (17,624,000)	-43.5%
Investment Income	$ 6,300,000	$ 1,832,000	$ (4,468,000)	-70.9%
Required Contributions - Cook County & Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 14,000,000	$ 47,481,000	$ 33,481,000	239.2%
Total System-Generated Revenue	**$ 601,113,000**	**$ 697,706,000**	**$ 96,593,000**	**16.1%**
Public Funding through RTA	**$ 723,000,000**	**$ 497,339,000**	**$ (225,661,000)**	**-31.2%**
Transfer from Capital-Preventive Maintenance Funds	$ -	$ 90,000,000	$ 90,000,000	-
Total	**$ 1,324,113,000**	**$ 1,285,045,000**	**$ (39,068,000)**	**-3.0%**

Source: CTA President's FY2009 Budget Recommendation, p. 20 and FY2010 Budget Recommendation, p. 20.

The recovery ratio, which measures the proportion 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 FY2010, the CTA will recover 67.0% of its operating expenses through system-generated revenues.[16]

Recommended Changes in CTA Fare Structure

The CTA recommends an increase in its fare structure in the FY2010 budget. The most significant changes will be:

- Cash fares for the bus system will increase by 11.1%, from $2.25 to $2.50;
- Transit card fares will increase from $2.00 to $2.50 for buses and from $2.25 to $3.00 for trains;
- Monthly Pass fares will increase by 27.9% from $86 to $110 per month; and
- Express bus users will pay $3.00 per ride.

A full description of the proposed regular fare increases is provided in the exhibit that follows.

[16] CTA President's FY2010 Budget Recommendations, p. 20.

CTA Fare Structure: FY2009 Current & FY2010 Proposed		
CTA Fare Types	**Current Fare Structure (Effective 1/1/2009)**	**Proposed Fare Structure (Effective 2/7/2010)**
Regular Full Fare Cash	$2.25 (bus only)	$2.50 (bus only)
Regular Full Fare Transit Card	$2.00 (bus); $2.25 (rail)	$2.50 (bus); $3.00 (rail)
Regular Full Fare Chicago Card	$2.00 (bus); $2.25 (rail)	$2.50 (bus); $3.00 (rail)
Express Bus Full Fare Cash	$2.25	$3.00
Express Bus Full Fare Transit Card	$2.00	$3.00
Express Bus Full Fare Chicago Card	$2.00	$3.00
Transit Card or Chicago Card Transfer	$0.25	$0.25
1-Day Pass	$5.75	$8.00
3-Day Pass	$14.00	$18.00
7-Day Pass	$23.00	$30.00
Full Fare 30-Day Pass	$86.00	$110.00

Source: CTA President's FY2010 Budget Recommendation, p. 24.

A full description of the proposed reduced fare increases is provided in the next exhibit.

CTA Fare Structure: FY2009 Current & FY2010 Proposed		
CTA Fare Types	**Current Fare Structure (Effective 1/1/2009)**	**Proposed Fare Structure (Effective 1/1/2010)**
Reduced Fare Bus	$0.85	$1.25
Reduced Fare Express Bus	$0.00	$1.50
Reduced Fare Rail	$1.00	$1.50
Reduced Fare Cash (Bus Only)	$1.00	$1.50
Reduced Fare Cash (Express Bus Only)	$0.00	$1.50
Transfer	$0.15	$0.10
Reduced Fare Pre-Paid Bonus	10%	Eliminated
30 Day Reduced Pass	$35.00	$40.00

Source: CTA President's FY2010 Budget Recommendation, p. 24.

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.

Selected Regular Mass Transit Fares from Major Urban Areas in the United States					
	Bus	**Rail**	**Volume Discount**	**Transfer**	**Monthly Pass**
Chicago*	$2.50 regular/$3.00 express	$3.00	None	$0.25	$110.00
New York City	$2.25 regular/$5.50 express	$2.25	15% with farecard	Free	$89.00
Philadelphia	$2.00	$2.00	27.5% with tokens	$0.75	$78.00
Minneapolis	$1.75 regular local/ $2.25 peak local $2.25 regular express/$3.00 peak express	$1.75 regular/$2.25 peak	10% with farecard	Free	$113.50 for peak express bus service, free transfers from buses to rail with monthly passes
Boston	$1.50	$2.00	16.7% with farecard for bus/15% with farecard for subway	Free to $0.45	$59.00 subway and local bus/$40.00 local bus pass
San Francisco**	$2.00	$1.75-$10.90***	6.25% with farecard for BART	$0.25 discount on fare between transfers on muni and BART	$55.00 for BART trips entirely within San Fransisco
Washington D.C.	$1.35 regular/$3.10 express	$1.65-$4.50***	7.4% regular bus with farecard/3.2% express bus with farecard	Free between buses, $0.50 discount on fare between buses and trains	N/A
Los Angeles	$1.25	$1.25	None	$0.30	$62.00

Source: Websites of the Chicago Transit Authority, Metropolitan Transportation Authority, Southeastern Pennsylvania Transportation Authority, Metro Transit (Minneapolis-St. Paul), Massachusetts Bay Transportation Authority, Bay Area Rapid Transit (BART), San Fransisco Municipal Transportation Agency (SF Muni), Washington Metropolitan Area Transit Authority and the Los Angeles County Transportation Authority. Last visited October 12, 2009.

*Reflects proposed CTA rate increases.

**SF rates compare SF 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. Fares to San Franciso International Airport include a $4.00 surcharge.

CTA Budgeted Revenues: Five-Year Trend

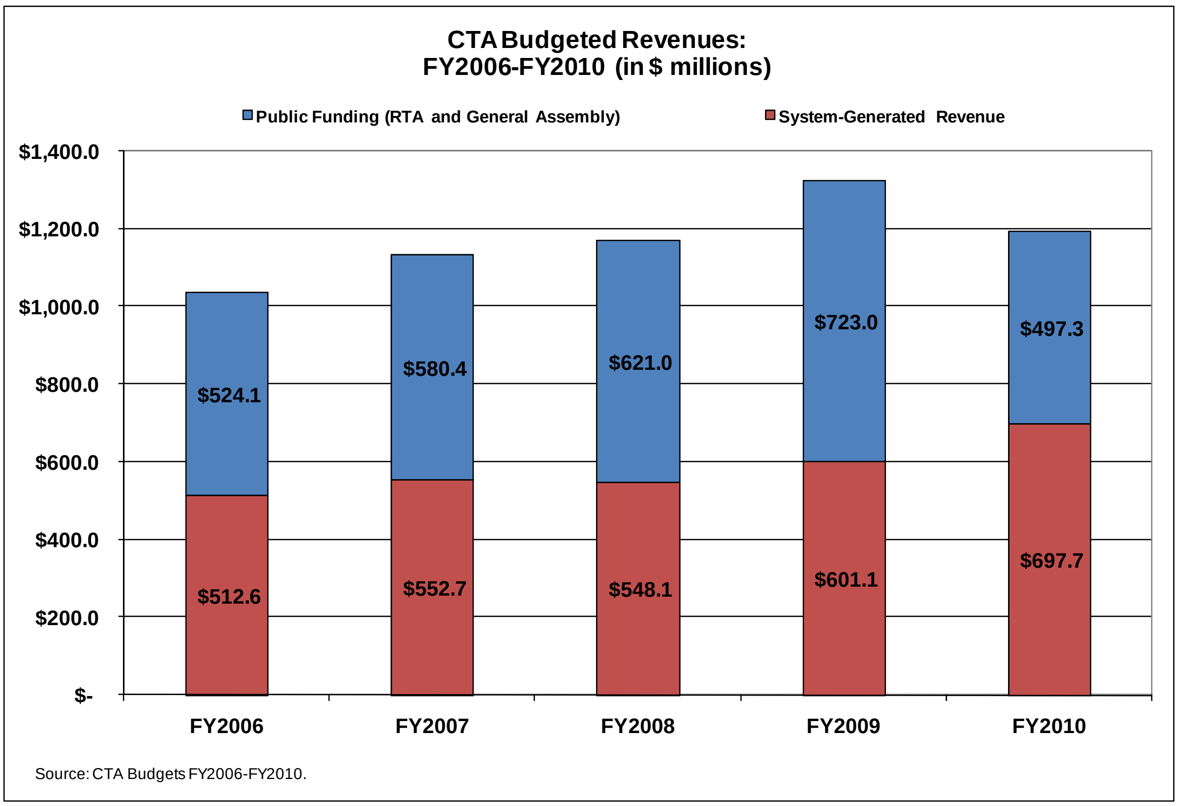
Comparing the CTA's FY2010 Proposed Budget with the FY2006 budget, total revenues are projected to increase by 24.0%. The largest percent increase will come from other revenues, including parking charges, filming fees, third-party contract reimbursements, and rental revenue. These revenues will increase by 128.6%. The largest dollar increase will come from fares and passes, which will increase by $177.9 million, and includes the proposed FY2010 fare increase.

Several revenue items will decrease over this five-year period: investment income will fall by 62.9%; the reduced fare reimbursement from the State of Illinois will fall by 47.4%; advertising, charter and concession income will decrease by 7.8%; and public funding from the RTA will drop by 5.1%. The required contributions from the City of Chicago and Cook County remain unchanged at $5.0 million.

CTA Budgeted Revenue: FY2006 & FY2010				
Source	**FY2006**	**FY2010**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 426,522,000	$ 604,417,000	$ 177,895,000	41.7%
Reduced Fare Reimbusement	$ 30,590,000	$ 16,100,000	$ (14,490,000)	-47.4%
Advertising, Charter & Concessions	$ 24,800,000	$ 22,876,000	$ (1,924,000)	-7.8%
Investment Income	$ 4,944,000	$ 1,832,000	$ (3,112,000)	-62.9%
Required Contributions from Cook County & Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other Revenue	$ 20,773,000	$ 47,481,000	$ 26,708,000	128.6%
Total System-Generated Revenue	**$ 512,629,000**	**$ 697,706,000**	**$ 185,077,000**	**36.1%**
Public Funding through RTA	**$ 524,056,000**	**$ 497,339,000**	**$ (26,717,000)**	**-5.1%**
Transfer from Capital-Preventive Maintenance	$ -	$ 90,000,000	$ 90,000,000	-
Total	**$ 1,036,685,000**	**$ 1,285,045,000**	**$ 248,360,000**	**24.0%**

Source: CTA President's FY2006 Budget Recommendation; and FY2010 Budget Recommendation, p. 20.

The following exhibit illustrates system-generated revenues and public funding between FY2006 and FY2010.



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 CTA, authorized an increase in the RTA sales tax and authorized an increase in the City of Chicago real estate transfer tax to support the CTA.[17] 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.[18]

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

Additional monies are provided by the State of Illinois to the RTA. The State Treasurer remits from the State General Fund an amount equal to 25% of RTA sales tax collections into a Public Transportation Fund. Revenues from that fund are remitted to the RTA on a monthly basis. The RTA uses these revenues to fund the needs of the three service board as well as RTA operations, debt service and capital investment.[19] The RTA also has authority to levy taxes on automobile rentals, motor fuel, and off-street parking facilities, but has not exercised this authority.[20]

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: FY2010			
	Chicago Sales Tax Revenue	Suburban Cook Sales Tax Revenue	Collar County Sales Tax Revenue
CTA	100.0%	30.0%	0.0%
Metra	0.0%	55.0%	70.0%
Pace	0.0%	15.0%	30.0%
Total	**100.0%**	**100.0%**	**100.0%**

Source: CTA President's FY2010 Budget Recommendation, p. 65.

As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $346.8 million in total sales tax revenue from the RTA in FY2010. This is a $153.6 million, or 30.7% decrease over budgeted CTA sales tax revenues in FY2009. Of the $346.8 million, $257.7 is expected to come directly from the sales tax distribution formula and $89.0 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 decrease by 55.0% from FY2009, a decline of $108.9 million. The Chicago real estate transfer tax will generate $25.0 million. This is a sharp drop from the original RTA estimate of $84.0 million for FY2009. The decrease is due to the ongoing effects of the economic downturn.

[17] See Public Act 095-0708.
[18] An additional 0.25% sales tax is imposed on general merchandise and qualifying food, drugs, and medical appliances in these counties that is to be used for public safety expenses and transportation projects.
[19] CTA President's FY2010 Budget Recommendations, p. 66.
[20] 70 ILCS 3615/4.03.

The CTA will also receive $108.4 million in revenues from the RTA sales tax increase enacted in 2008 by PA 95-0708; $128.6 million in federal assistance funds; $56.1 million from a loan from the RTA that is due in 2011 (the working cash borrowing indicated in the table); and $5.0 million from the RTA's Innovation, Coordination and Enhancement (ICE) Fund.[21]

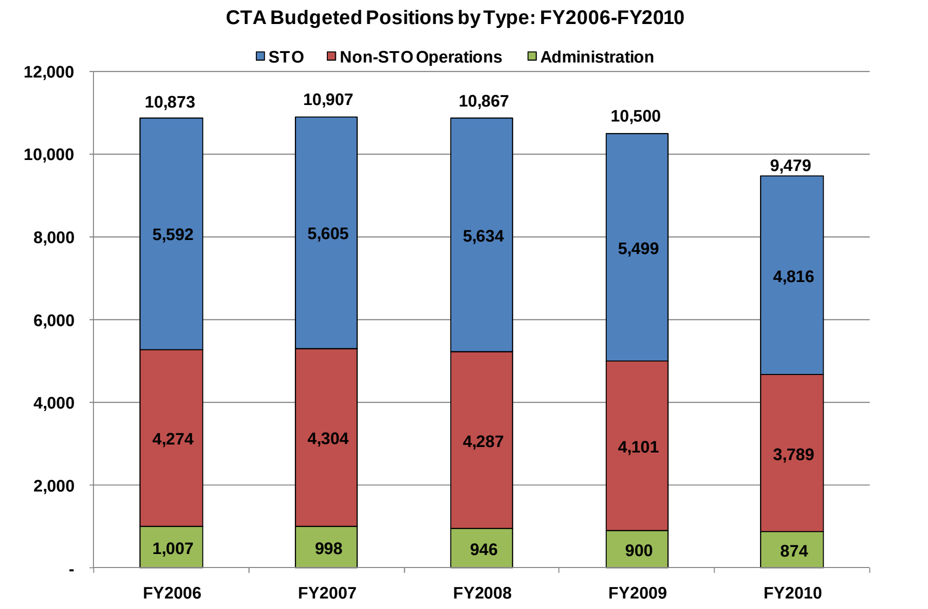
CTA Sources of Public Funding: FY2009 & FY2010				
	FY2009	FY2010	$ Change	% Change
RTA Formula Sales Tax Revenues	$ 302,401,000	$ 257,749,000	$ (44,652,000)	-14.8%
RTA Discretionary Sales Tax Revenues	$ 198,059,000	$ 89,086,000	$ (108,973,000)	-55.0%
Real Estate Transfer Tax	$ 84,000,000	$ 25,000,000	$ (59,000,000)	-70.2%
Sales Tax and Public Transit Funds per PA 95-0708	$ 155,293,000	$ 108,409,000	$ (46,884,000)	-30.2%
ICE Fund	$ -	$ 5,000,000	$ 5,000,000	-
Federal 5307 Preventative Maintenance Funds	$ -	$ 128,574,000	$ 128,574,000	-
Working Cash Borrowing	$ -	$ 56,147,000	$ 56,147,000	-
Total	**$ 739,753,000**	**$ 669,965,000**	**$ (69,788,000)**	**-9.4%**

Source: CTA President's FY2009 Budget Recommendation, p. 54, FY2010 Budget Recommendation, p. 67.

PERSONNEL TRENDS

The CTA plans to fund 9,479 positions in its FY2010. This is a 9.7% decrease of 1,021 positions from the FY2009 proposed budget. This decrease includes the elimination of 26 administrative positions, 683 Scheduled Transit Operator (STO) positions and 312 non-STO operating positions. In FY2010 9.2% of all positions will be administrative, 50.8% will be STO, and 40.0% will be non-STO operations.

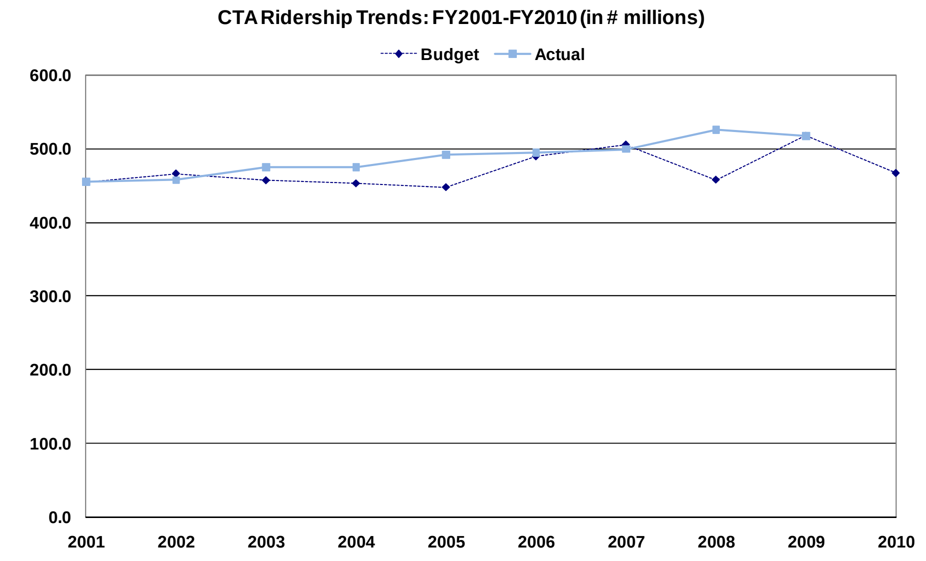
[21] CTA President's FY2010 Budget Recommendations, p. 19.



Source: CTA President's FY2010 Budget Recommendations, p. 20; FY2006-FY2009 Budget Recommendations; E-mail communication between CTA Senior Vice President of Finance and Treasurer Dennis Anosike and the Civic Federation, 2008; E-mail communication between CTA Vice President of Budget and Capital Finance, October 19, 2009.

RIDERSHIP

CTA projects that ridership will decrease in FY2010, from 517.8 million rides as forecasted in the FY2009 budget, to approximately 466.8 million rides in FY2010 for a decrease of 51.0 million rides. This 9.8% decline is expected as a result of the economic downtown, as well as and the anticipated net loss in ridership due to the increase in bus and rail fares and decreases in service.[22]



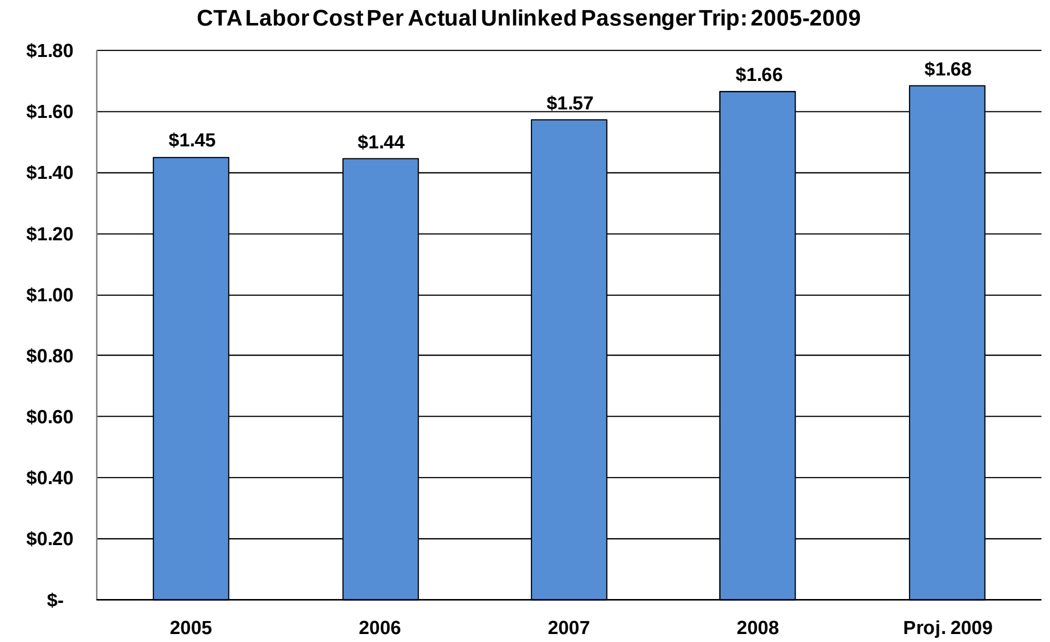
Note: FY2009 actual ridership is the CTA FY2010 budget forecast.
Source: CTA President's FY2010 Budget Recommendations, p. 93; FY2001-FY2009 Budget Recommendations.

[22] CTA President's FY2010 Budget Recommendations, p. 15.

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.[23]

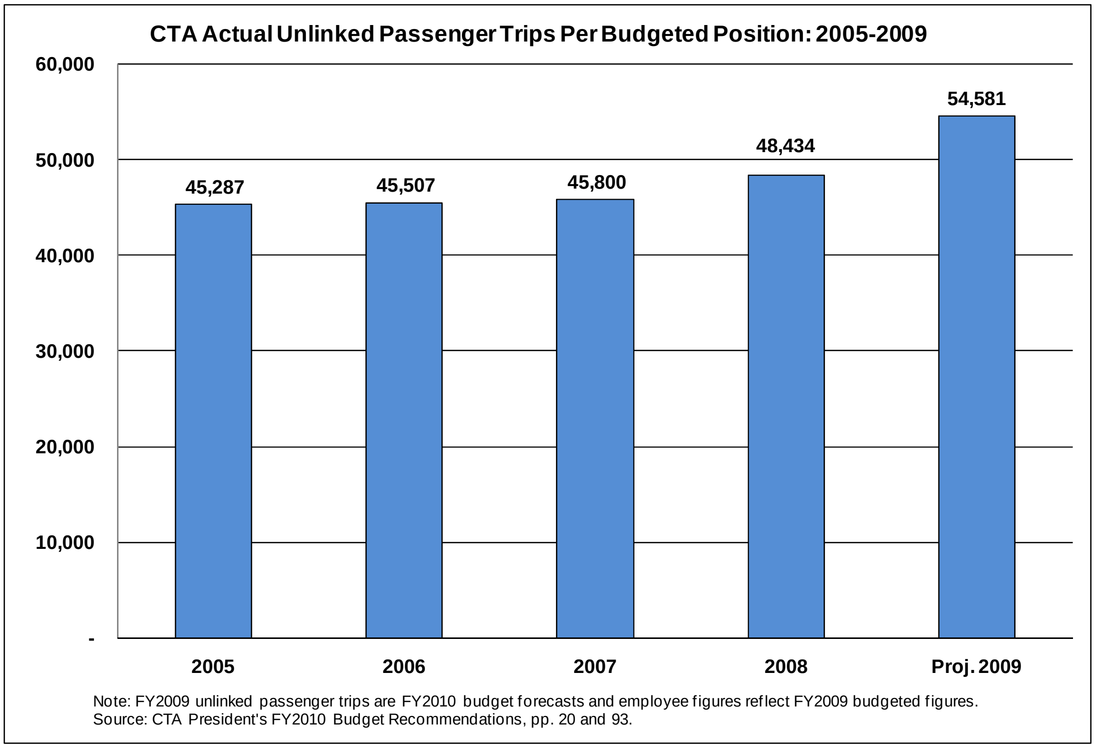
Productivity can be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. In the last five years this dollar amount has risen from $1.45 in 2005 to $1.68 in 2009, a 16.0% increase. Between 2005 and 2009, labor costs declined by 0.6%, while ridership decreased by 1.7%.



Note: FY2009 Actual Unlinked Passenger Trips and Labor Costs are CTA FY2010 Budget Forecasts.
Source: CTA President's FY2010 Budget Recommendations, pp. 20 and 93; CTA Comprehensive Annual Financial Reports 2005-2009.

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 45,287 trips per employee in 2005 to a projected 54,581 trips per employee in 2009. Ridership per employee rose substantially between 2008 and 2009 as employee headcount was reduced.

[23] Unlinked passenger trips are a single journey by one passenger on a transit vehicle. CTA President's FY2010 Budget Recommendations, p. 112.



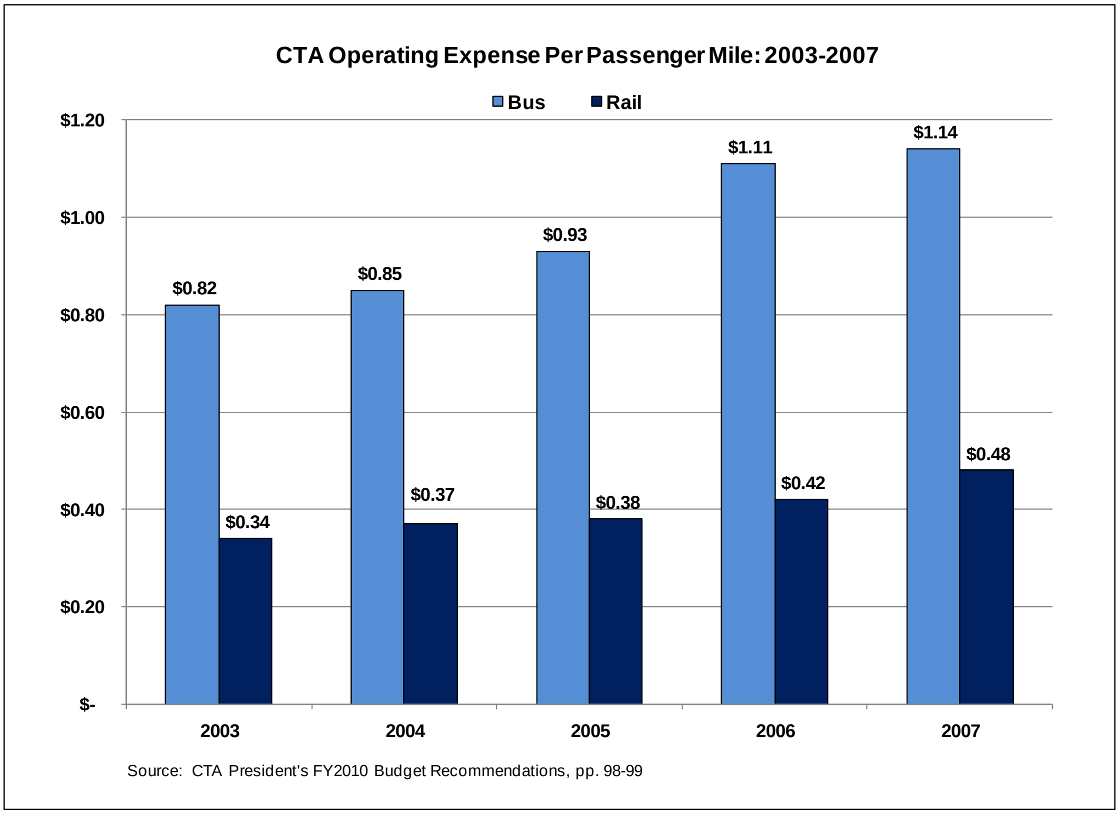
The table below shows unlinked passenger trips per administrative position. This trend generally resembles the trend for total positions above. The large productivity gains in 2007 and 2008 reflect cuts in administrative positions.

CTA Unlinked Passenger Trips per Administrative Position: FY2005-FY2009	
FY2005	464,815
FY2006	461,104
FY2007	500,541
FY2008	562,567
Projected FY2009	574,860

Source: CTA President's FY2009 Budget Recommendations, p. 72; E-mail communication between Senior Vice President of Finance and Treasurer Dennis Anosike and the Civic Federation, 2008; E-mail communication between CTA Vice President of Budget and Capital Finance, October 19, 2009.

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 2007 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 2003 and 2007. As with all transit systems, rail service is more cost effective than bus service. The operating expense per passenger mile for rail service increased from $0.34 to $0.48 between 2003 and 2007, a change of 41.2%. For buses, operating expense per passenger mile increased from $0.82 to $1.14, a change of 39.0%, between 2003 in 2007.



For rail transit, CTA's 2007 operating expense per passenger mile is comparable with the mass transit systems in other major cities. Chicago's operating expense per passenger mile for bus service was the fourth highest for cities examined. Chicago's operating expense per passenger mile for rail service was the second highest among the cities examined.

Operating Expense Per Passenger Mile for Selected Cities 2007 Data					
	Bus			Rail	
Boston	$	1.41	Boston	$	0.51
Washington, D.C.	$	1.17	**Chicago**	**$**	**0.48**
New York	$	1.15	Los Angeles	$	0.45
Chicago	**$**	**1.14**	Washington, D.C.	$	0.44
Philadelphia	$	0.99	Philadelphia	$	0.36
Los Angeles	$	0.58	New York	$	0.31

Source: CTA President's FY2010 Budget Recommendations, p. 98.

CTA CAPITAL PLAN FY2010-FY2014

In addition to the $1.3 billion operating budget, the CTA President has also proposed a $2.8 billion five-year capital program for FY2010 to FY2014. CTA's capital assets include eight bus garages and one heavy maintenance shop to service approximately 2,069 buses that are on average five years old. The CTA also manages 10 rail terminals and a heavy maintenance shop to service 1,190 rail cars that are, on average, 26 years old. The CTA owns and maintains hundreds of miles of rail, supporting track structures and train platforms, as well as bus stops and other facilities.[24]

The capital plan identifies an additional unfunded need of $6.8 billion necessary to bring all the transit system's assets to a state of good repair and $4.3 billion needed for proposed expansion projects.[25] The CTA's standards for a state of good repair include:

- Rail lines free of slow zones with reliable signal systems;
- Buses rehabbed every six years and replaced every 12 years;
- Railcars rehabbed at quarter-and-mid-life intervals and replaced every 25 years;
- Stations comfortable and secure replaced every 40 years;
- Service management systems that are modern and reliable; and
- Maintenance facilities replaced every 40 to 70 years.

The core of the CTA's operations depend on annual maintenance of rolling stock, rails and other capital assets in order to provide safe and reliable service. According to the capital plan, to manage the underfunded capital needs, the CTA annually prioritizes projects to maintain safety, efficiency and reliability prior to spending funds on expansions or innovation programs for the transit system.[26]

Capital Funding

In the absence of a state capital program over the past five years, the CTA has depended mostly on federal funding, funds from the Regional Transportation Authority and CTA borrowing to pay for maintenance and upgrades to its capital infrastructure. In July 2009, Illinois Governor Pat Quinn signed a $31 billion capital spending bill that includes $900 million for the CTA over the next four years. The following chart shows the CTA's proposed capital spending by source of funding.

CTA Capital Funding by Source: FY2010 - FY2014 (in $ millions)

Source	FY2010	FY2011	FY2012	FY2013	FY2014	Total
Federal Funding	$ 270.0	$ 267.6	$ 277.9	$ 288.6	$ 299.9	**$ 1,404.0**
State Funding	$ 225.0	$ 225.0	$ 225.0	$ 225.0	$ -	**$ 900.0**
CTA Bonds	$ 230.0	$ 175.0	$ -	$ -	$ -	**$ 405.0**
RTA Capital Transfer	$ 20.4	$ 20.4	$ 20.4	$ 20.4	$ 20.4	**$ 102.0**
Total	**$ 745.4**	**$ 688.0**	**$ 523.3**	**$ 534.0**	**$ 320.3**	**$ 2,811.0**

Source: CTA President's FY2010 Recommended Budget, p. 36.

Capital funding in FY2010 will increased by $347 million, or 100.9%, over the proposed FY2009 capital program reflecting the additional funds from the new State capital bill and other increases in federal funding for mass transit, along with new CTA borrowing. The CTA is

[24] CTA President's Budget Recommendation FY2010, p. 57-60.
[25] CTA President's Budget Recommendation FY2010, p. 29.
[26] CTA President's Budget Recommendation FY2010, p. 31.

proposing the sale of $230 million in new capital bonds in FY2010 and an additional $175 million in FY2011.

FY2010 also represents the last year of funding from the current federal transit program known as SAFETEA-LU. The CTA anticipates a new federal transit program will be approved by Congress in FY2010. The total State capital funding of $900 million will be spent by FY2013.

Operating Transfer

The CTA has found it necessary to divert capital funding on an annual basis to close gaps in its operating budget in each of the last five years. The following chart compares total new annual funding for capital and the amount transferred to the operating budget between FY2006 and FY2010.

Transfers From Capital Budget to Operating Budget: FY2006-FY2010 (in $ millions)

	FY2006	FY2007	FY2008	FY2009*	FY2010	Total
New Capital Funding	$ 371.1	$ 434.7	$ 722.5	$ 310.9	$ 745.4	$ 2,584.7
Transfer to Operating Budget	$ 41.2	$ 63.5	$ 20.0	$ 128.9	$ 90.0	$ 343.6
Transfer as % of Total Capital Funds	11.1%	14.6%	2.8%	41.5%	12.1%	13.3%

*Not including Federal Recovery Funds added in FY2009.

Source: CTA President's Budget Recommendation FY2006-FY2010.

Capital funds transferred to the operating budget have totaled $343.6 million over the past five years, and have reduced the total new funding for capital projects by 13.3% in that period. The CTA reduces annual Capital appropriations for maintenance in order to make the additional funding for operations available. According to the CTA, although the transfer from the capital budget helps achieve a balanced budget in the short term, it inevitably causes a higher annual operating cost to maintain the same level of service on a neglected bus and rail infrastructure.[27]

Capital Projects

The CTA capital program proposes appropriations for 20 major projects between FY2010 and FY2014. The following chart shows the use of funds by project type and percentage of total budget for FY2010 and for the entire five-year plan.

[27] CTA President's Budget Recommendation FY2010, p 34.

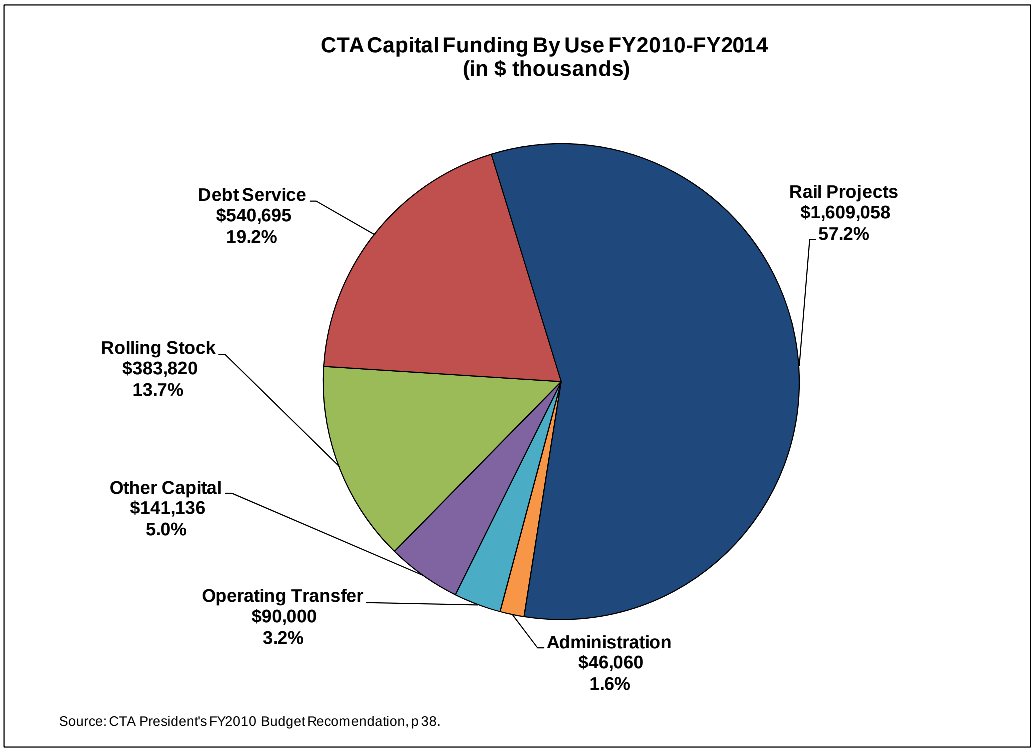
Use of Capital Funds FY2010-FY2014 (in $ thousands)				
Project Type	**FY2010**	**% of Total FY2010**	**5-Year Total**	**% of Total 5-Year Funding**
Rolling Stock				
Bus Maintenance	$ 9,274	1.2%	$ 29,627	1.1%
Bus Overhaul	$ 15,300	2.1%	$ 178,174	6.3%
Bus Replacement	$ 15,189	2.0%	$ 176,019	6.3%
Subtotal	**$ 39,763**	**5.3%**	**$ 383,820**	**13.7%**
Rail Projects				
Circle Line Planning	$ 2,000	0.3%	$ 2,000	0.1%
Brown Line Expansion	$ 305	0.04%	$ 305	0.01%
Power Upgrade	$ 54,465	7.3%	$ 172,797	6.1%
Track Repair	$ 9,844	1.3%	$ 31,447	1.1%
Track Renewal	$ 58,827	7.9%	$ 434,353	15.5%
Rail Car Maintenance	$ 10,863	1.5%	$ 34,701	1.2%
Rail Car Overhaul	$ 87,551	11.7%	$ 408,511	14.5%
Rail Car Replacement	$ 237,262	31.8%	$ 489,944	17.4%
Rail Station Rehab	$ 5,000	0.7%	$ 25,000	0.9%
North Mainline Rehab	$ 10,000	1.3%	$ 10,000	0.4%
Subtotal	**$ 476,117**	**63.9%**	**$ 1,609,058**	**57.2%**
Other Capital				
Security & Communications	$ 6,500	0.9%	$ 32,500	1.2%
Innovation Projects	$ 4,000	0.5%	$ 20,000	0.7%
Headquarters & Facilities	$ 22,858	3.1%	$ 88,636	3.2%
Subtotal	**$ 33,358**	**4.5%**	**$ 141,136**	**5.0%**
Administration				
New Timecard Software	$ 9,310	1.2%	$ 12,610	0.4%
Program Management	$ 6,690	0.9%	$ 33,450	1.2%
Subtotal	**$ 16,000**	**2.1%**	**$ 46,060**	**1.6%**
Debt Service	**$ 90,120**	**12.1%**	**$ 540,695**	**19.2%**
Operating Transfer	**$ 90,000**	**12.1%**	**$ 90,000**	**3.2%**
Total	**$ 745,358**	**100.0%**	**$ 2,810,769**	**100.0%**

Source: CTA President's Budget Recommendation FY2010, p 38.

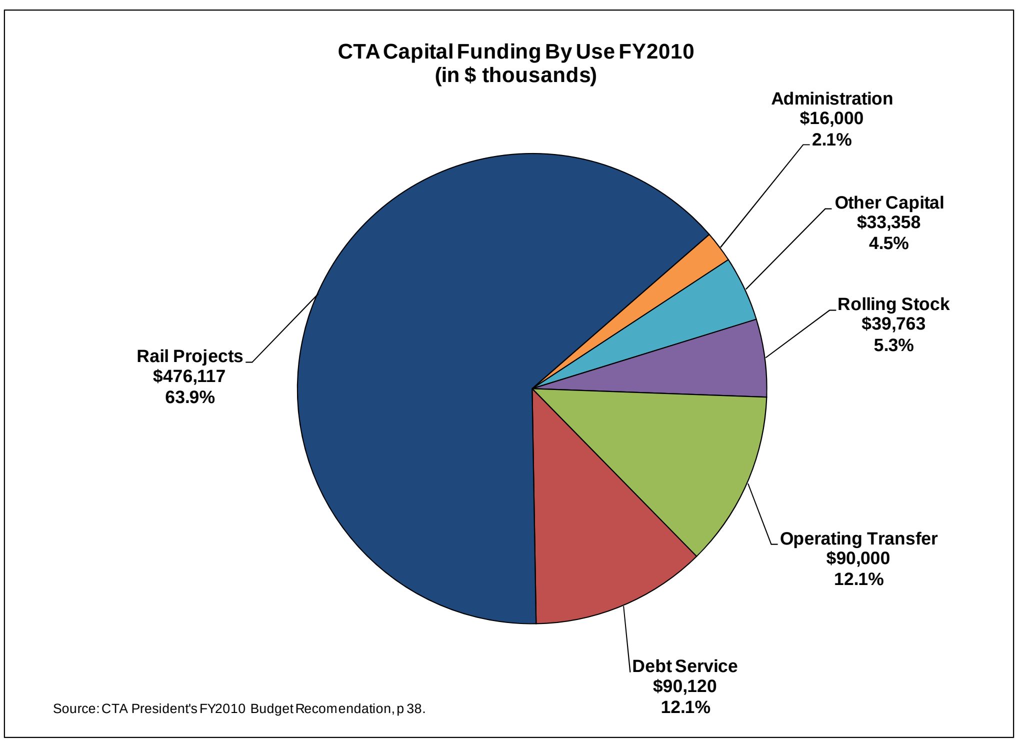
The largest infrastructure expense proposed in the capital program would pay for railcar replacement totaling $237 million in FY2010, or 31.8% of annual funds available, and $489.9 million over the entire five-year program, or 17.4% of total funding.

However, the single largest line-item expense for the entire five-year plan is the debt service on bonds sold in FY2004, FY2005 and FY2008. An additional $1.2 billion will be needed for debt service in the years after the current five-year plan has expired. Debt service payments total 19.2% of all capital funds over the next five years or $540.7 million. Only 75.9% of the entire five-year budget will be invested in physical assets by the CTA, the remainder will pay for administration, debt service and the operating transfer.

Although the CTA has transferred capital funding to the operating budget in each of the last five years it does not project transfers for the years of the capital program beyond FY2010. The following chart shows the proportion of capital funds available over the next five years by use.



The following pie chart shows the proportions of capital budget for FY2010 by use of funds.



The $2.8 billion of new capital funding over the next five years only represents 30% of the infrastructure needs identified by the CTA. The CTA's largest expense continues to be replacement of aged railcars. In FY1998, out of 1,190 total cars, 150 had reached the replacement age of 25 years. In FY2010 there are 660 railcars that have reached replacement age, and despite the replacement funding included in the budget, at the end of the current capital program in FY2014 there will still be 582 railcars that are 25 years or older.[28]

Federal Recovery Funds

The CTA received a midyear infusion $290 million in FY2009 of additional federal capital funding from the American Recovery and Reinvestment Act (ARRA).[29] These funds were distributed by formula and used for purchase of new vehicles and various system-wide maintenance projects. However, the CTA does not anticipate any further formula funding from ARRA in FY2010 and has not applied for any additional grants from the federal recovery program.[30] The CTA spent its ARRA allocation on the following projects:

- Purchase 58 Articulated Hybrid Buses: $50 million
- Replace Dearborn Subway Track System: $87.8 million
- Rehabilitate Bus and Rail Support Facilities: $12.8 million
- Rehabilitate Rail Transit Stations: $14.4 million
- Transfer to Operating Budget (Preventive Maintenance): $75.2 million

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll, and other current liabilities. The CTA currently reports no short-term debt but does include the following short-term liabilities in the report of net assets in its annually issued Audited Financial Statements and Supplemental Information:[31]

- *Accounts Payable*: monies owed to vendors for goods and services;
- *Accrued Payroll, Vacation Pay and Related Liabilities*: employee pay and benefits carried over from the previous year;
- *Accrued Interest Payable:* interest that is owed on deposits or bonds payable in the next fiscal year;
- *Advances, Deposits, and Other:* Comprised of security deposits on rents and concessions, various grant deposits and other deposits required from vendors that do business with the CTA;
- *Advance from the RTA:* Funds provided by the RTA for future capital projects;
- *Deferred Passenger Revenue:* represents cash collected from the sale of fares for which rides have not yet been taken;
- *Other Deferred Revenue:* unearned rent, advertising and concession revenue and cash receipts that have not yet been applied to accounts; and

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[28] CTA President's Budget Recommendation FY2010, p. 32.
[29] Regional Transportation Authority, 2009 Economic Stimulus Package, http://www.rtachicago.com/CMS400Min/uploadedFiles/CTA_ES.pdf (last visited on November 2, 2009).
[30] Communication with CTA Vice President of Budget and Capital, October 19, 2009.
[31] CTA FY2008 Audited Financial Statement, p. 16.

- *Deferred Operating Assistance:* Illinois Department of Revenue ("IDOR") sales tax payments to the CTA in advance of the first month of the new fiscal year to compensate for the delayed processing of sales tax payments to the RTA.

In FY2008 the CTA reported that total short-term liabilities decreased by $7.8 million or 2.0% from the previous year. Since FY2004 short-term liabilities have increased by $119.8 million or 43.7%. The bulk of the CTA's short-term liabilities are made up of accounts payable, which have increased by $129.1 million between FY2004 and FY2008 or 165.7%. The following chart shows short-term liabilities by category and the percent change over the past five years.

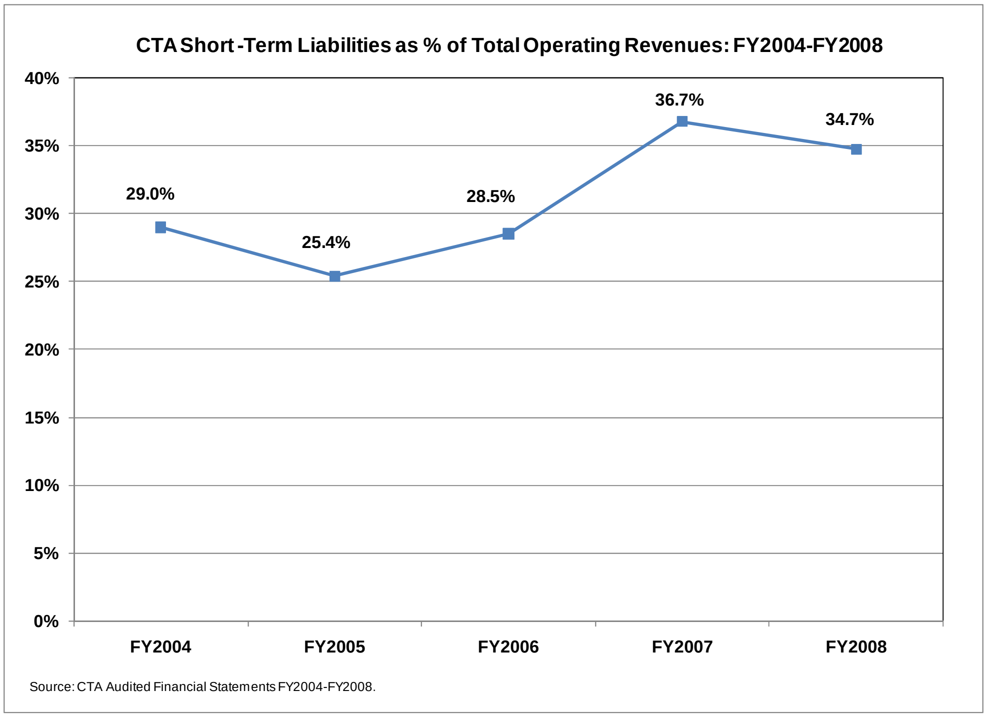
CTA Short-Term Liabilities by Category: FY2004 - FY2008 (in $ thousands)

Liability	FY2004	FY2005	FY2006	FY2007	FY2008	5-year $ Change	5-year % Change
Accounts Payable & Expenses	$ 77,913	$ 79,041	$ 123,719	$ 172,190	$ 207,026	$ 129,113	165.7%
Accrued Payroll	$ 82,003	$ 87,875	$ 98,925	$ 99,626	$ 95,456	$ 13,453	16.4%
Accrued Interest Payable	$ 3,701	$ 3,357	$ 3,458	$ 3,480	$ 16,909	$ 13,208	356.9%
Advances and Deposits	$ 15,054	$ 10,725	$ 9,333	$ 49,552	$ 2,508	$ (12,546)	-83.3%
Advances from RTA	$ 51,982	$ 32,478	$ 23,201	$ 20,302	$ 10,949	$ (41,033)	-78.9%
Deferred Passenger Revenue	$ 20,037	$ 23,188	$ 29,290	$ 29,273	$ 33,617	$ 13,580	67.8%
Other Deferred Revenue	$ 1,201	$ 785	$ 992	$ 2,705	$ 2,211	$ 1,010	84.1%
Deferred Operating Assistance	$ 22,177	$ 22,645	$ 23,273	$ 24,602	$ 25,215	$ 3,038	13.7%
Total	**$ 274,068**	**$ 260,094**	**$ 312,191**	**$ 401,730**	**$ 393,891**	**$ 119,823**	**43.7%**

Source: CTA Audited Financial Statements FY2004-FY2008.

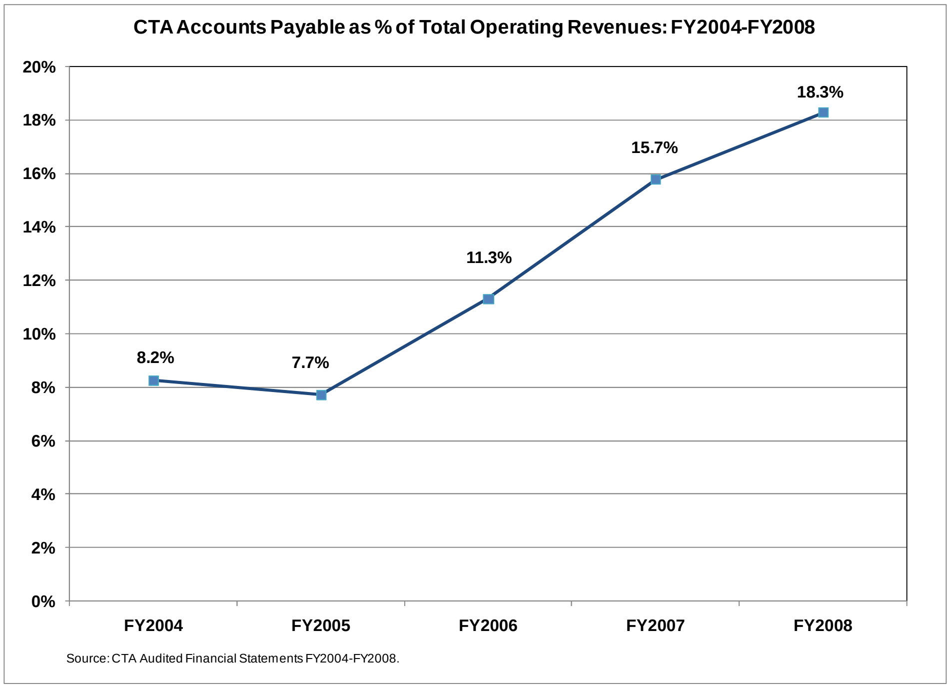
Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[32] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. CTA showed a positive trend by reducing its short-term liabilities compared to total operating revenue between FY2007 to FY2008 from 36.7% to 34.7%, but has seen this ratio increase 5.7 percentage points over the past five years.

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



Accounts Payable

Over time, rising amounts of accounts payable compared to operating funds may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. CTA's ratio of operating funds accounts payable to operating revenues increased 10.1 percentage points from FY2004 to FY2008. The ratio of unpaid bills to revenue for the CTA was at its lowest in FY2005 at 7.7% but has increased dramatically since then rising to 18.3%. The following chart shows this five-year trend.



The CTA's dramatic increase in accounts payable may show an inability to generate enough revenue to keep pace with expenses. This negative trend is indicative of the current fiscal instability at the CTA caused in part by the current recessionary influence on tax subsidy funding. This trend could be expected to continue to increase as the CTA attempts to close deficits, but must be managed to avoid additional costs that may be incurred from excessive delinquent bills or reduction in the CTA's creditworthiness.

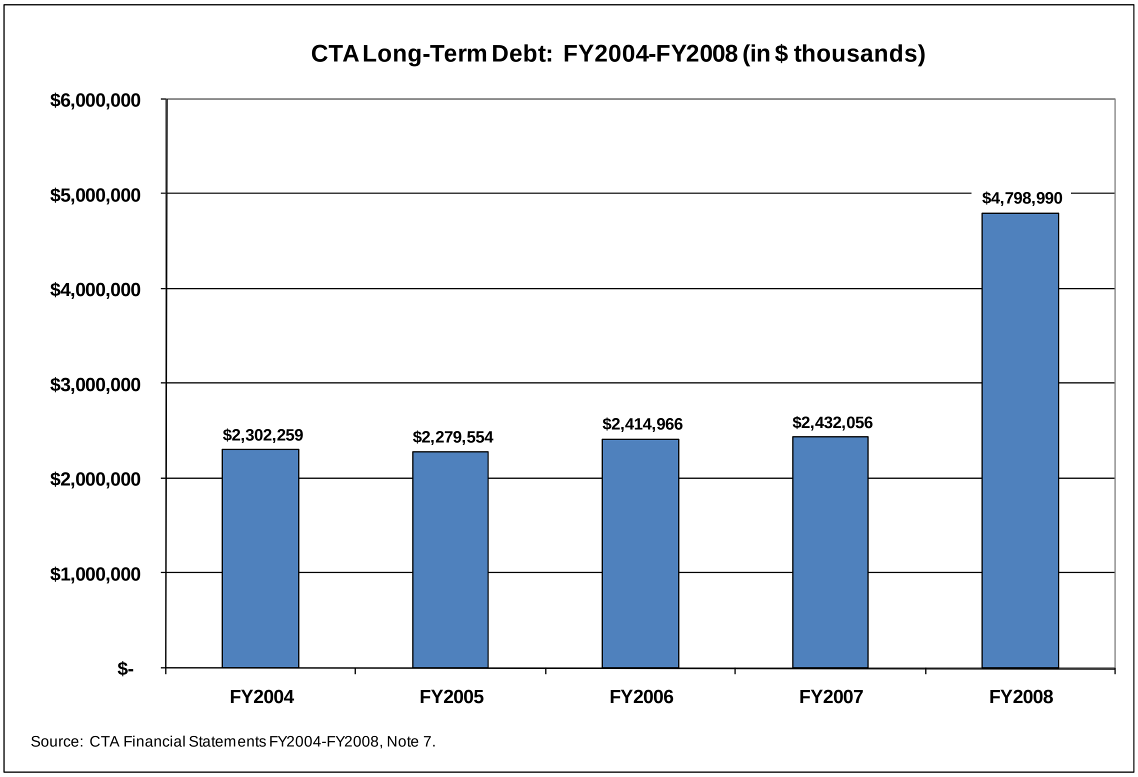
LONG-TERM OBLIGATIONS

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

Mainly due to an issuance of $1.9 billion of Pension Obligation Bonds in FY2008, the CTA's long-term liabilities have more than doubled in recent years. Total long-term liabilities increased from $2.4 billion in FY2007 to $4.8 billion in FY2008. During the five-year period between FY2004 and FY2008, long-term debt increased by a total of $2.5 billion or 108%.

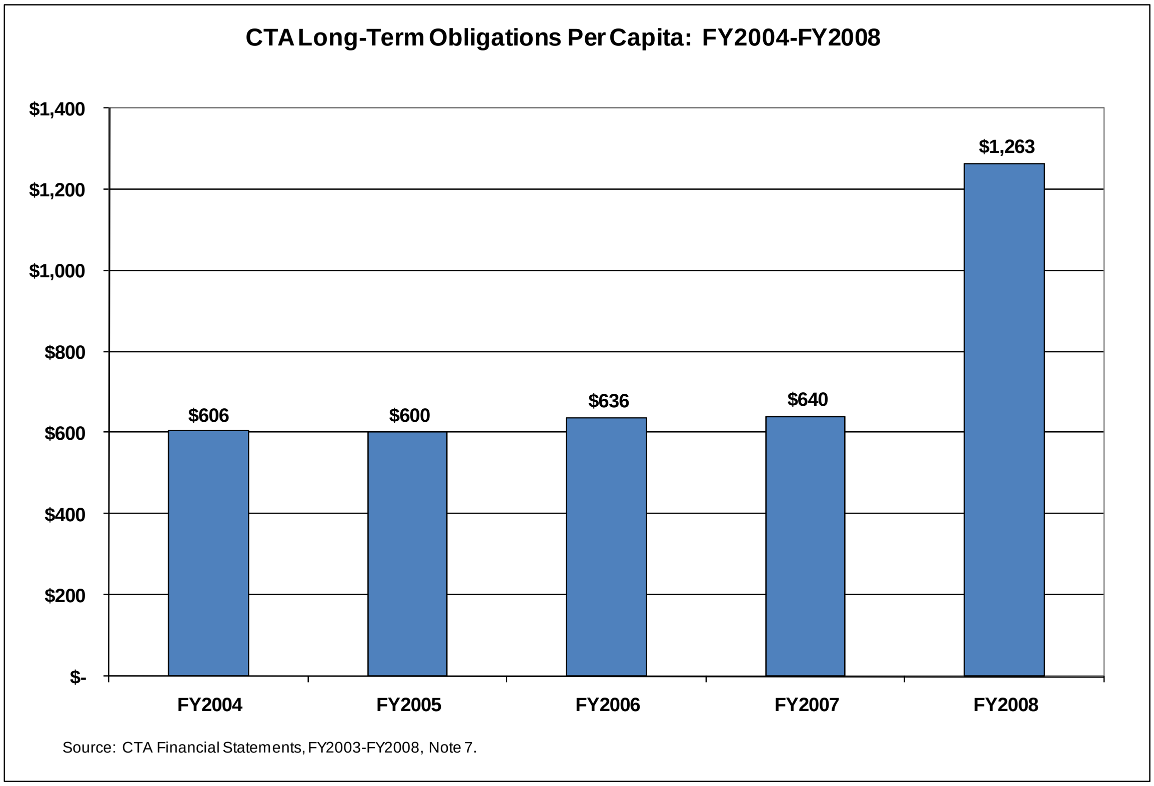
Also contributing to increased long-term obligations over this period was the issuance of three series of bonds to support capital projects. In FY2003, the CTA sold general obligation bonds totaling $207 million and a subsequent $250 million of capital bonds were issued in FY2004. The FY2004 debt was issued in anticipation of grants from the federal government. A third bond series was issued on November 1, 2006, for $275 million. The following graph shows the total increase in CTA long-term debt from FY2004 to FY2008:



Per Capita Long-Term Liabilities

Long-term obligations 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 FY2004 long-term obligations per capita were $606. Since that time, long-term obligations per capita increased to $1,263, a 108.4% increase. Between FY2007 and FY2008, long-term obligations per capita rose dramatically by 97.3% or from $640 to $1,263. The majority of this increase comes from the sale of $1.9 billion of pension obligation bonds in FY2008.



Current CTA Bond Ratings

The CTA's outstanding debt is assigned the following ratings[33]:

- Standard & Poor's – A
- Moody's – A1

PENSION FUND

The CTA employees' pension fund is a defined benefit pension plan covering most full-time permanent union and nonunion employees. In FY2008, the Fund had 9,689 active employees and 9,356 beneficiaries.[34]

Recent Changes to Funding Sources

Passed in the spring of 2006 as part of the FY2007 State Budget Implementation Act, Public Act 94-0839 requires that beginning January 1, 2009 the CTA and its employees make annual pension contributions sufficient to bring the funded ratio to 90% by 2059. The Act specifies that payments are to be made as a level percentage of payroll, and that post employment health care benefits administered through the pension fund are to be excluded from the actuarial calculations used to determine required contributions. The 50-year schedule and 90% funding target are similar to the funding plan for the State of Illinois' five retirement systems.[35]

[33] CTA President's FY2010 Budget Recommendations, pg. 69.
[34] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 5.
[35] See The Civic Federation, "The State of Illinois Retirement Systems: Funding History and Reform Proposals," (October 26, 2006). http://www.civicfed.org/articles/civicfed_220.pdf

The second piece of CTA pension reform legislation, Public Act 95-0708, was passed on January 18, 2008 and made changes to the pension and retiree health care benefits and contributions.[36] More specifically, employee and employer contributions were increased to 6% and 12% of payroll, respectively, which doubled their previous contribution rates of 3% and 6%. The employer, however, will receive a "credit" for debt service payments of up to 6% of payroll.

The legislation also changed benefits for employees hired after January 18, 2008, raising the years-of-service requirement for the reduced pension benefit available at 55 years of age from 3 years to 10 years of service. The legislation also raised the age requirement for receiving an unreduced pension, from 55 years of age to 64 years of age and 25 years of service.

P.A. 95-0708 required that no less than $1,110,500,000 in pension obligation bond proceeds be deposited into the retirement fund, and no less than $528,800,000 be deposited into a new Retiree Health Care Trust. The infusion of $1.1 billion into the retirement fund was expected to raise its funding level to approximately 72% (it actually brought it to 80% funded on the date of deposit, August 8, 2008[37]). Additionally, the legislation requires that the pension fund remain over 60% funded through 2038 and reach 90% funded by 2059. If these standards are not met, the legislation says the Authority is responsible for two-thirds of the required increased contribution, and the employees are responsible for the remaining one-third.

The effects of these two pieces of legislation were realized in the FY2007 pension financial statements. As a result of legislation that created the separate Retiree Health Care Trust, health care liabilities for the pension fund decreased from $1.766 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[38] The new Retiree Health Care Trust will disclose a significant health care liability when it begins producing financial reports beginning with FY2009. The CTA Fund actuaries also adjusted the retirement probability assumptions due to the changes in retirement eligibility age, required years of service, and health care eligibility that took effect January 18, 2008. These assumption changes reduced the FY2007 actuarial liabilities by $28.0 million.[39]

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 FY2008 Actuarial Valuation.

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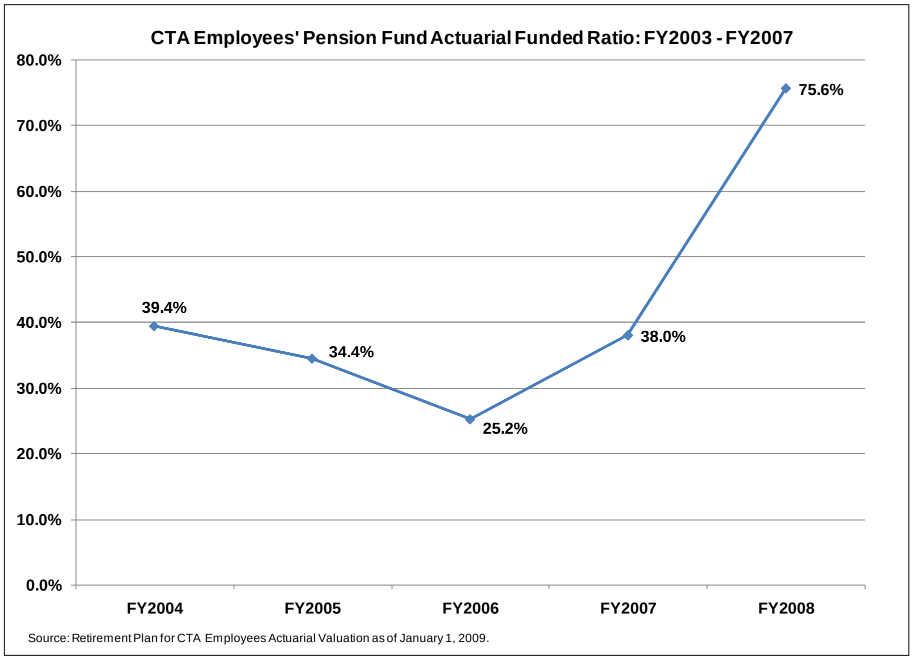
[36] See page 62 for more details.
[37] Information provided by John Kallianis, Executive Director, Retirement Plan for Chicago Transit Authority Employees, March 19, 2009.
[38] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2008*, p. 16.
[39] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2008*, p. 4.

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 rose by 36.2 percentage points between FY2004 and FY2008, increasing from 39.4% to 75.6%.

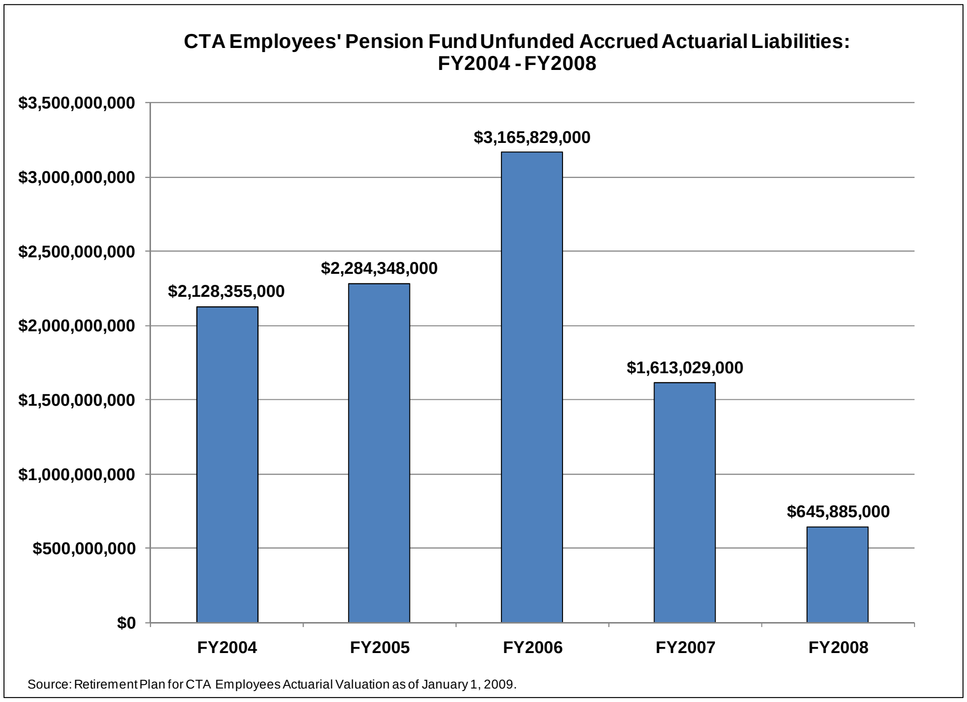
In FY2007 the funded ratio for the pension fund rose to 38.0%, a 12.8 percentage point increase over the 25.2% ratio for FY2006. The increase in the funded ratio is largely attributed to the creation of the separate Healthcare Trust Fund for CTA employees.[40] The trust fund was created in May 2008 and assumed full responsibility for health care funding, payment and administration on July 1, 2009. The primary reason for the sharp increase in the funded ratio for FY2008 was the infusion of $1.1 billion into the pension fund from employer-issued debt.



Unfunded Pension Liabilities

Unfunded accrued actuarial 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 approximately $0.6 billion in FY2008. This was a $2.6 billion decrease from FY2006 and resulted from a one-time employer contribution of $1.1 billion from the issue of pension obligation bonds. Between FY2004 and FY2008, unfunded liabilities fell by $1.5 billion or 250.0%.

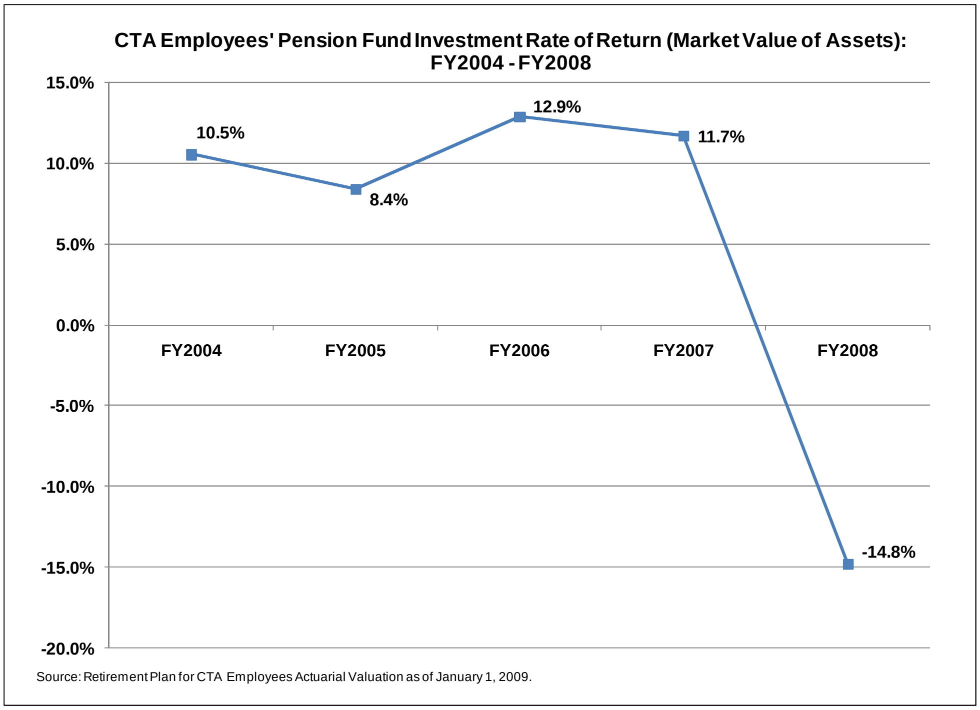
[40] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 15 note b.



Investment Rates of Return

The investment rate of return for the CTA Employees' Pension Fund was -14.8% in FY2008. This is a decrease of 26.5 percentage points from the 11.7% return reported the previous year. The -14.8% return for FY2008 was better than the benchmark portfolio and than the returns of many other pension funds because most of the $1.1 billion of the pension obligation bond proceeds was held in cash during the financial market crisis of the fall of 2008.[41]

[41] Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.



OTHER POST EMPLOYMENT BENEFITS

Public Act 95-0708 created a separate Retiree Health Care Trust to manage and fund CTA retiree health benefits and a one-time pension obligation bond of which no less than $528,800,000 in proceeds was deposited into the trust. As a result, health care liabilities for the pension fund decreased from $1.766 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[42] A complete picture of the Trust's financial situation will be available when it begins publishing its own annual financial statements.

[42] P.A. 95-0708 ; Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2008*, p. 16.