CHICAGO TRANSIT AUTHORITY
FY2006 PROPOSED BUDGET
Analysis and Recommendations

Prepared By
The Civic Federation

October 27, 2005

TABLE OF CONTENTS

EXECUTIVE SUMMARY **3**

ISSUES THAT THE CIVIC FEDERATION SUPPORTS 5
ISSUES OF CONCERN TO THE CIVIC FEDERATION 6
CIVIC FEDERATION RECOMMENDATIONS 7

ACKNOWLEDGEMENTS **10**

BUDGET HIGHLIGHTS **10**

DEFICIT DRIVERS AND GAP CLOSING MEASURES 11
NEW FARE STRUCTURE 11

RIDERSHIP **12**

APPROPRIATIONS **13**

APPROPRIATIONS: FY2005-FY2006 13
APPROPRIATIONS: FIVE YEAR TREND 14

REVENUES **14**

SYSTEM-GENERATED REVENUES: FY2005 AND FY2006 14
SYSTEM-GENERATED REVENUES: FIVE YEAR TREND 15
FAREBOX REVENUES 16
STRUCTURE OF PUBLIC FUNDING FOR THE CTA FROM THE RTA 17

PERSONNEL TRENDS **18**

SHORT AND LONG-TERM DEBT TRENDS **19**

SHORT-TERM DEBT TREND 19
LONG-TERM OBLIGATION PER CAPITA TRENDS 20

RETIREMENT SYSTEM TRENDS **21**

FUNDED RATIOS – ACTUARIAL VALUE OF ASSETS 22
UNFUNDED PENSION LIABILITIES 23
INVESTMENT RATES OF RETURN 23

PRODUCTIVITY MEASURES **24**

CIVIC FEDERATION RECOMMENDATIONS **27**

THE RTA FUNDING FORMULA MUST BE REVIEWED 27
PENSION FUNDING REFORMS NEEDED 28
REQUIRE RETIREES TO CONTRIBUTE TO THE COST OF HEALTH INSURANCE 28
REQUIRE PENSION FUND REPORTING TO THE ILLINOIS DEPARTMENT OF INSURANCE 28
PURSUE JOINT PURCHASING OF EMPLOYEE HEALTH INSURANCE 29
DEVELOP AND IMPLEMENT A LONG-TERM FINANCIAL PLAN 29
BUDGET FORMAT IMPROVEMENTS 29

EXECUTIVE SUMMARY

The Chicago Transit Authority (CTA) has proposed a $1.03 billion budget for FY2006. The Authority's estimated deficit of $90 million was eliminated through a combination of a 25-cent per ride increase for cash purchases and for rail transit cards, the transfer of $30 million in capital funds to operations, $27 million in one-year operating funds from the State of Illinois, and increased sales tax revenues.

The Civic Federation **supports** the FY2006 CTA budget as a reasonable short-term plan to address the current year's fiscal and programmatic challenges. Therefore, we endorse the fare increase to $2.00 for cash and rail transit fares as responsible and we also support the one-time transfer of capital funds to operating purposes.

The CTA has indicated it will work cooperatively with the RTA and the General Assembly to address its future funding needs. This is a positive step. However, the Authority cannot simply rely on State funding to solve its financial problems. The CTA must concurrently develop a formal long-term financial plan that includes continuous efforts to reduce operating expenses and the consideration of reasonable future fare increases. In our view, it is reasonable to review and adjust fares on a regular basis, provided that such adjustments are linked to a planning process and demonstrated need.

The Federation is very concerned about the perilous funding status of the CTA Employees' Pension Fund. The retiree healthcare plan is on the verge of fiscal collapse. Unless funding reforms that will control costs and increase funding are implemented immediately, the CTA will be forced to consider unattractive options: cut service to pay for retiree costs or look to additional fare increases.

FY2006 Budget Highlights

- Total operating appropriations in FY2006 are expected to be $1.03 billion, a 4.1% increase from the FY2005 appropriation of $996.1 million.
- Total public funding from the RTA is projected to be $524.0 million, a 5.7% increase from the previous year.
- The budget is balanced with a $19.6 million increase in farebox revenues resulting from the fare increase, $27 million in one-time State funding, a transfer of $30 million in capital funds to operations and increases in sales tax revenues.
- Fares for cash transactions and rail transit cards will increase from $1.75 to $2.00. The fare for Chicago Card and full fare transit card users for bus will remain $1.75 per unlinked ride. The current 10% bonus for Chicago card purchases will be retained.
- The CTA proposes to fund 10,887 positions in its FY2006 budget; this is a 0.8% reduction of 93 positions from the proposed FY2005 Mobility Budget.

Civic Federation Recommendations

- The Illinois General Assembly must address the long-term structural funding problems of the three regional transit service boards by reviewing and revising the RTA Act's funding formula.
- The CTA must restructure employee pension and healthcare benefits so that costs are reduced in the long-term. It should not expect large infusions of revenue from the RTA or the State of Illinois to solve this problem, but rather demonstrate a commitment to being a responsible steward of public funds by providing only those employee benefits it can reasonably afford. Failure to do so now imperils the long-term financial viability of the CTA.
- The CTA should establish a two-tiered pension system that provides reduced benefits for new hires and annual annuity increases should be linked to the projected Consumer Price Index only.
- The CTA must adopt a pay as you go pension funding strategy requiring that every new benefit increase made to its retirement system identify and provide for additional funding to fund the resulting annual accrued cost of the increase. Any benefit increases should expire after 5 years, subject to renewal.
- CTA retired employees must contribute to the rapidly escalating cost of their health insurance.
- The CTA should develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders. The plan would include a regular review of the CTA's fare structure as well as efforts to control costs through the introduction of efficiencies.
- The CTA should pursue the joint purchasing of health insurance with other major local governments.
- The Budget Book format could be improved to include a "walk-up" that describes the sources of the current fiscal year budget deficit, a "walk down" identifying steps taken to eliminate the budget deficit, information about projected sales tax revenues provided by the RTA, and specific cost information regarding the management efficiencies listed in the budget.

OVERVIEW

The Civic Federation recently concluded an analysis of the CTA's proposed FY2006 $1.03 billion budget. The Civic Federation **supports** this budget as a short-term plan to address the current year's fiscal and programmatic challenges.

Issues that the Civic Federation Supports

The Civic Federation is encouraged that the CTA has adopted some of the recommendations made by the Civic Federation last year to balance its budget, including raising fares rather than cutting service. We are also pleased that the legislature and the RTA have acted to provide stopgap funding and remove paratransit costs from the CTA's recovery ratio calculation.

<u>Fare Increase from $1.75 to $2.00</u>

The Civic Federation **<u>supports</u>** the CTA's proposed 25-cent fare increase for cash purchases and for rail transit cards as both reasonable and responsible. We believe that it is reasonable to review and adjust fares on a regular basis, provided that such adjustments are linked to a formal long-term financial planning process and demonstrated need.

<u>Diverting Some Capital Funds to Operating Purposes for This Year Only.</u>

The CTA proposes to transfer nearly $30 million in capital funds this year to operating purposes to help balance the FY2006 budget. In an ideal world, capital funds should not be used to fund operations. However, for now, this proposal is preferable to other options such as service reductions. Therefore, the Civic Federation supports this temporary measure pending a final financial resolution by the RTA and the State of Illinois.

<u>Interim State Funding for the CTA</u>

The Civic Federation has stated in our reviews of the CTA FY2005 budget and the FY2006 State of Illinois budget that we endorse some State funding for mass transit, including the CTA, if the CTA concurrently put its fiscal house in order. In our view, State funding should supplement, not supplant, efforts by the CTA to raise revenues and reduce its operating costs through the introduction of efficiencies and appropriate revenue mechanisms. Therefore, we are pleased that the CTA has taken some appropriate steps to do just that, including proposing a fare increase. However, we still await the results of the audit of CTA finances mandated by the General Assembly and urge the CTA to provide more detailed evidence in its Budget Book and other documents of efficiencies it claims to prove it is actually implementing efficiencies.

<u>New RTA Leadership a Good First Step Toward Coordinating Region's Transit Needs</u>

The Civic Federation is very pleased that James Reilly was elected Chairman of the Regional Transportation Authority in June 2005. As we noted last year, it is critical that the RTA play an active role in coordinating the six-county region's transportation needs and help the three service boards address financial and planning challenges. It is unreasonable to expect three transit service boards with conflicting interests to negotiate amongst themselves and determine appropriate regional transportation policy. We have high expectations that under Mr. Reilly's leadership, the RTA will foster a climate of constructive deliberation about the future of the region's pressing transit needs.

Removal of Paratransit Costs from CTA Responsibility

In FY2006, the Illinois Department of Transportation will provide a $27.1 million grant to the CTA to purchase 6 months of paratransit services. After July 1, 2006, these services will become the responsibility of Pace, which will also be provided State funding to meet those costs. The Civic Federation believes that this is a reasonable short-term attempt to address a critical fiscal issue which has had a major impact on CTA finances but over which the CTA has had little control.

Last year, the Chicago Transit Board approved an increase of the paratransit fare from $1.75 to $3.50. When the General Assembly provided additional funding, the fare increase was postponed until January 1, 2006. CTA President Kruesi has stated that it would not be appropriate for the CTA to adopt significant policy changes during this transition period since it will not be operating paratransit much longer and will, like Metra, provide mainline service only. Therefore, the CTA has recommended that the previously planned fare increase for paratransit scheduled to go into effect at the start of 2006 be cancelled to allow Pace maximum flexibility going forward.

Paratransit services, which are required by the federal Americans with Disabilities Act (ADA). cost the CTA approximately $23 per ride in 2004, but the Authority recovered only 5.3% of paratransit costs from fares, which are set at a rate that allows maximum affordability for the disadvantaged group being served. However, the entire cost of this expensive service has been included in the recovery ratio calculation, which determines the percentage of CTA expenditures that must be paid for with system-generated revenues.

In past years, we have supported CTA efforts to remove paratransit costs from the RTA's recovery ratio calculation, finding no sound policy reason for this practice. We hope that the State, the RTA and the service boards can work together to achieve an equitable funding solution for this unfunded federal mandate.

Issues of Concern to the Civic Federation

Despite the many positive elements in the proposed City budget, The Civic Federation is **concerned** about the perilous financial state of the CTA Employees' Pension Fund.

CTA Employees' Pension Fund Is Not Financially Viable

The CTA Employees' Pension Fund is in a financial crisis. The funded ratio for the Fund plummeted from 66.3% in FY2001 to only 39.3% four years later. During the same period, unfunded liabilities skyrocketed from $947.4 million to $2.1 billion.

The steady erosion of CTA Pension Fund assets is a cause for alarm. Unless new revenues are provided, the Fund will be unable to make payments to beneficiaries by 2012. The situation is compounded by the fact that the CTA's retiree health insurance program will be bankrupt in FY2007.[1]

Years of irresponsible fiscal practices such as taking pension funding "holidays" and failing to require cost sharing by retirees for the rapidly escalating cost of their healthcare have plunged the CTA into a very difficult situation. Fixing this problem will require taking painful but necessary cost reduction steps, including the reduction of benefits for new employees and greater cost sharing between the CTA and its employees. Failure to do so will require cuts in operations or potentially massive fare increases.

Civic Federation Recommendations

The Civic Federation offers the following recommendations regarding ways to improve the CTA's financial management and fulfill its long-term financial obligations:

The RTA Funding Formula must be Reviewed

The Civic Federation remains convinced that the Illinois General Assembly must address the long-term structural funding problems of the three regional transit service boards by reviewing and revising the RTA Act's funding formula. We are not persuaded by arguments that the RTA Act is immutable and should never be changed. In fact, virtually every government policy should be re-evaluated at reasonable intervals to ascertain if it still fulfills its original purpose and whether there are better or more efficient ways to meet that purpose.

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

The Civic Federation is encouraged by the efforts of the House ***Special Committee on Mass Transit for Northeastern Illinois*** chaired by Representative Julie Hamos. The Special Committee's charge is to analyze and possibly rewrite the transit funding formula, which has not been reviewed since 1983, to ensure that funding levels correspond to transit service being

[1] Information provided by CTA, October 6, 2005.

provided in all parts of the region, as well as planned transit expansions for the next 10 years. We look forward to reviewing the Committee's work when it is completed.

Pension Funding Reforms Needed

The CTA is currently in contract negotiations with its employee unions. This is an opportune time for the Authority to restructure employee pension and healthcare benefits so that costs are reduced in the long-term. The Authority should not rely on infusions of revenue from the RTA or the State of Illinois to solve this problem. Rather, it is imperative that the CTA demonstrate its commitment to being a responsible steward of public funds by providing only those employee benefits it can reasonably afford. Failure to do so now imperils the long-term financial viability of the CTA.

The Civic Federation has long been a proponent of pension funding reform. We believe that the CTA should pursue the following initiatives:

Establish a Two-Tiered Pension System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits.

Link Annuity Increases to CPI (for New Hires)

Currently, many pension fund beneficiaries receive annual cost of living increases that exceed the rate of inflation. For new hires, annual annuity increases should be linked to the projected Consumer Price Index only as a means of controlling costs.

Any Benefit Increase Should Require Contribution Increases

Many benefit enhancements are added to public pensions without accompanying contribution increases. The CTA should adopt a pay as you go pension funding strategy along the lines of Public Act 94-0004. That state statute requires that every new benefit increase made to one of the State's retirement systems identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after 5 years, subject to renewal. This is a sound proposal that should apply to the CTA Employees' Pension Fund.

Require Retirees to Contribute to the Cost of Health Insurance

CTA retires currently pay nothing toward the cost of their health insurance, unlike most private sector and many public retirement plans. Given the dire financial situation of the retiree health insurance fund, the Civic Federation believes that is appropriate to require some cost sharing between the CTA and retirees. CTA retired employees must contribute to the rapidly escalating cost of their health insurance. As health insurance is not a constitutionally protected entitlement, failure to immediately provide financial relief to the CTA could force the agency to eliminate the program, cut service, or increase fares to pay for it.

Require Pension Fund Reporting to the Illinois Department of Insurance

Illinois statute requires that governments provide annual financial statements to the Illinois Department of Insurance. These statements must include actuarial statements and be filed no later than 9 months after the close of the pension fund's fiscal year. The CTA, however, is exempt from these requirements.[2]

In recent years, after calls for transparency and disclosure by the Civic Federation, the CTA Employees' Pension Fund began to provide its annual financial statements to the public via a web site. The Federation applauds the Fund for taking this action, which is clearly in the public interest. However, this action remains voluntary. It could be revoked at any time. This would be unfortunate but cannot be prevented.

The Civic Federation believes that the General Assembly should now take what is an appropriate step and repeal the CTA Pension Fund's reporting exemption. There exists no sound public policy reason for exempting any public body receiving public funds from disclosing financial information. The CTA Pension Fund should be treated no differently than any other public legal entity.

Pursue Joint Purchasing of Employee Health Insurance with Other Local Governments

The CTA recently joined with six other local governments for the joint purchase of prescription drugs. Approximately $6.0 million in savings annually will be generated for the CTA from the agreement.[3] We urge the CTA to take the next step and work with other major local governments to consolidate health insurance purchasing. The potential for substantial savings that can be achieved from an insurance pool will be extremely beneficial to the CTA's future financial situation.

Develop and Implement a Long-Term Financial Plan

The Civic Federation believes that the CTA should develop a formal long-term financial plan that is shared with and/or reviewed by key policymakers and stakeholders. The long-term financial plan would include a regular review of the CTA's fare structure as well as efforts to control costs through the introduction of efficiencies.

Budget Format Improvements

We applaud the CTA for preparing one of the more transparent local government budgets. However, we believe that in a few areas the budget format could be improved. The budget should include:

---

[2] See Illinois Pension Code at 40 ILCS 5/Article 22 Division 1 – Additional Pension Funds – Transit Authorities, and Metropolitan Transit Authority Act at 70 ILCS 3605.
[3] Communication from the CTA, October 20, 2005.

- A “walk-up” that describes the sources of the current fiscal year budget deficit in the introductory pages of the budget.
- A “walk down” that clearly identifies the steps taken to eliminate the budget deficit, including identification of the location of personnel reductions.
- Specific information about projected sales tax revenues provided to the CTA from the RTA for the proposed budget; currently RTA Public Support regardless of source is aggregated in the budget presentation. Sales tax information is provided in the Appendix for the previous budget year, but no data is provided for the current or future year projections.
- Specific cost information regarding the management efficiencies listed in the FY2006 budget on p. viii, including how much is projected to be saved in the new fiscal year rather than aggregate amounts of savings over time. It would also be helpful to provide the time frame for the privatization savings discussed on p. x.
- Personnel information that breaks out FTEs by category – Operations, STO and Administration – should be provided in the Budget Book in addition to information currently provided about positions by area.

ACKNOWLEDGEMENTS

The Civic Federation would like to express appreciation to Chicago Transit Authority President Frank Kruesi, Senior Vice President and Treasurer Dennis Anosike, Vice President for Finance and Comptroller Lynn Sapyta and the CTA budget and finance staff for their hard work in preparing this budget and their willingness to answer many of our budget and revenue questions.

BUDGET HIGHLIGHTS

The Chicago Transit Authority has proposed a FY2006 budget of $1.03 billion. The CTA’s deficit, which was originally projected at approximately $90 million, was eliminated through a combination of a fare increase, one-year operating funds from the State of Illinois, increased sales tax revenues and a transfer of capital funds to operations.
The FY2006 CTA budget contains the following major features:

- There will be no service cuts.
- Cash fares and transit card fares for trains will be increased by 25 cents to $2.00. This is expected to generate $19.6 million in revenues.
- There will be no fare increase for Chicago Cards in an attempt to move customers away from cash payments. This is intended to help reduce collection costs.
- There will be no fare increase for bus transit card users, who represent approximately 2/3rds of all riders, because of the lack of easily accessible vending facilities for those customers.
- Public funding provided by the RTA will increase by 5.7% or $28.1 million due in large part to improved sales tax collections generated by an improving economy.
- Based on assurances received from the Governor and legislature, the RTA assumes that it will receive $54 million in State funding this year. The CTA will receive $27 million of that amount and Pace will receive the balance to compensate it for assuming all paratransit costs. The CTA will consequently be relieved of $27 million in paratransit costs.

- The CTA will transfer nearly $30 million in capital funds to operations in FY2006 to help balance its budget.

Deficit Drivers and Gap Closing Measures

The CTA's initially reported deficit was approximately $90 million. The deficit was driven primarily by the following two factors:

- Labor costs will rise by 4.2% in FY2006, or from $718.5 million to $748.9 million. The increase is driven by higher wage rates and double-digit health care cost increases. As 72.2% of the CTA operating budget consists of personnel costs, salary and benefit increases are the single most significant factor in annually increasing costs.
- Fuel costs will skyrocket by 41.9%, or from $33.8 million to $48.0 million. The rise is due to increases in diesel fuel costs driven by increasing worldwide demand for fuel and fuel supply disruptions caused by summer hurricanes in the Gulf of Mexico.

There will also be a 73.7% increase in CTA funding for injuries and damages. This substantial increase represents a substantial rise from $19.0 million to $33.0 million. The increase is due to the need to adequately fund actuarial liabilities for potential injuries and damages.

The budget gap in FY2006 will be closed primarily by a number of revenue enhancements efforts:

- The 25-cent fare increase for selected fares will generate $19.6 million.
- Approximately $30 million will be shifted from capital to operating purposes.
- The Illinois Department of Transportation will provide a one-time grant of $27.1 million to pay for 6 months of paratransit and other services. After July 1, 2006, responsibility for paratransit services will shift to Pace.
- Increased sales tax receipts generated as a result of an improving economy will provide approximately $13.3 million in new revenues.

New Fare Structure

In its FY2006 budget, the CTA proposes a 25-cent increase for all cash fares and rail transit cards. The fare for Chicago Card and full fare transit card users for bus will remain $1.75 per unlinked ride. The current 10% bonus for Chicago card purchases (i.e. for every $20 purchase, $22 is added to the card) will be retained. Visitor pass, weekly pass and monthly pass fares will not change.

Full fare transit cards for buses will remain $1.75 per ride in large part because Chicago Card vending machines are not widely available at venues easily accessible to bus customers at this time. Cash and full fare transit cards for rail were last increased in 2004. In addition, customers paying with cash will no longer be able to purchase transfers. Transfers will remain available to Chicago Card and transit pass customers.

By exempting Chicago Card users from the fare increase, the CTA hopes to provide a financial incentive to move customers away from cash payments, which are costly to process. According to the CTA, if 50% of customers use Chicago Cards, collection costs can be cut by as much $1 million annually.

Farebox revenues are expected to reach $426.5 million in FY2006, a $19.6 million, 4.5% increase from the FY2005 budget.

CTA PROPOSED FY2006 FARE CHANGES FOR FULL FARES				
Full Fares	**Current**	**Recommended in FY2006**	**$ CHG**	**% CHG**
Cash	$ 1.75	$ 2.00	$ 0.25	14.3%
Full Fare Transit Card - Bus	$ 1.75	$ 1.75	$ -	NO CHG
Full Fare Transit Card - Rail	$ 1.75	$ 2.00	$ 0.25	14.3%
Full Fare Chicago Card	$ 1.75	$ 1.75	$ -	NO CHG
Chicago Card Bonus	10%	10%	$ -	NO CHG
Transfer	$ 0.25	$ 0.25	$ -	NO CHG
1-Day Pass	$ 5.00	$ 5.00	$ -	NO CHG
2-Day Visitor Pass	$ 9.00	$ 9.00	$ -	NO CHG
3-Day Visitor Pass	$ 12.00	$ 12.00	$ -	NO CHG
5-Day Visitor Pass	$ 18.00	$ 18.00	$ -	NO CHG
Full Fare 7-Day Pass	$ 20.00	$ 20.00	$ -	NO CHG
Full Fare 30-Day Pass	$ 75.00	$ 75.00	$ -	NO CHG

Source: CTA FY2006 Budget, pp. 16-17.

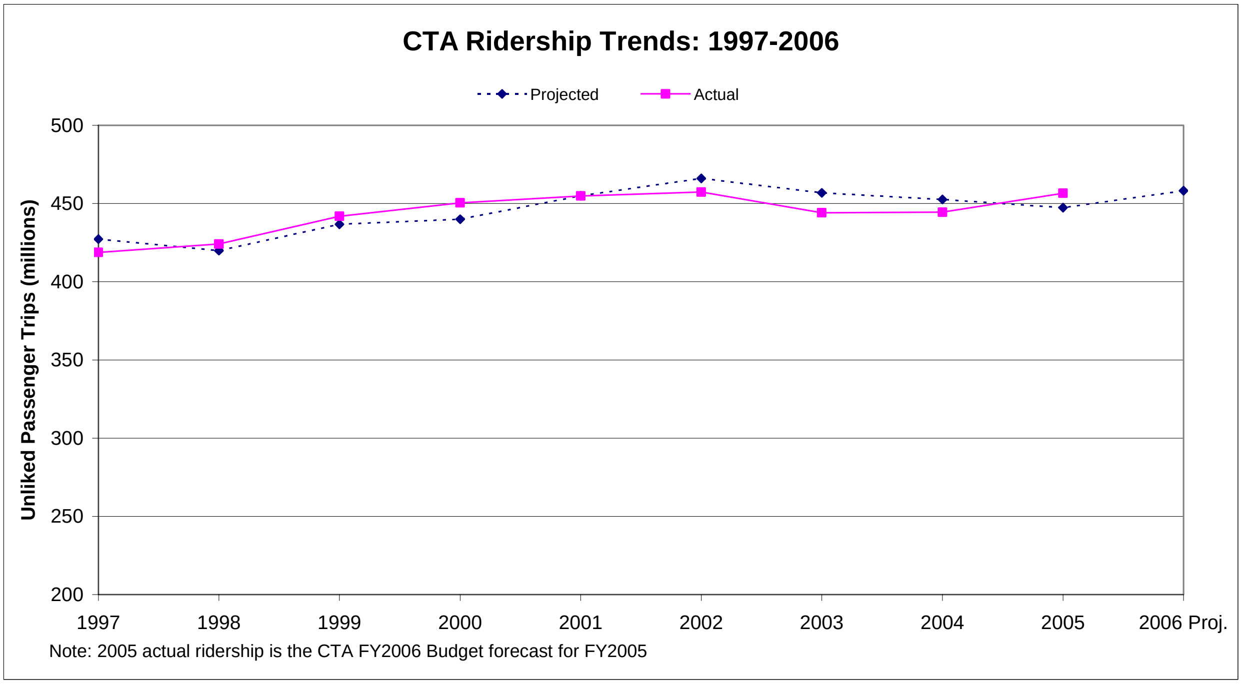
The next exhibit shows proposed changes in the CTA's reduced and paratransit charges. The only increase will come for reduced cash fares, which will rise from 85 cents per trip to $1.00.

CTA PROPOSED FY2006 REDUCED & PARATRANSIT CHANGES				
Full Fares	**Current**	**Recommended in FY2006**	**$ CHG**	**% CHG**
Cash (Mainline & Bus)	$ 0.85	$ 1.00	$ 0.15	17.6%
Transit Card (Mainline Bus)	$ 0.85	$ 0.85	$ -	NO CHG
Transit Card (Mainline Rail)	$ 0.85	$ 0.85	$ -	NO CHG
Transfer (Mainline Service)	$ 0.15	$ 0.15	$ -	NO CHG
Reduced Fare 30-Day Pass	$35.00	$ 35.00	$ -	NO CHG
Paratransit Special Services	$ 1.75	$ 1.75	$ -	NO CHG
Taxi Access Program & Mobility Direct	$ 1.75	$ 1.75	$ -	NO CHG
Paratransit 30-Day Pass	$ 75.00	$ 75.00	$ -	NO CHG

Source: CTA FY2006 Budget, p. 17.

RIDERSHIP

The CTA anticipates a slight 0.4% increase in ridership in FY2006 despite the proposed fare increase. This represents a rise from 456.6 million expected rides in 2005 to approximately 458.2 million rides in 2006. Ridership has risen every year between 1997 and 2005, except for a 3%, or 13 million-ride drop in 2003. The CTA attributes rising ridership to rapidly increasing gas prices which have made mass transit a more cost effective transportation option this year and attractiveness of the cash discount offered for Chicago Cards.[4]



APPROPRIATIONS

This section provides an analysis of the CTA's appropriations. This year, the CTA's budget will total over $1 billion for the first time.

Appropriations: FY2005-FY2006

The Proposed FY2006 Budget includes $748.9 million in appropriations for labor costs, a $30 million increase from FY2005. Appropriations for fuel will rise by $14.1 million in FY2006. The provision for injuries and damages will increase by 73.7% from FY2005 to FY2006, from $19 million to $33 million. Appropriations for the purchase of paratransit are projected to decrease by 43.6%, from $52.5 million in FY2005 to $29.6 million in FY2006. This decrease in paratransit appropriations is due to the fact that this service will be transferred to Pace on July 1, 2006.[5]

[4] Chicago Transit Authority FY2006 Budget, p. 12 and information provided by the CTA Budget Office
[5] Chicago Transit Authority, *Proposed 2006 Annual Budget Summary*, p. 8.

CTA PROPOSED OPERATING BUDGETS BY OBJECT OF EXPENDITURE: FY2005 vs. FY2006				
Appropriation by Object	**2005**	**2006**	**$ Change**	**% Change**
Labor	$ 718,538,000	$ 748,922,000	$ 30,384,000	4.2%
Material	$ 65,332,000	$ 67,088,000	$ 1,756,000	2.7%
Purchase of Paratransit	$ 52,473,000	$ 29,582,000	$ (22,891,000)	-43.6%
Security	$ 34,777,000	$ 35,335,000	$ 558,000	1.6%
Fuel	$ 33,837,000	$ 48,000,000	$ 14,163,000	41.9%
Power	$ 24,526,000	$ 24,526,000	$ -	0.0%
Provision for Injuries & Damages	$ 19,000,000	$ 33,000,000	$ 14,000,000	73.7%
Other Expenses	$ 47,646,000	$ 50,232,000	$ 2,586,000	5.4%
TOTAL	**$ 996,129,000**	**$ 1,036,685,000**	**$ 40,556,000**	**4.1%**

Source: CTA Proposed Budgets FY2005, FY2006

Appropriations: Five Year Trend

From FY2002 to FY2006, the CTA's total operating budget will increase by 13.3%, or $121.9 million. Fuel costs will have increased by 108.7%, appropriations for security services will rise by 53.7%, and the provision for injuries and damages will increase by 43.5%. Labor costs will have risen by 12.2% in the same period. Appropriations for material, however, will have remained relatively flat, and paratransit appropriations are projected to have dropped by 11.9% over this five year period due to the termination of CTA responsibility for paratransit as of January 1, 2006.

CTA PROPOSED OPERATING BUDGETS BY OBJECT OF EXPENDITURE: FY2002 vs. FY2006				
Appropriation by Object	**2002**	**2006**	**$ Change**	**% Change**
Labor	$ 667,596,000	$ 748,922,000	$ 81,326,000	12.2%
Material	$ 66,949,000	$ 67,088,000	$ 139,000	0.2%
Purchase of Paratransit	$ 33,591,000	$ 29,582,000	$ (4,009,000)	-11.9%
Security	$ 22,989,000	$ 35,335,000	$ 12,346,000	53.7%
Fuel	$ 23,000,000	$ 48,000,000	$ 25,000,000	108.7%
Power	$ 22,700,000	$ 24,526,000	$ 1,826,000	8.0%
Provision for Injuries & Damages	$ 23,000,000	$ 33,000,000	$ 10,000,000	43.5%
Other Expenses	$ 54,963,000	$ 50,232,000	$ (4,731,000)	-8.6%
TOTAL	**$ 914,787,000**	**$ 1,036,685,000**	**$ 121,898,000**	**13.3%**

Source: CTA Proposed Budgets FY2002, FY2006

REVENUES

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

System-Generated Revenues: FY2005 and FY2006

The Proposed FY2006 Budget includes $512.6 million from system-generated revenue and $524.1 million in public funding through the RTA. Included in the system-generated revenue is $426.5 in farebox revenue, a $19.6 million increase from FY2005. Farebox revenue represents

83% of system-generated revenue in the FY2006 Budget. The State of Illinois reimbursement for reduced fares will remain unchanged from FY2005 to FY2006. Advertising and concession revenue will increase slightly, by less than $0.5 million. Other revenue, which includes parking charges, filming fees, and Federal Transit Administration grants for paratransit, will decline by $31.8 million, again due to the loss of FTA paratransit grants resulting from the termination of CTA responsibility for paratransit on January 1, 2006.

CTA BUDGETED REVENUE: FY2005 vs. FY2006				
Source	**FY2005**	**FY2006**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 406,948,000	$ 426,522,000	$ 19,574,000	4.8%
Reduced Fare Reimbursement	$ 30,590,000	$ 30,590,000	$ -	0.0%
Advertising, Charter, & Concessions	$ 24,313,000	$ 24,800,000	$ 487,000	2.0%
Investment Income	$ 2,949,000	$ 4,944,000	$ 1,995,000	67.7%
Required contributions from Cook County & City of Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other revenue	$ 30,445,000	$ 20,773,000	$ (9,672,000)	-31.8%
Total System-Generated Revenue	**$ 500,245,000**	**$ 512,629,000**	**$ 12,384,000**	**2.5%**
Public Funding through RTA	**$ 495,883,000**	**$ 524,056,000**	**$ 28,173,000**	**5.7%**
GRAND TOTAL	**$1,496,373,000**	**$ 1,549,314,000**	**$ 52,941,000**	**3.5%**

Source: CTA Proposed Budgets FY2005, FY2006

The recovery ratio, which measures the amount of operating expenses that were recovered from operating revenues, is one major 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 FY2006, the RTA has required the CTA to recover at least 53.0% of its operating expenses through system-generated revenues. The CTA's FY2006 proposed budget, however, estimates that the recovery ratio will be at 52.24%. The CTA states that it would be able to meet the 53% recovery ratio if preventive maintenance funds were permitted to be counted as system revenue.[6]

System-Generated Revenues: Five Year Trend

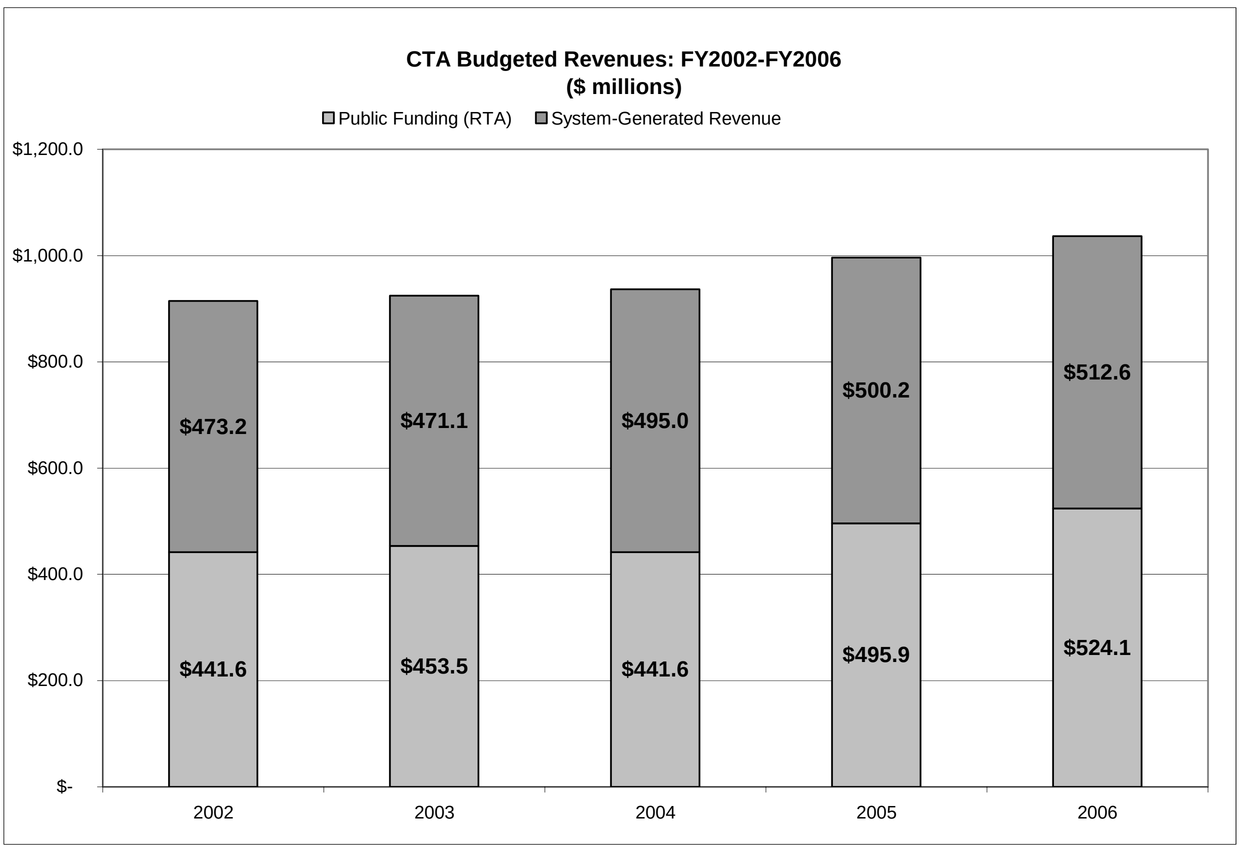
Comparing the CTA's FY2006 Proposed Budget with that of FY2002, total revenues are projected to have increased by 11.6%, with the largest increase coming from other revenue sources (a projected rise of 245.2%). Farebox revenue is predicted to increase by 9.7%. In contrast, investment income will have decreased by 53.7% and advertising, charter, and concession revenues are predicted to have decreased by 18.1% over this five year period.

[6] Chicago Transit Authority, *Proposed 2006 Annual Budget Summary*, p. 18.

CTA BUDGETED REVENUE: FY2002 vs. FY2006				
Source	**FY2002**	**FY2006**	**$ Change**	**% Change**
System-Generated Revenue				
Fares and Passes	$ 388,889,000	$ 426,522,000	$ 37,633,000	9.7%
Reduced Fare Reimbursement	$ 32,300,000	$ 30,590,000	$ (1,710,000)	-5.3%
Advertising, Charter, & Concessions	$ 30,280,000	$ 24,800,000	$ (5,480,000)	-18.1%
Investment Income	$ 10,670,000	$ 4,944,000	$ (5,726,000)	-53.7%
Required contributions from Cook County & City of Chicago	$ 5,000,000	$ 5,000,000	$ -	0.0%
Other revenue	$ 6,017,000	$ 20,773,000	$ 14,756,000	245.2%
Total System-Generated Revenue	**$ 473,156,000**	**$ 512,629,000**	**$ 39,473,000**	**8.3%**
Public Funding through RTA	**$ 441,631,000**	**$ 524,056,000**	**$ 82,425,000**	**18.7%**
GRAND TOTAL	**$ 1,387,943,000**	**$ 1,549,314,000**	**$ 161,371,000**	**11.6%**

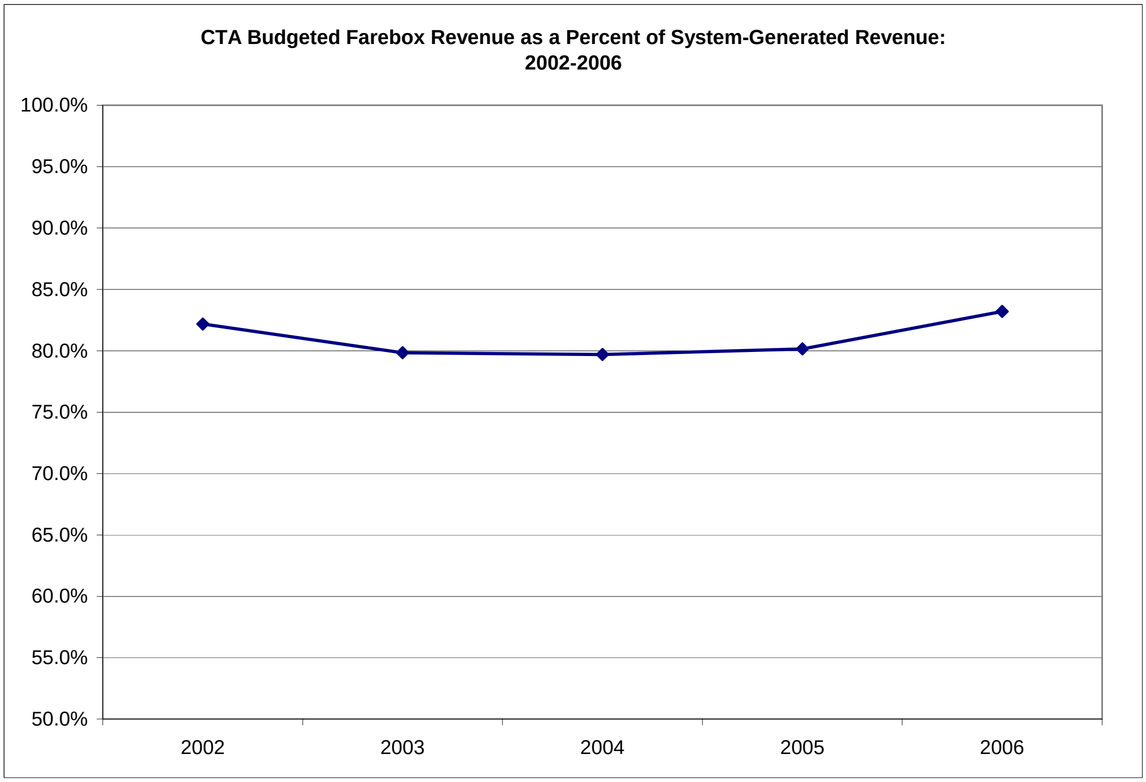
Source: CTA Proposed Budgets FY2002, FY2006

The following exhibit illustrates system-generated revenues and public funding between FY2002 and FY2006.



Farebox Revenues

Ridership is the core of any transit agency, not only because moving riders is the primary purpose of mass transit, but also because farebox revenues are critical to finances. Farebox revenue represents 80-90% of the CTA's system-generated revenues in a given year, so ridership changes have a significant effect on revenue. The remainder of the CTA's system-generated revenue is derived from advertising, investment income, reduced fare reimbursement, statutory required reimbursements, as well as a miscellany of other revenue sources such as income from parking lots. However, due in part to CTA's efforts to seek out other sources of revenue, between 1998 and 2003, budgeted farebox revenue declined from nearly 90% to 80% of CTA generated revenue. In more recent years, however, farebox revenue has increased somewhat, and is predicted to account for slightly over 83% of the CTA's FY2006 total revenue.



Structure of Public Funding for the CTA from the RTA

The Chicago Transit Authority will receive public funding from three sources in 2006: 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 special Illinois Department of Transportation operating grant for paratransit.[7]

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

- 0.75% sales tax on general merchandise in Cook County
- 1.00% sales tax on qualifying food, drugs, and medical appliances in Cook County

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

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

The State of Illinois distributes to the RTA an additional sum, equal to the amount generated by a 0.25% sales tax in Cook County, from the Occupation and Use Tax Replacement Fund, making Cook County general merchandise sales tax revenues equivalent to a 1% rate. The RTA also has authority to levy taxes on automobile rentals, motor fuel, and off-street parking facilities, but has not exercised this authority.[8]

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

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

As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $455.8 million in sales tax revenue from the RTA in FY2006. This is a $14.1 million, or 3.2%, increase over CTA sales tax revenues in FY2005, reflecting an improved economy. In addition, the CTA will transfer $29.2 million in RTA-source capital funds to operating funds, and will receive a $27.1 million one-time grant from the Illinois Department of Transportation to fund paratransit services through December 31, 2005. In addition, the CTA expects the RTA to allow it to use capital dollars to fund preventive maintenance expenses, as authorized by the Federal Transit Administration.[9]

CTA Public Funding FY2006	
RTA Formula Sales Tax Revenues	$ 284,636,000
RTA Discretionary Sales Tax Revenues	$ 171,128,000
Capital Transfer to Operating Funds	$ 29,200,000
IDoT Paratransit Grant	$ 27,100,000
Preventive Maintenance Capital Transfer	$ 12,000,000
TOTAL	**$ 524,064,000**

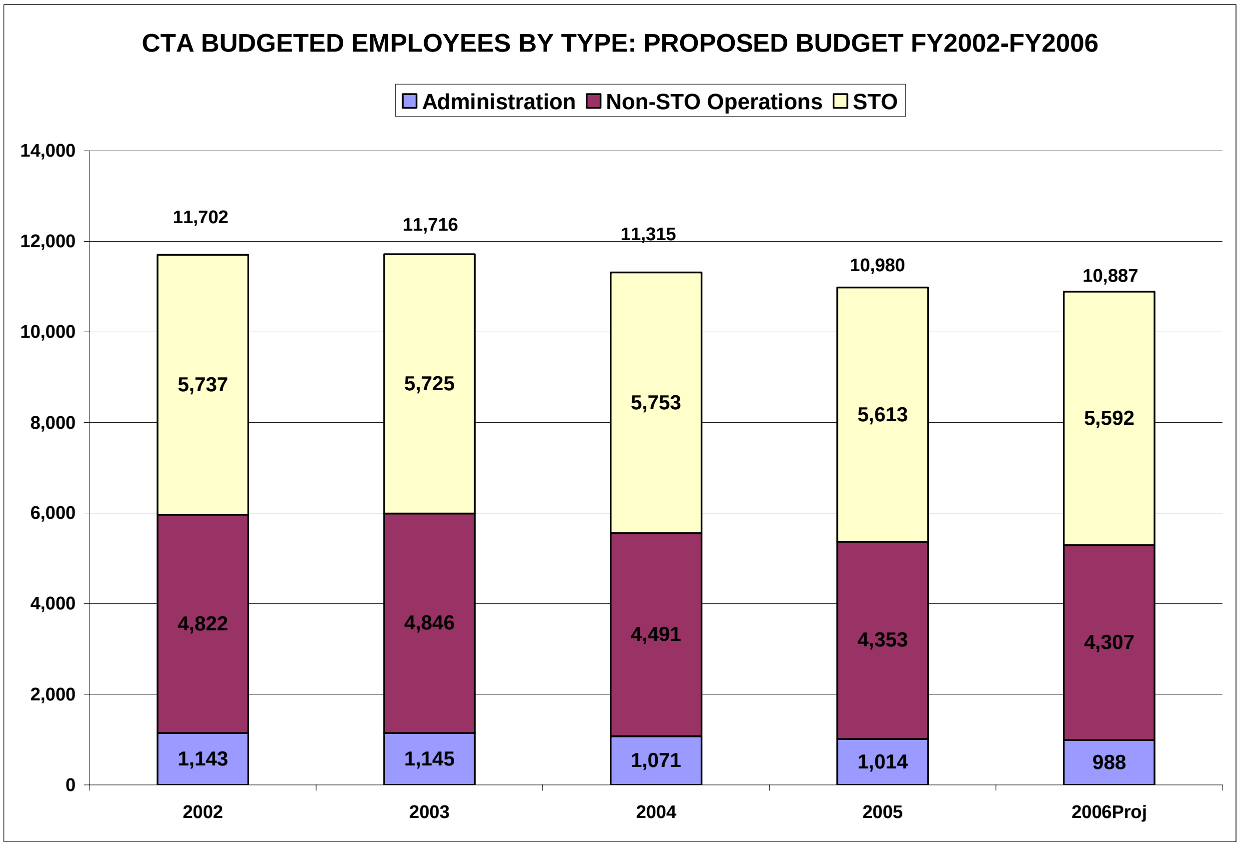
Source: CTA Budget Office, October 24, 2005

PERSONNEL TRENDS

The CTA plans to fund 10,887 positions in its FY2006. This is a 0.8% reduction of 93 positions from the originally proposed FY2005 Mobility Budget. The reductions include 26 Administrative positions, 46 positions in Operations (Non-STO) and 21 positions in the

[8] 70 ILCS 3615/4.03.
[9] Information provided by CTA Budget Office, October 24, 2005.

Scheduled Transit Operators (STO) category. In FY2006, 9.1% of all positions will be administrative, 51.4% will be STO, and 39.6% will be non-STO operations.[10]



SHORT AND LONG-TERM DEBT TRENDS

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

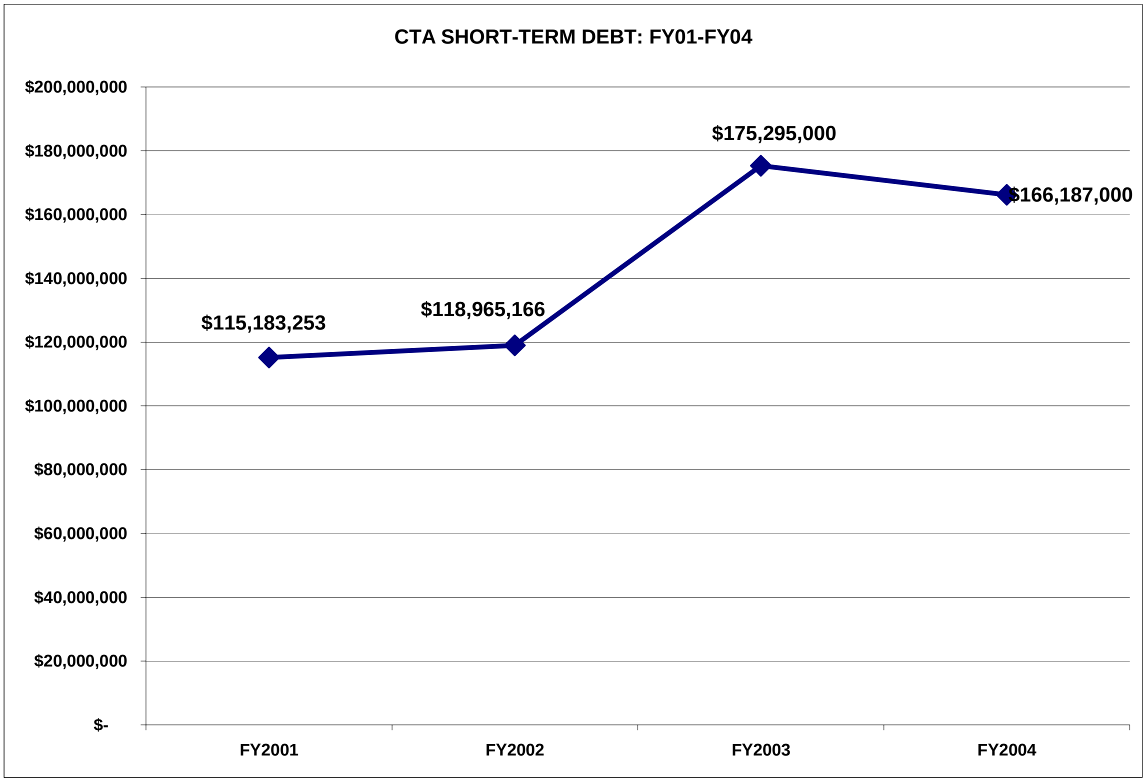
Short-Term Debt Trend

Short-term debt is a financial obligation that must be satisfied within one year. An increasing trend in short-term debt may be a warning sign of future financial difficulties. It is a measure of budgetary solvency, that is, a government's ability to generate enough revenue over the course of a normal budgetary period to meet its expenditures and prevent deficits. For purposes of this analysis, short-term debt includes accounts payable, advances and deposits, deferred passenger revenue, and deferred operating assistance. It does not include accrued payroll, the current portion of supplemental retirement plans or capital lease obligations, and the current portion of self-insurance reserves.[11]

---

[10] Information provided by CTA Budget Office, October 6, 2005.
[11] Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2004 and 2003*, p. 29.

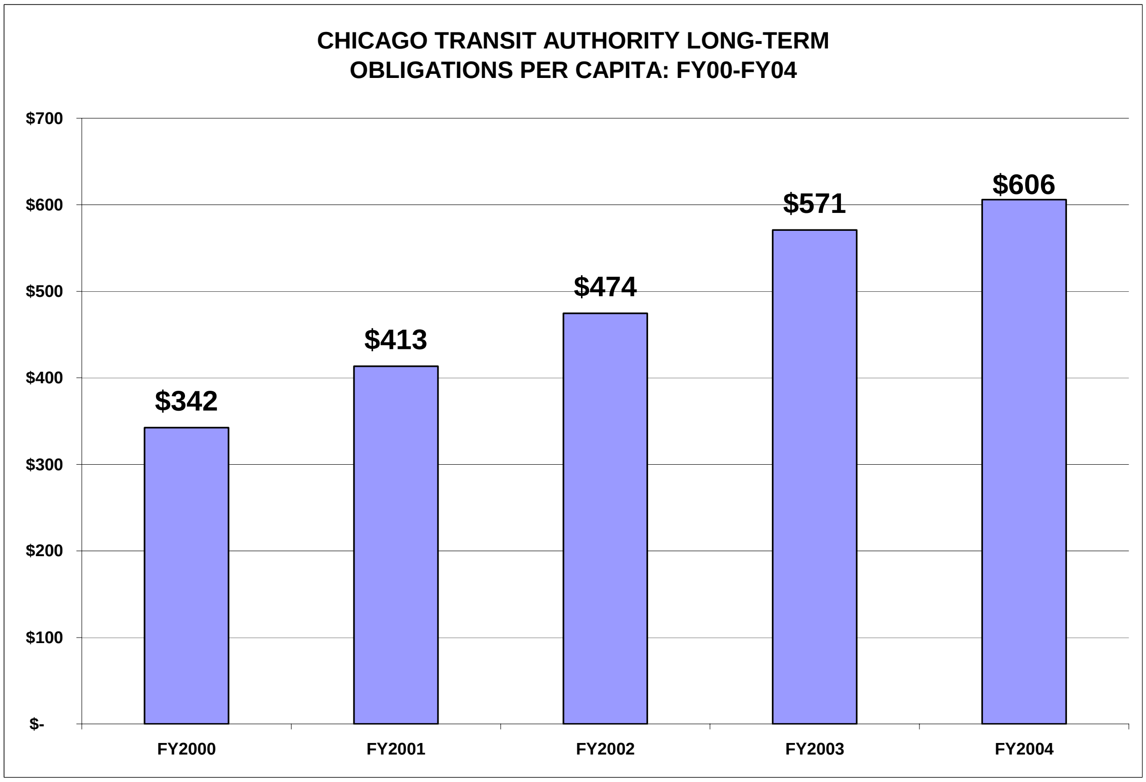
CTA short-term debt decreased in FY2004, falling by $9.1 million or 5.2%. However, since FY2001, it increased substantially, rising from $51.0 million or 44.3%. The decrease in short-term debt in FY2004 is a positive sign.



Long-Term Obligation Per Capita Trends

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

In FY2000, long-term obligations per capita were $342. Since that time, long-term obligations per capita increased to $606, a 77.0% increase. This increase represents a rise from $1.2 billion in long-term liabilities in FY2000 to $2.3 billion five years later. The large increase is driven in part by the first-ever issuance of $207 million in bonds in 2003 and a subsequent $250 million bond issue in FY2004 in anticipation of grants from the federal government. These large increases in long-term obligations bear watching.



RETIREMENT SYSTEM TRENDS

The Civic Federation used three measures to present a multi-year evaluation of the fiscal health of the Chicago Transit Authority's Employees' Pension Fund: funded ratios, the value of unfunded liabilities and investment rates of return.[12]

The CTA Employees' Pension Fund is a defined benefit pension plan covering most full-time permanent union and nonunion employees. It is governed by the terms and conditions of the employees' collective bargaining agreements. The CTA has no direct oversight authority over the Fund, although it does appoint half of the members of the oversight committee governing the fund. In fact, under the guidelines set forth in the Governmental Accounting Standard Board's Statement Number 14, the Fund is a legal entity separate and distinct from the CTA. Thus, its financial statements are not included in the Authority's financial statements. In addition, unlike virtually every other local pension fund, the Employees' Pension Fund is exempted under state statute from reporting financial information about its assets, liabilities and investments.[13] In FY2004, the Fund had 10,751 active employees enrolled as well as 8,877 beneficiaries.

The CTA Employees' Pension Fund actuaries have informed the CTA Board of Directors that Fund assets are projected to be depleted in 2012, and retiree health insurance account assets are

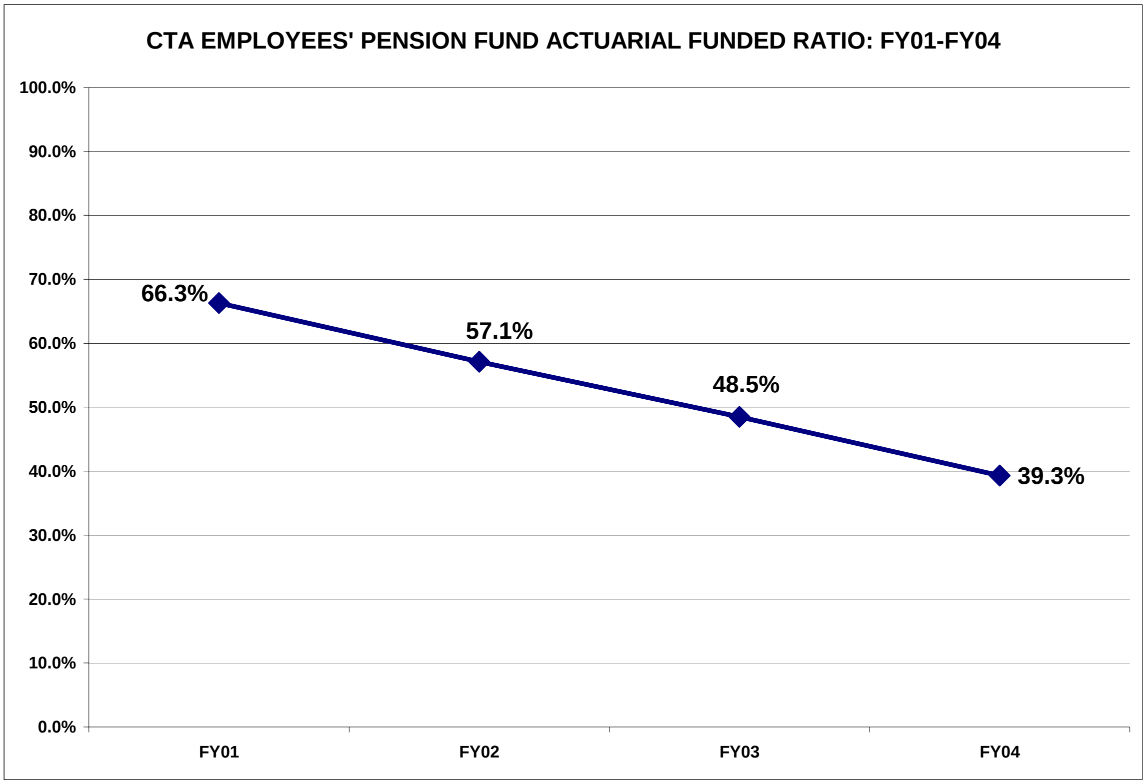
[12] The reporting period for the CTA Employees' Pension Fund is unusual – for FY2004, the Financial Statements are dated January 1, 2005 even though the fund's fiscal year is from January 1 to December 31.
[13] See Chicago Transit Authority. *Financial Statements for Years Ended December 31, 2003 and 2002*. Note 1 to the Financial Statements – Financial Reporting Entity – p. 18. See also 40 ILCS 5/22.1.

projected to be depleted in 2007.[14] Fund actuaries note that while the combined employer/employee contribution for FY2004 was 9% of payroll, the actuarially determined required contribution to cover normal cost as well as a 40-year amortization of unfunded liability was 48% of payroll.[15] According to the Fund's executive director, the trend toward declining funded ratios has been developing over the past 25 years, with the rapid deterioration of the CTA pension fund in recent years primarily due to insufficient contributions and escalating health care benefits exacerbated by investment losses.[16]

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.

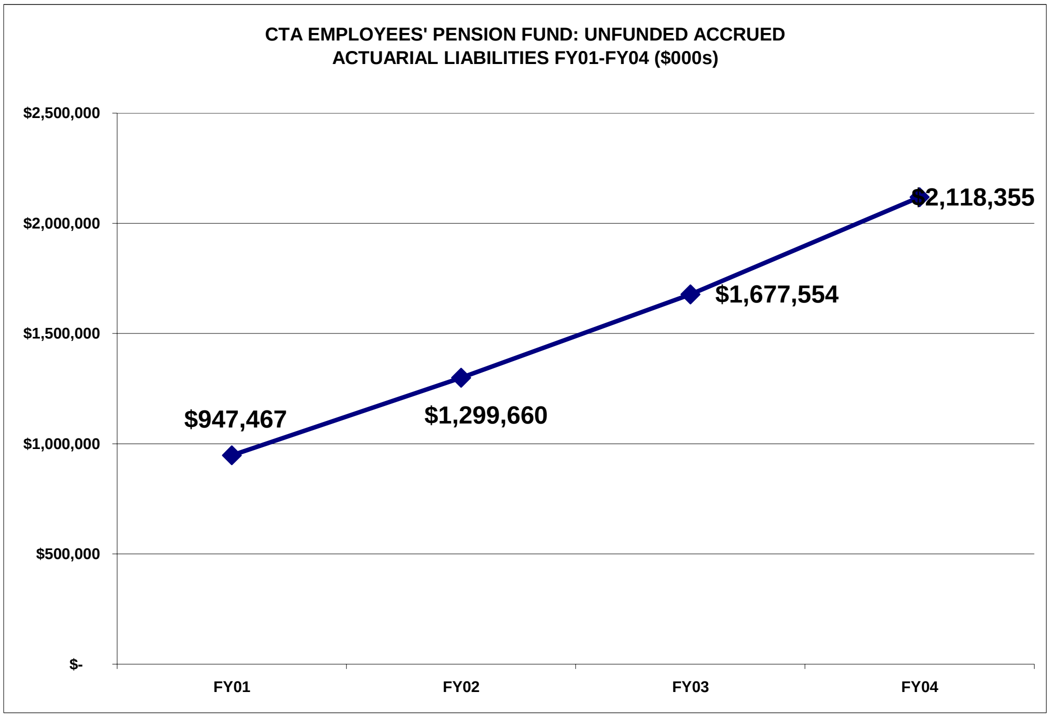
The funded ratio for the Employees' Pension Fund fell by 26% between FY2001 and FY2004, declining from 66.3% to only 39.3%. The steady erosion of CTA Pension Fund assets is a cause for alarm. Unless new revenues are provided, the Fund will be unable to make payments to beneficiaries by 2012.



[14] Presentation made by Fund actuaries to the CTA Board on September 14, 2005.
[15] Gabriel, Roeder, Smith & Company, *Retirement Plan for Chicago Transit Authority Employees: Actuarial Valuation Report for the Year Beginning January 1, 2005*, p. 4.
[16] Retirement Plan for Chicago Transit Authority Employees. Basic Financial Statements and Management's Discussion and Analysis, Year Ended December 31, 2004, p. 6.

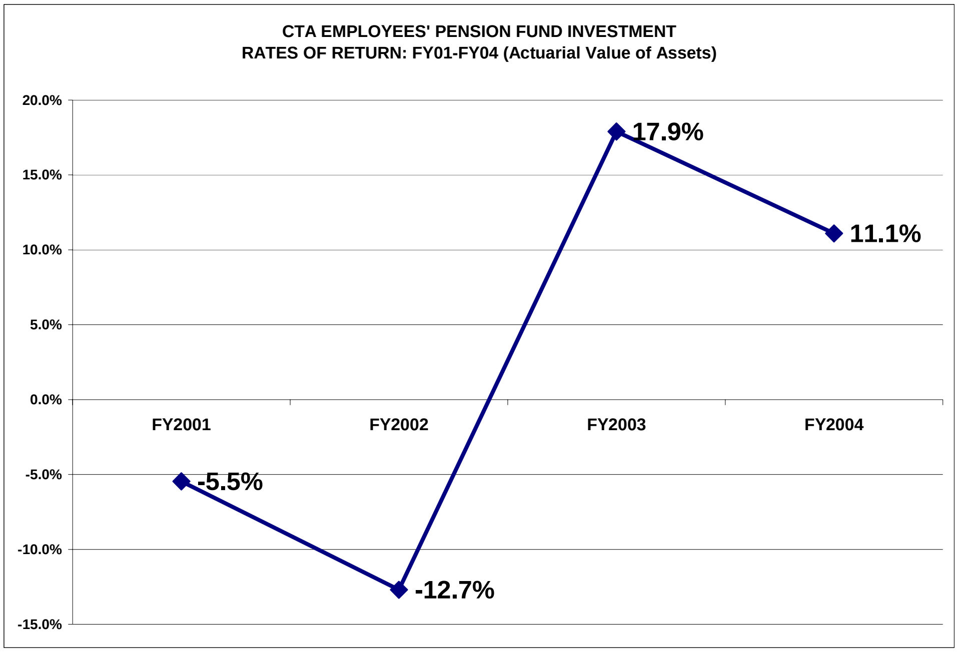
Unfunded Pension Liabilities

Unfunded liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the Chicago Transit Authority's Employees' Pension Fund totaled approximately $2.1 billion in FY2004. This was a $1.1 billion or 123.6% increase since FY2001. The rate of increase from FY2003 was 26.3%, or an increase from $1.6 billion to over $2.1 billion.



Investment Rates of Return

The investment rate of return for the CTA Employees' Pension Fund was 11.1% in FY2004. This is a decline from the 17.9% return reported the previous year. However, in FY2002 and FY2001, the Fund had reported negative returns. The change from negative to positive returns is a positive sign.



PRODUCTIVITY MEASURES

The Civic Federation uses 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 2001-2005.[17] 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 for rail service has remained quite constant, between $0.31 and $0.36. While bus expenses per passenger mile remained quite stable prior to 2003, this service's cost effectiveness dropped substantially in 2003, with costs rising from $0.69 to $0.82.

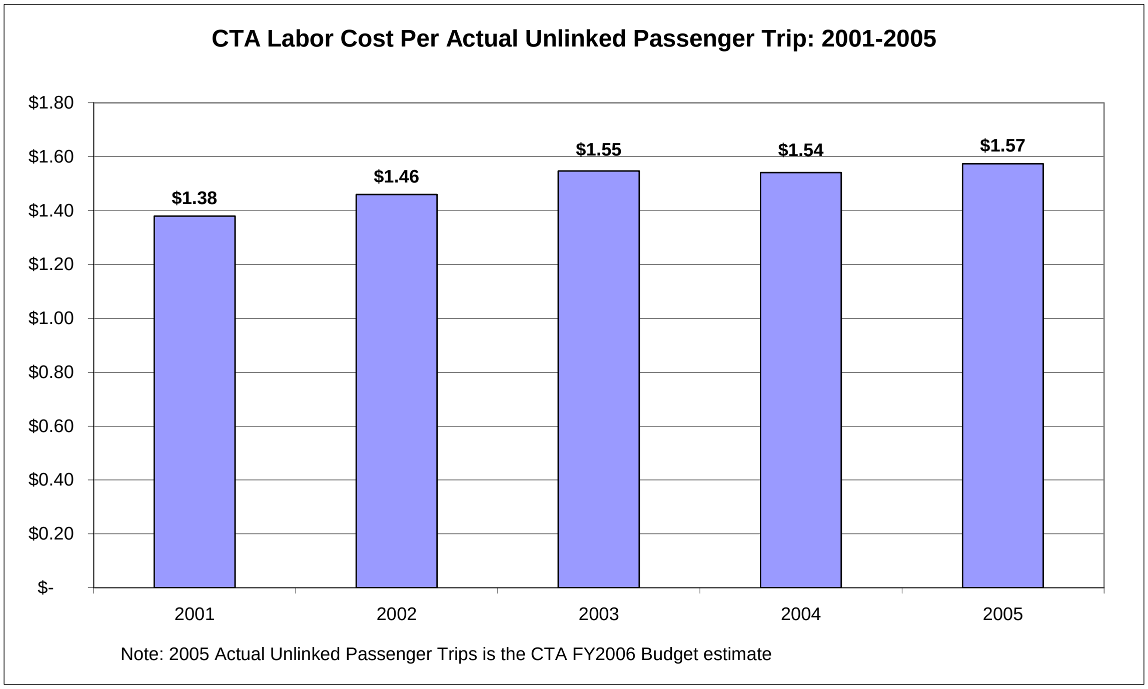
[17] One productivity measure reported in the CTA FY2006 Proposed Budget came from the National Transit Database (NTD), to which the CTA submits data annually. NTD data is only available up to 2003.

The CTA's 2003 operating expense per passenger mile for rail transit compared favorably with the mass transit systems in other major cities. Chicago's expenses for bus service, however, were second only to New York City.

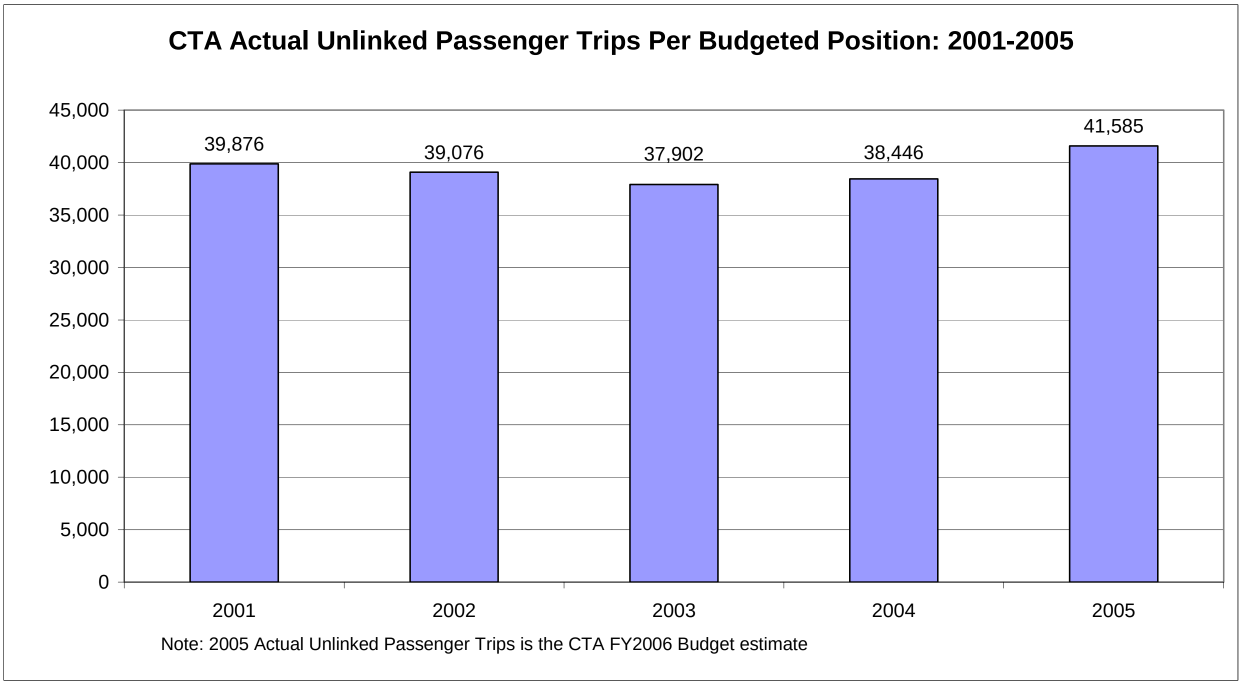
Selected Cities: Operating Expense Per Passenger Mile in 2003					
	Bus			Rail	
New York	$	0.97	Los Angeles	$	0.73
Chicago	**$**	**0.82**	Boston	$	0.40
Philadelphia	$	0.81	Washington D.C.	$	0.40
Washington D.C.	$	0.79	**Chicago**	**$**	**0.34**
Boston	$	0.75	Philadelphia	$	0.32
Los Angeles	$	0.72	New York	$	0.30

Sources: CTA FY2006 Proposed Budget and National Transit Database 2003

Productivity can also be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. In the last five years this number has risen from $1.38 to $1.57, a 14% increase. Between 2001 and 2005, labor costs rose 14.5%, while ridership grew by less than 1%.



A third measure of productivity is unlinked passenger trips per employee. In this case, a higher number of trips indicates higher productivity. The trend rose from 39,876 trips per employee in 2001 to 41,585 trips per employee in 2005. Ridership per employee declined slightly between 2001 and 2003 as ridership declined, but rose again in 2004-2005 as ridership improved and headcount was reduced.



The table below shows unlinked passenger trips per administrative position. This trend reflects the general trend for total positions above, with the exception of the larger productivity gains in 2004 and 2005 that reflect significant cuts in administrative positions.

CTA Unlinked Passenger Trips Per Administrative Position: 2001-2005	
2001	404,267
2002	400,000
2003	387,830
2004	415,076
2005	450,302

CIVIC FEDERATION RECOMMENDATIONS

The Civic Federation has several recommendations regarding ways to improve the Chicago Transit Authority's financial management.

The RTA Funding Formula Must be Reviewed

The Civic Federation remains convinced that the Illinois General Assembly must address the long-term structural funding problems of the three regional transit service boards by reviewing and revising the RTA Act's funding formula. We are not persuaded by arguments that the RTA Act is immutable and should never be changed. In fact, virtually every government policy should be re-evaluated at reasonable intervals to ascertain if it still fulfills its original purpose and whether there are better or more efficient ways to meet that purpose.

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

The Civic Federation is encouraged by the efforts of the House ***Special Committee on Mass Transit for Northeastern Illinois*** chaired by Representative Julie Hamos. The Special Committee's charge is to analyze and possibly rewrite the transit funding formula, which has not been reviewed since 1983, to ensure that funding levels correspond to transit service being provided in all parts of the region, as well as planned transit expansions for the next 10 years. We look forward to reviewing the Committee's work when it is completed.

Pension Funding Reforms Needed

The CTA must restructure employee pension and healthcare benefits so that costs are reduced in the long-term. It should not rely on infusions of revenue from the RTA of the State of Illinois to solve this problem. Rather it is imperative that the CTA demonstrate its commitment to being a responsible steward of public funds by providing only those employee benefits it can reasonably afford. Specifically, the Civic Federation believes that the CTA should follow pursue the following initiatives:

Establish a Two-Tiered System

Although the pension benefits for current public employees and retirees are guaranteed by the Illinois Constitution, benefit levels can be reduced for new employees. Reducing benefits for new employees would mean the creation of two-tiered benefit systems where existing and new employees receive different retirement benefits.

Link Annuity Increases to CPI (for New Hires)

Currently, many pension fund beneficiaries receive annual cost of living increases that exceed the rate of inflation. For new hires, annual annuity increases should be linked to the projected Consumer Price Index only as a means of controlling costs.

Any Benefit Increase Should Require Contribution Increases

The CTA should adopt a pay as you go pension funding strategy along the lines of Public Act 94-0004. That State of Illinois statute requires that every new benefit increase made to one of the State's retirement systems identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase expire after 5 years, subject to renewal. This is a sound proposal that should apply to the CTA Employees' Pension Fund.

Require Retirees to Contribute to the Cost of Health Insurance

Given the dire financial situation of the retiree health insurance fund, the Civic Federation believes that is appropriate to require some cost sharing between the CTA and retirees. CTA retired employees must contribute to the rapidly escalating cost of their health insurance.

Require Pension Fund Reporting to the Illinois Department of Insurance

Illinois statute requires that governments provide annual financial statements to the Illinois Department of Insurance. These statements must include actuarial statements and be filed no later than 9 months after the close of the pension fund's fiscal year. The CTA, however, is exempt from these requirements.

In recent years, after calls for transparency and disclosure by the Civic Federation, the CTA Employees' Pension Fund began to provide its annual financial statements on line. The

Federation applauds the Fund for taking this action, which is clearly in the public interest. However, this action remains voluntary. It could be revoked at any time. This would be unfortunate but cannot be prevented.

The Civic Federation believes that the General Assembly should now take what is an appropriate step and repeal the CTA Pension Fund's reporting exemption. There exists no sound public policy reason for exempting any public body receiving public funds from disclosing financial information. The CTA Pension Fund should be treated no differently than any other public legal entity.

Pursue Joint Purchasing of Employee Health Insurance

The CTA recently joined with six other local governments for the joint purchase of prescription drugs. Approximately $6.0 million in savings annually will be generated for the CTA from the agreement.[18] We urge the CTA to take the next step and work with other major local governments to consolidate health insurance purchasing. The potential for substantial savings that can be achieved from an insurance pool will be extremely beneficial to the CTA's future financial situation.

Develop and Implement a Long-Term Financial Plan

The National Advisory Council on State and Local Budgeting (NACSLB) and the Government Finance Officers Association (GFOA) both recommend that all governments formally adopt a long-term financial plan as a key component of a sound budget process.[19] The Civic Federation believes that the CTA should follow their recommendations and develop a formal plan that is shared with and/or reviewed by key policymakers and stakeholders. The long-term financial plan would include a regular review of the CTA's fare structure as well as efforts to control costs through the introduction of efficiencies.

Budget Format Improvements

The CTA prepares one of the more transparent local government budgets. However, we believe that there are a few areas the budget format could be improved. The budget should include:

- A "walk-up" that describes the sources of the current fiscal year budget deficit in the introductory pages of the budget.
- A "walk down" that clearly identifies the steps taken to eliminate the budget deficit, including identification of the location of personnel reductions.
- Specific information about projected sales tax revenues provided to the CTA from the RTA for the proposed budget; currently RTA Public Support regardless of source is aggregated in the budget presentation. Sales tax information is provided in the Appendix for the previous budget year, but no data is provided for the current or future years.
- Specific cost information regarding the management efficiencies listed in the FY2006 budget on p. viii, including how much is projected to be saved in the new fiscal year rather than

[18] Communication from the CTA, October 20, 2005.
[19] See National Advisory Council on State and Local Budgeting and Government Finance Officers Association

aggregate amounts of savings over time. It would also be helpful to provide the time frame for the privatization savings discussed on p. x.

- Personnel information that breaks out FTEs by category – Operations, STO and Administration – should be provided in the Budget Book in addition to information currently provided about positions by area.