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CIVIC FEDERATION: CTA BUDGET CONTINUES DIFFICULT PROCESS OF IMPROVING FINANCIAL CONDITION *No Fare Hikes, Service Cuts Contingent on Labor Changes*

The Civic Federation supports the proposed FY2012 Chicago Transit Authority budget of \$1.2 billion because it will set the agency on a more sustainable path. The spending plan will also avoid fare hikes or service cuts if labor unions and arbitrators agree to work rule changes that would save \$160 million annually. The full 41-page analysis is available at civicfed.org.

The budget ends the CTA's reliance on capital funds to prop up spending, an important development for the future fiscal stability of the agency. Between FY2006 and FY2011, the CTA transferred a total of \$361.9 million in capital funds or 9.0% of new capital funding. The transfers may have bridged budget gaps in the short run, but they resulted in delays to infrastructure upgrades that will ultimately cost the agency more in the long run. "The Civic Federation has warned against this unsustainable practice every year," said Laurence Msall, president of the Civic Federation. "We commend CTA President Forrest Claypool halting the costly dissipation of capital funds."

The work rule changes the CTA is seeking during upcoming labor negotiations are meant to curb expenditure growth by addressing expensive labor practices. Work rules the CTA calls antiquated have contributed to an increase in labor expenses for the agency over the past five years despite a reduction of 1,661 full-time equivalent positions over the same period. However, the Federation cautions that these savings are far from certain and if they are not enacted, the CTA will need to make service cuts or impose revenue increases.

While the Federation commends many aspects of this budget, it remains concerned about the budget's use of one-time savings to help close a deficit of \$277 million. The CTA plans to reduce the amount of pension obligation bond (POB) debt service it will pay from the operating budget in order to maintain service levels and fares for the first half of FY2012 while it negotiates with unions for work rule changes. The agency replaced \$78 million in reserves for POB debt service in October 2011 with a \$4.7 million surety bond. It will then make part of its POB payment with the reserves rather than from the operating budget. The move frees up \$73.3 million in net operating funds to be spent elsewhere. The problem with this maneuver is that if the CTA does not come to an agreement with its unions that saves the agency \$160 million annually, there will be significant gaps in future budgets.

The Civic Federation makes many recommendations to improve the CTA's financial management in the analysis. In addition to urging the CTA to implement a formal long-term financial plan, the Federation encourages the agency to study zone-based and rush hour fare options.

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. For more information, please visit the Federation's website at www.civicfed.org.

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