The Civic Federation

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CHICAGO TRANSIT AUTHORITY PRESIDENT'S PROPOSED FY2012 OPERATING BUDGET

Analysis and Recommendations

November 7, 2011

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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.

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Transit Authority's (CTA) proposed FY2012 operating budget of approximately $1.2 billion because it ends past reliance on using capital funds to close operating gaps and maintains current fare and service levels. However, the budget proposal depends on the cooperation of labor unions and arbitrators to enact work rule changes worth $160 million in annualized savings. If these changes are not implemented in 2012, the CTA will need to significantly cut service or raise revenues to close the budget gap.

The Civic Federation offers the following **key findings** on the FY2012 Recommended Budget:

- The total proposed FY2012 operating budget will be $1.2 billion, a 5.1% or $66.2 million decrease from the FY2011 revised appropriation of $1.3 billion;
- The budget includes $73.3 million in one-time savings from the replacement of pension obligation bond debt service reserves with a surety bond;
- The budget assumes labor negotiations will yield $160 million in annualized savings, of which $80 million (one-half year) is assumed for the FY2012 budget;
- Net of assumed savings from work rule changes, FY2012 labor expenses will be $18.3 million or 2.0% less than the FY2011 revised budget;
- FY2012 system-generated revenue is expected to be $623.7 million while public funding through the Regional Transportation Authority will be $616.6 million;
- System-generated revenues will have increased by $71.1 million, or 12.9%, since FY2008 while public funding through the Regional Transportation Authority declined by 0.8%, or $5.2 million, over the same period; and
- The CTA expects ridership to increase by 0.9%, or 4.8 million, to 524.2 million rides in FY2012.

The Civic Federation **supports** the following elements of the CTA's FY2012 budget:

- The FY2012 budget ends a six-year pattern of using capital funds to bridge operating budget gaps;
- No service cuts or fare increases are proposed;
- The CTA administration proposes to curb expensive labor practices;
- The administration continues to implement management efficiencies within its control;
- Public Act 96-1527 replaced the Seniors Ride Free program with means-tested free rides; and
- Public Act 97-0085 mandates a universal fare card system for the regional transit agencies by 2015.

The Civic Federation has **concerns** about the FY2012 proposed budget including:

- The proposed budget is contingent on achieving $160 million in annualized savings ($80 million for the FY2012) through collective bargaining negotiations; and
- In addition to the labor-negotiated savings, the budget is balanced with the use of $73.3 million in one-time savings generated from replacing a pension obligation bond debt service reserve with a surety bond.

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

- Develop a long-term financial plan to better prepare for the future and model different options for aligning expenditures, revenues and service targets;
- Continue maximizing concession, advertising and other non-fare revenues;
- 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; and
- Improve the budget document by providing more detail about labor expenditures by type and full-time equivalent positions by department.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the FY2012 proposed Chicago Transit Authority budget of approximately $1.2 billion because it ends the past practice of using capital funds to close operating gaps and maintains current fare and service levels. This budget proposes to substantially curb expenditure growth by addressing expensive labor practices thereby setting a direction for structurally balanced budgets in the future.

However, the FY2012 budget depends on the cooperation of labor unions and arbitrators to enact work rule changes worth $160 million in annualized savings. If these changes are not implemented in 2012, the CTA will need to significantly cut service or raise revenues to close the budget gap.

The CTA originally projected a $277 million gap between recurring revenues and expenditures in FY2012, driven by $81 million in expenditure increases and the loss of $196 million in one-time revenues used during FY2011. These one-time sources consisted of $83 million borrowed from the State of Illinois in exchange for not raising fares as well as $113 million in capital funds transferred to the operating budget.[1]

The FY2012 budget proposal will set the CTA on a more structurally sustainable path for the future if the labor reforms are achieved. However, the agency still faces enormous capital funding challenges. It currently estimates that it has $7 billion in unfunded capital needs and would need an additional $251 million annually just to maintain its capital assets even after they were brought to a state of good repair.[2]

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the CTA President's FY2012 Budget Recommendations.

Ending the Reliance on Capital Funds to Close Operating Budget Gaps

The FY2012 budget proposal finally ends the CTA's deleterious pattern of transferring capital funds to the operating budget to cope with annual deficits. Between FY2006 and FY2011 the CTA transferred $361.9 million in capital funds to the operating budget, which represents 9.0% of the proposed new capital funding during the same period.

These transfers bridged annual budget gaps, but the resulting delay in infrastructure upgrades ultimately costs the agency more in the long run because old equipment is more expensive to maintain. The Civic Federation commends CTA President Forrest Claypool for halting this unsustainable practice, as the Federation has urged in the past.

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[1] CTA 2012 Budget: Reform and Renewal: Improving Mass Transit in a New Economy slides, p. 14.
[2] CTA President's FY2012 Budget Recommendations, p. 71.

Maintaining Current Service and Fares

The FY2012 budget proposes no service cuts or fare increases. This is good news for transit riders who have experienced a number of fare increases and service reductions in recent years.

Addressing Expensive Labor Practices

Rather than cut service or raise fares to address the structural gap between revenues and expenditures, President Claypool proposes to tackle inherently expensive elements of its labor force. Over 90% of CTA personnel are covered by collective bargaining agreements and over 70% of annual operating expenses are for labor costs. The administration's ability to slow expenditure growth without cutting service is limited unless fundamental changes to collectively bargained labor agreements are made. According to the CTA, its work rules are antiquated and out of line with other major transit agencies across the country. Examples include excessive overtime guarantees, paid time off on birthdays and work anniversaries, excessive absenteeism, high salaries and excessive paid breaks.[3]

Continuing to Implement Management and Administrative Efficiencies

The CTA administration has instituted efficiencies in areas outside of collective bargaining agreements, including an ongoing wage freeze for non-union employees, delaying new hiring, eliminating 26 managerial positions, improving supply chain processes, modifying sick and vacation leave policies and investigating questionable worker's compensation claims. It also proposes to eliminate 200 positions in 2012 for a savings of $22 million.[4] The Civic Federation commends these efforts.

Termination of the Costly Free Rides for Seniors Program

The Civic Federation commends the CTA, Regional Transportation Authority, General Assembly and Governor Pat Quinn for working together to end the expensive Seniors Ride Free program. The Seniors Ride Free program, an initiative of former Governor Rod Blagojevich, took effect in March 2008 and provided free transit rides to all senior citizens 65 and over, regardless of income or ability to pay. The program cost public transit agencies across Illinois millions of dollars in lost revenue.

Governor Quinn signed Public Act 96-1527 into law on February 14, 2011 and CTA Seniors Ride Free permits were deactivated on September 1, 2011. Low-income seniors who qualify for the State's "Circuit Breaker" program are still eligible for free transit rides, and senior citizens with higher incomes may pay half price fares pursuant to a Federal Transit Administration requirement that transit systems accepting Federal funding must not charge senior citizens and handicapped individuals more than 50% of normal rates during non-peak times.

The Civic Federation believes there was no sound public policy reason to provide free rides for affluent seniors who are able to pay and help defray the cost of public transit. Exempting such a

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[3] CTA 2012 Budget: Reform and Renewal: Improving Mass Transit in a New Economy slides, pp 30-32.
[4] CTA President's FY2012 Budget Recommendations, pp. 6-8.

large pool of individuals from paying their fair share of expenses simply shifts the cost of maintain the system onto other riders, many of whom are low-income workers.

Passage of Universal Fare Card Legislation

The Civic Federation applauds the enactment of Public Act 97-0085 on July 7, 2011, which will require CTA, Metra and Pace to implement a universal fare card system by 2015. The Civic Federation has long advocated such a card in order to increase ridership and improve rider convenience across the regional transit network.

The Act also mandates other rider experience improvements such as allowing consumer use of contactless credit and debit cards to pay fares and requiring provision of web-based real-time arrival information for riders. The CTA is planning to implement contactless card capability throughout the system in 2012 and 2013.[5] These changes will modernize and streamline the rider experience, making public transit use more convenient and attractive for customers.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the CTA's proposed FY2012 budget.

Budget Balance Contingent on Collective Bargaining Outcomes

While the Civic Federation commends President Claypool for proposing to tackle significant labor reforms in 2012, we caution that the savings are far from certain and will depend on successful negotiations with labor unions and arbitrators. If the negotiations fail to produce $160 million worth of annualized expenditure savings, the CTA will need to make service cuts or impose revenue increases mid-year to close the budget gap.

Budget Balanced with $73.3 million One-Time Savings

In order to maintain current service levels and fares for the first half of 2012 while negotiating labor changes, the CTA will reduce the pension obligation bond (POB) debt service payment made from the operating budget in FY2012. 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 a net of $73.3 million to be applied to the FY2012 debt service payment.[6] This action will produce a one-time operating budget savings of $73.3 million. If the CTA fails to achieve $160 million in annualized labor savings during 2012, the one-time savings on debt service payments will leave a significant gap to fill in future budgets.

Civic Federation Recommendations

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

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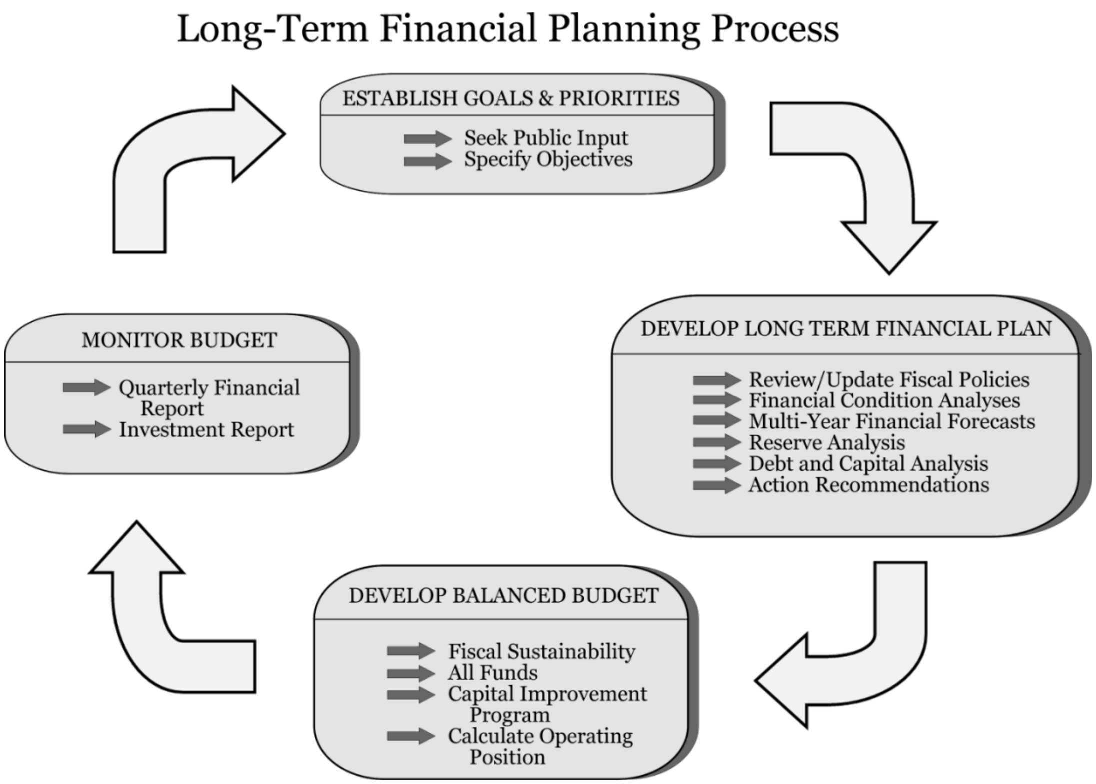
[5] CTA President's FY2012 Budget Recommendations, p. 13.
[6] CTA will be required to replace either the surety bond provider or the reserve amount if the provider, Assured Guaranty, enters bankruptcy. Information provided by CTA, November 4, 2011.

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.

Therefore, we recommend that the CTA undertake a four-stage financial planning process.[7] 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.



[7] 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.

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.
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.
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.

Continue Growing Non-Fare System-Generated Revenues

The CTA proposes to aggressively pursue corporate sponsorship and concession revenue opportunities in FY2012 with the goal of securing $5 million in additional non-fare system-generated revenues.[8] The Civic Federation supports this effort and encourages the CTA to maximize revenue-generating opportunities.

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. Other large transit systems in the United States employ zone transit fares, including Washington D.C.'s Metro system and San Francisco's BART system. The option of transitioning to a peak-hour fare system is currently being debated by the New York City transit system.

Improve Budget Detail

Although labor expenses represent over 70% of total CTA operating expenses, the budget documents do not provide detail on all components of labor expense. The Civic 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

[8] CTA 2012 Budget: Reform and Renewal: Improving Mass Transit in a New Economy slides, p. 21.

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 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.

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 Paul Volpe 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 FY2012 budget compared to previous years. This year, the CTA's operating budget will total $1.2 billion, a 5.1% or $66.2 million decline from the FY2011 revised appropriation of $1.3 billion.

Appropriations by Object: Two-Year Trend

The FY2011 budget was revised mid-year to reflect changes made by a new administration led by CTA President Forrest Claypool. The revised FY2011 budget of $1,305.5 million is $31.3 million less than the original FY2011 budget.

Labor Expenses

The proposed FY2012 budget shows labor expenses rising by $61.7 million, or 6.8% from the revised FY2011 budget level despite proposed savings of $22 million from elimination of 200 positions and policy changes to sick and vacation leave expected to save $15 million over six years.[9] However, the FY2012 budget proposal shows a line for $80 million in "Savings from Labor Reform and Work Rule Changes" for the first time. Including these savings, the net proposed labor expense for FY2012 is $883.1 million, an $18.3 million or 2.0% reduction from the FY2011 revised budget.

The savings from labor reform and work rule changes are budgeted for the latter half of FY2012 in anticipation of negotiations with organized labor. Current collective bargaining agreements expire on December 31, 2011. The budget assumes that $80 million in savings from these changes will be achieved in FY2012 and that an annualized $160 million in savings will be achieved in FY2013 and FY2014.[10]

These savings are contingent on the outcomes of collective bargaining and possibly labor arbitration. The proposed budget states that absent these structural labor changes, "The alternative is a continued downward spiral of more service reductions and layoffs, more fare hikes, less riders, less revenue, and an inability to repair and maintain an aging infrastructure."[11] If the labor negotiations do not succeed in providing $80 million in operating expense reductions for the second half of 2012, the CTA will need to take other actions to increase revenues or reduce expenditures such as layoffs and service cuts.

The FY2012 net labor expense of $883.1 million will constitute 71.2% of the proposed FY2012 CTA operating budget, up from 70.0% in FY2011. It is important to note that there are additional labor-related expenses contained in the "Other Expenses" category, in the form of debt service on pension obligation bonds issued in 2008 to shore up the CTA pension fund and create a

[9] CTA President's FY2012 Budget Recommendations, pp. 25-27.
[10] CTA President's FY2012 Budget Recommendations, p. 33.
[11] CTA President's FY2012 Budget Recommendations, p. 25.

Retiree Healthcare Trust Fund. The five-year trend section below describes changes to this debt service obligation.[12]

FY2012 will be fourth consecutive year that wages for non-union employees will be frozen. Non-union employees represent only 10% of the CTA workforce.[13]

Non-Labor Expenses

The "Other Expenses" category is the second largest expenditure category after labor expenses. 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 (POB).[14] Other Expenses is projected to decline by $71.7 million in FY2011 due to a one-time reduction in the amount of POB debt service to be paid from operating revenues. 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.[15] (See page 13 for more detail on the POB debt service obligation.) **This one-time reduction in POB debt service payment from the operating budget will allow the CTA to continue operating for the first six months of 2012 without fare increases or service reductions as it negotiates work rule changes with its labor unions.**

Appropriations for fuel will increase by $8.5 million, or 14.7%, from FY2011. The CTA uses a long-term fuel hedging strategy to manage its fuel costs. In contrast, power expenses for electricity will decline by $5.3 million or 17.4% pursuant to a new electricity contract effective January 1, 2012. Electricity is purchased through a combination of wholesale advance block purchases and real-time pricing.[16]

Materials expenses are expected to increase by $3.6 million, or 5.3%, from $67.9 million to $71.5 million. The revised FY2011 budget was able to reduce material expenditures by $4.8 million from the original FY2011 budget.[17] Materials expenses are managed and reduced both through supply chain process improvements and as a result of replacing old rolling stock with new equipment that requires less maintenance. The CTA estimates that the deployment of hundreds of new 5000-Series rail cars will create average annual materials savings of $8.6 million.[18]

Projected expenditures for security will increase by $0.8 million, from $36.0 million to $36.8 million. Security services are purchased from the Chicago, Oak Park and Evanston police

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[12] Pension obligation bond debt service and is the only bonded debt service paid out of the CTA operating budget. Lease payments to the Public Building Commission are also paid out of the operating budget. Debt service on capital bonds is paid for directly from federal grants and does not appear in the operating budget. Information provided by CTA, November 4, 2011.
[13] CTA President's FY2012 Budget Recommendations, pp. 5 and 34.
[14] CTA President's FY2012 Budget Recommendations, p. 28.
[15] Information provided by CTA Budget Office, November 4, 2011 and http://emma.msrb.org/ER514577-ER398823-ER800403.pdf.
[16] CTA President's FY2012 Budget Recommendations, p. 27.
[17] CTA President's FY2012 Budget Recommendations, p. 19.
[18] CTA President's FY2012 Budget Recommendations, pp. 50 and 74.

departments as well as private guard and canine firms. The Chicago Police Department Public Transportation Section additionally provides $22 million of service annually at no cost to the CTA.[19]

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 FY2012 appropriation is $16.2 million, or 108.0% higher than FY2011, due to prior overpayments that had reduced the FY2011 obligation.

CTA Operating Budget by Object of Expenditure: FY2011 & FY2012 (in $ thousands)				
Object	**FY2011 Revised**	**FY2012 Proposed**	**$ Change**	**% Change**
Labor	$ 901,392	$ 963,075	$ 61,683	6.8%
Expected Savings from Labor Reform and Work Rule Changes	$ -	*$ (80,000)*	-	-
Net Labor Expense	**$ 901,392**	**$ 883,075**	**$ (18,317)**	**-2.0%**
Other Expenses				
Utilities	$ 19,739	$ 19,089	$ (651)	-3.3%
Advertising/Promotion	$ 838	$ 1,234	$ 396	47.3%
Travel & Meetings	$ 575	$ 800	$ 226	39.2%
Contractual Services	$ 60,480	$ 64,507	$ 4,027	6.7%
Leases & Rentals	$ 2,285	$ 2,919	$ 634	27.8%
General Expenses	$ 22,756	$ 14,126	$ (8,629)	-37.9%
Net POB Debt Service	$ 103,336	$ 35,761	$ (67,575)	-65.4%
Credits	$ (12,263)	$ (12,401)	$ (138)	1.1%
Subtotal Other Expenses	**$ 197,745**	**$ 126,036**	**$ (71,710)**	**-36.3%**
Material	$ 67,923	$ 71,493	$ 3,570	5.3%
Fuel	$ 58,166	$ 66,707	$ 8,541	14.7%
Security	$ 35,988	$ 36,803	$ 815	2.3%
Provision for Injuries & Damages	$ 15,000	$ 31,200	$ 16,200	108.0%
Power	$ 30,236	$ 24,977	$ (5,259)	-17.4%
Total	**$ 1,504,196**	**$ 1,366,326**	**$ (137,869)**	**-9.2%**

Source: CTA President's FY2012 Budget Recommendation p. 31 and information provided by CTA, November 4, 2011.

Appropriations by Object: Five-Year Trend

The CTA's operating budget will increase by 2.1%, or $25.9 million, between the actual expenditures in FY2008 and proposed expenditures for FY2012.

The table below shows labor expenses by type from the FY2008 actual budget to the FY2012 budget proposal. Revised FY2011 budget figures were not available so the Original FY2011 budget figures are shown. Actual labor expenses declined in FY2009 and again FY2010 following layoffs and service reductions but rose in the 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] The labor expense proposed for FY2012 net of the $80 million in budgeted savings from labor reforms will

[19] CTA President's FY2012 Budget Recommendations, p. 28.

still be higher than the FY2008 actual labor expenses despite a reduction of 1,661 budgeted full-time equivalent positions.

Base wages will decline by 8.1% over the five-year period while benefits will increase by 5.5%. Group insurance expenses are expected to grow by 9.6% or $10.6 million between FY2008 and FY2012.

CTA Labor Expenses: FY2008-FY2012
(in $ thousands)

Object	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Original Budget	FY2012 Proposed	5-Year $ Change	5-Year % Change
Base Wages & Salaries	$ 555,702	$ 535,044	$ 498,395	$ 540,116	$ 510,504	$ (45,198)	-8.1%
Benefits							
Vacation	$ 36,496	$ 40,785	$ 53,319	$ 44,916	$ 39,161	$ 2,664	7.3%
Holiday	$ 26,409	$ 26,936	$ 24,076	$ 23,906	$ 22,963	$ (3,446)	-13.0%
Sick	$ 5,387	$ 6,355	$ 5,963	$ 5,913	$ 6,183	$ 795	14.8%
Jury Duty	$ 759	$ 760	$ 689	$ 703	$ 720	$ (39)	-5.2%
Workers' Comp	$ 44,086	$ 69,126	$ 55,700	$ 56,439	$ 61,017	$ 16,932	38.4%
Tuition Aid	$ 165	$ 227	$ 209	$ 270	$ 163	$ (3)	-1.7%
FICA	$ 51,367	$ 47,756	$ 45,055	$ 45,143	$ 43,644	$ (7,723)	-15.0%
Unemployment Ins	$ 883	$ 2,556	$ 11,970	$ 6,732	$ 1,393	$ 510	57.7%
Group Ins	$ 110,044	$ 109,668	$ 111,958	$ 124,740	$ 120,639	$ 10,595	9.6%
Uniform Allowance	$ 1,621	$ 1,689	$ 1,643	$ 1,944	$ 1,126	$ (494)	-30.5%
Supplemental Retirement	$ 8,512	$ 10,310	$ 6,522	$ 5,006	$ 4,581	$ (3,931)	-46.2%
Incentive Retirement	$ 1,550	$ 1,380	$ 1,480	$ 1,566	$ 1,537	$ (13)	-0.8%
Pension	$ 84,325	$ 44,128	$ 57,193	$ 92,128	$ 88,932	$ 4,608	5.5%
Subtotal Benefits	**$ 371,605**	**$ 361,677**	**$ 375,776**	**$ 409,408**	**$ 392,058**	**$ 20,453**	**5.5%**
Fringe Benefit Offset	$ (32,754)	$ (20,573)	$ (20,487)	$ -	$ -	$ 32,754	-100.0%
Other Labor Credits	$ (20,917)	$ (19,681)	$ (18,541)	$ (18,346)	$ (19,487)	$ 1,430	-6.8%
Total	**$ 873,636**	**$ 856,468**	**$ 835,143**	**$ 931,179**	**$ 883,075**	**$ 9,439**	**1.1%**

Source: Information provided by CTA, November 4, 2011.

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

As illustrated in the next table, 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 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 in the previous section of this analysis, which will reduce the POB debt service paid out of the operating budget from $141.4 million to $35.8 million for one year.

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 nearly 30% less in FY2012 than in FY2008. As described in the previous section, these savings are due to commodities hedging and price contracts as well as maintenance savings resulting from newer rolling stock.

CTA Operating Budgets by Object of Expenditure: FY2008-FY2012
(in $ thousands)

Object	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Revised	FY2012 Proposed	5-Year $ Change	5-Year % Change
Labor	$ 873,636	$ 856,468	$ 835,143	$ 901,392	$ 963,075	$ 89,439	10.2%
Expected Savings from Labor Reform and Work Rule Changes	$ -	$ -	$ -	$ -	$ (80,000)	-	-
Net Labor Expense	**$ 873,636**	**$ 856,468**	**$ 835,143**	**$ 901,392**	**$ 883,075**	**$ 9,439**	**1.1%**
Other Expenses							
Utilities	$ 26,978	$ 24,508	$ 21,448	$ 19,739	$ 19,089	$ (7,890)	-29.2%
Advertising/Promotion	$ 2,045	$ 1,332	$ 1,928	$ 838	$ 1,234	$ (811)	-39.6%
Travel & Meetings	$ 1,777	$ 543	$ 514	$ 575	$ 800	$ (976)	-55.0%
Contractual Services	$ 57,050	$ 50,487	$ 55,691	$ 60,480	$ 64,507	$ 7,457	13.1%
Leases & Rentals	$ 2,509	$ 2,277	$ 3,556	$ 2,285	$ 2,919	$ 410	16.3%
General Expenses	$ 2,403	$ 66,303	$ 20,207	$ 22,756	$ 14,126	$ 11,724	487.9%
Net POB Debt Service	$ -	$ -	$ 76,785	$ 103,336	$ 35,761	-	-
Credits	$ (19,955)	$ (14,102)	$ (12,889)	$ (12,263)	$ (12,401)	$ 7,555	-37.9%
Subtotal Other Expenses	**$ 72,807**	**$ 131,348**	**$ 167,240**	**$ 197,745**	**$ 126,036**	**$ 53,229**	**73.1%**
Material	$ 100,568	$ 87,900	$ 80,077	$ 67,923	$ 71,493	$ (29,075)	-28.9%
Fuel	$ 91,834	$ 100,539	$ 52,063	$ 58,166	$ 66,707	$ (25,127)	-27.4%
Security	$ 32,382	$ 32,300	$ 33,319	$ 35,988	$ 36,803	$ 4,421	13.7%
Power	$ 35,442	$ 37,645	$ 28,208	$ 30,236	$ 24,977	$ (10,465)	-29.5%
Provision for Injuries & Damages	$ 7,718	$ 15,397	$ 43,000	$ 15,000	$ 31,200	$ 23,482	304.2%
Total	**$ 1,287,193**	**$ 1,392,945**	**$ 1,406,289**	**$ 1,504,196**	**$ 1,366,326**	**$ 79,133**	**6.1%**

Source: CTA President's FY2010 Budget Recommendations, p. 20; FY2011 Budget Recommendations, p. 31; FY2012 Budget Reocmmendations, p. 31; and information provided by CTA, November 4, 2011.

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

[21] CTA President's FY2012 Budget Recommendations, p. 102.
[22] CTA President's FY2010 Budget Recommendations, p. 77.

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 Trend

The President's FY2012 Budget Recommendations include over $1.2 billion in revenues, which is a 5.1% decrease from the revised FY2011 budget. The revenue total includes $623.7 million from system-generated revenue and $616.6 million in public funding through the Regional Transit Authority (RTA).

System-generated revenue in FY2012 will include $540.0 million in farebox revenue, a 3.1% increase from the previous year. The growth is due to an expectation of a 0.9% ridership increase and an additional $7 million anticipated from the amended Seniors Ride Free Program.[23] The CTA will continue providing free rides to low-income seniors per P.A. 96-1527, but will no longer be required to provide free rides to all persons aged 65 or older. Farebox revenue represents 86.6% of all system-generated revenue in the proposed budget.

Advertising, Charter & Concessions will increase by nearly $3.4 million, or 17.3%, from FY2011. The increase reflects CTA's focus on increasing earned non-farebox revenue, which includes efforts to expand advertising, branding opportunities and corporate sponsorships.[24] Investment income is expected to increase by approximately $0.5 million, or 120.1%, based on an anticipated economic recovery and higher interest rates.[25] Despite the modest increase, investment income has been low since FY2008 and reflects exceptionally low federal funds rates.[26]

According to the recovery ratio, 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. 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.[27] This represents $22.0 million in police services for 2012, 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 has non-violent offenders help CTA workers to clean bus turnarounds and garages.[28]

The State of Illinois annually provides the CTA with a partial reimbursement or subsidy for reduced fares. The amount provided in FY2012 is expected to be $28.0 million, the same amount as in FY2011.

[23] CTA President's FY2012 Budget Recommendations, pp. 26 and 29
[24] CTA President's FY2012 Budget Recommendations, p. 29.
[25] CTA President's FY2012 Budget Recommendations, p. 29.
[26] CTA President's FY2012 Budget Recommendations, p. 87.
[27] CTA President's FY2012 Budget Recommendations, p. 28.
[28] CTA President's FY2012 Budget Recommendations, p. 29.

Other revenue, which includes parking charges, filming fees, third-party contract reimbursements and rental revenue, will increase by $2.4 million, or 9.7%, to $27.0 million in FY2012.

Public funding for the CTA will increase in FY2012 by 7.4% according to Regional Transportation Authority projections. This represents a nearly $42.5 million increase, from $574.1 million to $616.6 million. The projected increase is due to the continuation of modest economic recovery felt in 2011. 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.[29]

The FY2012 budget does not include two revenue sources used in FY2011: capital funds for preventive maintenance and State funds provided in exchange for forestalling fare increases. Those two sources totaled $131.2 million and represented 10.0% of the CTA's FY2011 resources.

CTA Budgeted Revenue: FY2011 & FY2012 (in $ thousands)

Source	FY2011 Revised	FY2012 Budget	$ Change	% Change
System-Generated Revenue				
Fares and Passes	$ 523,660	$ 540,000	$ 16,340	3.1%
Reduced Fare Reimbursement	$ 28,000	$ 28,000	$ -	0.0%
Advertising, Charter & Concessions	$ 19,436	$ 22,802	$ 3,366	17.3%
Investment Income	$ 394	$ 867	$ 473	120.1%
Required Contributions - Cook County & Chicago	$ 5,000	$ 5,000	$ -	0.0%
Other Revenue	$ 24,617	$ 27,013	$ 2,396	9.7%
Total System-Generated Revenue	**$ 601,107**	**$ 623,682**	**$ 22,575**	**3.8%**
Public Funding through RTA	**$ 574,144**	**$ 616,609**	**$ 42,465**	**7.4%**
Fare Agreement with State	$ 83,000	$ -	$ (83,000)	-100.0%
Transfer from Capital-Preventive Maintenance Funds	$ 48,200	$ -	$ (48,200)	-100.0%
Total	**$ 1,306,451**	**$ 1,240,291**	**$ (66,160)**	**-5.1%**

Source: CTA President's FY2012 Budget Recommendations, p. 31.

The recovery ratio, which measures the proportion of operating expenses recovered from operating revenues, is a significant 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 FY2012 the CTA will recover 59.6% of its operating expenses through system-generated revenues.[30]

[29] 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.
[30] CTA President's FY2012 Budget Recommendations, p. 31.

CTA Budgeted Revenues: Five-Year Trend

Comparing the CTA's FY2012 Proposed Budget with the actual FY2008 budget, total revenues are projected to increase by 2.1%, or $25.9 million. Overall, system generated revenue will rise by 12.9%, or $71.1 million, while public funding through the RTA will be $5.2 million, or 0.8%, lower. The modest increase in total revenues primarily reflects the absence in FY2012 of capital funds for preventive maintenance and the use of prior year fund balance in 2008.[31]

The five-year trend reflects significant increases in fares and passes and other revenue and decreases in investment income, advertising and concessions and reimbursements for reduced fares. Income from fares and passes will increase by $68.9 million, or 14.6%, largely due to the 2009 fare increases. Public funding from the RTA will decrease by 0.8%, or $5.2 million. Several revenue items will decrease over this five-year period. Investment income will decline by 77.1% due to falling market rates and low investable cash balances. The reduced fare reimbursement from the State of Illinois will fall by 12.1% over the five-year period and advertising, charter and concession income will decrease by 17.6%.

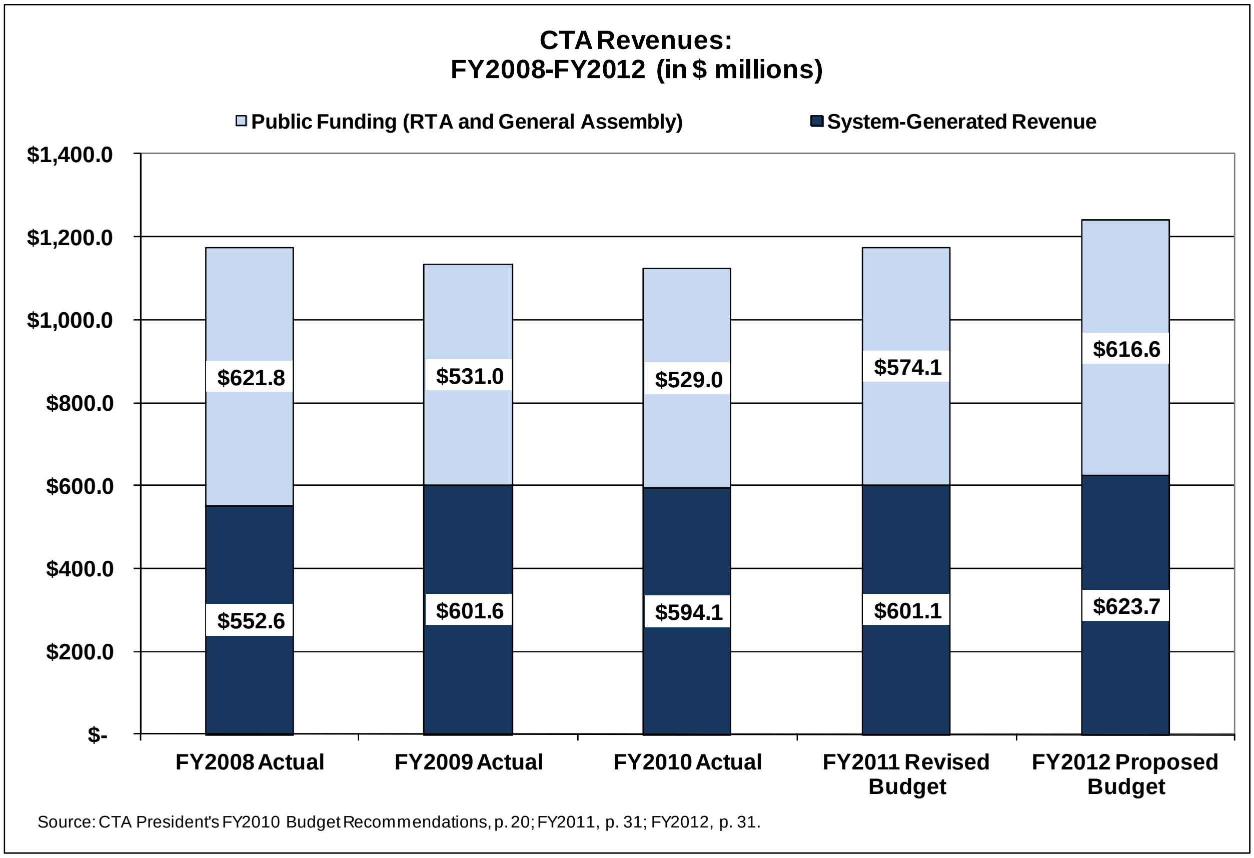
CTA Budgeted Revenue: FY2008-FY2012
(in $ thousands)

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Revised	FY2012 Proposed	$ Change	% Change
System-Generated Revenue							
Fares and Passes	$ 471,099	$ 505,713	$ 509,180	$ 523,660	$ 540,000	$ 68,901	14.6%
Reduced Fare Reimbursement	$ 31,855	$ 28,239	$ 28,245	$ 28,000	$ 28,000	$ (3,855)	-12.1%
Advertising, Charter & Concessions	$ 27,661	$ 30,215	$ 22,609	$ 19,436	$ 22,802	$ (4,859)	-17.6%
Investment Income	$ 3,779	$ 1,259	$ 627	$ 394	$ 867	$ (2,912)	-77.1%
Required Contributions from Cook County & Chicago	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ -	0.0%
Other Revenue	$ 13,161	$ 31,206	$ 28,397	$ 24,617	$ 27,013	$ 13,852	105.3%
Total System-Generated Revenue	**$ 552,555**	**$ 601,632**	**$ 594,058**	**$ 601,107**	**$ 623,682**	**$ 71,127**	**12.9%**
Public Funding through RTA	**$ 621,832**	**$ 531,045**	**$ 528,961**	**$ 574,144**	**$ 616,609**	**$ (5,223)**	**-0.8%**
Prior Year Positive Balance	$ 20,000	$ -	$ -	$ -	$ -	$ (20,000)	-100.0%
Fare Agreement with State	$ -	$ -	$ 83,000	$ 83,000	$ -	$ -	-
Transfer from Capital-Preventive Maintenance Funds	$ 20,000	$ 128,920	$ 89,654	$ 48,200	$ -	$ (20,000)	-100.0%
Total	**$ 1,214,387**	**$ 1,261,597**	**$ 1,295,673**	**$ 1,306,451**	**$ 1,240,291**	**$ 25,904**	**2.1%**

Source: CTA President's FY2010 Budget Recommendations, p. 20; FY2011, p. 31; FY2012, p. 31.

[31] CTA President's FY2009 Budget Recommendations, p. 10.

The following exhibit illustrates system-generated revenues and public funding between FY2008 and FY2012. It does not include revenue from transferring capital funds to the operating budget.



Structure of Public Funding for the CTA from the RTA

The CTA will receive public funding from three sources in 2012: 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.[32] 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.[33]

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.[34] The RTA also has authority to levy taxes on automobile rentals, motor fuel and off-street parking facilities, but has not exercised this authority.[35]

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: FY2012			
	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 FY2012 Budget Recommendations, p. 88.

The next exhibit details public funding for the CTA that is provided through the RTA. As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects

[32] See Public Act 095-0708.
[33] 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.
[34] CTA President's FY2012 Budget Recommendations, pp. 88-89.
[35] 70 ILCS 3615/4.03.

to receive $470.1 million in total sales tax revenue from the RTA in FY2012. When compared to revenues anticipated in the FY2011 proposed budget, this is an $88.9 million, or 23.3%, increase. Of the $470.1 million, $301.4 million is expected to come directly from the sales tax distribution formula and $168.7 million will be RTA discretionary funds, allocated from the 15% of total tax revenue retained by the RTA.

The CTA share of RTA discretionary funds will increase by 54.3% from the FY2011 proposed budget expectation, a rise of $59.3 million. The CTA expects to receive an additional $4.0 million from real estate transfer taxes collected in Chicago and an additional $1.0 million from the increase in that tax authorized in 2008. The CTA will also receive $111.5 million in revenues from the RTA sales tax increase enacted in 2008 by PA 95-0708, which is down $6.6 million, or 5.6%, from the proposed FY2011 budget.

CTA Sources of Public Funding Through the RTA: FY2011 & FY2012
(in $ thousands)

	FY2011 Proposed Budget	FY2012 Proposed Budget	$ Change	% Change
RTA Formula Sales Tax Revenues	$ 271,850	$ 301,378	$ 29,528	10.9%
RTA Discretionary Sales Tax Revenues	$ 109,356	$ 168,700	$ 59,344	54.3%
Sub-Total RTA Sales Tax Revenues	**$ 381,206**	**$ 470,078**	**$ 88,872**	**23.3%**
Real Estate Transfer Tax (Chicago)	$ 24,000	$ 28,028	$ 4,028	16.8%
Real Estate Transfer Tax (25% Public Transportation Fund)	$ 6,000	$ 7,007	$ 1,007	0.0%
Sales Tax and PTF per PA 95-0708	$ 118,098	$ 111,495	$ (6,603)	-5.6%
Total	**$ 529,304**	**$ 616,608**	**$ 87,304**	**16.5%**

Note: Totals may differ due to rounding.

Source: CTA President's FY2011 Budget Recommendations, p. 86, FY2012, p. 90.

Operating Transfer

Over the past six years, the CTA has diverted $391.8 million in capital funding to close gaps in its operating budget. The FY2012 budget proposes to end the reliance on unsustainable loans from capital funds. The following chart shows the proposed new capital expenditures and the actual amount of capital funds transferred to the operating budget since FY2006. Capital funds transferred to the operating budget have totaled $391.8 million, which represents 9.0% of the proposed new capital funding during the same period.

Transfers From Proposed Capital Budget to Operating Budget: FY2008-FY2012
(in $ millions)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	Total
Proposed New Capital Funding	$ 371.0	$ 434.7	$ 722.5	$ 310.9	$ 745.4	$ 599.6	$ 1,167.6	$ 4,351.8
Actual Transfer to Operating Budget	$ 41.2	$ 83.9	$ -	$ 128.9	$ 89.7	$ 48.2	$ -	$ 391.8
Transfer as % of Total Capital Funds	11.1%	19.3%	0.0%	41.5%	12.0%	8.0%	0.0%	9.0%

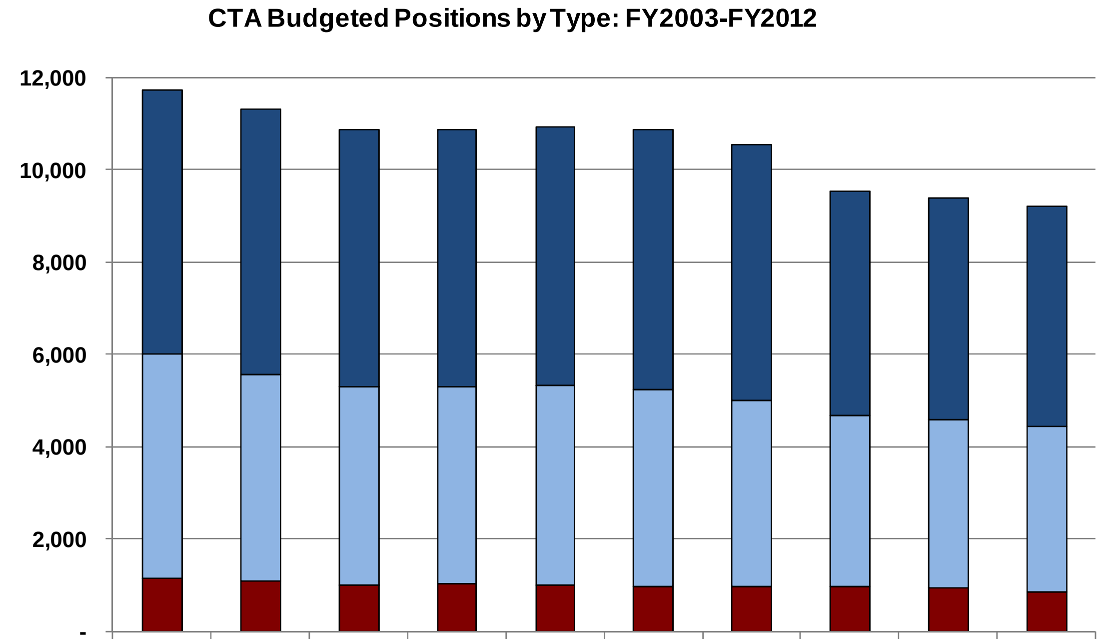
Source: CTA President's FY2012 Budget Recommendations, pp. 31 and 41; Information provided by the CTA, November 4, 2011.

PERSONNEL TRENDS

The CTA plans to fund 9,206 positions in FY2012. This is a decrease of 1.8%, or 171 positions from the FY2011 proposed budget. This decrease includes the elimination of 79 administrative positions, 18 Scheduled Transit Operator (STO) positions and 74 non-STO operating positions. Over the past ten years, the budgeted CTA workforce has declined by 21.4% or 2,510 positions.

The ten-year decline includes reductions of:

- 303 administrative positions, or 26.5%;
- 947 STO positions, or 16.5%; and
- 1,260 non-STO operating positions, or 26.0%.

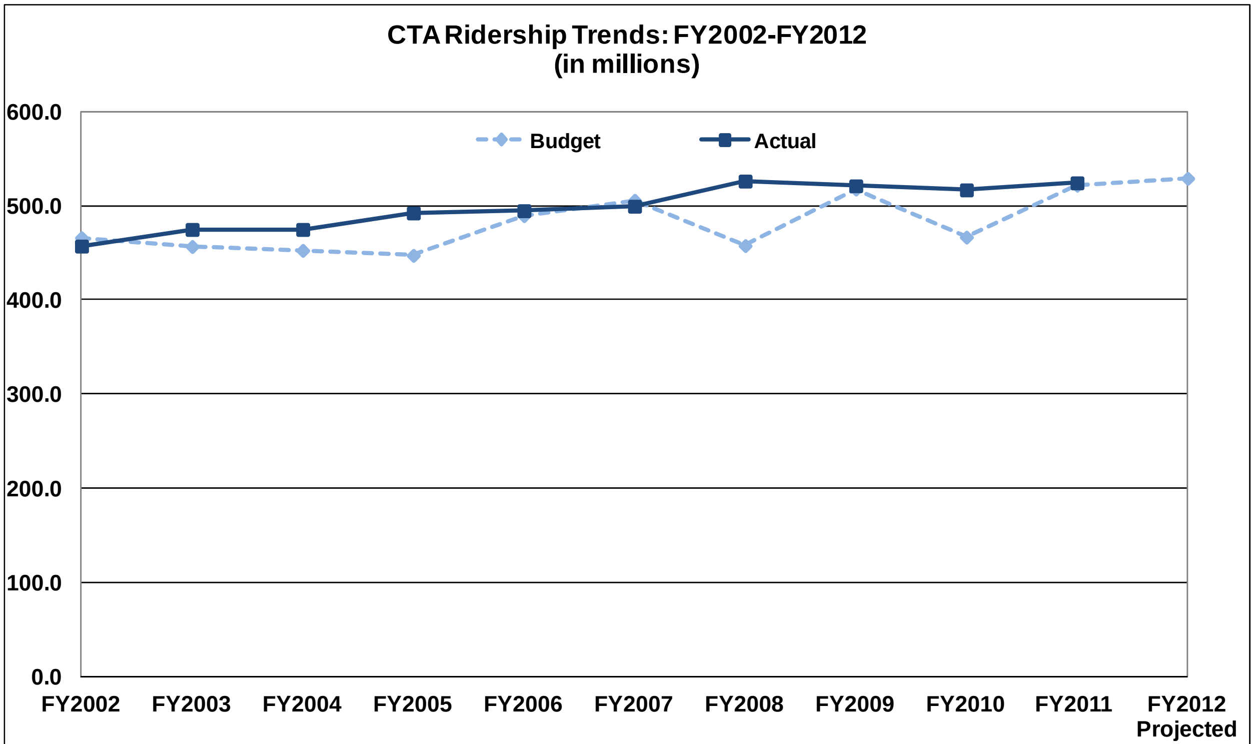


	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
TOTAL	**11,716**	**11,315**	**10,873**	**10,873**	**10,907**	**10,867**	**10,540**	**9,520**	**9,377**	**9,206**
STO	**5,725**	**5,753**	**5,592**	**5,592**	**5,605**	**5,634**	**5,552**	**4,868**	**4,796**	**4,778**
Non-STO Operations	**4,846**	**4,491**	**4,290**	**4,274**	**4,304**	**4,287**	**4,045**	**3,709**	**3,660**	**3,586**
Administration	**1,145**	**1,071**	**991**	**1,007**	**998**	**946**	**943**	**943**	**921**	**842**

Source: Information provided by CTA, November 4, 2011.

RIDERSHIP

CTA projects that ridership will increase in FY2012 by 0.9%, from 524.4 million rides as forecast in the FY2011 budget, to approximately 529.2 million rides in FY2012 for an increase of 4.8 million rides. 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).[36]



Note: FY2011 actual ridership is the CTA FY2011 budget forecast.
Source: CTA President's FY2012 Budget Recommendations, p. 26; FY2002-FY2010 Budget Recommendations.

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

[36] CTA President's Budget Recommendations, p. 174.

management, five members appointed by the Amalgamated Transit Union and one appointed by the Regional Transportation Authority.[37]

In FY2010 the Fund had 8,932 active employees and 9,310 beneficiaries.[38]

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.[39] 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.[40]

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 applies to the second requirement, which states that beginning in FY2040 the fund must maintain

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[37] Retirement Plan for Chicago Transit Authority Employees *Financial Statements for the Year Ended December 31, 2010*, p. 14.

[38] Retirement Plan for CTA Employees, January 1, 2011 Actuarial Valuation, September 2011, p. 2.

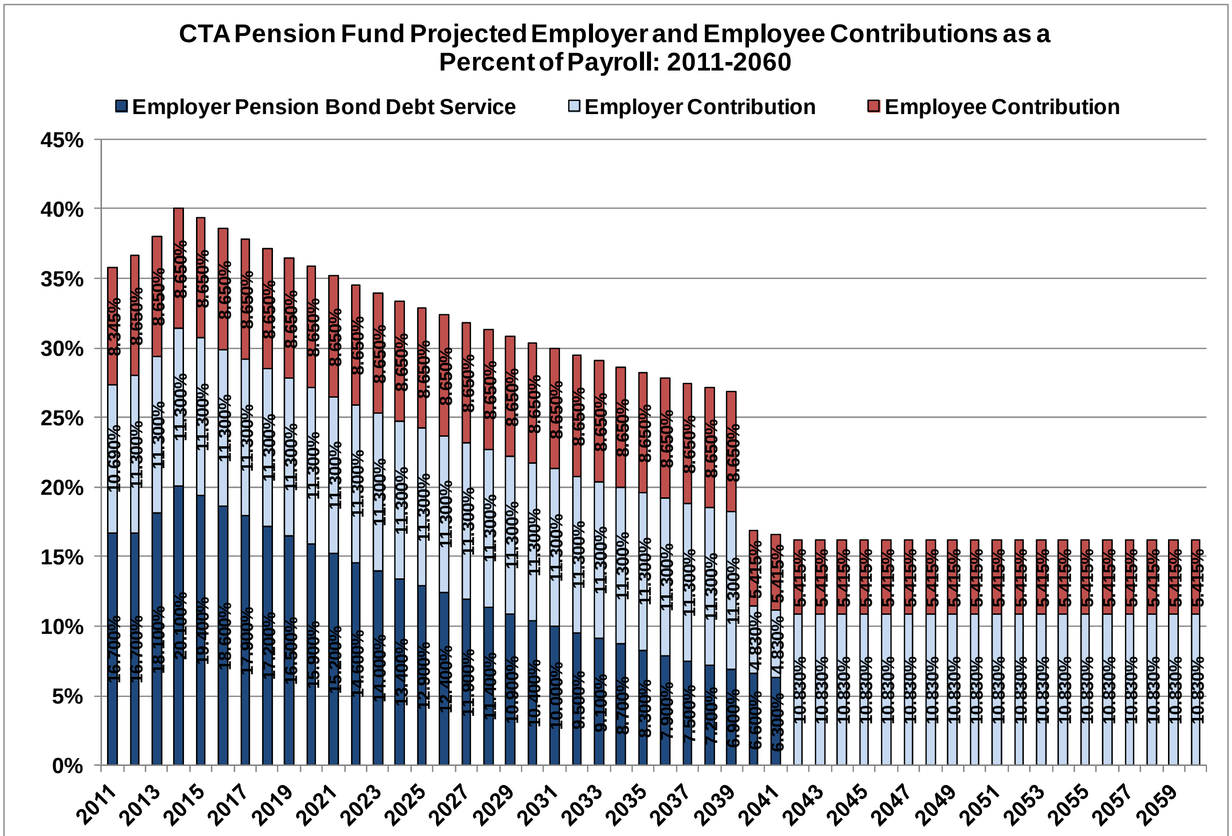
[39] Retirement Plan for Chicago Transit Authority Employees *Basic Financial Statements and Management's Discussion and Analysis for the Year Ended December 31, 2006*, p. 6.

[40] See the Civic Federation, "The State of Illinois Retirement Systems: Funding History and Reform Proposals," (October 26, 2006). http://www.civicfed.org/articles/civicfed_220.pdf

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%.

The minimum rates needed to keep the plan over 60% funded through 2039 were actuarially calculated to be 11.30% for the CTA and 8.65% for the employees for plan year 2012.[41]

The following graph illustrates the projected employer and employee pension contributions required to meet the 50-year schedule described above. This projection is recalculated annually. The current projection shows total employer contributions, including debt service on the 2008 pension obligation bond, will reach a high of 31.4% of payroll in 2014.



Source: Retirement Plan for CTA Employees Actuarial Valuation as of January 1, 2011, pp. 5-6.

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

[41] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2011*, p. 2.

Healthcare Trust. The infusion of $1.1 billion into the retirement fund was expected to raise its funded ratio to approximately 80%.[42]

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.[43] 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.[44]

The CTA Fund actuaries also 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.[45]

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 66.3% in FY2001 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.[46]

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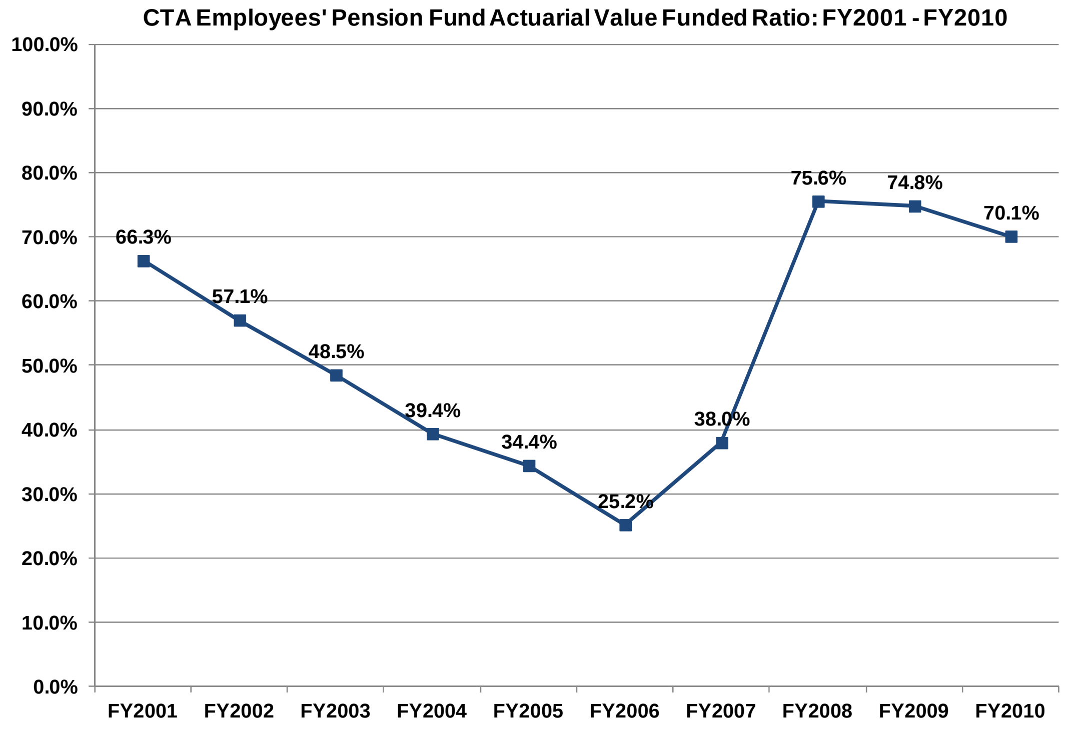
[42] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2008*, p. 3.
[43] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2008*, p. 16.
[44] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2009*, p. 4.
[45] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2008*, p. 4.
[46] 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.[47] 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.



Source: Retirement Plan for CTA Employees Actuarial Valuation as of January 1, 2011.

Under the 50-year funding schedule, the funded ratio is currently projected to continue declining to 60.14% in 2028 before rising again to reach 90% by the end of 2059.[48]

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 $0.9 billion in FY2001 to almost $3.2 billion in FY2006 before falling to $0.6 billion in FY2008. 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

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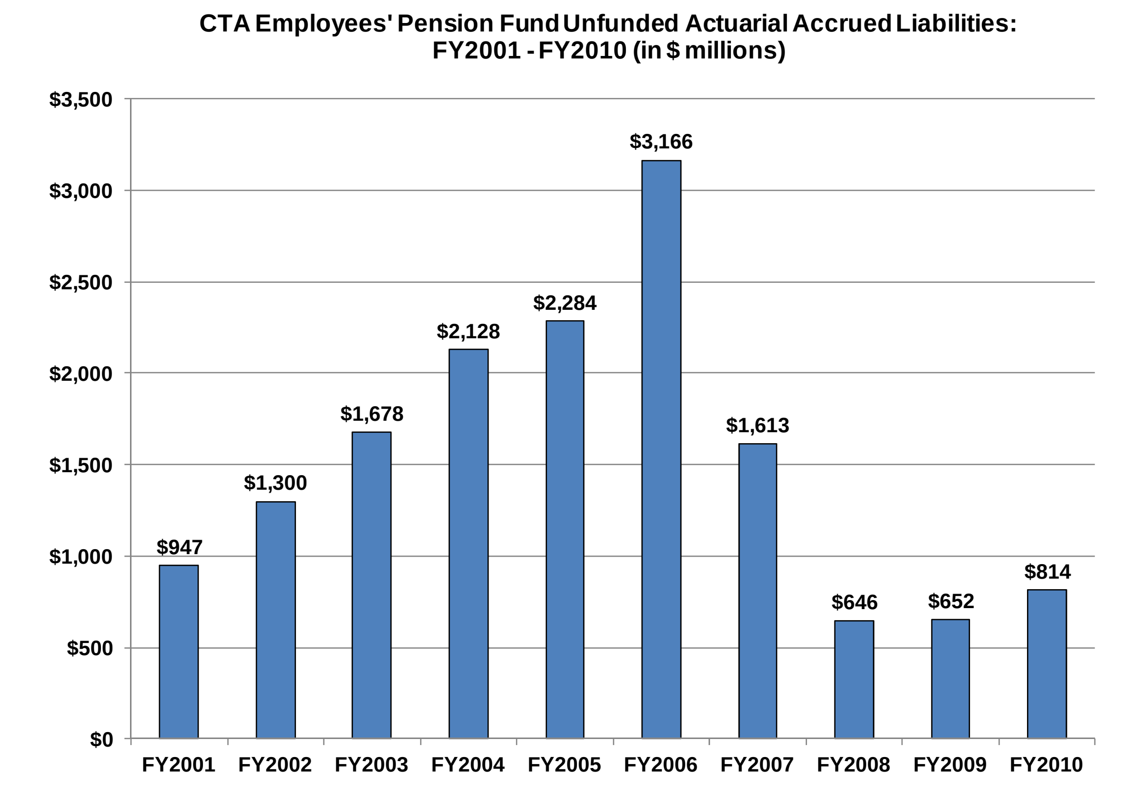
[47] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2010*, p. 1.
[48] Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2011*, pp. 5 and 6.

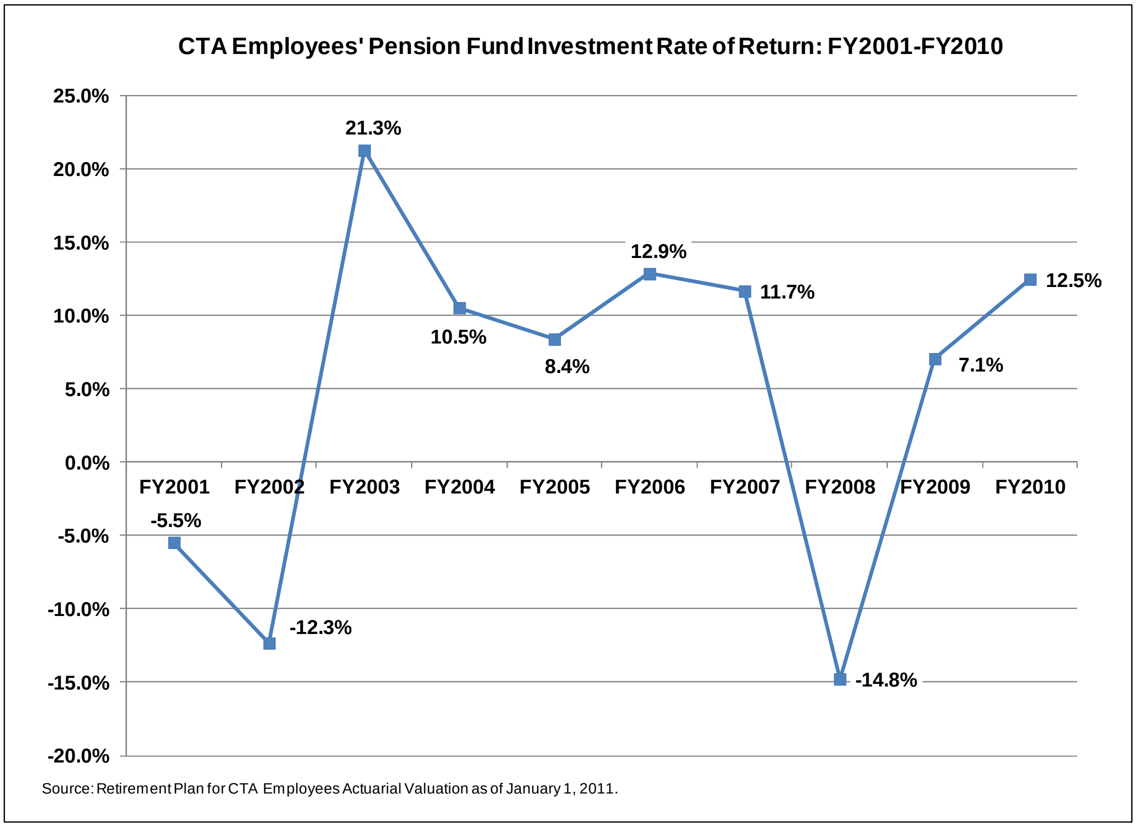
reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50% and because the effects of the FY2008 market decline were still being recognized.



Source: Retirement Plan for CTA Employees Actuarial Valuation as of January 1, 2011.

Investment Rates of Return

Over the last ten years 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. 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.[49]



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.[50] 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, 2010 the Chicago Transit Authority Retiree Healthcare Trust reported total present value of projected benefits of $772.6 million and total income and assets of $781.0 million, for a 101.1% coverage ratio.[51]

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[49] Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.
[50] P.A. 95-0708; Retirement Plan for CTA Employees *Actuarial Valuation as of January 1, 2008*, p. 16.
[51] Chicago Transit Authority Retiree Healthcare Trust, *Funding Results as of January 1, 2010*, p. 3.

SHORT-TERM LIABILITIES

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll and other current liabilities. The CTA currently reports no short-term debt but does include the following short-term liabilities in the report of net assets in its annually issued Audited Financial Statements and Supplementary Information:[52]

- *Accounts Payable*: monies owed to vendors for goods and services;
- *Accrued Payroll, Vacation Pay and Related Liabilities*: employee pay and benefits carried over from the previous year;
- *Accrued Interest Payable:* interest that is owed on deposits or bonds payable in the next fiscal year;
- *Advances, Deposits and Other:* Comprised of security deposits on rents and concessions, various grant deposits and other deposits required from vendors that do business with the CTA;
- *Advance from the RTA:* Funds provided by the RTA for future capital projects;
- *Deferred Passenger Revenue:* represents cash collected from the sale of fares for which rides have not yet been taken;
- *Other Deferred Revenue:* unearned rent, advertising and concession revenue and cash receipts that have not yet been applied to accounts;
- *Deferred Operating Assistance:* Illinois Department of Revenue ("IDOR") sales tax payments to the CTA in advance of the first month of the new fiscal year to compensate for the delayed processing of sales tax payments to the RTA; and
- *Deferred Inflow – Derivatives:* Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.[53]

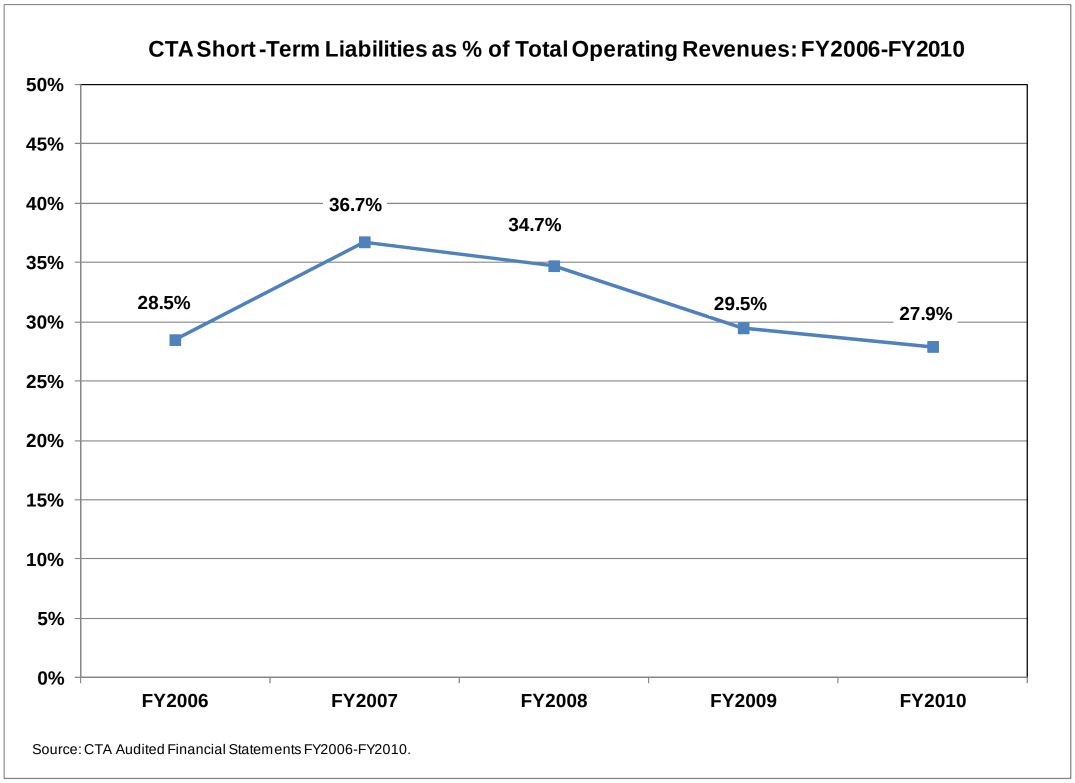
[52] CTA FY2010 Audited Financial Statements, p. 16.
[53] CTA FY2010 Audited Financial Statements, p. 67.

In FY2010 the CTA reported that total short-term liabilities decreased by $5.0 million, or 1.6%, from the previous year. Since FY2006 short-term liabilities have decreased by $3.0 million, or 1.0%. The single largest short-term liability in FY2010 was accrued payroll at $101.9 million. Accrued payroll has increased slightly by 3.1%, or $3.0 million, over the 5-year period reviewed. The following exhibit shows short-term liabilities by category and percent change over the past five years.

CTA Short-Term Liabilities by Category: FY2006 - FY2010 (in $ thousands)							
Liability	**FY2006**	**FY2007**	**FY2008**	**FY2009**	**FY2010**	**5-year $ Change**	**5-year % Change**
Accounts Payable & Expenses	$ 123,719	$ 172,190	$ 207,026	$ 129,198	$ 98,463	$ (25,256)	-20.4%
Accrued Payroll	$ 98,925	$ 99,626	$ 95,456	$ 90,717	$ 101,964	$ 3,039	3.1%
Accrued Interest Payable	$ 3,458	$ 3,480	$ 16,909	$ 13,081	$ 19,460	$ 16,002	462.8%
Advances and Deposits	$ 9,333	$ 49,552	$ 2,508	$ 1,581	$ 9,511	$ 178	1.9%
Advances from RTA	$ 23,201	$ 20,302	$ 10,949	$ 8,451	$ -	$ (23,201)	-100.0%
Deferred Passenger Revenue	$ 29,290	$ 29,273	$ 33,617	$ 38,095	$ 42,779	$ 13,489	46.1%
Other Deferred Revenue	$ 992	$ 2,705	$ 2,211	$ 2,507	$ 4,029	$ 3,037	306.1%
Deferred Operating Assistance	$ 23,273	$ 24,602	$ 25,215	$ 30,583	$ 30,821	$ 7,548	32.4%
Deferred Inflow-Derivatives	$ -	$ -	$ -	$ -	$ 2,158	$ 2,158	….
Total	**$ 312,191**	**$ 401,730**	**$ 393,891**	**$ 314,213**	**$ 309,185**	**$ (3,006)**	**-1.0%**

Source: CTA Audited Financial Statements FY2006-FY2010.

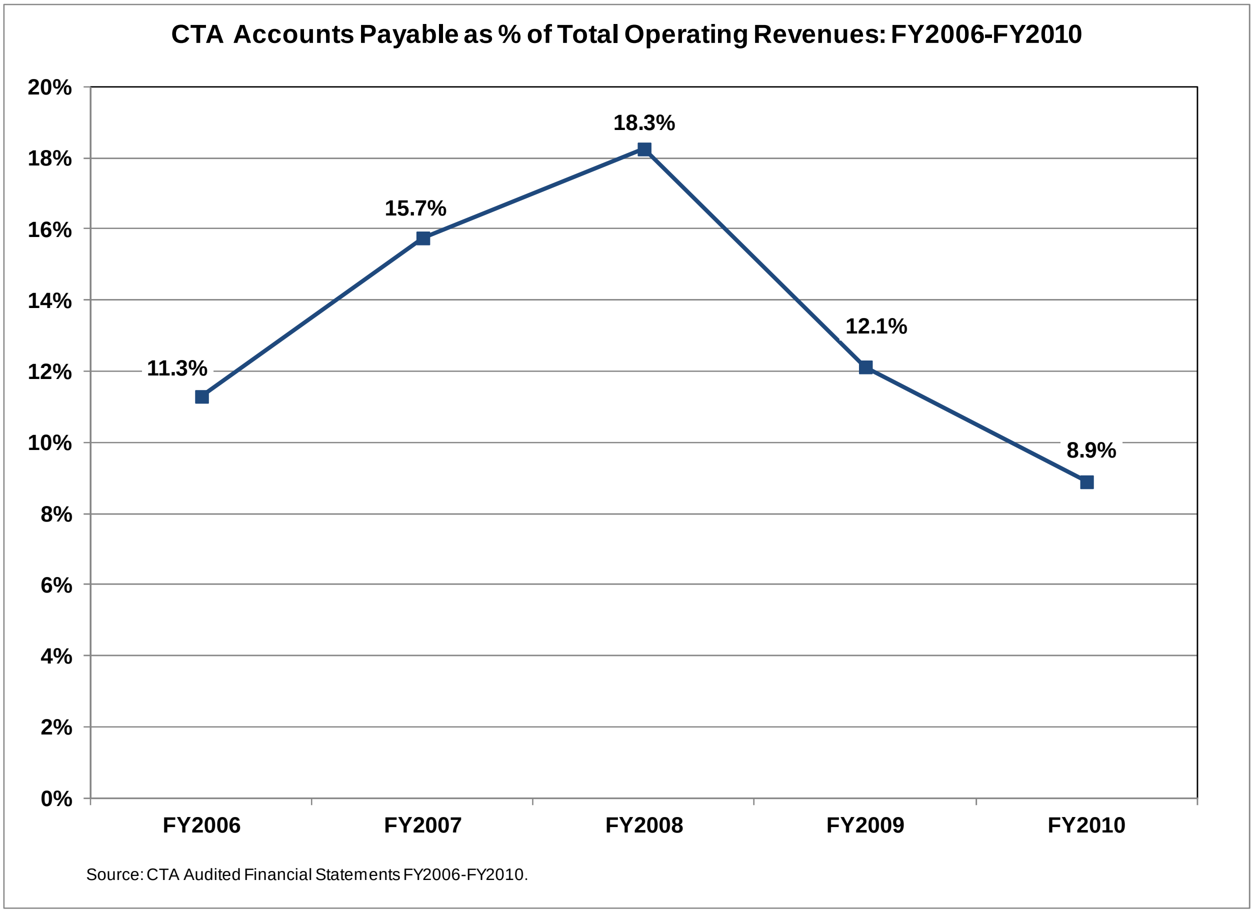
Increasing current liabilities in a government's operating funds at the end of the year as a percentage of net operating revenues may be a warning sign of a government's future financial difficulties.[54] This indicator, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. CTA showed a positive trend by reducing its short-term liabilities compared to total operating revenue between FY2007 to FY2010 from 36.7% to 27.9%.



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

Accounts Payable

Over time, rising amounts of accounts payable compared to operating funds may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. CTA's ratio of operating funds accounts payable to operating revenues increased from 11.3% to 18.3% between FY2006 and FY2008 before falling to 8.9% in FY2010. The decrease in FY2009 and FY2010 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.[55]

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

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

- *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 he annual injury and damage obligations as required by Section 39 of the Metropolitan Transportation Authority Act.[56]
- *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;[57] and
- *Derivative Instrument:* Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.[58]

The CTA's current ratio was 1.94 in FY2010, the most recent year for which data is available. In the past five years, the City's current ratio averaged 1.60, which is below the preferred benchmark of 2.0. However, the ratio was higher than 1.0, demonstrating that the Authority did have a positive liquidity. From FY2006 and FY2010 the current ratio increased from 1.34 to 1.94. This is a positive trend.

CTA Current Ratio
FY2006 - FY2010 ($ thousands)

	FY2006	FY2007	FY2008	FY2009	FY2010	5-year $ Change	5-year % Change
Current Asset							
Cash and cash equivalents	$ 27,736	$151,104	$ 61,672	$ 59,542	$111,579	$ 83,843	302.3%
Cash and cash equivalents reserved for damage reserve	$ -	$109,057	$ 5,894	$ 85,090	$102,361	$102,361	…..
Investments	$ 10,914	$ 900	$ 1,000	$ 1,007	$ 26,999	$ 16,085	147.4%
Grants receivable due from the RTA	$144,507	$ 87,809	$ 258,832	$205,633	$196,141	$ 51,634	35.7%
Grants receivable: Capital Projects from federal & state sources	$ 8,912	$ 4,974	$ 21,115	$ 33	$ 39	$ (8,873)	-99.6%
Grants receivable: unbilled work in progress	$106,686	$158,725	$ 58,459	$ 85,000	$ 63,991	$ (42,695)	-40.0%
Grants receivable: Other	$ 1	$ 1,485	$ 506	$ 70	$ 1,928	$ 1,927	…..
Accounts receivable, net	$ 37,193	$ 28,080	$ 29,762	$ 19,443	$ 23,773	$ (13,420)	-36.1%
Materials and supplies, net	$ 77,516	$ 78,412	$ 102,919	$ 92,805	$ 63,522	$ (13,994)	-18.1%
Prepaid expenses and other assets	$ 5,126	$ 5,139	$ 4,426	$ 5,887	$ 5,883	$ 757	14.8%
Derivative instrument	$ -	$ -	$ -	$ -	$ 2,158	$ 2,158	…..
Total Current Assets	**$418,591**	**$625,685**	**$ 544,585**	**$554,510**	**$598,374**	**$179,783**	**42.9%**
Current Liability							
Accounts Payable & Expenses	$123,719	$172,190	$ 207,026	$129,198	$ 98,463	$ (25,256)	-20.4%
Accrued Payroll	$ 98,925	$ 99,626	$ 95,456	$ 90,717	$101,964	$ 3,039	3.1%
Accrued Interest Payable	$ 3,458	$ 3,480	$ 16,909	$ 13,081	$ 19,460	$ 16,002	462.8%
Advances and Deposits	$ 9,333	$ 49,552	$ 2,508	$ 1,581	$ 9,511	$ 178	1.9%
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Deferred Operating Assistance	$ 23,273	$ 24,602	$ 25,215	$ 30,583	$ 30,821	$ 7,548	32.4%
Deferred Inflow-Derivatives	$ -	$ -	$ -	$ -	$ 2,158	$ 2,158	….
Total Current Liabilities	**$312,191**	**$401,730**	**$ 393,891**	**$314,213**	**$309,185**	**$ (3,006)**	**-1.0%**
Current Ratio	**1.34**	**1.56**	**1.38**	**1.76**	**1.94**	**-**	**-**

Source: CTA Audited Financial Statements FY2006-FY2010.

[56] CTA FY2010 Audited Financial Statements, p. 24.
[57] See http://www.investopedia.com/terms/p/prepaidexpense.asp#ixzz1bEsrAQ9P.
[58] CTA FY2010 Audited Financial Statements, p. 67.

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:

- **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:** Net Other Post Employment Benefit (OPEB) liabilities: The cumulative difference, since the effective date of GASB Statement 45, between the annual OPEB (employee health insurance) cost and the employer's contributions to its OPEB Plan.

Between FY2006 and FY2010 total CTA long-term liabilities increased by 47.2%, or nearly $1.8 billion, rising from nearly $3.8 billion to $5.5 billion. Bonds payable rose substantially by 518.6%, or $2.8 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 fund the Authority's pension fund obligations and create a retiree health trust.[59] 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.[60] Net pension obligations have declined by 97.9% 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.[61]

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[59] CTA FY2010 Audited Financial Statements, p. 50.
[60] CTA FY2010 Audited Financial Statements, p. 60.
[61] For more information, see the pension and OPEB sections of this analysis. See 40 ILCS 5/22-101.

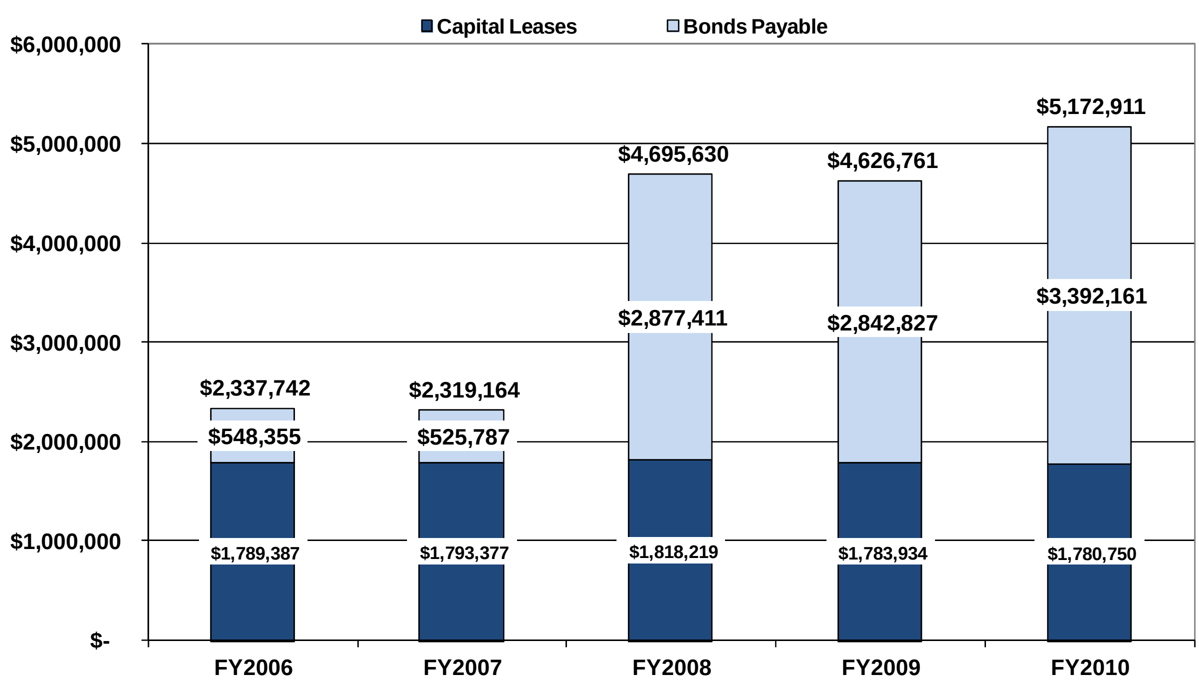
CTA Long-Term Liabilities by Category: FY2006 - FY2010 (in $ thousands)							
	FY2006	FY2007	FY2008	FY2009	FY2010	5-year $ Change	5-year % Change
Self insurance claims	$ 165,843	$ 192,750	$ 196,866	$ 203,444	$ 222,227	$ 56,384	34.0%
Capital lease obligations	$1,789,387	$1,793,377	$1,818,219	$1,783,934	$ 1,780,750	$ (8,637)	-0.5%
Bonds payable	$ 548,355	$ 525,787	$2,877,411	$2,842,827	$ 3,392,161	$2,843,806	518.6%
Certificates of Participation	$ -	$ -	$ 76,908	$ 72,014	$ 66,887	$ 66,887	….
Net Pension Obligation	$ 748,020	$ 908,609	$ 17,335	$ 16,707	$ 16,269	$ (731,751)	-97.8%
Net OPEB Obligation	$ 515,374	$ 659,729	$ 434	$ 1,666	$ 2,874	$ (512,500)	-99.4%
Other Long-term liabilities	$ 4,579	$ 4,333	$ 3,863	$ 60,591	$ 68,859	$ 64,280	1403.8%
Total	**$3,771,558**	**$4,084,585**	**$4,991,036**	**$4,981,183**	**$ 5,550,027**	**$1,778,469**	**47.2%**

Source: CTA Audited Financial Statements, Note 7: Long-Term Obligations FY2006-FY2010.

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 FY2006 and FY2010. It excludes the relatively small amount spent on certificates of participation. Mainly due to an issuance of $1.9 billion of Pension Obligation and retiree healthcare Bonds in FY2008, the CTA's long-term debt increased by 121.3%, or $2.8 billion, between FY2006 and FY2010. This is an increase from $2.3 billion to nearly $5.2 billion. The large increase bears watching.

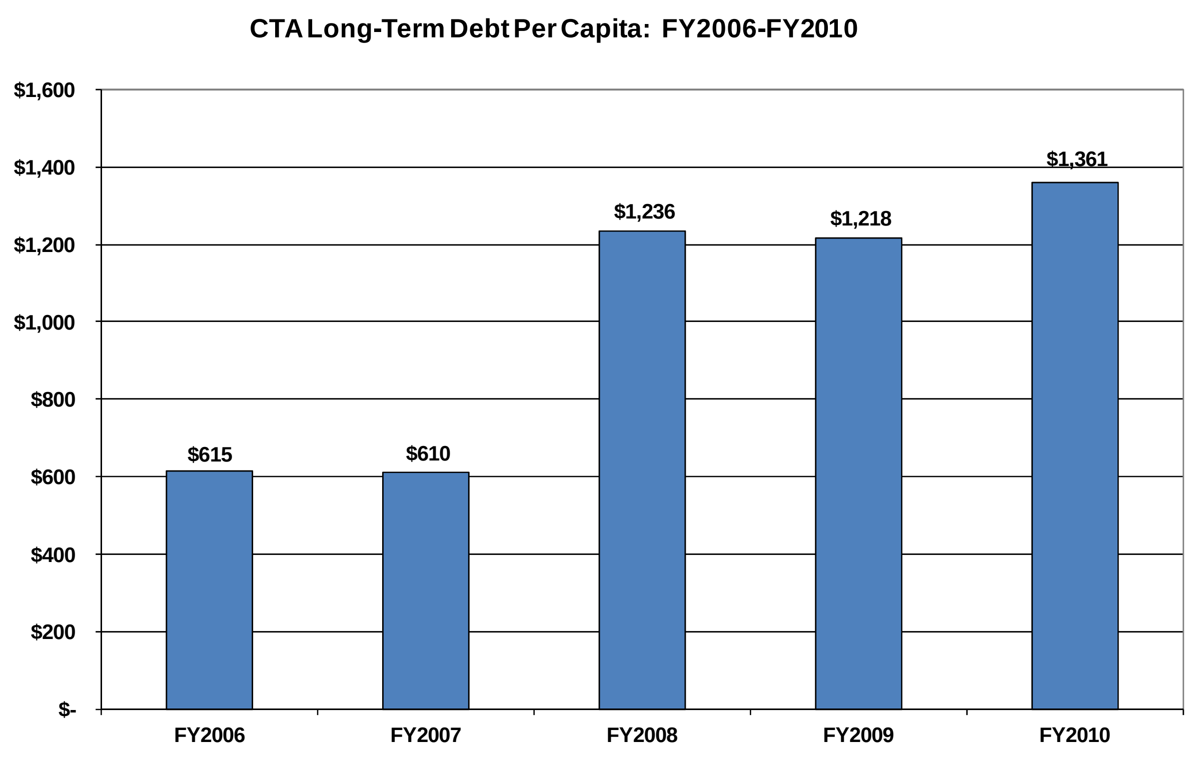
CTA Long-Term Debt: FY2006-FY2010 (in $ thousands)
Excludes Certificates of Participation



Source: CTA Financial Statements FY2006-FY2010, Note 7.

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 year[62] 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 FY2006 long-term debt per capita was $615. Since that time, long-term debt per capita increased to $1,361, a 121.3% 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.



Source: CTA Financial Statements, FY2006 - FY2010, Note 7.

[62] This excludes certificates of participation, as noted previously.

Debt Service

Pension obligation debt service 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.[63] Between FY2010 and FY2012, pension obligation bond debt service as a percentage of operating appropriations will average 5.7%, far below 15% and 20% ratio considered high by the rating agencies.[64] See the Appropriations section of this analysis for more information about the pension obligation bond debt service.

CTA Debt Service as a Percentage of Appropriations: FY2010-FY2012			
	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	$ 35,761,000	$ 1,240,291,000	2.9%

Source: Information provided by CTA, November 4, 2011.

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	Capital Grant Receipts revenue Bonds
Moody's	Aa3	Aa3	A1	A1
S & P	AA	AA	A	A
Fitch	Not rated	Not rated	Not rated	A

Source: CTA President's FY2012 Budget Recommendations, p. 94.

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[63] Information provided by CTA Budget Office November 4, 2011.

[64] 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.

CTA CAPITAL PLAN FY2012-FY2016

In addition to the operating budget, the CTA President has also proposed a $2.9 billion five-year capital program for FY2012 to FY2016. For the first time in many years, the CTA will use all available capital funding for capital expenditures rather than diverting capital funds to operating purposes.[65]

Capital Funding FY2012-FY2016

The following chart shows the CTA's proposed capital spending for FY2012-FY2016 by the source of funding. Over that period of time, the agency hopes to fund nearly $2.9 billion worth of capital projects. There are an additional $7 billion in unfunded needs.[66] New funding will pay for 82.5% or $2.4 billion of the identified capital projects. Federal funds will account for 43.1% of all funding and state subsidies will account for 39.4%. The remaining 17.5% of all capital funding or $520.0 million will be funded from the CTA bond program.

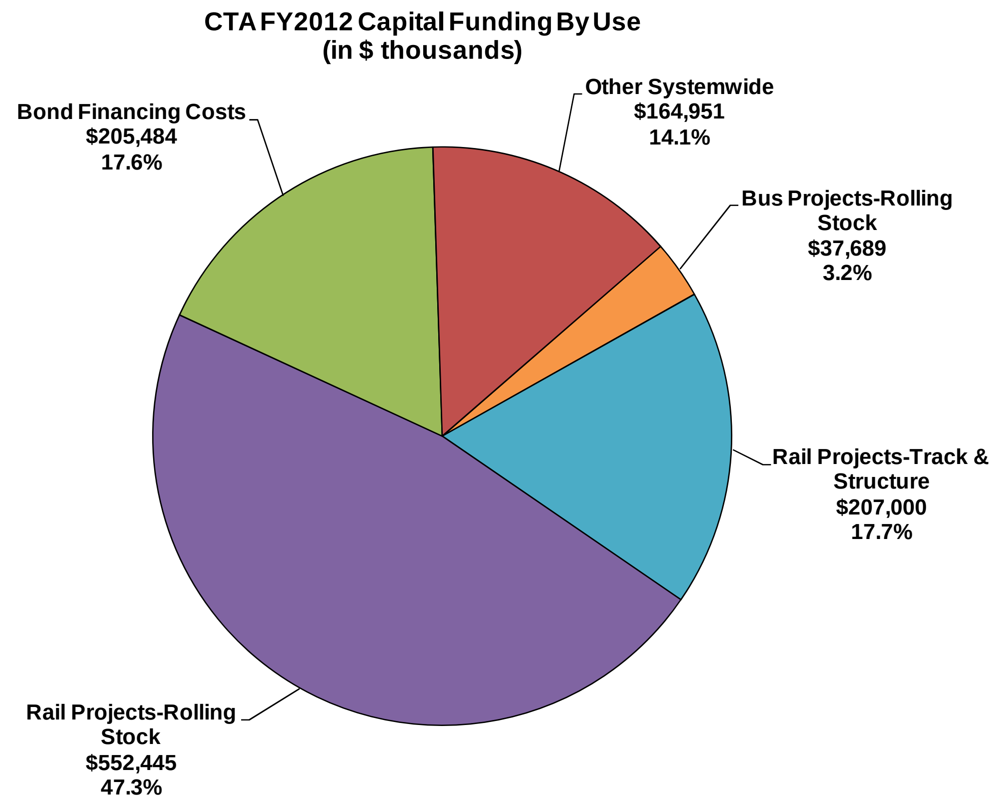
CTA Capital Funding by Source: FY2012 - FY2016 (in $ millions)

Source	FY2012	FY2013	FY2014	FY2015	FY2016	$ Total	% of Total
New Funding Available							
Federal Funding	$ 247,020	$ 251,430	$ 255,930	$ 260,150	$ 265,180	**$ 1,279,710**	43.1%
State Funding	$ 400,549	$ 552,114	$ 216,518	$ -		**$ 1,169,181**	39.4%
Subtotal New Funding Available	**$ 647,569**	**$ 803,544**	**$ 472,448**	**$ 260,150**	**$ 265,180**	**$ 2,449,252**	**82.5%**
CTA Bond Program	$ 520,000	$ -	$ -	$ -		**$ 520,000**	17.5%
Total	**$ 1,167,569**	**$ 803,544**	**$ 472,448**	**$ 260,150**	**$ 265,180**	**$ 2,969,252**	**100.0%**

Source: CTA President's FY2012 Budget Recommendations p. 63.

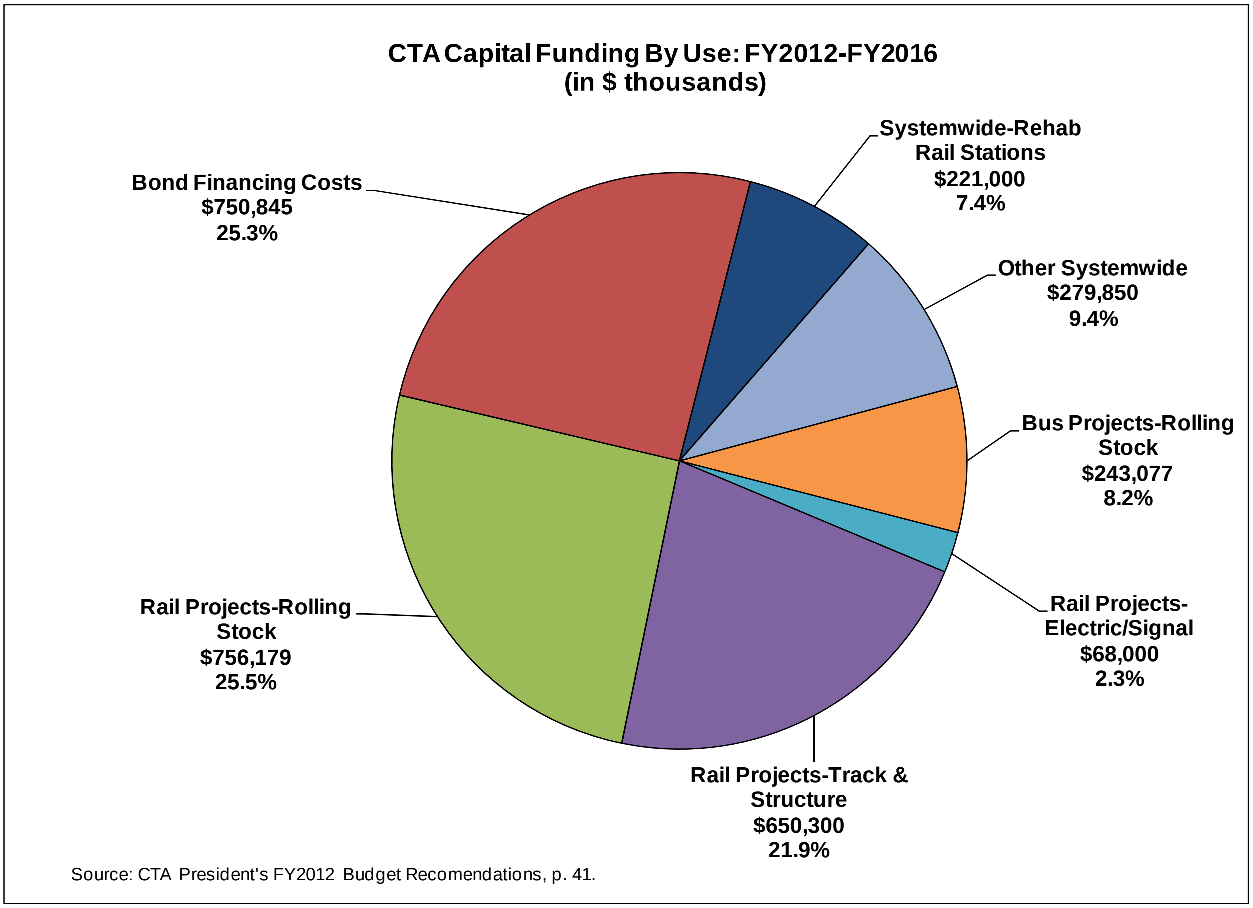
[65] CTA President's FY2012 Budget Recommendations, p. 39.
[66] CTA President's FY2012 Budget Recommendations, p. 64.

CTA capital funding by use for FY2012 is shown in the next exhibit. The most significant use will be for rolling stock for rail projects, consuming 47.3% or $552.4 million. Rail projects focusing on tracks and structures would use $207.0 million or 17.7% of the total, while bond costs would use $205.5 million for debt service costs.



Source: CTA President's FY2012 Budget Recomendations, p. 41.

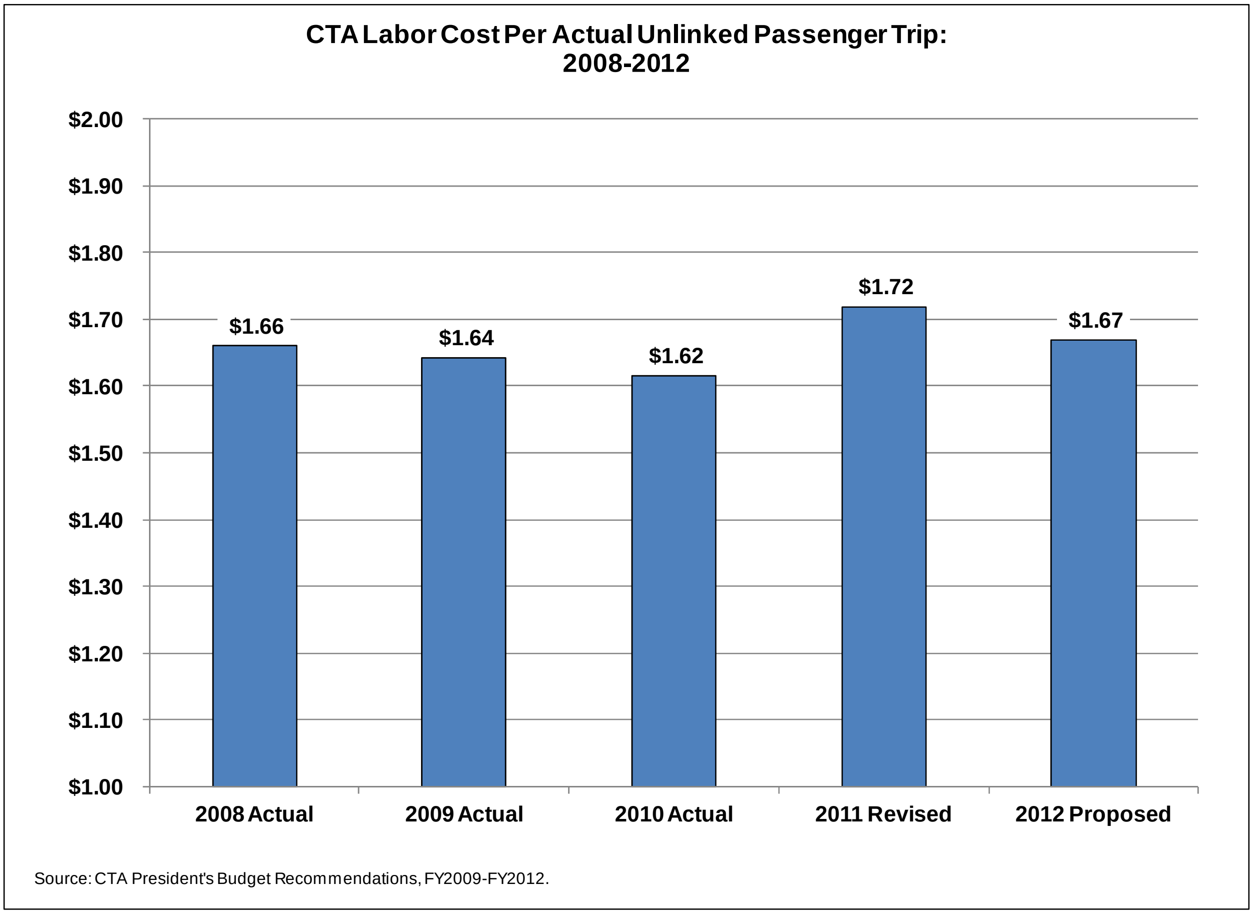
A five-year breakdown of CTA capital funding is shown next. Rolling stock for rail projects will be the biggest use of funds, at $756.2 million or 25.5% of the total. This will be followed closely by bond financing costs at $750.8 million and rail projects focusing on tracks and structures that will use $650.3 million.



PRODUCTIVITY MEASURES

In this analysis, the Civic Federation used two measures to assess CTA's productivity over time: labor cost per actual unlinked passenger trip and operating expense per passenger mile.[67]

Productivity can be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. The FY2012 budget proposal shows a line for $80 million in "Savings from Labor Reform and Work Rule Changes." These savings, resulting in a net proposed labor expense for FY2012 of $883.1 million, were considered in the analysis below.[68]



The chart below illustrates operating expense per passenger mile for bus and rail service between 2005 and 2009. As with all transit systems, rail service is more cost effective than bus service. The operating expense per passenger mile for rail service for 2009 reflects the same operating expense per passenger mile as in 2005 of $0.38. The operating expense per passenger mile for

[67] "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 FY2012 Budget Recommendations, p. 174.

[68] The savings from labor reform and work rule changes are budgeted for the latter half of FY2012 in anticipation of negotiations with organized labor. Current collective bargaining agreements expire on December 31, 2011. The budget assumes that $80 million in savings from these changes will be achieved in FY2012.

rail service increased in 2006 and 2007 to a high of $0.48, but fell to a five-year low of $0.37 in 2008.

For buses, operating expense per passenger mile increased from $0.93 to $1.14 between 2005 and 2007. In 2008 the operating expense per passenger mile for bus service dropped to $0.96 and increased to $1.06 in 2009. This is a change of nearly 14.0% over the five-year period.