

## FOR IMMEDIATE RELEASE

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### CIVIC FEDERATION OPPOSES UNBALANCED CTA BUDGET

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(CHICAGO) – “A spending plan based on the hope of \$110 million in new money from the state is neither balanced nor financially responsible,” said Laurence Msall, president of the Civic Federation.

The Federation announced its **opposition** to the Chicago Transit Authority's proposed \$1.13 billion budget as “financially imprudent” today. The group also expressed concern regarding the RTA's instructions to the three mass transit service boards to produce unbalanced budgets and the CTA's proposal of a budget that rests on the hope of additional funds from the State of Illinois. The Federation called upon CTA officials to produce a contingency plan that provides enough detail for the citizens of northeastern Illinois and the Illinois General Assembly to effectively evaluate how the CTA will meet its obligations if more public funding is not forthcoming from Springfield. “Metra produced a contingency plan detailing what capital projects will be deferred if they do not receive State funds, and the CTA should do likewise,” said Msall. “The CTA needs to specify what service cuts will be made and what other measures, including fare increases or the drawdown of capital funds, will be necessary if additional public funds are not forthcoming. Broad, unspecific statements about ‘service cuts’ are no substitute for a concrete plan and do not meet the state's legal requirements for producing a balanced budget that is open to public review.”

The report notes that the CTA's FY2007 deficit is largely due to two factors: 1) higher wage and benefit costs, including retroactive increases, that were mandated as a result of a recent binding arbitration decision, and 2) a large pension fund contribution increase that anticipates more dramatic, required contribution increases beginning in January 2009, when the CTA's contribution levels will be determined by a new State law intended to rectify the retirement system's serious underfunding.

The combined effect of the arbitrator's unfavorable ruling and the new state law means that the CTA faces growing pension liabilities even as it sharply increases pension contributions to pay down existing liabilities. Labor costs will increase by 13.5% or \$101.4 million in FY2007. This increase represents 8.9% of the CTA's entire operating budget.

The Federation's analysis acknowledges that CTA management was hamstrung during labor negotiations by an arbitrator's decision disallowing *any* of the reasonable benefit and pension cost control measures that management requested, despite the precarious financial status of the CTA's pension fund. “The Civic Federation deplores this shortsighted and financially indefensible decision and encourages the CTA management to continue to pursue improvements in the pension fund by seeking critical cost-saving measures,” said Msall.

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The Federation report urges the Illinois General Assembly to take immediate action to remove certain benefit and work rules from the purview of the CTA's collective bargaining agreement, so that the current stalemate and disregard for the financial state of the pension fund can be eliminated and the CTA Board be allowed to manage its personnel resources effectively. "The long-term fiscal health of the CTA depends on this reasonable move," added Msall.

The rapid deterioration of the CTA's pension fund, which had a funded ratio of only 34.4% in FY2005, is primarily due to insufficient contributions and the spiraling cost of health care benefits for which annuitants pay nothing, according the Federation's analysis. The CTA's new, state-mandated pension funding schedule, passed by the General Assembly in response to the CTA pension fund's looming crisis, requires that the CTA begin a ramp up of its pension contributions in FY2009 so that the pension fund will be 90% funded by 2058. The CTA estimates that this will require a \$150 million contribution in FY2009, nearly \$100 million more than the CTA contributed in FY2005.

The Civic Federation makes three recommendations to the CTA for the improvement of the condition of its pension fund, but these recommendations are contingent upon a fourth recommendation that the Federation makes to the State of Illinois: the General Assembly should grant the CTA the flexibility to restructure its employee pension and health care benefits. If the General Assembly grants the CTA the authority it needs to manage its pension and benefit costs effectively, the Federation recommends that the CTA should: 1) reduce benefits for new hires; 2) require that there will be no benefit increases without provision for additional funding; and 3) require that retired employees contribute to their health insurance costs. While the retirement benefits for current employees and annuitants of local governments may be constitutionally guaranteed in Illinois, new hires' pension benefits can be reduced.

Other Civic Federation recommendations reflect the belief of the Federation's membership that public transportation is a vital asset to the region and critical to the financial health of Illinois. The Federation supports increased public funding for all three of the transit service boards, whether provided from State funds or an adjustment in the RTA funding formula. To address the long-term structural funding problems of the transit service boards, the RTA Act's funding formula must be reviewed with an eye toward efficiency, effectiveness, and future transit needs of the region.

"There is plenty of blame to go around for the creation of this deficit budget, but blame will not remedy the situation. If the RTA does not take more of a leadership role and the General Assembly does not grant the CTA more latitude with its unions, the citizens and elected officials of Illinois are going to see, up close and personal, what happens when a local government goes bankrupt," warned Msall. "The Civic Federation cannot stress enough how important reform is to the future of mass transit in the Chicagoland area."

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

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