



The Civic Federation

Research * Information * Action * Est. 1894

CHICAGO TRANSIT AUTHORITY PRESIDENT'S PROPOSED FY2013 OPERATING BUDGET

Analysis and Recommendations

December 10, 2012

The Civic Federation • 177 N. State Street • Chicago, IL 60601 • civicfed.org

The Civic Federation is an independent, non-partisan government research organization working to maximize the quality and cost-effectiveness of government services in the Chicago region and State of Illinois.

TABLE OF CONTENTS

EXECUTIVE SUMMARY3

CIVIC FEDERATION POSITION4

 ISSUES THE CIVIC FEDERATION SUPPORTS4

Proposing a Structurally Balanced Budget.....4

Maintaining Current Base Fares5

Working With Unions to Achieve Savings.....6

Continuing to Implement Management and Administrative Efficiencies6

Pursuing Additional Non-Fare System-Generated Revenues6

 CIVIC FEDERATION CONCERNS.....7

Lack of Transparency in Budget Book7

 CIVIC FEDERATION RECOMMENDATIONS8

Improve Budget Detail8

Study Zone Fare or Peak Hour Options.....8

Pursue Public-Private Partnerships for New Funding9

Implement a Formal Long-Term Financial Plan.....9

ACKNOWLEDGEMENTS11

APPROPRIATIONS11

 APPROPRIATIONS BY OBJECT: TWO-YEAR AND FIVE-YEAR TRENDS11

Non-Labor Expenses11

Labor Expenses.....13

REVENUES14

 CTA BUDGETED REVENUES: TWO-YEAR AND FIVE-YEAR TRENDS.....14

 STRUCTURE OF PUBLIC FUNDING FOR THE CTA FROM THE RTA19

 PROPOSED CHANGES TO FARE STRUCTURE20

PERSONNEL TRENDS.....22

RIDERSHIP23

PENSION FUND23

 PLAN DESCRIPTION23

 RECENT REFORMS24

 FUNDED RATIOS – ACTUARIAL VALUE OF ASSETS.....26

 UNFUNDED ACTUARIAL ACCRUED LIABILITIES27

 INVESTMENT RATES OF RETURN29

OTHER POST EMPLOYMENT BENEFITS29

SHORT-TERM LIABILITIES30

 ACCOUNTS PAYABLE RATIO.....32

 CURRENT RATIO.....32

LONG-TERM LIABILITIES.....33

 TOTAL LONG-TERM LIABILITIES33

 LONG-TERM DEBT.....34

 LONG-TERM DEBT PER CAPITA.....36

 DEBT SERVICE RATIO.....36

 CURRENT CTA BOND RATINGS.....37

CTA CAPITAL PLAN FY2013-FY201737

 CAPITAL FUNDING FY2013-FY2017.....38

PRODUCTIVITY MEASURES.....40

EXECUTIVE SUMMARY

The Civic Federation **strongly supports** the Chicago Transit Authority's (CTA) proposed FY2013 operating budget of approximately \$1.4 billion because it is a structurally balanced plan based on shared sacrifice by union members, riders and CTA management. The budget closes a \$165 million budget gap by curbing expenditure growth through labor reforms and management efficiencies and increasing recurring system-generated revenues with targeted fare increases, thereby securing a stronger and more sustainable financial future.

The Civic Federation offers the following **key findings** on the FY2013 Recommended Budget:

- The total proposed FY2013 operating budget will be \$1.4 billion, a 7.6%, or \$95.9 million, increase from the FY2012 revised appropriation of \$1.3 billion;
- The budget closes a \$165.0 million budget gap with \$60 million of labor reforms, \$50 million of management efficiencies and revenue enhancement through targeted fare increases;
- Labor expenses will be \$918.9 million, which is nearly flat from the FY2012 revised budget;
- FY2013 system-generated revenue is expected to be \$705.8 million while public funding through the Regional Transportation Authority will be \$653.0 million;
- Since FY2009 system-generated revenues will have increased by \$104.2 million, or 17.3%, and public funding through the Regional Transportation Authority will have increased by 23.0%, or \$122.0 million; and
- The CTA expects ridership to remain relatively flat from the FY2012 budget at 529.6 million rides in FY2013.

The Civic Federation **supports** the following elements of the CTA's FY2013 budget:

- Proposing a structurally balanced budget for the first time since at least FY2006;
- Maintaining current base fares;
- Working with labor unions to generate significant savings through labor reforms;
- Continuing to implement management and administrative efficiencies; and
- Pursuing additional non-fare system-generated revenues.

The Civic Federation has the following **concern** about the FY2013 proposed budget:

- The FY2013 proposed budget does not include sufficient details on operating expenses, deficit-reduction measures implemented in FY2012 and proposed in FY2013 and does not provide readers with a full reconciliation of the FY2012 budget, which was originally approved contingent upon labor negotiations.

The Civic Federation offers the following **recommendations** to improve the CTA's financial situation:

- Improve the budget document by providing more detail about deficit reduction measures, labor expenditures by type and full-time equivalent positions by department;
- Undertake a study of the benefits and drawbacks of transitioning from a flat fare structure to a zone-based or peak-hour-based fare structure and make the results publicly available;
- Pursue public-private partnerships for innovative and alternative financing options for transit investment; and
- Develop a long-term financial plan to maintain the budgetary balance proposed for FY2013 with models that present different options for aligning expenditures, revenues and service targets for future years.

CIVIC FEDERATION POSITION

The Civic Federation **strongly supports** the FY2013 proposed Chicago Transit Authority operating budget of approximately \$1.4 billion because it is a structurally balanced plan based on shared sacrifice by union members, riders and CTA management. The budget closes a \$165 million budget gap by curbing expenditure growth through labor reforms and management efficiencies and increasing recurring system-generated revenues with targeted fare increases, thereby securing a stronger and more sustainable financial future.

The tentative agreement with union members includes significant work-rule adjustments, health care cost sharing, modest annual salary increases and job security. The agency anticipates administrative savings with renegotiated energy costs, streamlining functions and eliminating waste in supply management. Fare pass increases come in the context of no change to base fares and a reduction to student fares. Importantly, for the first time in seven years, the proposed budget does not use one-time revenue sources to cover its operating expenses.

Although the FY2013 operating budget proposal would set the CTA on a more sustainable path for several years, the agency should develop a long-term financial plan that would continue this direction and establish a structural balance. Additionally, the agency still faces enormous capital funding challenges. It currently estimates that even with a fully funded capital backlog, the CTA would need \$844 million annually to keep the system in a good state of repair.¹

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the CTA President's FY2013 Budget Recommendations.

Proposing a Structurally Balanced Budget

The proposed FY2013 budget is structurally balanced since it does not include one-time revenue sources. Over the past seven years, the CTA has relied on at least one non-recurring revenue source to meet its operating obligations. These one-time revenue sources included transfers from capital funds, transfers from State funds in exchange for forestalling fare increases, transfers from prior year positive balance and most recently, savings generated from replacing a pension obligation bond debt service reserve with a surety bond.

¹ CTA President's FY2013 Budget Recommendations, p. 75.

Altogether, the agency has budgeted approximately \$686.0 million of one-time revenue sources since FY2006. Between FY2006 and FY2011, the CTA transferred \$391.9 million in capital funds to the operating budget. These transfers bridged annual budget gaps, but the resulting delay in infrastructure upgrades will ultimately cost the agency more in the long run because old equipment is more expensive to maintain. In its analysis of the FY2012 proposed budget, the Civic Federation commends CTA President Forrest Claypool for halting this unsustainable practice.

CTA Budgeted Non-Recurring Revenue Sources: FY2006-FY2013									
(in \$ millions)									
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	Total
Additional State Funds	\$27.1 ¹	-	-	-	\$83.0 ²	\$83.0 ²	-	-	\$198.1
Capital Transfers to Operating Budget*	\$41.2	\$83.9	-	\$128.9	\$89.7	\$48.2	-	-	\$391.9
Prior Year Resources	-	-	\$20.0	-	-	-	-	-	\$20.0
POB Reserve	-	-	-	-	-	-	\$73.0 ³	-	\$76.0
Total Non-Recurring Revenue	\$68.3	\$83.9	\$20.0	\$128.9	\$172.7	\$131.2	\$73.0	\$0.0	\$686.0

*Actual data provided by the CTA, November 4, 2011.

¹ Illinois Department of Transportation grant to fund paratransit.

² Agreement between the Regional Transportation Authority, State of Illinois and CTA to accept State funding in exchange for holding fares constant for two years.

³ The CTA replaced \$78 million held in reserves for pension obligation bond (POB) debt service with a \$4.7 million surety bond, freeing up a net of \$73.3 million to be applied to the FY2012 debt service payment. This action produced a one-time operating budget savings of \$73.3 million.

Source: CTA President's Budget Recommendations FY2007, p. 30; FY2008, p. 9; FY2009, p. 10; FY2010, p. 13; FY2011, p. 23; FY2012, p. 23; FY2013, p. 30.

By modernizing labor practices and implementing reasonable and necessary fare pass increases, the CTA has taken a significant step toward matching its ongoing expenses with its recurring revenues. The Federation commends the CTA for proposing a fiscally responsible approach to balance its budget.

Maintaining Current Base Fares

The FY2013 budget proposes no base fare increases. However, rates for fare passes will increase. The proposed fare structure, in conjunction with significant expenditure reductions, is a reasonable approach to help the agency achieve fiscal sustainability.

The CTA is proposing an increase for daily, weekly and monthly passes that will more aptly align pass fares with other major transit systems. The current discount rates² for 7-Day and 30-Day Pass holders are \$8.50 and \$49.00, the second most generous pass discounts among major transit systems including Boston, New York, Los Angeles and Washington, D.C. systems. The proposed fare structure will reduce the discount rates to \$3.50 and \$35.00 respectively, which is roughly in the middle of major transit system discount rates.³ The resulting weekly and monthly fares of \$28.00 and \$100.00 are also at the median of other major systems. The agency is also reducing rates for students, increasing Reduced Fare rates to the statutory 50% of base rates and introducing an increased O'Hare Airport station fare.

² The discount rate is based on two rail trips per day at full base fares. The full fare of the 7-Day Pass is \$31.50 and the pass is currently available for \$23.00, giving it a discount rate of \$8.50. The full fare of a 30-Day Pass is \$135.00 and the pass is currently available for \$86.00, giving it a discount rate of \$49.00. The proposed fares for the 7-Day and 30-Day passes are \$28.00 and \$100.00, reducing the discount rates to \$3.50 and \$35.00, respectively.

³ Comparisons to other major transit systems are provided by the CTA. See 2012 City Club Presentation available at <http://www.transitchicago.com/business/financebudget.aspx> (last visited on December 6, 2012).

Although the proposed increases may have an impact on pass holders and visitors to the City, the agency's proposed fare structure is a prudent initiative to generate much needed recurring revenue. The last increase in base fares was in FY2009, when cash fares for the bus system increased from \$2.00 to \$2.25 and transit card fares increased from \$1.75 to \$2.00 for buses and from \$2.00 to \$2.25 for trains. Pass fares also increased by 20% that year.

Given the agency's vital role as an economic asset to the City, the Civic Federation commends the agency for proposing a budget that will effectively continue to meet the demand for public transportation in the region.

Working With Unions to Achieve Savings

The FY2013 proposed operating budget relies in part on a tentative four-year collective bargaining agreement with the CTA's union employees. According to the CTA, the tentative agreements will result in better employee wages and job security, health care cost sharing that is more in line with other public agencies and greater flexibility in scheduling work which may lead to less overtime costs. The Federation commends the CTA and its unions for working together to develop a more sustainable contract that will provide some certainty about the largest portion of the CTA's operating budget.

In the past ten years, budgeted labor appropriations have increased by \$200.3 million, or 27.9%. This increase occurs despite a reduction of 1,506 positions, or 13.8%, in the CTA's workforce. Over 90% of CTA personnel are covered by collective bargaining agreements and over 70% of annual operating expenses are for labor costs. As such, the ability of the CTA and its union membership to come to an agreement that will allow the CTA to curb the extraordinary expenditure growth it has been experiencing is very commendable.

Continuing to Implement Management and Administrative Efficiencies

Last year the CTA administration instituted efficiencies in areas outside of collective bargaining agreements, including an ongoing wage freeze for non-union employees, delaying new hiring, eliminating managerial positions, improving supply chain processes, modifying sick and vacation leave policies and better managing worker's compensation claims. The FY2013 proposed budget includes approximately \$50.0 million in savings from renegotiated energy costs, limiting absenteeism, streamlining administrative functions and implementing a new contract to reduce waste in supply management.⁴

Pursuing Additional Non-Fare System-Generated Revenues

The Civic Federation supports the CTA for its pursuit of non-fare system-generated revenue. In 2012 the CTA secured new lease agreements, including a major coffee chain and virtual grocery markets, bringing in millions of dollars in new revenue. By pursuing these sources of system-generated revenue, the agency will establish a stronger financial footing without relying on State and federal funding or further increasing the burden on riders. The Federation urges the agency

⁴ Chicago Transit Authority, 2012 City Club Presentation. Available on the CTA's website at <http://www.transitchicago.com/business/financebudget.aspx> (last visited on December 6, 2012).

to follow through on these efforts so that anticipated revenues are realized this fiscal year and recur in future years.

Civic Federation Concerns

The Civic Federation has the following concern regarding the CTA's proposed FY2013 operating budget.

Lack of Transparency in Budget Book

Although the CTA provides ample narrative in its budget book to help explain the initiatives put forth in the upcoming fiscal year, as well as updates to the current fiscal year, the Civic Federation is concerned that the budget book offers very little detail in a number of other areas.

The budget book does not provide a breakdown of the conditions that have contributed to the current budget deficit and the specific measures that are proposed to eliminate the deficit. Such information, including dollar estimates associated with each condition and measure, should be included in the Executive Summary. Without these details, it can be difficult to ascertain how effective budget-closing measures will be. Additionally, although labor expenses represent over 70% of total CTA operating expenses, the budget document does not provide detail on all components of labor expense. This information would provide greater transparency for a significant portion of the district's budget, including wages, healthcare, pension contributions, workers' compensation and payroll taxes for Social Security and Medicare. Similarly, the large category of "Other Expenses" presented in the budget includes a number of important components that should be shown separately, including utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees and interest on the outstanding pension obligation bonds.

The Civic Federation is also concerned about the lack of detail on items specific to the FY2013 proposed budget. The FY2012 Forecast in the current budget proposal does not include an explanation of specific measures that were proposed in the FY2012 budget. **Namely, last year the CTA proposed to replace \$78.0 million held in reserves for pension obligation bond (POB) debt service with a \$4.7 million surety bond. This maneuver freed up a net of \$73.3 million to be applied to the FY2012 debt service payment, producing a one-time operating budget savings in the same amount.** The \$73.3 million was proposed to be used to maintain service levels and fares for the first half of 2012 while negotiating labor changes. The FY2012 Forecast does not recognize the maneuver in its narrative or in the 2012 Operating Budget Schedule as a separate source of revenue, though it is reflected as a reduction in POB interest expense which is a component of Other Expenses in the budget schedule.⁵

Furthermore, the FY2012 Forecast does not provide sufficient detail on the overall reconciliation of the FY2012 budget contingency. As the Federation noted in its analysis of the FY2012 proposed budget, the CTA's balanced budget depended on union negotiations. According to the CTA at the time, if negotiations had failed to produce \$160 million worth of annualized expenditure savings, the CTA would need to make service cuts or impose revenue increases mid-

⁵ Communication with CTA budget staff, December 6, 2012.

year to close the FY2012 budget gap. Ultimately, the CTA revised its budget in June to reflect cost savings and revenue increases, which included a reduction in labor expenses (\$44.0 million), increased public funding (\$17.6 million), increased farebox revenue (\$5.0 million), material and energy savings (\$6.2 million) and a reduction in the provision for injuries and damages (\$7.2 million).⁶ Although the budget narrative reflects the trends noted above, the full explanation of how the FY2012 budget was ultimately balanced without labor negotiations, cuts to service levels or fare increases in 2012 or a “walkdown” of the deficit was not included in the forecast.

Civic Federation Recommendations

The Civic Federation offers the following recommendations regarding the CTA’s financial management.

Improve Budget Detail

The Civic Federation recommends that the CTA improve its budget documents by providing the details currently missing from the budget as outlined in the concern section above.

The Federation recommends that the CTA budget be improved by adding detail on labor expenses including wages, healthcare, pension contributions, workers’ compensation and payroll taxes for Social Security and Medicare. Similarly, the large category of “Other Expenses” presented in the budget should be broken down with its components shown separately, including utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees and interest on the outstanding pension obligation bonds.

The Civic Federation also recommends that the CTA provide more detail on full-time equivalent positions including scheduled transit operators (STO), non-STO operations positions and administrators. Further detail on positions by department would also help readers understand the staffing structure of the CTA.

Finally, the budget document currently provides one year of actual data and data for the current year’s budget and proposed budget. Ideally, five years of data should be included to provide the reader with a clear understanding of budgetary trends. This would consist of three actual years, the current budget and the proposed budget.

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. The results of the study should be made publicly available. The Federation acknowledges that the new fare structure proposed in the FY2013 budget includes a higher O’Hare Airport station fare. This is a step forward for the agency since the single \$5.00 fare will increase revenues while still providing a reasonable value for riders traveling from O’Hare airport to downtown.

⁶ Communication with CTA budget staff, December 6, 2012.

Pursue Public-Private Partnerships for New Funding

In 2012 the CTA contracted financial advisors to identify alternative financing options to invest in transit projects in the future, particularly for the modernization of the Red and Purple ‘L’ Lines. The public-private partnerships (P3s) could include transit-oriented development, new non-farebox revenue sources and other options to capture real estate value along the rail lines.⁷ Similar P3s have helped develop transit systems worldwide. For example, the Denver Eagle P3 which is the first transit P3 of its size in the country, is a model for efficient project delivery, cost control and successful risk sharing with concessionaires. The Civic Federation supports the CTA’s effort to explore innovative sources of funding and encourages the CTA to maximize revenue-generating opportunities.

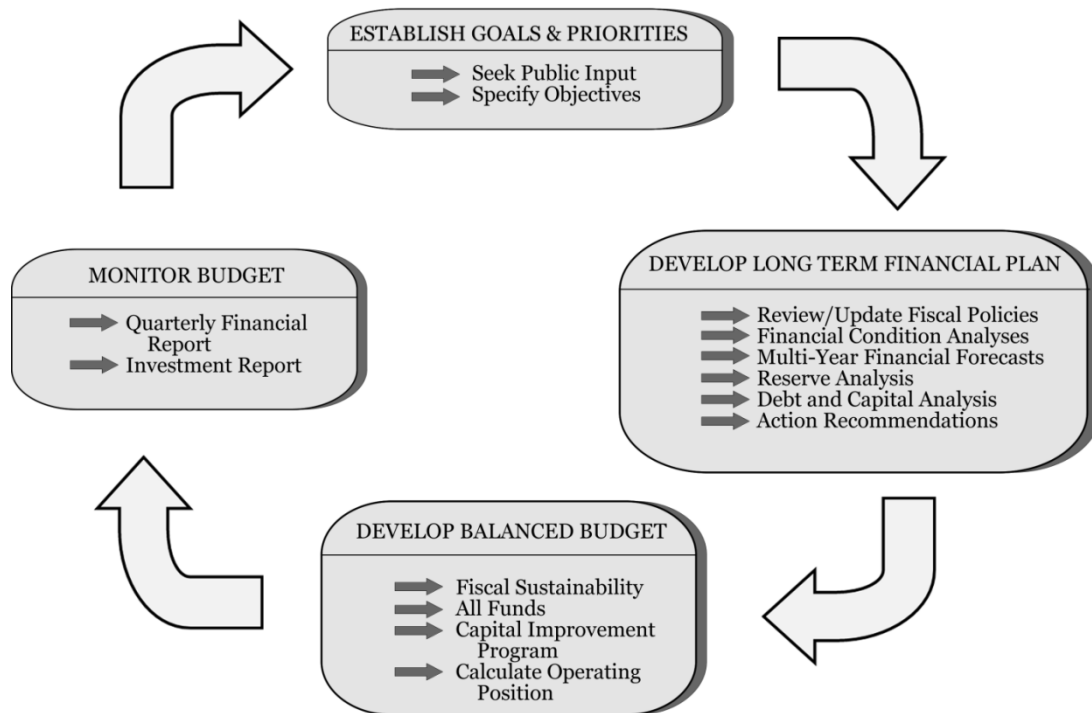
Implement a Formal Long-Term Financial Plan

The CTA has faced significant gaps between ongoing revenues and expenses in recent years, leading to a variety of actions including fare increases, service cuts, borrowing from the State of Illinois and using capital funds for operating purposes. The Civic Federation recommends that the CTA undertake a formal long-term financial planning process in order to consider and model future options for the System under different scenarios, as well as performance targets.

⁷ Chicago Transit Authority, “CTA Board Approves Financial Advisors,” news release, February 8, 2012.

Therefore, we recommend that the CTA undertake a four-stage financial planning process.⁸ First, the President and Board articulate fiscal and programmatic goals and priorities informed by public input. Then the President and Board evaluate financial and service data in order to determine how to accomplish the goals and priorities. The written plan includes a review of the CTA’s financial policies, a financial condition analysis that presents ten years of historical trend information, multi-year financial forecasts, a reserve fund analysis, an evaluation of debt and capital obligations and a series of action recommendations. The insights derived from the Long-Term Financial Plan would directly inform the development of a balanced CTA budget that is fiscally sustainable each year. The budget would then be regularly monitored to ensure its viability by means of regular financial reports.

Long-Term Financial Planning Process



If the CTA chooses not to undertake a full long-term financial planning process, at a minimum an annual document should be produced and include:

1. A description of financial policies, service level targets and financial goals. Each policy should be reviewed using relevant forecasting data to determine if the policy is being followed, if the policy should be amended and if new policies should be added;
2. A scorecard or rating of the financial indicators as part of the financial analysis that assesses whether the trend is favorable, warrants caution, is a warning sign of potential problems or is unfavorable;

⁸ The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California’s Long-Term Financial Plan and is reproduced in the Government Finance Officers Association document “Long-Term Financial Planning for Governments” available at <http://www.gfoa.org/downloads/LTFPbrochure.pdf>.

3. Possible strategies, actions and scenarios needed to address financial imbalances and other long-term issues, such as a discussion of the long-term implications of continuing or ending existing programs or adding new ones. These actions should include information on fiscal impact and ease of implementation; and
4. Sufficient stakeholder input including holding a public hearing for decision makers and the public to provide meaningful input on a long-term financial strategy to address the City's financial challenges.

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to Chicago Transit Authority President Forrest Claypool, Chief Financial Officer Karen Walker and Vice President of Finance Tom McKone and their staffs for their willingness to answer our questions about the budget.

APPROPRIATIONS

This section provides an analysis of appropriations in the CTA's proposed FY2013 budget compared to previous years. This year, the CTA's operating budget will total nearly \$1.4 billion, a 7.6%, or \$95.9 million, increase from the FY2012 revised appropriation of approximately \$1.3 billion.⁹

Appropriations by Object: Two-Year and Five-Year Trends

The following charts and corresponding narratives review the CTA's operating budget by object, or category, of expenditure and by non-labor and labor expenses. Figures used in the analysis include actual expenditures for FY2009, FY2010 and FY2011, original and revised budgeted amounts for FY2012 and proposed appropriations for FY2013.¹⁰ The FY2012 budget was revised mid-year and reflects expense reductions and revenue increases, including a \$44 million decrease in labor expenses primarily a result of a wage freeze (\$30 million).¹¹

Non-Labor Expenses

The "Other Expenses" category is the second largest expenditure category after labor expenses, which are described in more detail below. This category includes utilities for CTA facilities, advertising and marketing, equipment and software maintenance, accounting, engineering, legal and consulting services, banking fees and interest on the outstanding pension obligation bonds (POBs).¹² Other Expenses is projected to increase by 93.3%, or \$117.6 million, between revised FY2012 and proposed FY2013 figures. The increase is attributable to an increase in the CTA required contribution for the 2008 pension and retiree healthcare bonds and investments in projects such as Ventra, payroll processing, timekeeping software and supply chain modernization.¹³

⁹ The revised FY2012 budget of \$1,262.9 million is \$22.6 million greater than the original FY2012 budget of \$1,240.3 million.

¹⁰ The chart "CTA Labor Expenses: FY2009-FY2013" shows original FY2012 budget figures as revised FY2012 budget labor expenses were not available.

¹¹ Communication with CTA budget staff, December 6, 2012.

¹² CTA President's FY2013 Budget Recommendations, p. 27.

¹³ CTA President's FY2013 Budget Recommendations, p. 37.

In October 2011 the CTA replaced \$78 million held in reserves for POB debt service with a \$4.7 million surety bond, thus freeing up \$73.3 million to be applied to the FY2012 debt service payment.¹⁴ This one-time reduction in POB debt service payment from the operating budget allowed the CTA to continue operating for the first six months of 2012 without fare increases or service reductions as it negotiated work rule changes with its labor unions.

Appropriations for power, or electricity, will increase by 1.3%, or approximately \$308,000, in FY2013 pursuant to a new electricity contract effective January 2012. Electricity for rail continues to be purchased through a combination of wholesale advance block purchases and real-time pricing through strategic hedging.¹⁵ Security costs will grow by 5.2%, or \$1.9 million, from \$36.8 million to \$38.7 million over the two-year period. This increase is due to a new three-year intergovernmental agreement between the CTA and the Chicago Police Department through which the CTA will have 50 dedicated police officers for bus and rail system patrol and continuation of the Voluntary Special Employment Program. The cost of the agreement to the CTA is \$10 million annually.¹⁶

Appropriations for fuel will decline slightly in FY2013 by 0.4%, or approximately \$289,000. The CTA uses a long-term fuel hedging strategy to manage its fuel costs.¹⁷ Material expenses are expected to decrease by 16.4%, or \$11.2 million, from \$68.5 million in FY2012 to \$57.3 million in FY2013. This decrease is mainly due to a one-time grant that the CTA will use to invest in its fleet in FY2013.¹⁸ The annual expense for provision for injuries and damages is actuarially calculated based on claims history and future projections. It changes considerably from year to year. The FY2013 appropriation is \$11.8 million, or 50.9% less than the FY2012 revised budget.¹⁹

In a five-year comparison, the CTA's operating budget will increase by 7.7%, or \$97.2 million, between the actual expenditures in FY2009 and proposed expenditures for FY2013.

Actual labor expenses declined in FY2010 following layoffs and service reductions, but rose in FY2011 due to collectively bargained wage increases of 3.5% effective January 1, 2011 for members of the Amalgamated Transit Union and prevailing wage increases for members of the Craft Coalition unions.²⁰ Labor expenses in the revised FY2012 budget rose again and are expected to fall slightly in FY2013. Labor expenses will constitute 67.6% of the proposed FY2013 operating budget, down from 72.8% in the revised FY2012 budget and slightly down from 67.9% in FY2009.

The largest dollar increase in the total operating budget over the five-year period occurs in the "Other Expenses" category, primarily as a result of POB debt service payments. Debt service on

¹⁴ Information provided by CTA Budget Office, November 4, 2011 and <http://emma.msrb.org/ER514577-ER398823-ER800403.pdf>.

¹⁵ CTA President's Budget Recommendations, FY2012, p. 27 and FY2013, p. 37.

¹⁶ CTA President's FY2013 Budget Recommendations, p. 37.

¹⁷ CTA President's FY2013 Budget Recommendations, p. 36.

¹⁸ CTA President's FY2013 Budget Recommendations, p. 36.

¹⁹ CTA President's FY2013 Budget Recommendations, p. 27.

²⁰ CTA President's FY2012 Budget Recommendations, pp. 18-19.

the \$1.3 billion Series A 2008 POB was paid through July 1, 2009 from bond proceeds and interest on the proceeds. Debt service on the \$640.0 million Series B POB was paid through July 1, 2010 from bond proceeds and interest on the proceeds.²¹ The significant increases in “Other Expenses” in FY2009 and FY2010 reflect the beginning of payment on the POB out of the operating budget. The decline in “Other Expenses” in FY2012 reflects the use of a debt service reserve fund, described above, which reduced the POB debt service paid out of the operating budget from \$141.4 million to \$35.8 million for one year. The POB debt service paid out of the operating budget will rise to \$124.7 million in FY2013.

The total POB debt service obligation was \$131.4 million annually from 2009-2011, rising to \$141.4 million for FY2012. The obligation will increase by \$15.2 million in FY2013 and remain level at that amount through maturity in FY2040.²²

Material, fuel and power expenses are all budgeted to be between 34% and 39% less in FY2013 than in FY2009. As described above, these savings are due to commodities hedging and price contracts as well as maintenance savings resulting from newer rolling stock.

CTA Operating Budget by Object of Expenditure: FY2009-FY2013 (in \$ thousands)									
Object	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Revised	FY2013 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Labor	\$ 856,468	\$ 835,143	\$ 894,490	\$ 919,075	\$ 918,875	\$ (200)	0.0%	\$ 62,407	7.3%
Other Expenses									
Utilities	\$24,508	\$21,448	\$19,148	\$19,089	\$19,105	\$ 16	0.1%	\$ (5,403)	-22.0%
Advertising/Promotion	\$1,332	\$1,928	\$401	\$1,032	\$1,151	\$ 119	11.5%	\$ (181)	-13.6%
Travel & Meetings	\$543	\$514	\$496	\$962	\$961	\$ (1)	-0.1%	\$ 418	77.1%
Contractual Services	\$50,487	\$55,691	\$58,073	\$65,544	\$86,427	\$ 20,883	31.9%	\$ 35,940	71.2%
Leases & Rentals	\$2,277	\$3,556	\$2,785	\$2,919	\$3,381	\$ 462	15.8%	\$ 1,104	48.5%
General Expenses	\$66,303	\$20,207	\$20,613	\$13,580	\$20,375	\$ 6,795	50.0%	\$ (45,928)	-69.3%
Net POB Debt Services	\$0	\$76,785	\$102,146	\$35,761	\$124,731	\$ 88,970	248.8%	\$ 124,731	100.0%
Credit	\$ (14,102)	\$ (12,889)	\$ (10,267)	\$ (12,851)	\$ (12,497)	\$ 354	-2.8%	\$ 1,605	-11.4%
Subtotal Other Expenses	\$ 131,348	\$ 167,240	\$ 193,394	\$ 126,036	\$ 243,634	\$ 117,598	93.3%	\$ 112,286	85.5%
Material	\$ 87,900	\$ 80,077	\$ 67,919	\$ 68,493	\$ 57,279	\$ (11,214)	-16.4%	\$ (30,621)	-34.8%
Fuel	\$ 100,539	\$ 52,063	\$ 57,273	\$ 65,631	\$ 65,342	\$ (289)	-0.4%	\$ (35,197)	-35.0%
Security	\$ 32,300	\$ 33,319	\$ 36,815	\$ 36,803	\$ 38,734	\$ 1,931	5.2%	\$ 6,434	19.9%
Power	\$ 37,645	\$ 28,208	\$ 28,099	\$ 22,867	\$ 23,175	\$ 308	1.3%	\$ (14,470)	-38.4%
Provision for Injuries & Damages	\$ 15,397	\$ 43,000	\$ 15,000	\$ 24,000	\$ 11,792	\$ (12,208)	-50.9%	\$ (3,605)	-23.4%
Total	\$ 1,261,597	\$ 1,239,050	\$ 1,292,990	\$ 1,262,905	\$ 1,358,831	\$ 95,926	7.6%	\$ 97,234	7.7%

Note: Totals may differ from budget documents due to rounding.

Source: CTA President's Budget Recommendations: FY2011, p. 31; FY2012, p. 31; FY2013, p. 41 and information provided by CTA, November 4, 2011 and December 6, 2012.

Labor Expenses

The chart below displays a detailed breakdown for labor expenses over the five-year period from FY2009 to FY2013. Original FY2012 budget figures are shown because revised FY2012 budget labor expenses were not available.²³

Base wages will increase by 4.4%, or \$22.3 million, between the FY2012 original budget and the FY2013 proposed budget. Overall benefits costs will increase modestly by 3.4%, or \$13.2

²¹ CTA President's FY2012 Budget Recommendations, p. 102.

²² CTA President's FY2010 Budget Recommendations, p. 77.

²³ The original FY2012 budget includes \$80 million in labor savings that the CTA anticipated receiving as a result of union negotiations. The budget was revised mid-year without the anticipated savings but with expense reductions and revenue increases, including a \$44 million decrease in labor expenses mostly achieved through wage freezes.

million, over the two-year period. Expenses for sick day compensation will decline by 23.3%, or \$1.4 million, as a result of revisions to CTA sick day policies implemented in 2012.²⁴

Base wages will decline slightly over the five-year period by 0.4%, or \$2.3 million, while total benefits will increase by 12.0%, or \$43.6 million. With the exception of group insurance and pension expenses, all other categories of labor expenses will decrease between FY2009 and FY2013. Group insurance expenses are expected to grow by 14.5%, or \$15.9 million, while pension costs will rise by 144.5%, or \$63.8 million, in the five-year period.

CTA Labor Expenses: FY2009-FY2013 (in \$ thousands)									
Object	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Adopted	FY2013 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
Base Wages & Salaries	\$ 535,044	\$ 498,395	\$ 528,869	\$ 510,504	\$ 532,790	\$ 22,286	4.4%	\$ (2,255)	-0.4%
Benefits									
Vacation	\$ 40,785	\$ 53,319	\$ 40,380	\$ 39,161	\$ 39,267	\$ 106	0.3%	\$ (1,518)	-3.7%
Holiday	\$ 26,936	\$ 24,076	\$ 25,678	\$ 22,963	\$ 24,455	\$ 1,492	6.5%	\$ (2,481)	-9.2%
Sick	\$ 6,355	\$ 5,963	\$ 6,232	\$ 6,183	\$ 4,742	\$ (1,441)	-23.3%	\$ (1,613)	-25.4%
Jury Duty	\$ 760	\$ 689	\$ 731	\$ 720	\$ 746	\$ 26	3.7%	\$ (14)	-1.9%
Workers' Comp	\$ 69,126	\$ 55,700	\$ 57,723	\$ 61,017	\$ 47,365	\$ (13,652)	-22.4%	\$ (21,761)	-31.5%
Tuition Aid	\$ 227	\$ 209	\$ 657	\$ 163	\$ 160	\$ (3)	-1.7%	\$ (67)	-29.5%
FICA	\$ 47,756	\$ 45,055	\$ 47,151	\$ 43,644	\$ 44,808	\$ 1,163	2.7%	\$ (2,948)	-6.2%
Unemployment Ins	\$ 2,556	\$ 11,970	\$ 3,143	\$ 1,393	\$ 2,557	\$ 1,164	83.6%	\$ 1	0.0%
Group Ins	\$ 109,668	\$ 111,958	\$ 117,236	\$ 120,639	\$ 125,578	\$ 4,940	4.1%	\$ 15,910	14.5%
Uniform Allowance	\$ 1,689	\$ 1,643	\$ 1,260	\$ 1,126	\$ 1,385	\$ 259	23.0%	\$ (304)	-18.0%
Supplemental Retirement	\$ 10,310	\$ 6,522	\$ 7,308	\$ 4,581	\$ 4,742	\$ 161	3.5%	\$ (5,569)	-54.0%
Incentive Retirement	\$ 1,380	\$ 1,480	\$ 1,567	\$ 1,537	\$ 1,545	\$ 8	0.5%	\$ 165	11.9%
Pension	\$ 44,128	\$ 57,193	\$ 89,967	\$ 88,932	\$ 107,890	\$ 18,958	21.3%	\$ 63,762	144.5%
Subtotal Benefits	\$ 361,677	\$ 375,776	\$ 399,035	\$ 392,058	\$ 405,240	\$ 13,181	3.4%	\$ 43,563	12.0%
Fringe Benefit Offset	\$ (20,573)	\$ (20,487)	\$ (14,110)	\$ -	\$ -	\$ 20,573	-100.0%	\$ 20,573	-100.0%
Other Labor Credits	\$ (19,681)	\$ (18,541)	\$ (19,305)	\$ (19,487)	\$ (19,154)	\$ 333	-1.7%	\$ 527	-2.7%
Total	\$ 856,468	\$ 835,143	\$ 894,490	\$ 883,075	\$ 918,875	\$ 35,800	4.1%	\$ 62,407	7.3%

Note: Totals may differ from budget documents due to rounding.

Source: Information provided by CTA, November 4, 2011 and December 6, 2012.

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 Regional Transit Authority, and the real estate transfer tax). Each of these revenue sources are examined below.

CTA Budgeted Revenues: Two-Year and Five-Year Trends

The President's FY2013 Budget Recommendations include nearly \$1.4 billion in revenues, which is a 7.6%, or \$95.9 million, increase from the revised FY2012 budget. The revenue total includes \$705.8 million from system-generated revenue and \$653.0 million in public funding through the Regional Transit Authority (RTA).

System-generated revenue in FY2013 will increase by \$77.1 million, or 12.3%, over the FY2012 revised budget. In the past five years, system-generated revenue has increased by \$104.2 million, or 17.3%. In FY2013 this revenue includes \$612.0 million in farebox revenue, a 12.3% increase from the previous year. Farebox revenue represents 86.7% of all system-generated revenue in the proposed budget. The projected growth is due to increasing the rates of fare passes, equalizing mandated reduced fares for qualified riders to the statutory 50 percent of base fares and

²⁴ CTA President's FY2013 Budget Recommendations, p. 14.

increasing fares for trips departing from O'Hare Airport.²⁵ Rates for 1-Day, 3-Day, 7-Day and 30-Day passes will increase between 16.3% and 73.9%, though base fares will remain unchanged. More information on proposed changes to the fare structure is provided further in this section.

Base fares for bus and rail travel have not increased since FY2009 when fares were increased by \$0.25 to \$2.00 (transit card) and \$2.25 (cash) for buses and to \$2.25 for trains.²⁶ The CTA provides free rides to low-income seniors and people with disabilities per P.A. 96-1527, but as of FY2012 no longer provides free rides to all persons aged 65 or older.

Advertising, charter and concession revenue will increase over \$5.0 million, or 22.1%, from FY2012. The increase reflects an expansion of digital advertising and an increase in advertisement sales.²⁷ Despite the two-year increase, revenue from advertising, charter and concessions has decreased by \$2.4 million, or 7.8%, since FY2009. This is largely because of a significant decline in FY2010 due to reduced corporate spending on advertising.²⁸ Investment income is expected to decline by approximately \$238,000, or 27.5%, from FY2012. The decrease is in line with the low investment income trend since FY2009 and reflects the Authority's conservative cash investments and near zero federal funds rates.²⁹

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.³⁰ The amounts contributed to the CTA by the City of Chicago and Cook County have remained unchanged since 1985. However, the City of Chicago also makes in-kind law enforcement contributions to the CTA.³¹ This represents \$22.0 million in police services for 2013, provided at no charge to the CTA. In addition, Cook County provides \$3.5 million of in-kind services through the Sheriff's Work Alternative Program, which assigns non-violent offenders to help CTA workers clean bus turnarounds and garages.³²

The State of Illinois annually provides the CTA with a partial reimbursement or subsidy for reduced fares. The amount provided in FY2013 is expected to be \$28.3 million, a slight increase from \$28.0 million in FY2012.

Other revenue, which includes parking charges, filming fees, third-party contract reimbursements and rental revenue, will increase by \$4.9 million, or 18.3%, to \$32.0 million in

²⁵ CTA President's FY2013 Budget Recommendations, p. 38.

²⁶ In FY2009, cash fares for the bus system increased from \$2.00 to \$2.25 and transit card fares increased from \$1.75 to \$2.00 for buses and from \$2.00 to \$2.25 for trains. Pass fares increased by 20% with the exception of student passes. See CTA President's FY2009 Budget Recommendations, p. 17.

²⁷ CTA President's FY2013 Budget Recommendations, p. 39.

²⁸ CTA President's FY2011 Budget Recommendations, p. 21.

²⁹ CTA President's FY2013 Budget Recommendations, p. 39.

³⁰ The CTA notes that in-kind revenues are included as system-generated revenues in its explanation of the recovery ratio calculation on page 41 of the FY2013 Budget Recommendations.

³¹ CTA President's FY2013 Budget Recommendations, p. 39.

³² CTA President's FY2013 Budget Recommendations, p. 39.

FY2013. The projected increase is due to an anticipated increase in rental revenue after renovations to Red Line stations are complete.³³

Public funding for the CTA will increase in FY2013 by 12.3% according to Regional Transportation Authority projections. This represents a \$77.1 million increase, from \$628.7 million to \$705.8 million. The projected increase is due to anticipated improvement in sales tax receipts for the next year.³⁴ 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.³⁵ For details on the structure of public funding from the RTA, see page 19 of this analysis.

The FY2013 budget does not include one-time revenue sources that were used over the past few years: capital funds for preventive maintenance and State funds provided in exchange for forestalling fare increases. Those two sources totaled \$128.9 million in FY2009, \$172.7 million in FY2010 and \$118.0 million in FY2011. In FY2012 the CTA used a different one-time revenue source to balance its budget: the CTA replaced \$78.0 million in pension obligation bond (POB) reserves with a \$4.7 million surety bond, freeing up \$73.3 million in net operating funds. The maneuver allowed the CTA to maintain service levels and fares in FY2012 while it worked on negotiations with its unions, but it also reduced net appropriations toward POB debt service by 65.4%.³⁶

The recovery ratio, which measures the proportion of operating expenses recovered from operating revenues, is an indicator of the CTA's financial 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 FY2013 the CTA will recover 63.4% of its operating expenses through system-generated revenues.³⁷ Although the recovery ratio has improved over the past few years, with public funding providing 36.6% of the system's operating expenses, the agency still must rely heavily on public funding made available through the RTA.

³³ CTA President's FY2013 Budget Recommendations, p. 39.

³⁴ CTA President's FY2013 Budget Recommendations, p. 40.

³⁵ 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.

³⁶ In FY2012 the CTA appropriated a net \$35.8 million in POB debt service, down from \$103.3 million in FY2011. Communication with CTA budget staff, November 4, 2011.

³⁷ CTA President's FY2013 Budget Recommendations, p. 41.

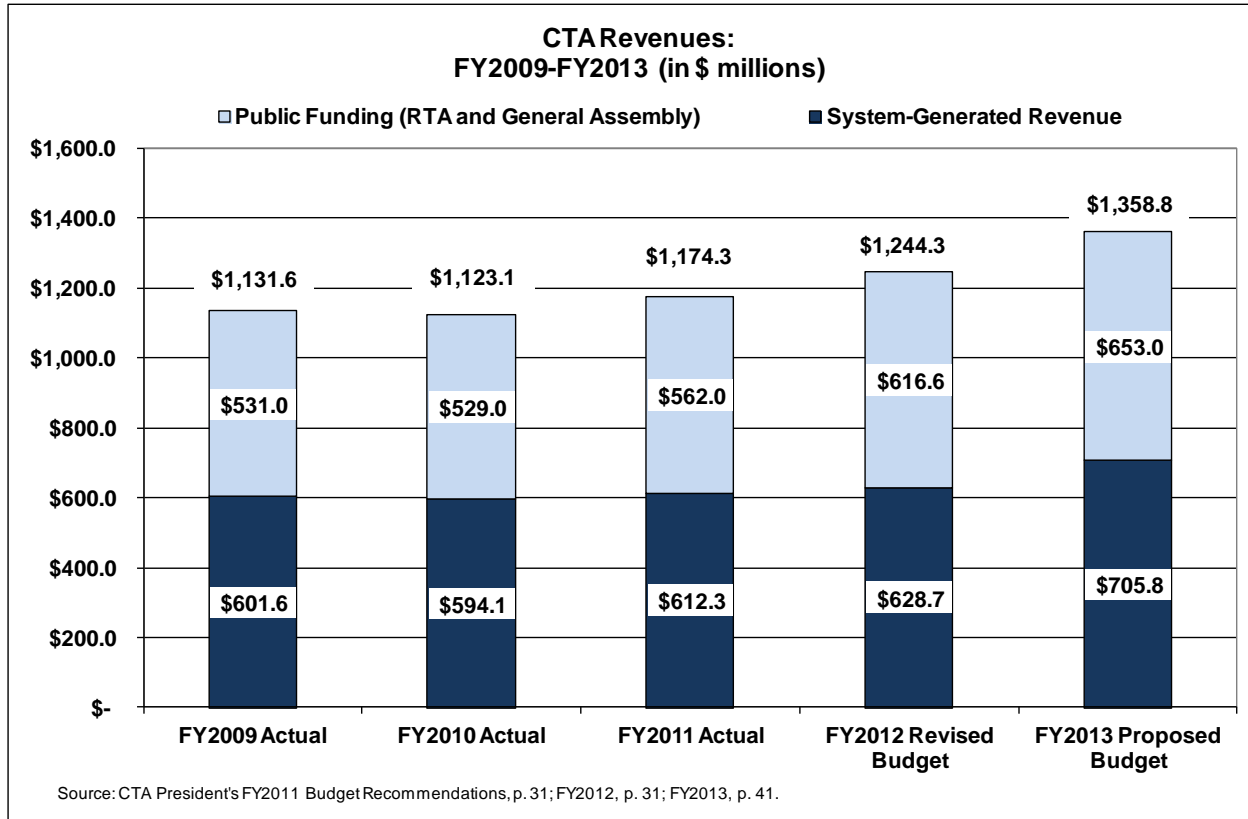
The five-year revenue trend reflects significant increases in fares and passes and public funding. Income from fares and passes will increase by \$106.3 million, or 21.0%, largely due to ridership increases since FY2011 and the FY2013 fare structure changes. Public funding from the RTA will increase by 23.0%, or \$122.0 million. Since FY2010, public funding has increased on average by approximately \$41.4 million annually, which the CTA attributes to higher sales tax receipts in the region and higher real estate taxes in Chicago.³⁸

CTA Budgeted Revenue: FY2009-FY2013									
(in \$ millions)									
Source	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Revised	FY2013 Proposed	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
System-Generated Revenue									
Fares and Passes	\$ 505.7	\$ 509.2	\$ 527.9	\$ 545.0	\$ 612.0	\$ 67.0	12.3%	\$ 106.3	21.0%
Reduced Fare Reimbursement	\$ 28.2	\$ 28.2	\$ 26.0	\$ 28.0	\$ 28.3	\$ 0.3	1.2%	\$ 0.1	0.3%
Advertising, Charter & Concessions	\$ 30.2	\$ 22.6	\$ 21.5	\$ 22.8	\$ 27.9	\$ 5.0	22.1%	\$ (2.4)	-7.8%
Investment Income	\$ 1.3	\$ 0.6	\$ 0.6	\$ 0.9	\$ 0.6	\$ (0.2)	-27.5%	\$ (0.6)	-50.0%
Required Contributions from Cook County & Chicago	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ -	0.0%	\$ -	0.0%
Other Revenue	\$ 31.2	\$ 28.4	\$ 31.4	\$ 27.0	\$ 32.0	\$ 4.9	18.3%	\$ 0.7	2.4%
Total System-Generated Revenue	\$ 601.6	\$ 594.1	\$ 612.3	\$ 628.7	\$ 705.8	\$ 77.1	12.3%	\$ 104.2	17.3%
Public Funding through RTA	\$ 531.0	\$ 529.0	\$ 562.0	\$ 616.6	\$ 653.0	\$ 36.4	5.9%	\$ 122.0	23.0%
Additional 2011 Sales Tax/Discretionary	\$ -	\$ -	\$ -	\$ 17.6	\$ -	\$ (17.6)	-100.0%	\$ -	-
Fare Agreement with State	\$ -	\$ 83.0	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Transfer from Capital-Preventive Maintenance Funds	\$ 128.9	\$ 89.7	\$ 118.0	\$ -	\$ -	\$ -	-	\$ (128.9)	-100.0%
Total	\$ 1,261.6	\$ 1,295.7	\$ 1,292.3	\$ 1,262.9	\$ 1,358.8	\$ 95.9	7.6%	\$ 97.2	7.7%

Source: CTA President's FY2011 Budget Recommendations, p. 31; FY2012, p. 31; FY2013, p. 41.

³⁸ CTA President's FY2012 Budget Recommendations, p. 22; FY2013, p. 29 and 40.

The following exhibit illustrates system-generated revenues and public funding between FY2009 and FY2013. It does not include one-time revenue sources such as capital funds transferred to the operating budget or additional State funds provided in exchange for forestalling fare increases. These revenue sources cannot be relied upon in any given year and as such, would not provide an accurate trend analysis if it were included in total revenues for the past five years.



Structure of Public Funding for the CTA from the RTA

The CTA will receive public funding from three sources in 2013: 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.³⁹ The increase in the RTA sales tax provided additional revenue for collar counties (DuPage, Kane, Lake, McHenry and Will Counties) to use at their discretion for local road, transit and public safety projects. 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.⁴⁰

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 boards as well as RTA operations, debt service and capital investment.⁴¹ The RTA also has authority to levy taxes on automobile rentals, motor fuel and off-street parking facilities, but has not exercised this authority.⁴²

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: FY2013			
	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 FY2013 Budget Recommendations, p. 92.

³⁹ See Public Act 095-0708.

⁴⁰ 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.

⁴¹ CTA President's FY2013 Budget Recommendations, p. 93.

⁴² 70 ILCS 3615/4.03.

The next exhibit details public funding for the CTA that is provided through the RTA since FY2009. The CTA does not provide actual data for the sources of public funding in prior years, so the anticipated revenue for each source from proposed budgets is shown. Due to the significant differences between anticipated public funding revenues and actual total public funding provided through the RTA as shown in previous exhibits in FY2009 and FY2010, five-year trends are not applicable.

As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive \$495.7 million in total sales tax revenue from the RTA in FY2013. When compared to revenues anticipated in the FY2012 proposed budget, this is a \$25.6 million, or 5.4%, increase. Of the \$495.7 million, \$314.6 million is expected to come directly from the sales tax distribution formula and \$181.0 million will be RTA discretionary funds, allocated from the 15% of total tax revenue retained by the RTA.

The CTA expects to receive an additional \$8.2 million from real estate transfer taxes collected in Chicago compared to FY2012. The CTA will also receive \$112.1 million in revenues from the RTA sales tax increase enacted in 2008 by PA 95-0708, which is a slight increase of \$0.6 million, or 0.6%, from FY2012.

CTA Sources of Public Funding Through the RTA: FY2009-FY2013 (in \$ millions)									
	FY2009	FY2010	FY2011	FY2012	FY2013	Two-Year \$ Change	Two-Year % Change	Five-Year \$ Change	Five-Year % Change
RTA Formula Sales Tax Revenues	\$ 302.4	\$ 257.7	\$ 271.9	\$ 301.4	\$ 314.6	\$ 13.3	4.4%	\$ 12.2	4.0%
RTA Discretionary Sales Tax Revenues	\$ 198.1	\$ 89.1	\$ 109.4	\$ 168.7	\$ 181.0	\$ 12.3	7.3%	\$ (17.1)	-8.6%
Sub-Total RTA Sales Tax Revenues	\$ 500.5	\$ 346.8	\$ 381.2	\$ 470.1	\$ 495.7	\$ 25.6	5.4%	\$ (4.8)	-1.0%
Real Estate Transfer Tax (Chicago)	\$ 84.0	\$ 25.0	\$ 24.0	\$ 28.0	\$ 36.2	\$ 8.2	29.2%	\$ (47.8)	-56.9%
Real Estate Transfer Tax (25% Public Transportation Fund)	\$ -	\$ -	\$ 6.0	\$ 7.0	\$ 9.1	\$ 2.0	29.2%	\$ 9.1	-
Sales Tax and PTF per PA 95-0708	\$ 155.3	\$ 108.4	\$ 118.1	\$ 111.5	\$ 112.1	\$ 0.6	0.6%	\$ (43.2)	-27.8%
Federal Preventative Maintenance Funds (5307)	\$ -	\$ 128.6	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Working Cash Borrowing	\$ -	\$ 56.1	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
ICE Fund*	\$ -	\$ 5.0	\$ -	\$ -	\$ -	\$ -	-	\$ -	-
Total	\$ 739.8	\$ 670.0	\$ 529.3	\$ 616.6	\$ 653.0	\$ 36.4	5.9%	\$ (86.7)	-11.7%

Note: Totals may differ due to rounding. All figures are anticipated revenues from the President's Budget Recommendations and as such, the total public funding presented for FY2009-FY2011 differ from actual figures in the previous exhibits.

*Innovation, Coordination and Enhancement (ICE) Fund.

Source: CTA President's FY2009 Budget Recommendations, p. 54; FY2010, p. 67; FY2011, p. 86; FY2012, p. 90; FY2013, p. 94.

Proposed Changes to Fare Structure

Farebox revenue in FY2013 will increase by \$67.0 million, or 12.3%, over the FY2012 revised budget to \$612.0 million. Farebox revenue represents 86.7% of all system-generated revenue in the proposed budget. The projected growth is due to increasing the rates of fare passes, equalizing mandated reduced fares for qualified riders to the statutory 50 percent of base fares and increasing fares for trips departing from O'Hare Airport.⁴³

The exhibit below shows the CTA's proposed changes to the fare structure. Significant changes include:

⁴³ CTA President's FY2013 Budget Recommendations, p. 38.

- A \$4.25, or 73.9%, increase to 1-Day passes and a \$6.00, or 42.9%, increase to 3-Day passes which are primarily used by visitors;
- A \$14.00, or 16.3%, increase to 30-Day passes;
- Student fare decreases including a \$0.10, or 11.8%, decrease on bus and rail with Student Permits and a \$0.25, or 25.0%, decrease for bus fare paid in cash;
- Increases in reduced fares between 10.0% (bus fares paid in cash) and 42.9% (30-Day Pass); and
- A fare increase from \$2.25 to \$5.00 for trains departing from O'Hare Station, not including riders with passes and reduced fares.

CTA Proposed Fare Structure: FY2013				
	Current Fare Structure (effective January 1, 2009)	Proposed Fare Structure (effective January 14, 2013)	\$ Change	% Change
Full Fare				
Bus	\$2.00	\$2.00	\$0.00	0.0%
Rail	\$2.25	\$2.25	\$0.00	0.0%
Cash (Bus Only)	\$2.25	\$2.25	\$0.00	0.0%
Transfer	\$0.25	\$0.25	\$0.00	0.0%
1-Day Pass	\$5.75	\$10.00	\$4.25	73.9%
3-Day Pass	\$14.00	\$20.00	\$6.00	42.9%
7-Day Pass	\$23.00	\$28.00	\$5.00	21.7%
30-Day Pass	\$86.00	\$100.00	\$14.00	16.3%
Metra Link-Up	\$45.00	\$55.00	\$10.00	22.2%
Soldier Field Express	\$1.00	\$5.00	\$4.00	400.0%
O'Hare Station Fare*	\$2.25	\$5.00	\$2.75	122.2%
Reduced Fare				
Bus	\$0.85	\$1.00	\$0.15	17.6%
Rail	\$0.85	\$1.10	\$0.25	29.4%
Cash (Bus Only)	\$1.00	\$1.10	\$0.10	10.0%
Transfer	\$0.15	\$0.15	\$0.00	0.0%
Pre-Paid Bonus	10.0%	Eliminated	-	-
30-Day Pass	\$35.00	\$50.00	\$15.00	42.9%
Soldier Field Express	\$0.50	\$2.50	\$2.00	400.0%
Student Fare				
Bus & Rail on Student Permit	\$0.85	\$0.75	(\$0.10)	-11.8%
Transfer	\$0.15	\$0.15	\$0.00	0.0%
Cash (Bus Only)	\$1.00	\$0.75	(\$0.25)	-25.0%

*The fare remains unchanged for riders presenting passes and reduced fares at O'Hare Blue Line Station.

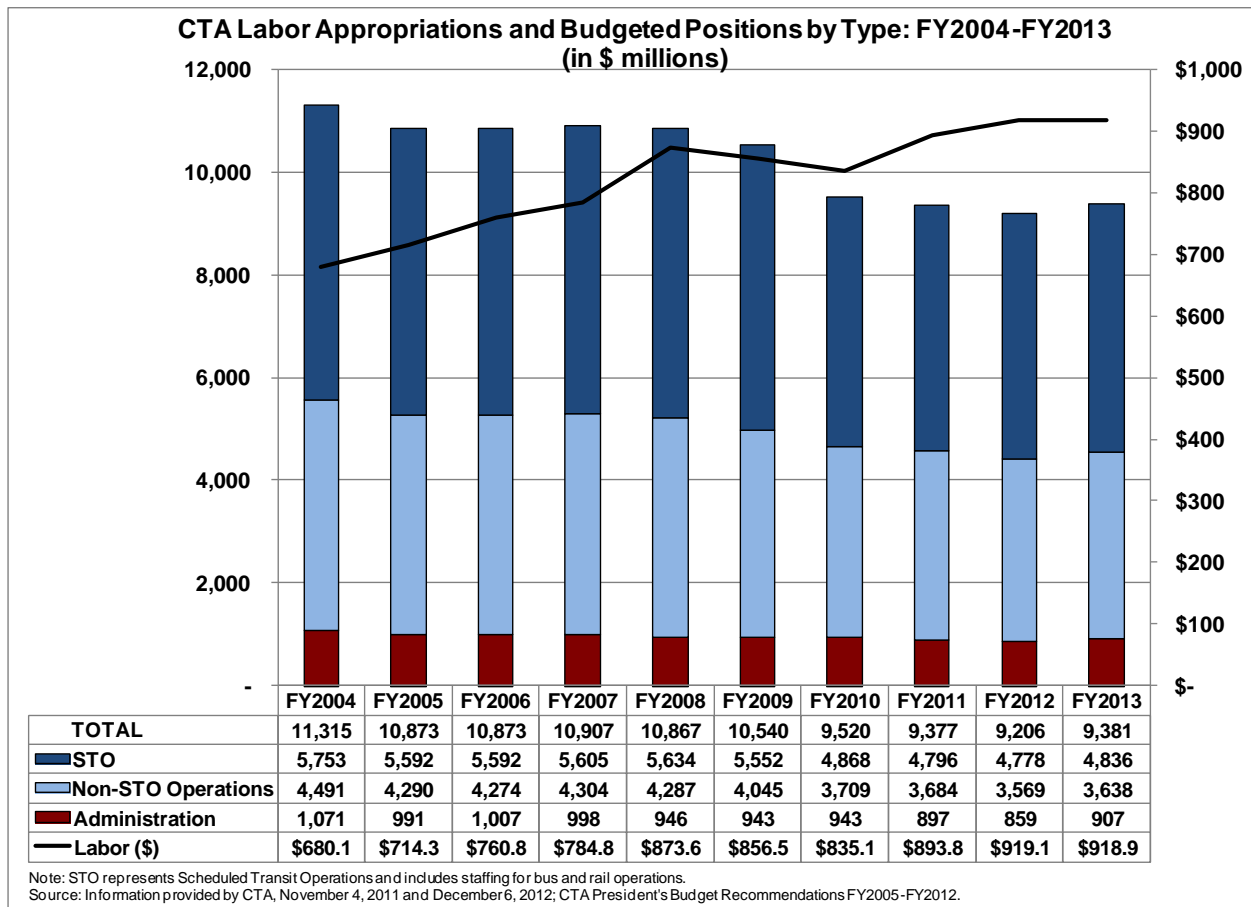
Source: CTA President's FY2013 Budget Recommendations, p. 34.

PERSONNEL TRENDS

The CTA plans to fund 9,381 positions in FY2013. This is an increase of 1.9%, or 175 positions, from the FY2012 revised budget. This increase includes additions of 48 administrative positions, 58 STO positions and 69 non-STO operating positions.⁴⁴ Over the past ten years, the budgeted CTA workforce has declined by 17.1% or 1,934 positions.

The ten-year decline includes reductions of:

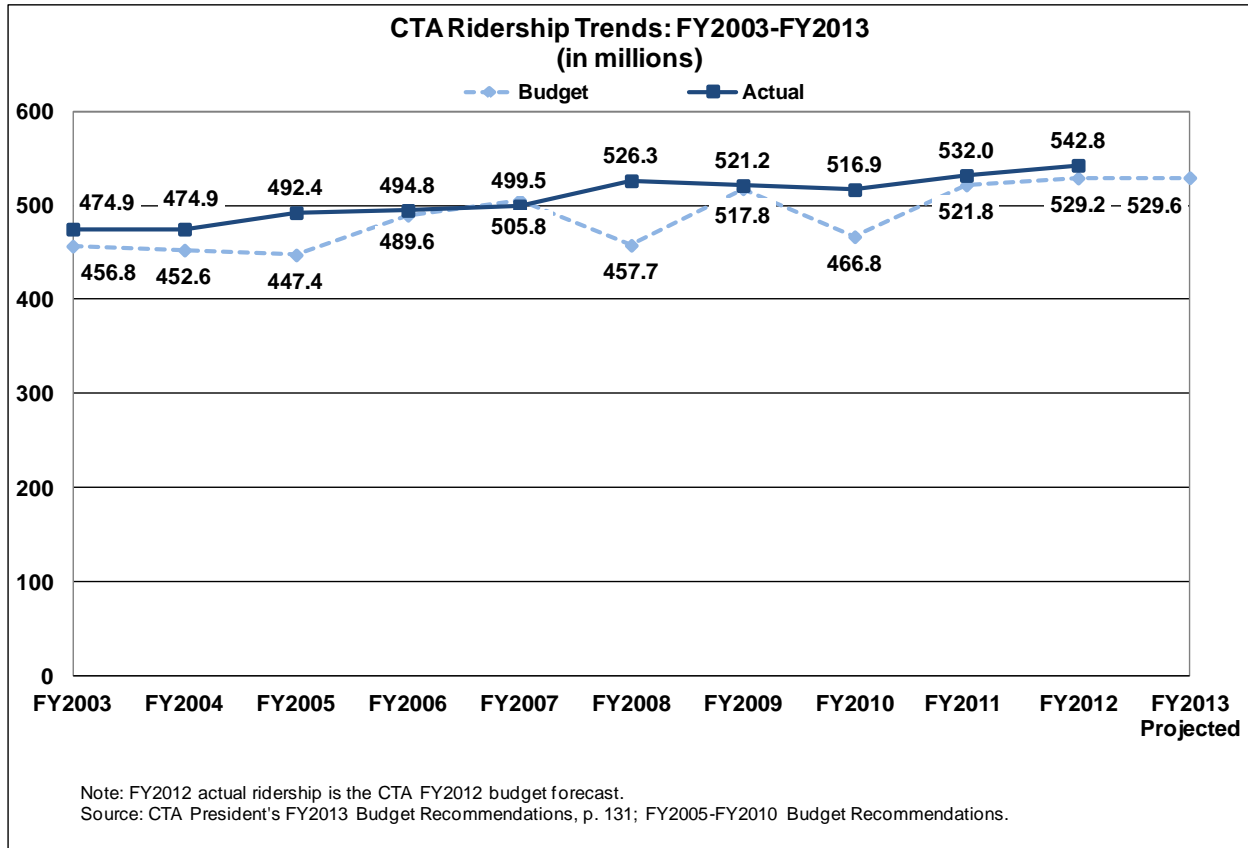
- 164 administrative positions, or 15.3%;
- 917 STO positions, or 15.9%; and
- 853 non-STO operating positions, or 19.0%.



⁴⁴ STO represents Scheduled Transit Operations and includes staffing for bus and rail operations.

RIDERSHIP

The CTA projects that ridership will be 529.6 million rides in FY2013. The FY2013 ridership is projected to be a decrease of 13.2 million rides, or 2.4%, from the FY2012 forecast. The terms “ridership” and “unlinked passenger trips” refer to total number of rides. Each passenger is counted each time that passenger boards a vehicle (bus or rail).⁴⁵



PENSION FUND

The Civic Federation analyzed three indicators of the fiscal health of the CTA’s pension fund: funded ratios, unfunded actuarial accrued liabilities and investment rate of return. This section presents multi-year data for those indicators and describes recent reforms to the CTA’s pension benefits and contributions.

Plan Description

The Retirement Plan for Chicago Transit Authority Employees is a single-employer contributory defined-benefit governmental plan covering all full-time CTA permanent employees. Recent changes to Illinois statutes have codified most aspects of the plan into state statute. The plan is governed by an 11-member board of trustees composed of five members appointed by the CTA

⁴⁵ CTA President’s Budget Recommendations FY2013, p. 176.

management, five members appointed by the Amalgamated Transit Union and one appointed by the Regional Transportation Authority.⁴⁶

In FY2011 the Fund had 8,751 active employees and 9,418 beneficiaries.⁴⁷

Recent Reforms

Major reforms of the Chicago Transit Authority (CTA) pension plan passed by the Illinois General Assembly have had a significant effect on the CTA pension fund beginning in FY2007.

The urgency for reform of the CTA pension fund arose from the actuarial projection that the fund would be unable to pay retiree healthcare costs by 2008 and reach 0% funding by 2013 if nothing was done to boost assets or reduce liabilities. The fund's poor financial health was primarily the result of insufficient employer and employee contributions, early retirement programs, benefit increases and dramatic increases in the cost of healthcare over the past few decades.⁴⁸ The legislated reforms specifically addressed each of these issues.

Passed in the spring of 2006 as part of the FY2007 Budget Implementation Act, **Public Act 94-0839** required that beginning January 1, 2009 the CTA and its employees make annual pension contributions sufficient to bring the funded ratio to 90% by the end of 2058. The Act specified that payments are to be made as a level percentage of payroll, and that post employment healthcare benefits provided by the pension fund were 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.⁴⁹

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 healthcare benefits and contributions. 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 pension obligation bond debt service payments of up to 6% of payroll.

In addition to the baseline 6% and 12% employee and employer contributions, the legislation also set funded ratio standards; if these standards are not met, additional employer and employee contributions are triggered. P.A. 95-0708 adjusted the 50-year schedule forward one year to 2059 and required that the fund maintain a minimum 60% funded ratio through FY2039. If the fund falls below this requirement, then the combined contribution is increased with the employer paying two-thirds of the increased contribution and employees covering the remaining one-third of the increased contribution. The same two-thirds/one-third increased contribution standard

⁴⁶ Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2011*, p. 16.

⁴⁷ Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2011*, p. 17.

⁴⁸ Retirement Plan for Chicago Transit Authority Employees *Basic Financial Statements and Management's Discussion and Analysis for the Year Ended December 31, 2006*, p. 6.

⁴⁹ See the Civic Federation, "The State of Illinois Retirement Systems: Funding History and Reform Proposals," (October 26, 2006). http://www.civiced.org/articles/civiced_220.pdf

applies to the second requirement, which states that beginning in FY2040 the fund must maintain a contribution schedule that is sufficient to bring total assets of the plan to 90% by FY2059. Going forward from FY2060, the fund must collect a minimum contribution amount needed to maintain the funded ratio at or above 90%.

In FY2011, the plan funded ratio fell below the 60% threshold, to 59.2% funded, triggering increased contributions by the CTA and employees. The rates needed to return the plan to 60% funded in ten years and all subsequent year through 2039 as required by statute were actuarially calculated to be 14.25% for the CTA (net of the 6% POB debt service credit) and 10.125% for the employees for plan year 2013. This was an increase from 11.3% for the CTA and 8.65% for the employees in plan year 2012.⁵⁰

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 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 Healthcare Trust. The infusion of \$1.1 billion into the retirement fund was expected to raise its funded ratio to approximately 80%.⁵¹

The effects of these two pieces of legislation were first realized in the FY2007 pension financial statements. As a result of legislation that created the separate Retiree Healthcare Trust, healthcare liabilities for the pension fund decreased from \$1.766 billion as of January 1, 2007 to \$68.8 million as of January 1, 2008.⁵² The FY2008 actuarial valuation for the CTA fund assumed that by June 30, 2009 the pension fund will no longer bear any responsibility for funding retiree healthcare benefits.⁵³

The CTA Fund actuaries adjusted the retirement probability assumptions due to the changes in retirement eligibility age, required years of service and healthcare eligibility that took effect January 18, 2008. These assumption changes reduced the FY2007 actuarial liabilities by \$28.0 million.⁵⁴

In fiscal year 2011, the Retirement Fund actuaries changed demographic assumptions and changed the actuarial asset valuation method from the five-year smoothed method to the market value, which recognizes gains and losses between actual and expected return immediately. This contributed to the decrease in funded ratio between FY2010 and FY2011 from 70.1% to 59.2%.⁵⁵

⁵⁰ State of Illinois Office of the Auditor General, *2012 Annual Review: Information Submitted by the Retirement Plan for CTA Employees*, November 2012, p. 3.

⁵¹ Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 3.

⁵² Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.

⁵³ Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2009*, p. 4.

⁵⁴ Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 4.

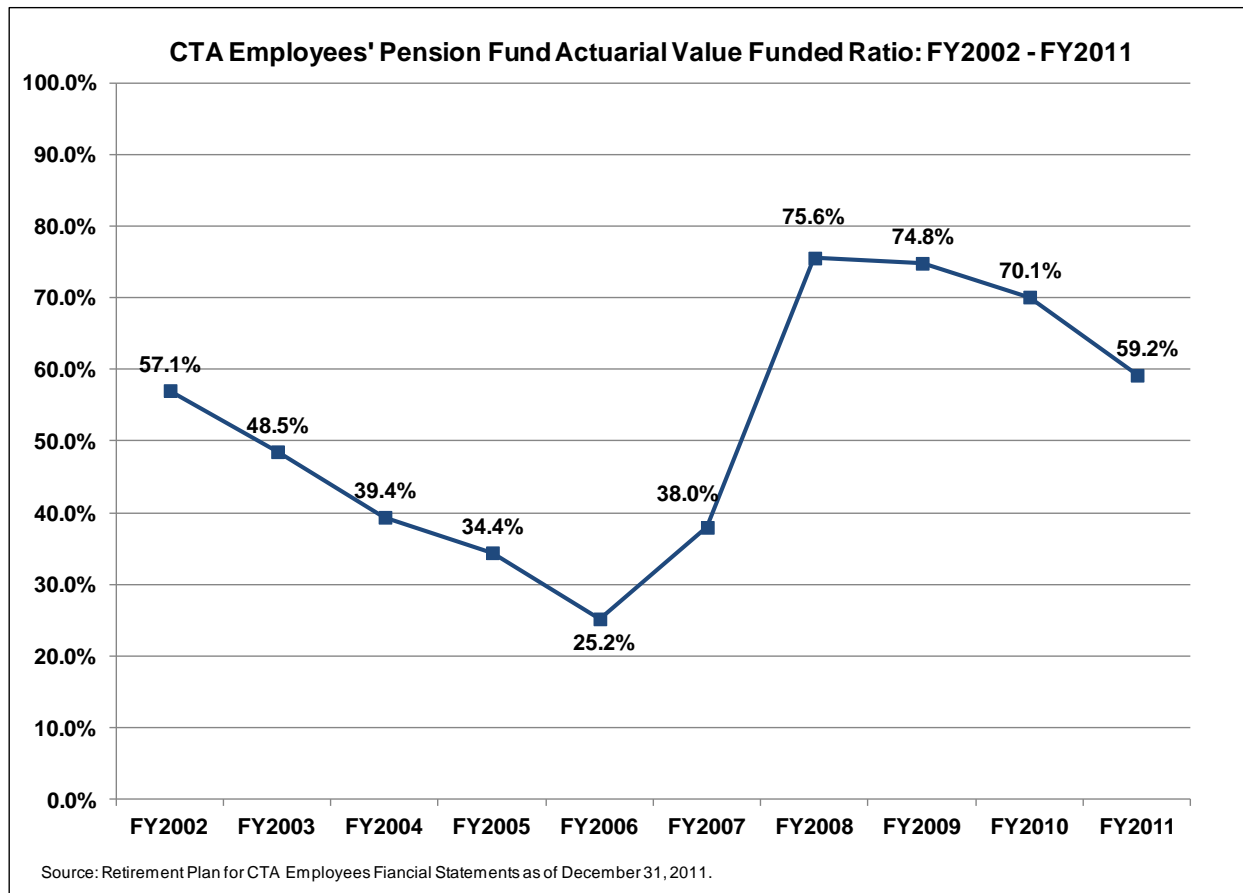
⁵⁵ Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.

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 was 57.1% in FY2002 and declined to 25.2% in FY2006 before climbing to 75.6% in FY2008. The increase in the funded ratio is largely attributed to the creation of the separate Healthcare Trust Fund for CTA employees.⁵⁶

⁵⁶ See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 15 note b.

The trust fund was created in May 2008 and assumed full responsibility for healthcare funding, payment and administration on July 1, 2009. FY2008 audited CTA pension data reflected the infusion of \$1.1 billion in bond proceeds, nearly doubling its total actuarially-valued assets. This cash infusion raised the CTA's pension funded ratio from 38.0% in FY2007 to 75.6% in FY2008. The FY2009 actuarial value funded ratio dropped slightly to 74.8% due to changes in population, actuarial assumptions, payroll and investment return.⁵⁷ The FY2010 ratio declined to 70.1% primarily due to a reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50% and because the effects of the FY2008 market decline were still being recognized.⁵⁸ As noted above, the FY2011 ratio declined sharply primarily because of a change from smoothed asset valuation to market valuation but also because of unfavorable market conditions in 2011.⁵⁹



Unfunded Actuarial Accrued Liabilities

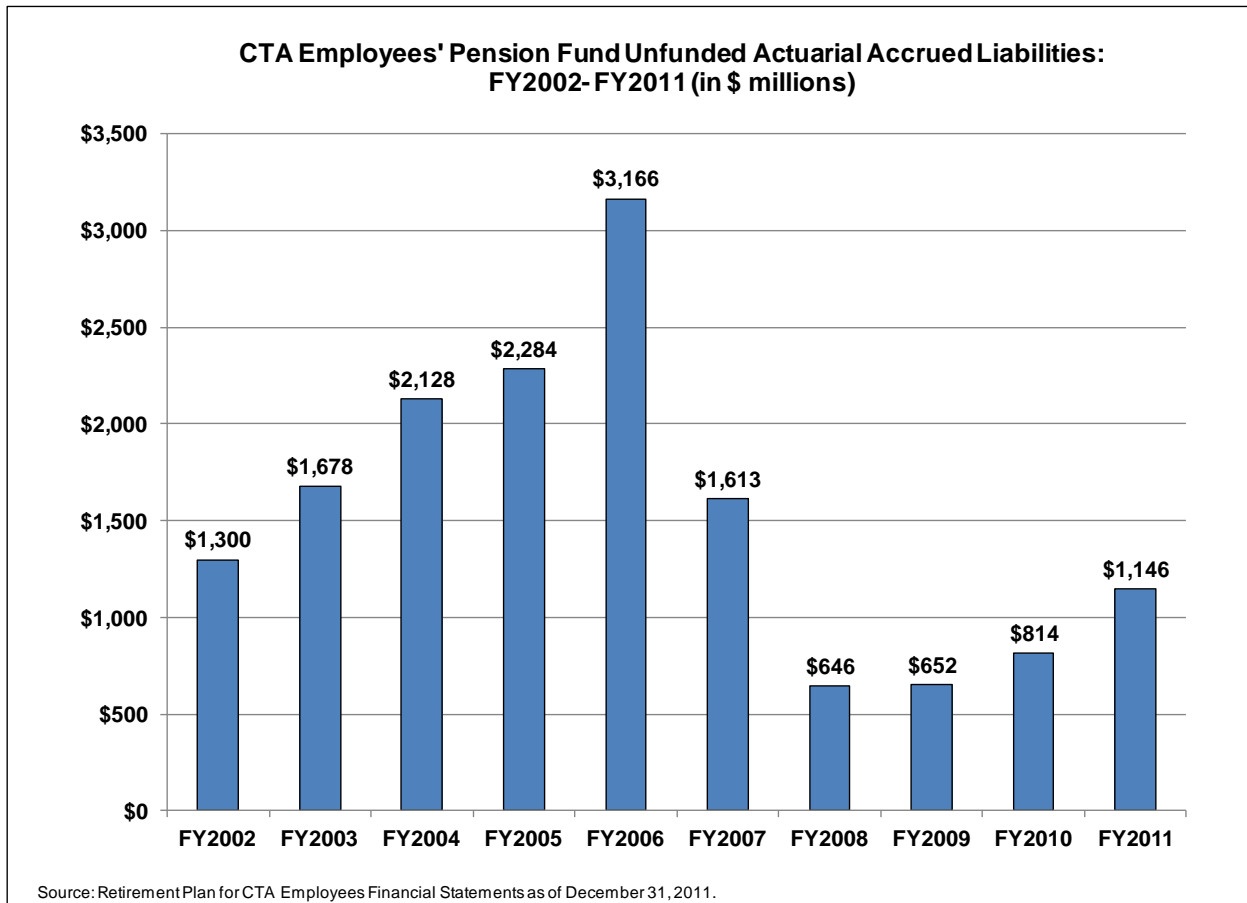
Unfunded actuarial accrued liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the CTA pension fund grew from \$1.3 billion in FY2002 to almost \$3.2 billion in FY2006 before falling to \$0.6 billion in FY2008.

⁵⁷ Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2010*, p. 1.

⁵⁸ Retirement Plan for CTA Employees, *Actuarial Valuation as of January 2, 2011*, p. 1. The discount rate assumption was reduced in order to better reflect the expected long-term investment return on plan assets.

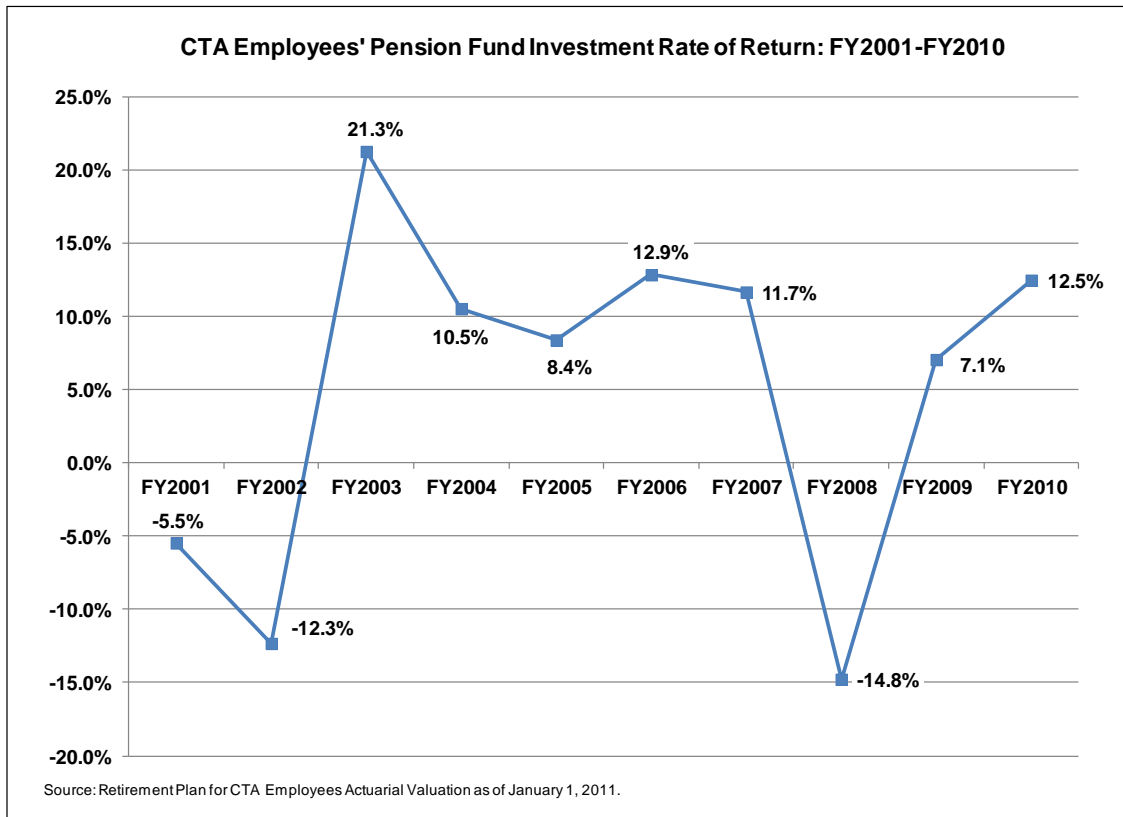
⁵⁹ Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.

This \$2.5 billion decline resulted from the one-time employer contribution of \$1.1 billion in pension obligation bond proceeds. Unfunded liabilities rose to \$0.8 billion in FY2010 due to a reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50% and because the effects of the FY2008 market decline were still being recognized. Unfunded liabilities rose again in FY2011 to \$1.1 billion due to unfavorable market conditions and a change in the valuation of assets from a smoothed valuation to market valuation, which recognized 2011 losses immediately.



Investment Rates of Return

Over the ten years between FY2001 and FY2010, the investment rate of return for the CTA Employees' Pension Fund reached a high of 21.3% in FY2003 and a low of -14.8% in FY2008.⁶⁰ The -14.8% return for FY2008 was better than the benchmark portfolio and 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 2008.⁶¹



OTHER POST EMPLOYMENT BENEFITS

Public Act 95-0708 created a separate Retiree Healthcare 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, healthcare liabilities for the pension fund decreased from \$1.766 billion as of January 1, 2007 to \$68.8 million as of January 1, 2008.⁶² The CTA and the CTA pension fund have no further funding obligations regarding retiree health insurance. The healthcare trust is administered by the CTA pension fund Executive Director. As of January 1, 2011 the Chicago Transit Authority Retiree Healthcare Trust reported total present value of projected benefits of \$693.5 million and total income and assets of \$737.9 million, for a 106.4% coverage ratio.⁶³

⁶⁰ This section is not updated for FY2011 because the FY2011 actuarial valuation for the CTA Retirement Fund was not publicly available as of the date of publication.

⁶¹ Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.

⁶² P.A. 95-0708; Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.

⁶³ Chicago Transit Authority Retiree Healthcare Trust, *Funding Results as of January 1, 2011*, p. 3.

SHORT-TERM LIABILITIES

The CTA's financial statements are only for business-type activities as it is financed and operated in a manner similar to a private business. There are no governmental activities.⁶⁴

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 Supplementary Information:⁶⁵

- *Accounts Payable*: monies owed to vendors for goods and services;
- *Accrued Payroll*: 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 and Deposits*: Comprised of security deposits on rents and concessions, various grant deposits and other deposits required from vendors that do business with the CTA; and
- *Advance from the RTA*: Funds provided by the RTA for future capital projects.

In FY2011 the CTA reported that total short-term liabilities decreased by nearly \$9.3 million, or 2.7%, from the previous year. Since FY2007 short-term liabilities have decreased by \$125.1 million, or 36.2%. The single largest short-term liability in FY2011 was accrued payroll at \$98.5 million. Accrued payroll has decreased slightly by 1.1%, or \$1.1 million, over the 5-year period reviewed.

CTA Short-Term Liabilities for Business-Type Activities by Category: FY2007-FY2011 (in \$ thousands)									
Liability	FY2007	FY2008	FY2009	FY2010	FY2011	Two Year \$ Change	Two Year % Change	Five Year \$ Change	Five Year % Change
Accounts Payable & Expenses	\$ 172,190	\$ 207,026	\$ 129,198	\$ 98,463	\$ 90,746	\$ (7,717)	-4.5%	\$ (81,444)	-47.3%
Accrued Payroll	\$ 99,626	\$ 95,456	\$ 90,717	\$ 101,964	\$ 98,489	\$ (3,475)	-3.5%	\$ (1,137)	-1.1%
Accrued Interest Payable	\$ 3,480	\$ 16,909	\$ 13,081	\$ 19,460	\$ 21,451	\$ 1,991	57.2%	\$ 17,971	516.4%
Advances and Deposits	\$ 49,552	\$ 2,508	\$ 1,581	\$ 9,511	\$ 9,392	\$ (119)	-0.2%	\$ (40,160)	-81.0%
Advances from RTA	\$ 20,302	\$ 10,949	\$ 8,451	\$ -	\$ -	\$ -	0.0%	\$ (20,302)	-100.0%
Total	\$ 345,150	\$ 332,848	\$ 243,028	\$ 229,398	\$ 220,078	\$ (9,320)	-2.7%	\$(125,072)	-36.2%

Source: CTA Audited Financial Statements FY2007-FY2011.

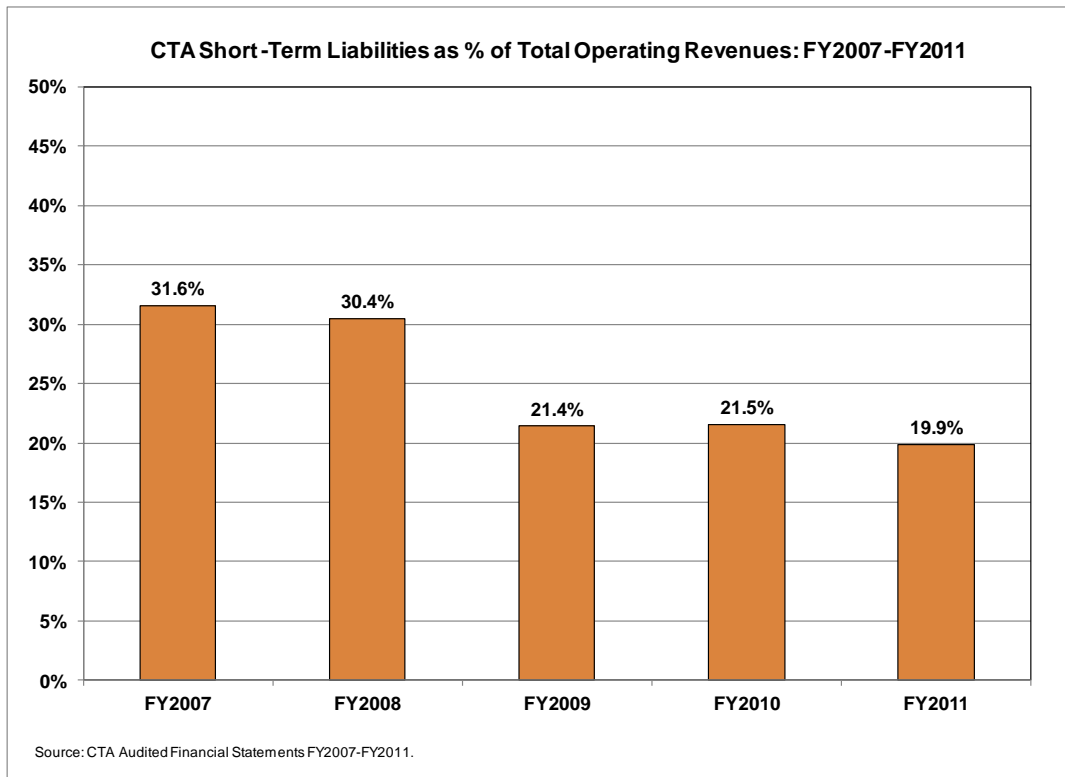
Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.⁶⁶ This indicator, developed by the International City/County Management Association (ICMA), is a measure 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

⁶⁴ CTA FY2010-FY2011 Financial Statements, Note 2: Summary of Significant Accounting Policies, p. 24

⁶⁵ CTA FY2010-FY2011 Audited Financial Statements, p. 16.

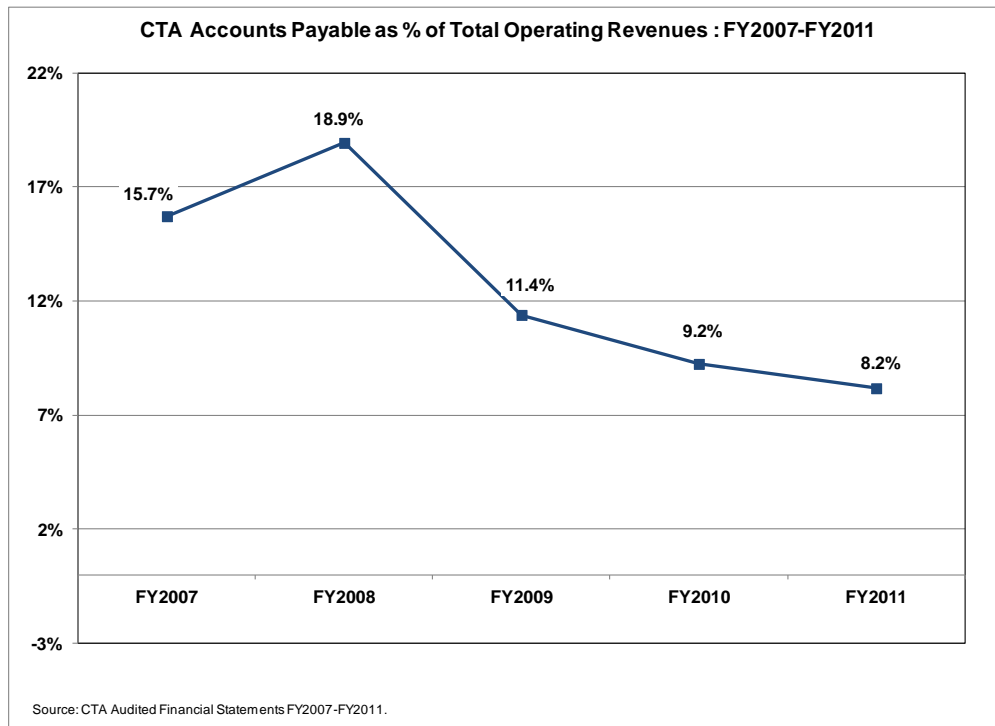
⁶⁶ Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County Management Association, 2003), p. 77 and p. 169.

spending. CTA showed a positive trend by reducing its short-term liabilities for its Business-Type activities compared to total operating revenue for those activities between FY2007 to FY2011 from 31.6% to 19.9%. The downward trend is a positive sign.



Accounts Payable Ratio

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. The CTA's ratio of accounts payable to operating revenues increased from 15.7% to 18.9% between FY2007 and FY2008 before falling to 8.2% in FY2011. The decrease since FY2008 was a positive sign.



Current Ratio

The current ratio is a measure of liquidity. It assesses whether the government has enough cash and other liquid resources to meet its short-term obligations as they come due. A ratio of 1.0 means that current assets are equal to current liabilities and are sufficient to cover obligations in the near term. Generally, a government's current ratio should be close to 2.0 or higher.⁶⁷

In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a government, including:

- *Cash and cash equivalents*: assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit. Cash and cash equivalents reserved for damage reserve are amounts set aside to fund the annual injury and damage obligations as required by Section 39 of the Metropolitan Transportation Authority Act;⁶⁸

⁶⁷ Steven A. Finkler. *Financial Management for Public, Health and Not-for-Profit Organizations*. (Upper Saddle River, NJ, 2001), p. 476.

⁶⁸ CTA FY2010 Audited Financial Statements, p. 24.

- *Investments*: any investments that the government has made that will expire within one year, including stocks and bonds that can be liquidated quickly;
- *Receivables*: monetary obligations owed to the government including grants, property taxes and interest on loans;
- *Prepaid Expenses*: A type of asset on a balance sheet arising as a result of an entity making payments for goods and services to be received in the near future, such as for an insurance policy;⁶⁹ and
- *Derivative Instrument*: Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.⁷⁰

The CTA's current ratio was 2.8 in FY2011, the most recent year for which data is available. In the past five years, the Authority's current ratio averaged 2.2, which is above the preferred benchmark of 2.0. From FY2007 to FY2011 the current ratio increased from 1.8 to 2.8. This is a positive trend.

CTA Current Ratio for Business-Type Activities: FY2007- FY2011 (in \$ thousands)									
	FY2007	FY2008	FY2009	FY2010	FY2011	Two Year \$ Change	Two Year % Change	Five Year \$ Change	Five Year % Change
Current Asset									
Cash and cash equivalents	\$ 151,104	\$ 61,672	\$ 59,542	\$ 111,579	\$ 119,467	\$ 7,888	7.1%	\$ (31,637)	-20.9%
Cash and cash equivalents reserved for damage reserve	\$ 109,057	\$ 5,894	\$ 85,090	\$ 102,361	\$ 107,920	\$ 5,559	5.4%	\$ (1,137)	-1.0%
Investments	\$ 900	\$ 1,000	\$ 1,007	\$ 26,999	\$ 3,020	\$ (23,979)	-88.8%	\$ 2,120	235.6%
Grants receivable due from the RTA	\$ 87,809	\$ 258,832	\$ 205,633	\$ 196,141	\$ 228,966	\$ 32,825	16.7%	\$ 141,157	160.8%
Grants receivable: Capital Projects from federal & state sources	\$ 4,974	\$ 21,115	\$ 33	\$ 39	\$ 5,098	\$ 5,059	12971.8%	\$ 124	2.5%
Grants receivable: unbilled work in progress	\$ 158,725	\$ 58,459	\$ 85,000	\$ 63,991	\$ 64,107	\$ 116	0.2%	\$ (94,618)	-59.6%
Grants receivable: Other	\$ 1,485	\$ 506	\$ 70	\$ 1,928	\$ 1,131	\$ (797)	-41.3%	\$ (354)	-23.8%
Accounts receivable, net	\$ 28,080	\$ 29,762	\$ 19,443	\$ 23,773	\$ 26,881	\$ 3,108	13.1%	\$ (1,199)	-4.3%
Materials and supplies, net	\$ 78,412	\$ 102,919	\$ 92,805	\$ 63,522	\$ 58,501	\$ (5,021)	-7.9%	\$ (19,911)	-25.4%
Prepaid expenses and other assets	\$ 5,139	\$ 4,426	\$ 5,887	\$ 5,883	\$ 5,502	\$ (381)	-6.5%	\$ 363	7.1%
Derivative instrument	\$ -	\$ -	\$ -	\$ 2,158	\$ -	\$ (2,158)	-100.0%	\$ -	-
Total Current Assets	\$ 625,685	\$ 544,585	\$ 554,510	\$ 598,374	\$ 620,593	\$ 22,219	3.7%	\$ (5,092)	-0.8%
Current Liability									
Accounts Payable & Expenses	\$ 172,190	\$ 207,026	\$ 129,198	\$ 98,463	\$ 90,746	\$ (7,717)	-4.5%	\$ (81,444)	-47.3%
Accrued Payroll	\$ 99,626	\$ 95,456	\$ 90,717	\$ 101,964	\$ 98,489	\$ (3,475)	-3.5%	\$ (1,137)	-1.1%
Accrued Interest Payable	\$ 3,480	\$ 16,909	\$ 13,081	\$ 19,460	\$ 21,451	\$ 1,991	57.2%	\$ 17,971	516.4%
Advances and Deposits	\$ 49,552	\$ 2,508	\$ 1,581	\$ 9,511	\$ 9,392	\$ (119)	-0.2%	\$ (40,160)	-81.0%
Advances from RTA	\$ 20,302	\$ 10,949	\$ 8,451	\$ -	\$ -	\$ -	0.0%	\$ (20,302)	-100.0%
Total Current Liabilities	\$ 345,150	\$ 332,848	\$ 243,028	\$ 229,398	\$ 220,078	\$ (9,320)	-2.7%	\$ (125,072)	-36.2%
Current Ratio	1.8	1.6	2.3	2.6	2.8				

Source: CTA Audited Financial Statements FY2007-FY2011.

LONG-TERM LIABILITIES

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

Total Long-Term Liabilities

Long-term liabilities are the obligations owed by a government over time. Increases in long-term liabilities over time may be a sign of fiscal stress. The CTA's long-term liabilities include:

⁶⁹See <http://www.investopedia.com/terms/p/prepaidexpense.asp#ixzz1bEsraq9P>.

⁷⁰ CTA FY2010 Audited Financial Statements, p. 67.

- *Self Insurance Claims:* The CTA is self insured against future liabilities arising from personnel, property and casualty claims. The annual CAFR reports amounts needed to finance these future liabilities;
- *Bonds Payable, Capital Lease Obligations and Certificates of Participation:* These are amounts reported for different types of tax supported long-term debt, including general obligation debt, lease obligations and certificates of participation;
- *Net pension obligations (NPO):* The cumulative difference, since the effective date of GASB Statement 27, between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt;
- *Net OPEB Obligation:* The cumulative difference, since the effective date of GASB Statement 45, between the annual Other Post Employment Benefits (i.e., employee health insurance) cost and the employer's contributions to its OPEB Plan; and
- *Other Long-Term Liabilities:* These are primarily working cash borrowings.

Between FY2007 and FY2011 total CTA long-term liabilities increased by 48.7%, or nearly \$2.0 billion, rising from \$4.1 billion to \$6.1 billion. Bonds payable rose substantially by 638.9%, or \$3.4 billion. Part of the reason for the large increase is that in 2008 the CTA issued \$1.9 billion in pension obligation and retiree healthcare revenue bonds to increase funding in the Authority's pension fund and create a retiree health trust.⁷¹ Net OPEB obligations have dropped by 99.4% over this 5-year period because since January 1, 2009 all retiree benefits are now paid from the Retiree Healthcare Trust established by Public Act 95-708, not the CTA.⁷² Net pension obligations have declined by 98.3% because pension contribution requirements established by state statute after 2008 require substantially increased contributions and reduce benefits for new employees and because there was a large cash infusion into the pension funds from the pension obligation bond issue.⁷³

CTA Long-Term Liabilities by Category: FY2007-FY2011 (in \$ thousands)									
	FY2007	FY2008	FY2009	FY2010	FY2011	Two Year \$ Change	Two Year % Change	Five Year \$ Change	Five Year % Change
Self insurance claims	\$ 192,750	\$ 196,866	\$ 203,444	\$ 222,227	\$ 253,001	\$ 30,774	13.8%	\$ 60,251	31.3%
Capital lease obligations	\$ 1,793,377	\$ 1,818,219	\$ 1,783,934	\$ 1,780,750	\$ 1,788,039	\$ 7,289	0.4%	\$ (5,338)	-0.3%
Bonds payable	\$ 525,787	\$ 2,877,411	\$ 2,842,827	\$ 3,392,161	\$ 3,884,997	\$ 492,836	14.5%	\$ 3,359,210	638.9%
Certificates of Participation	\$ -	\$ 76,908	\$ 72,014	\$ 66,887	\$ 61,514	\$ (5,373)	-8.0%	\$ 61,514	-
Net Pension Obligation	\$ 908,609	\$ 17,335	\$ 16,707	\$ 16,269	\$ 15,757	\$ (512)	-3.1%	\$ (892,852)	-98.3%
Net OPEB Obligation	\$ 659,729	\$ 434	\$ 1,666	\$ 2,874	\$ 3,687	\$ 813	28.3%	\$ (656,042)	-99.4%
Other Long-term liabilities	\$ 4,333	\$ 3,863	\$ 60,591	\$ 68,859	\$ 65,180	\$ (3,679)	-5.3%	\$ 60,847	1404.3%
Total	\$ 4,084,585	\$ 4,991,036	\$ 4,981,183	\$ 5,550,027	\$ 6,072,175	\$ 522,148	9.4%	\$ 1,987,590	48.7%

Source: CTA Audited Financial Statements, Note 7: Long-Term Obligations FY2007-FY2011.

Long-Term Debt

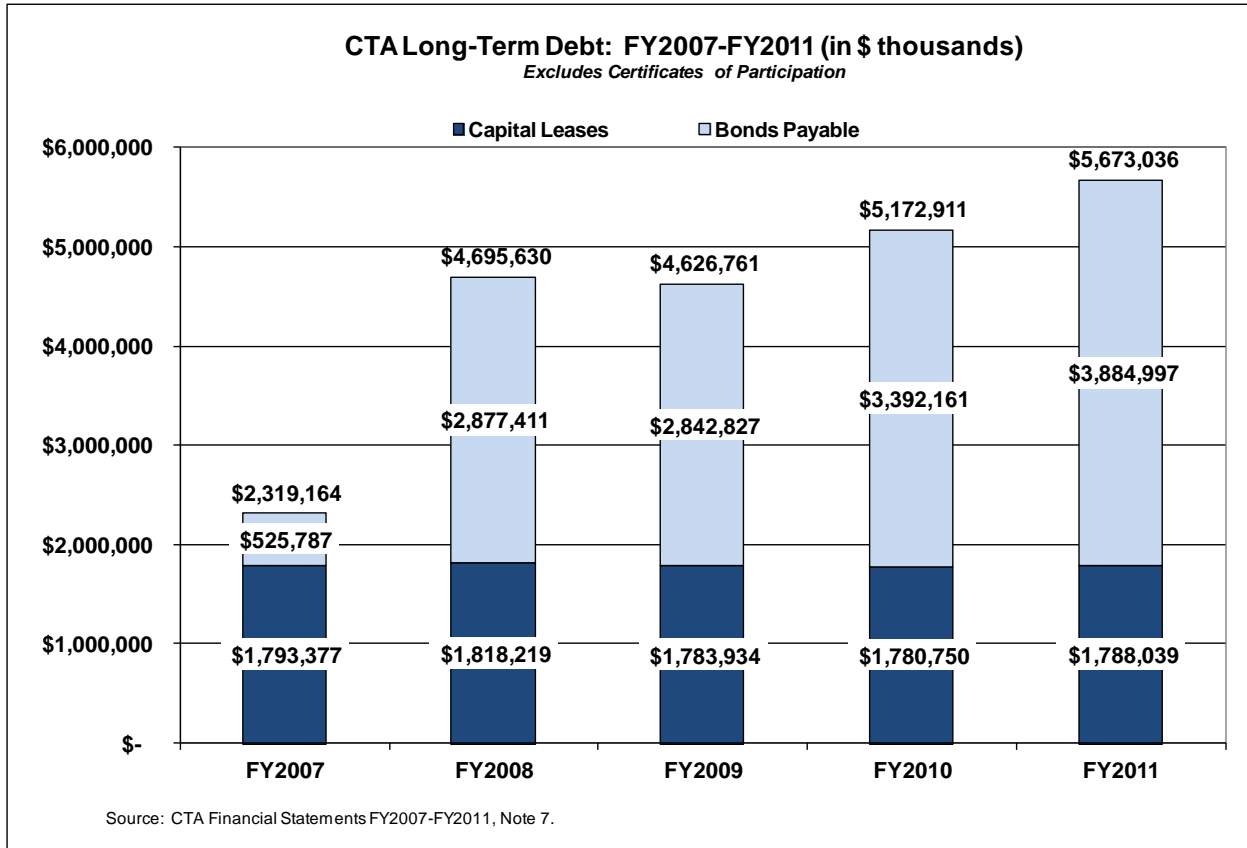
Increases over time in a government's long-term tax-supported debt bear watching as a potential sign of rising financial risk. The exhibit that follows shows long-term debt trends for capital leases and bonds payable between FY2007 and FY2011. It excludes the relatively small amount spent on certificates of participation. Mainly due to an issuance of \$1.9 billion of Pension

⁷¹ CTA FY2010 Audited Financial Statements, p. 50.

⁷² CTA FY2010 Audited Financial Statements, p. 60.

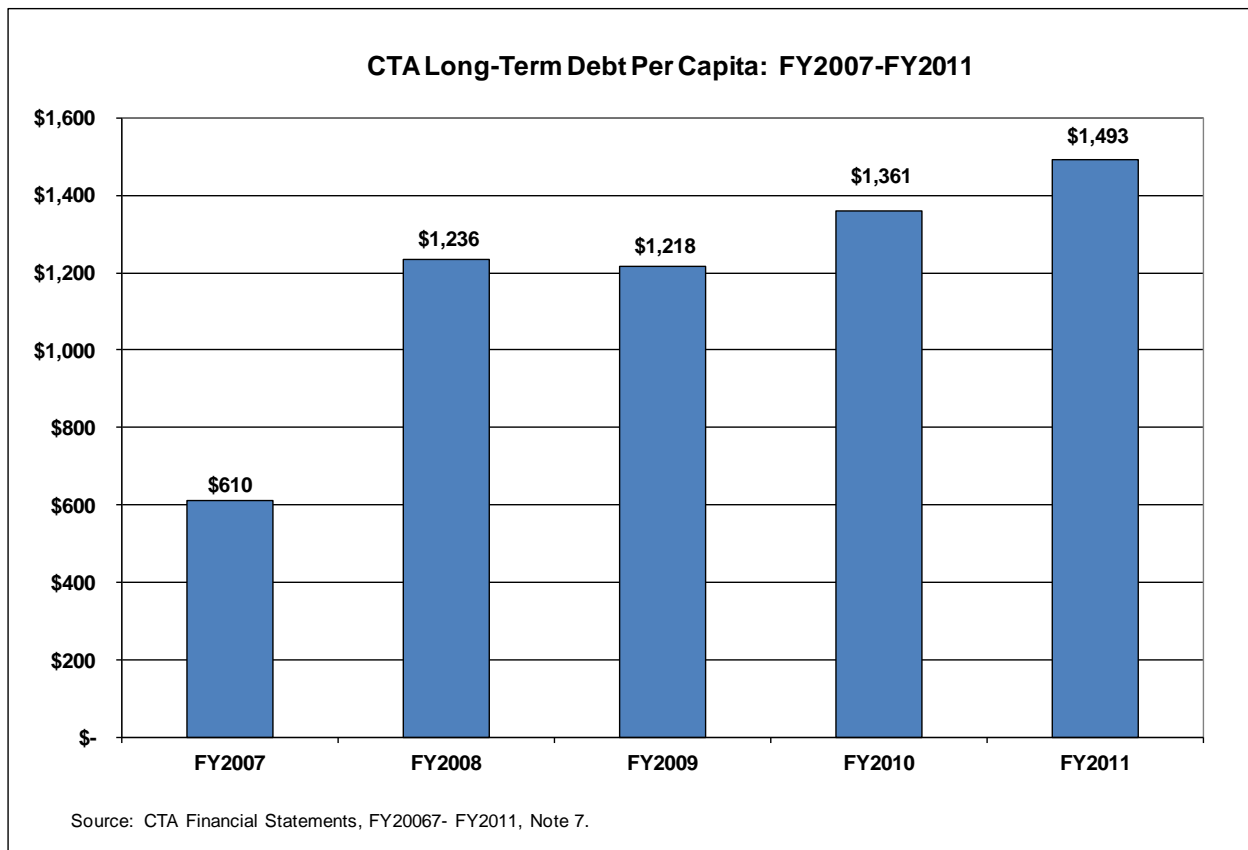
⁷³ For more information, see the pension and OPEB sections of this analysis. Also see 40 ILCS 5/22-101.

Obligation and retiree healthcare Bonds in FY2008, the CTA's long-term debt increased by 144.6%, or \$3.3 billion, between FY2007 and FY2011. This is an increase from \$2.3 billion to nearly \$5.7 billion. Further increases bear watching.



Long-Term Debt Per Capita

A common ratio used by rating agencies and other public finance analysts to evaluate long-term debt trends is debt per capita. This ratio reflects the premise that the entire population of a jurisdiction benefits from infrastructure improvements. The following analysis takes the amount of Chicago Transit Authority total long-term debt per year⁷⁴ and divides it by the population served by the CTA. At the 2000 census, this population was 3.7 million. In succeeding years, the service population increased slightly to 3.8 million. In FY2007 long-term debt per capita was \$610. Since that time, long-term debt per capita increased to \$1,493, a 144.6% increase. Between FY2007 and FY2008, long-term debt per capita rose dramatically by 102.5% or from \$610 to \$1,236. The majority of this increase comes from the sale of \$1.9 billion of pension obligation and retiree healthcare bonds in FY2008.



Debt Service Ratio

Pension obligation debt service, retiree healthcare funding and lease payments on Public Building Commission debt are the only debt service paid out of the CTA's operating budget. The source of debt service funding for other CTA bonds is federal capital grants.⁷⁵ Between FY2010 and FY2013, pension obligation bond debt service as a percentage of operating appropriations will average 8.4%, which is below the 15% and 20% ratio considered high by the rating

⁷⁴ This excludes certificates of participation, as noted previously.

⁷⁵ Information provided by CTA Budget Office November 4, 2011.

agencies.⁷⁶ See the Appropriations section on page 11 of this analysis for more information about the pension obligation bond debt service.

CTA Debt Service as a Percentage of Appropriations: FY2010-FY2013			
	Debt Service	Total Appropriation	Ratio
FY2010	\$ 76,784,513	\$ 1,239,050,000	6.2%
FY2011	\$ 103,336,000	\$ 1,306,451,000	7.9%
FY2012	\$ 141,386,832	\$ 1,262,905,000	11.2%
FY2013	\$ 156,574,008	\$ 1,358,831,000	11.5%

Source: CTA President's FY2013 Budget Recommendations, p. 107.

Current CTA Bond Ratings

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

CTA Credit Ratings				
	Sales/Transfer Tax Receipt Revenue Bonds	Sales Tax Receipts revenue Bonds	Building Revenue Bonds (PBC Debt)	Capital Grant Receipts revenue Bonds
Moody's	Aa3	Aa3	A2	A1
S&P	AA	AA	A	A
Fitch	Not rated	Not rated	Not rated	BBB

Source: CTA President's FY2013 Budget Recommendations, p. 98.

CTA CAPITAL PLAN FY2013-FY2017

In addition to the operating budget, the CTA President has also proposed a \$2.8 billion five-year capital program for FY2013 to FY2017.

⁷⁶ Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

Capital Funding FY2013-FY2017

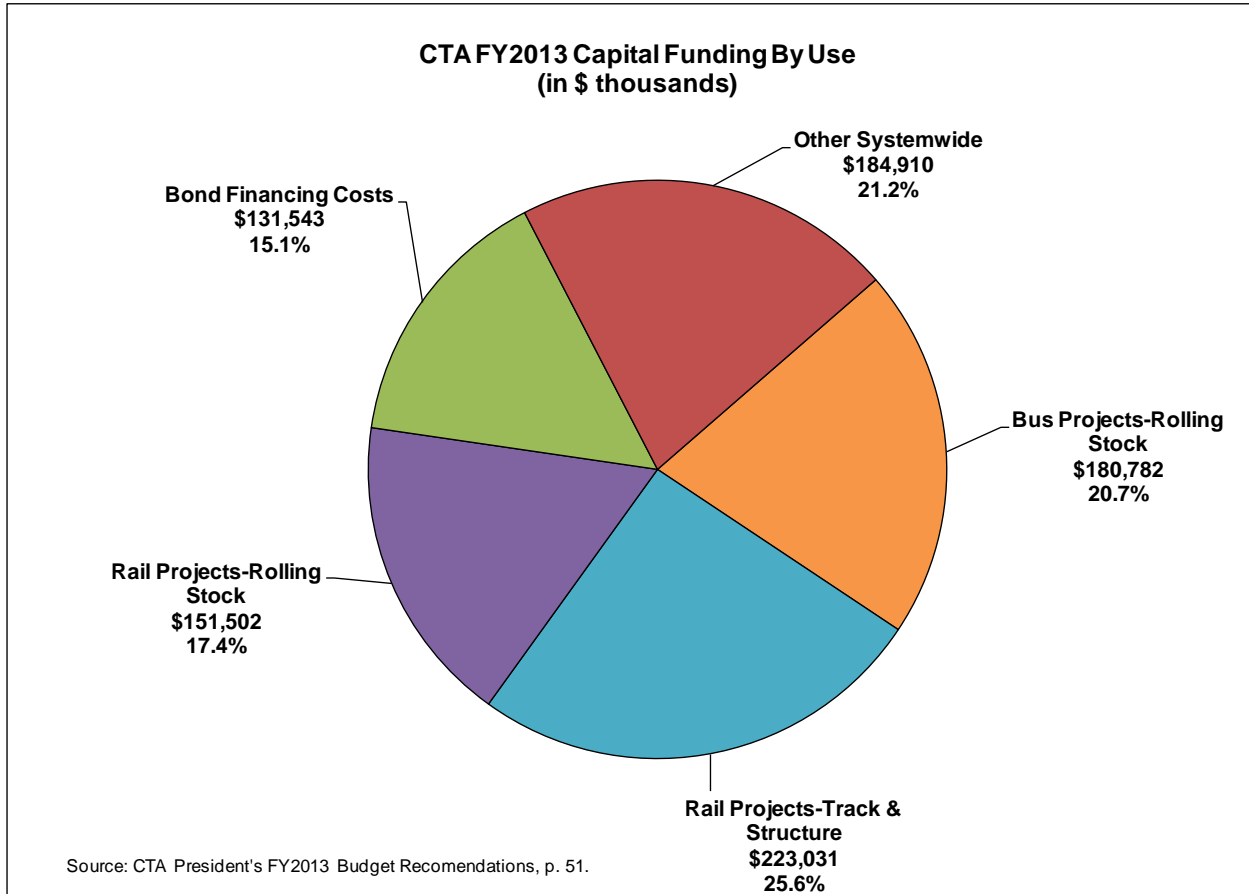
The following chart shows the CTA's proposed capital spending for FY2013-FY2017 by the source of funding. Over that period of time, the agency hopes to fund nearly \$2.8 billion worth of capital projects. The CTA estimates that it needs approximately \$844 million annually to keep its capital stock in good repair. However, the five-year capital plan only provides for an average of \$559 million in funding annually, which is a substantial funding gap.⁷⁷ New funding will pay for 64.2% or \$1.8 billion of the identified capital projects. Federal funds will account for 45.8% of all funding and state subsidies will account for 18.4%. The remaining 35.8% of all capital funding, or just over \$1.0 billion, will be funded from the CTA bond program and CTA operating funds.

CTA Capital Funding by Source: FY2013 - FY2017 (in \$ millions)							
Source	FY2013	FY2014	FY2015	FY2016	FY2017	\$ Total	% of Total
New Funding Available							
Federal Funding	\$ 294,745	\$235,520	\$242,260	\$249,200	\$259,340	\$1,281,065	45.8%
State Funding	\$ 19,601	\$198,360	\$100,000	\$197,540	\$ -	\$ 515,501	18.4%
Subtotal New Funding Available	\$ 314,346	\$433,880	\$342,260	\$446,740	\$259,340	\$1,796,566	64.2%
CTA Bond Program	\$ 555,000	\$ -	\$445,000	\$ -	\$ -	\$1,000,000	35.7%
CTA Operating Funds	\$ 2,423	\$ -	\$ -	\$ -	\$ -	\$ 2,423	0.1%
Total	\$ 871,769	\$433,880	\$787,260	\$446,740	\$259,340	\$2,798,989	100.0%

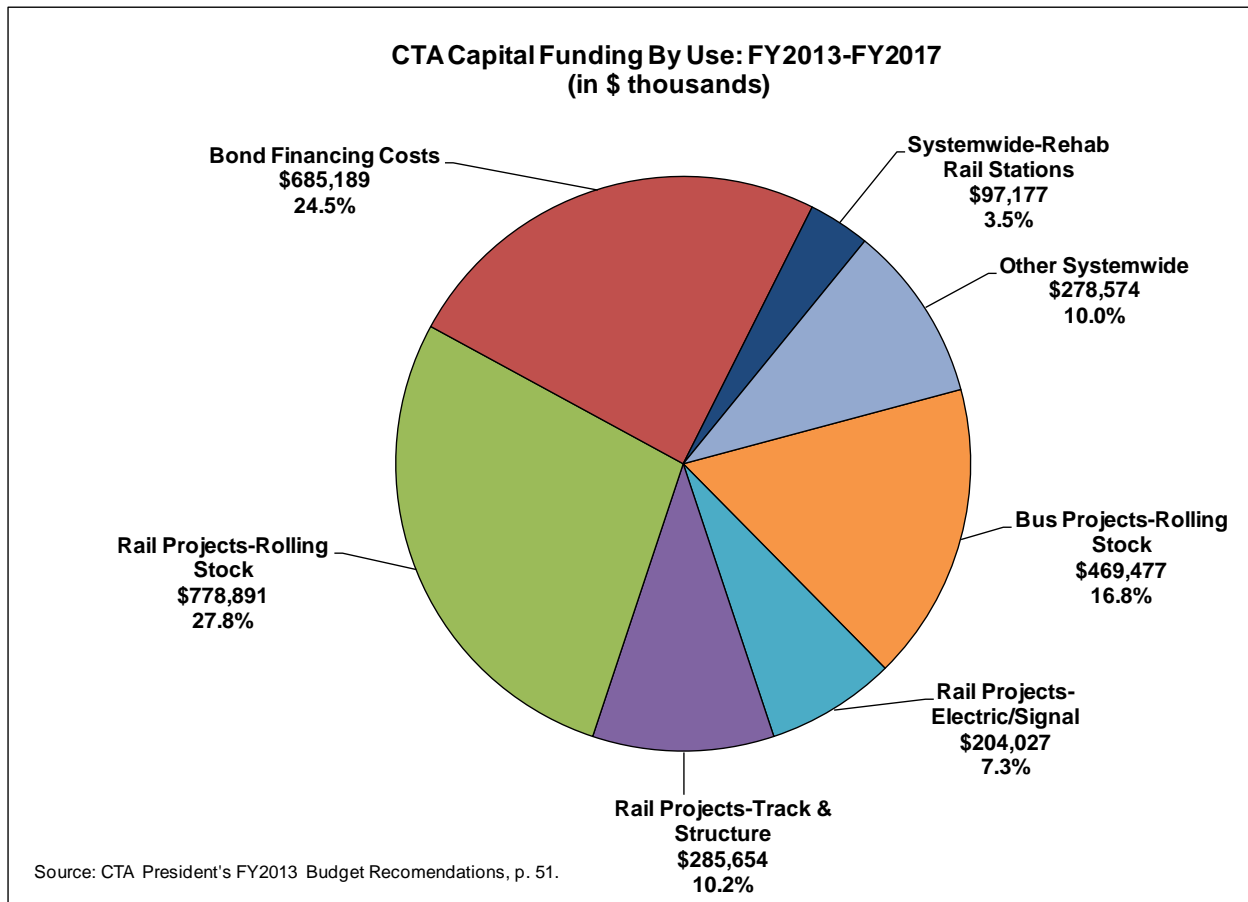
Source: CTA President's FY2013 Budget Recommendations p. 69.

⁷⁷ CTA President's FY2013 Budget Recommendations, p. 75.

CTA capital funding by use for FY2013 is shown in the next exhibit. The most significant use will be for rail track and structure projects, consuming 25.6% or \$223.0 million. Bus rolling stock projects will spend \$180.8 million, or 20.7%, of FY2013 funding while rail rolling stock projects will use \$151.5 million. Bond financing costs will total \$131.5 million, 15.1% of the total.



A five-year breakdown of CTA capital funding is shown next. Rolling stock for rail projects will be the biggest use of funds, at \$778.9 million or 27.8% of the total. This will be followed by bond financing costs at \$685.2 million. Bus rolling stock projects will use \$469.5 million.

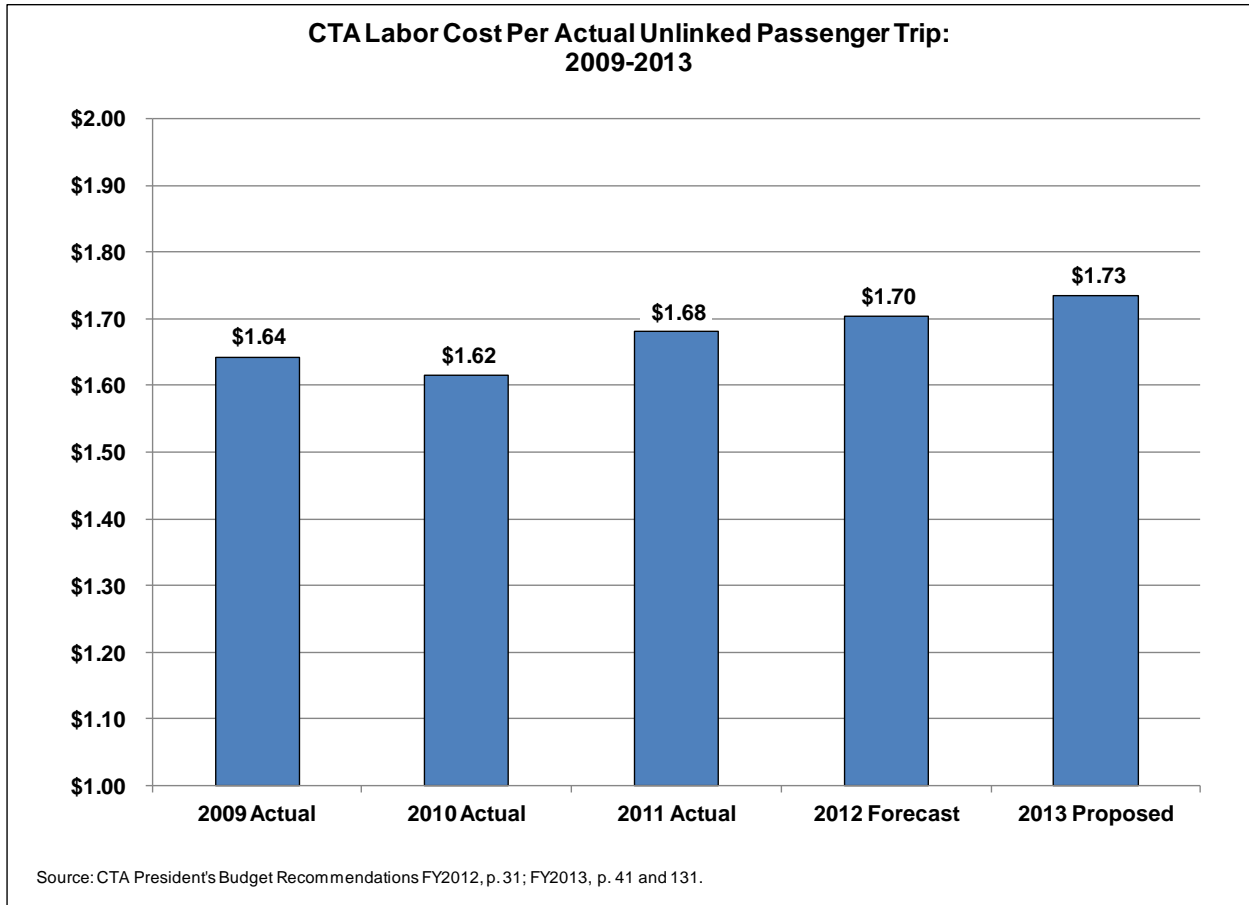


PRODUCTIVITY MEASURES

In this analysis, the Civic Federation uses two measures to assess CTA's productivity over time: labor cost per actual unlinked passenger trip and operating expense per passenger mile.⁷⁸

⁷⁸ "Ridership" and "unlinked passenger trips" refers to total number of rides. Each passenger is counted each time that passenger boards a vehicle (bus or rail). CTA President's FY2013 Budget Recommendations, p. 176.

Productivity can be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. The labor cost per unlinked passenger trip indicator decreased from \$1.64 in FY2009 to \$1.62 in FY2010. This increase in productivity can be linked to the decrease in labor expenses as a result of position eliminations and the implementation of furlough days and unpaid holidays for non-union employees.⁷⁹ Since FY2010 the indicator has increased steadily from \$1.62 in FY2010 to \$1.73 in FY2013.



⁷⁹ CTA President's Recommendations FY2010, p. 16.

The chart below illustrates operating expense per passenger mile for bus and rail service between 2006 and 2010, the most recent years for which data is available. As with all transit systems, rail service is more cost effective than bus service. The operating expense per passenger mile for rail service for 2010 is the lowest in the past five years at \$0.35.

For buses, operating expense per passenger mile decreased from \$1.11 in 2006 to \$1.01 in 2010. In 2008 the operating expense per passenger mile for bus service dropped to \$0.96, the lowest rate in the last five years.

