The Civic Federation

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CHICAGO TRANSIT AUTHORITY PRESIDENT'S FY2016 BUDGET RECOMMENDATIONS

Analysis and Recommendations

November 13, 2015

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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.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Transit Authority's FY2016 proposed operating budget of nearly $1.47 billion because it continues to hold fares flat while making investments throughout its service area. The CTA proposes to increase spending by approximately $31.5 million, or 2.2%, over last year's budget due primarily to labor costs, increased service levels and $14.3 million in new debt service payments.

Because of the reforms made in recent years and the continued effort in this budget to better manage expenses, the Authority is able to produce an operating budget that does not rely on one-time revenue sources, nor does the budget include any service cuts. This budget restores some express bus service that was cut in 2010 due to budget constraints and enhances bus service in the central business district. Finally, the CTA budget continues to invest in technologies that improve the transit experience, such as a partnership with the private sector to provide 4G wireless across 22 miles of subway, the expansion of the Ventra card service to a mobile application that will function across agencies and the expansion of real-time transit tracking amenities.

However, the Civic Federation is concerned that the Authority may again be overly optimistic in its State and federal funding projections. The current State budget impasse shows no signs of stopping and there is also a lack of clarity on the level of funding that will be provided to the CTA for mass transit from the federal transportation bill. If the CTA does not receive the historical level of funding for free and reduced fares and the expected level of capital funding, the Authority will need to reduce expenses and delay critical infrastructure projects. However, the impact of possible cuts and capital delays that may occur are not laid out in the budget document.

In order for the CTA to remain financially stable given funding uncertainty at the state and federal level, not only should the Authority develop a long-term financial plan, but also should develop an alternative FY2016 budget plan detailing the actions the CTA will take if public funding does not materialize.

Additionally, the agency still faces enormous capital funding challenges. The CTA estimates that it needs approximately $950 million annually to keep its capital stock in good repair. However, due in large part to federal and state funding cuts, the CTA's five-year capital plan only provides for an average of $464.7 million in funding annually, which is a substantial funding gap that continues to grow.[1]

The Civic Federation offers the following **key findings** on the FY2016 Recommended Budget:

- The total proposed FY2016 operating budget will be nearly $1.47 billion, a 2.2%, or $31.5 million, increase from the FY2015 approved budget;
- The Authority plans to eliminate 100 vacancies and positions in the proposed FY2016 budget that will save approximately $9 million;
- Labor expenses will be approximately $1.0 billion, which is an increase of $19.7 million, or 2.0%, above the FY2015 approved budget;
- System-generated revenue in FY2016 is expected to be $684.7 million while public funding through the Regional Transportation Authority will be $790.5 million;
- Since FY2012 system-generated revenues will have increased by $38.7 million, or 6.0%, and public funding provided through the Regional Transportation Authority will have increased by $145.0 million or 22.5%;

[1] CTA President's FY2016 Budget Recommendations, p. 95.

- The CTA expects ridership to increase from the FY2015 forecast by 3.6 million rides, or 0.7%, to 518.9 million rides in FY2016; and
- The CTA's Pension Fund expected rate of return is overly optimistic and remains well above other local funds, even after it was dropped in FY2013 from 8.50% to 8.25%.

The Civic Federation **supports** the following elements of the CTA's FY2016 proposed budget:

- Producing a budget that, for the 4th consecutive year, does not include one-time revenue sources;
- Reducing financing costs by $70 million through alternative funding sources;
- Improving transparency and accountability by broadcasting board meetings online;
- Investing in technology to improve the customer experience through the installation of 4G wireless service in the subway system and the rollout of the Ventra mobile ticketing app;
- Keeping fares flat while restoring express bus routes and enhancing bus service in the central business district;
- Continuing to prudently manage personnel costs by eliminating 100 positions from the budget; and
- Improving the budget document by providing more detail about labor expenditures by type, such as pension obligation bonds, contractual services and utilities.

The Civic Federation has the following **concerns** about the FY2016 proposed budget:

- The FY2016 proposed budget anticipates receiving the full $28.3 million from the State of Illinois as a partial reimbursement for providing reduced fare rides despite the fact that the State cut its FY2015 appropriations for the subsidy and has not approved a FY2016 budget. Additionally, the CTA's capital plan relies on state and federal capital funding even though the CTA has still not received $221 million of promised State funds from the prior capital program and the federal funding is uncertain because the U.S. Congress has not formally passed the federal transportation funding bill;
- The FY2016 budget book does not include sufficient details on operating expenses or deficit-reduction measures implemented in previous years to account for the reduction in the State of Illinois' reduced fare subsidy; and
- Despite major reforms that have had a significantly positive impact on the CTA's pension fund, the long-term stability of the fund could be in jeopardy if the Pension Fund trustees, Illinois General Assembly and CTA do not come together to make reasonable changes to expected rate of return assumptions, contribution methods and the funding schedule.

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

- Develop an alternative budget plan for FY2016 that lays out the CTA's budget strategy if state funding assumptions are not realized and what capital projects will be delayed if the CTA does not receive the projected state and federal capital funding;
- Work with the RTA, Illinois General Assembly and Governor to re-evaluate the state mandated free and reduced fare programs
- Improve the budget document by providing more detail about full-time equivalent positions by department and other personnel information;
- Establish a level-principal policy for new bond issuances in order to avoid extraordinarily expensive borrowings and protect long-term debt capacity;
- Update the debt policy to prohibit refinancing of debt that extends the life of outstanding principal to reap near-term operating savings without reducing the actual total debt service owed;
- Work with the CTA Pension Fund, its members and the Illinois General Assembly to re-evaluate the expected rate of return assumptions, contribution methods and funding schedule for the CTA Pension Fund;

- 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, make the results publicly available and consider tying fares to an annual escalator to avoid uneven increases in fares in coming years; and
- Develop a long-term financial plan to maintain the budgetary balance projected through FY2018 that takes into account ongoing capital needs and back-loaded debt with models that present different options for aligning expenditures, revenues and service targets for future years.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Chicago Transit Authority's FY2016 proposed operating budget of nearly $1.47 billion because it continues to hold fares flat while making investments throughout its service area. The CTA proposes to increase spending by approximately $31.5 million, or 2.2%, over last year's budget due primarily to labor costs, increased service levels and $14.3 million in new debt service payments.

Because of the reforms made in recent years and the continued effort in this budget to better manage expenses, the Authority is able to produce an operating budget that does not rely on one-time revenue sources, nor does the budget include any service cuts. This budget restores some express bus service that was cut in 2010 due to budget constraints and enhances bus service in the central business district. Finally, the CTA budget continues to invest in technologies that improve the transit experience, such as a partnership with the private sector to provide 4G wireless across 22 miles of subway, the expansion of the Ventra card service to a mobile application that will function across agencies and the expansion of real-time transit tracking amenities.

However, the Civic Federation is concerned that the Authority may again be overly optimistic in its State and federal funding projections. The current State budget impasse shows no signs of stopping and there is a lack of clarity on the level of funding that will be provided to the CTA for mass transit from the federal transportation bill. If the CTA does not receive the historical level of funding for free and reduced fares and the expected level of capital funding, the Authority will need to reduce expenses and delay critical infrastructure projects. However, the impact of possible cuts and capital delays that may occur are not laid out in the budget document.

In order for the CTA to remain financially stable given funding uncertainty at the state and federal level, not only should the Authority develop a long-term financial plan, but also should develop an alternative FY2016 budget plan detailing the actions the CTA will take if public funding does not materialize.

Additionally, the agency still faces enormous capital funding challenges. The CTA estimates that it needs approximately $950 million annually to keep its capital stock in good repair. However, due in large part to federal and state funding cuts, the CTA's five-year capital plan only provides for an average of $464.7 million in funding annually, which is a substantial funding gap that continues to grow.[2]

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the CTA President's FY2016 Budget Recommendations.

Producing an Operating Budget Without Relying on One-Time Revenue Sources

The FY2016 proposed budget does not include one-time revenue sources. Prior to FY2013, the CTA had for many years relied on at least one non-recurring revenue source to meet its operating

[2] CTA President's FY2016 Budget Recommendations, p. 95.

obligations. These one-time revenue sources included transfers from capital funds, transfers from State funds in exchange for forestalling fare increases, transfers from prior years' positive balance and most recently, savings generated from replacing a pension obligation bond debt service reserve with a surety bond. Relying on one-time revenue sources to close budget deficits may cause future budget strain when those revenues are not available. The National Advisory Council on State and Local Budgeting Practice advises that one-time, or non-recurring, revenues cannot be "relied on in future budget periods."[3] The CTA's commitment to match recurring revenue and expenditures follows good budget practices.

Reducing Financing Costs through Alternative Financing Sources

As part of the agency's financing package to renovate the Red Line's 95th Street Terminal Improvement Project and the Your New Blue Improvement Project, the CTA received federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans from the U.S. Department of Transportation for $79.2 million and $120 million, respectively. The TIFIA loan program provides three forms of credit assistance: secured (direct) loans, loan guarantees and standby lines of credit.[4] According to the CTA, utilizing this form of financing for the 95th Street Terminal Improvement Project and the Your New Blue Improvement Project the Authority will save approximately $70 million in financing costs for the two projects.[5] The Civic Federation is supportive of the CTA utilizing the federal TIFIA loan program to reduce borrowing costs related to capital improvement projects.

Improving Transparency and Accountability by Broadcasting Board Meetings Online

The Civic Federation commends the CTA for broadcasting and archiving the Chicago Transit board meetings online. The decision to broadcast the board meetings online will improve the transparency of its operations and the accountability of CTA Board members and staff to the public.

In the summer of 2015 the CTA began live streaming and archiving meetings of the Chicago Transit Board on its YouTube channel *CTAConnections* and on the official CTA website, allowing residents and stakeholders' greater access to public meetings held by the CTA. The CTA serves approximately 3.5 million people across 234 square miles of Chicago and nearby suburbs. The sheer size of the service area and the number of people the Authority serves can make it very difficult for many interested parties to attend the Board meetings in person. The live streaming and archiving therefore helps the CTA reach more of its customers.

Investing in Technology to Improve the Customer Experience

In recent years the CTA has made strategic investments in technology to improve the customer experience across the transit system. In July 2014 the CTA became the first transit agency in the nation to implement the Ventra open fare payment system, and is expanding Ventra service in

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[3] National Advisory Council on State and Local Budgeting Practice, A Framework for Improved State and Local Government Budgeting and Recommended Budget Practices, 1998. http://www.co.larimer.co.us/budget/budget_practices.pdf.
[4] CTA President's FY2015 Recommendation, p. 83.
[5] CTA President's FY2016 Recommendation, pp. 135-136.

FY2015 and FY2016 to a mobile application based payment system that can be used across all three major transit providers in the Chicago metropolitan region.[6] The CTA has also partnered with the City of Chicago, the Chicago Infrastructure Trust and four major cellular phone carriers to expand 4G wireless coverage across 22 miles of the subway system and tunnels.[7] In addition to the investments in technology, the CTA has made investments to a number of rail stations to improve accessibility for individuals with disabilities by installing elevators and other accessibility elements to CTA rail stations.

The Civic Federation is supportive of the CTA investing in technology to improve the riding experience for CTA customers and investing in a number of transit station elements that will improve accessibility for individuals with disabilities.

Keeping Fares Flat While Improving Service Levels

The FY2016 budget proposes no base fare increases or service cuts. 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. In FY2013 the CTA increased pass fares for daily, weekly and monthly passes and increased fares for trips departing O'Hare Airport, but held base fares flat. This year the CTA will improve service levels by restoring express bus service on two of CTA's busiest routes to better accommodate customers after the service was eliminated on in 2010 as a result of budgetary cuts.[8]

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 continue to build on its successes of previous years to meet the demand for public transportation in the region, despite resource limitations.

Continuing to Prudently Manage Personnel Costs

The FY2016 proposed budget plans to eliminate 100 vacancies and positions from the budget that will save an estimated $9 million this budget year.[9] This budget builds on reforms the CTA has made in recent years to better manage personnel-related costs. By making changes to CTA employee healthcare plan offerings, working with labor organizations to transfer both outsourced security contractors and third-party workers' compensation claims administrators to in-house employees. The FY2016 proposed budget continues to benefit from changes made in prior years. With these management initiatives, this year's proposed budget is a reasonable plan that improves service levels while continuing to manage costs.

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[6] CTA President's FY2016 Proposed Budget, p. 28.
[7] CTA President's FY2016 Proposed Budget, p. 18.
[8] http://www.transitchicago.com/assets/1/media_relations_documents/Service_Details_no_increase_11_12_09.pdf (last accessed November 11, 2015).
[9] Communication with CTA Office of Finance & Budget, November 12, 2015.

Improving Budget Book Detail

In prior years the CTA grouped a number of operating expenses into one category labeled "Other Expenses." With the release of CTA's proposed FY2016 budget, the Authority began including a breakdown of the other expenses to better illustrate the spending trends for a large portion of the CTA operating budget.

The Federation commends the CTA for improving its budget document in FY2016 by providing a breakdown of the components of "Other Expenses," which includes pension obligation bonds, contractual services, utilities for CTA facilities and other miscellaneous expenses.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the CTA's proposed FY2016 operating budget.

Uncertainty Surrounding Future State and Federal Funding

The State of Illinois provides a reduced-fare subsidy to the CTA as a partial reimbursement for the number of discounted and free rides given to students, low-income seniors, veterans and people with disabilities. In 2013 the State reduced its reimbursement, which caused the CTA to lose approximately $6.9 million and would have caused the loss of over $8.0 million in the first half of FY2014. The Regional Transportation Authority (RTA) provided nearly $8.2 million to replace the reduced fare subsidy for the first half of FY2014.[10] The State eventually restored the funding in May 2014, but then cut the subsidy by 50% in FY2015. The CTA budgeted last year for the full subsidy despite the State's budget plan. The CTA's budget projections for FY2015 now show that the Authority expects to receive only 50% of the subsidy. In the CTA's FY2016 proposed budget, the CTA notes that the RTA anticipates prior State funding levels to be restored for the entire State FY2016 budget and has given budgeting guidance to the CTA to assume the funding will be restored.[11] This is despite the State of Illinois' ongoing financial challenges, including the lack of a State budget five months into Illinois' fiscal year and the fact that Governor Rauner's proposed budget called for a $130 million reduction in funding for the CTA.[12]

In addition, the CTA is still relying on nearly $221 million in capital funding from the State that was promised in FY2015, but has still not been received. The level of funding for transportation projects provided by the federal government is also uncertain given that the U.S House and Senate versions of the transportation bill provide different levels of funding for mass transit in the Chicago region that will need to be reconciled before anything can be sent to the President for his consideration.[13]

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[10] CTA President's FY2014 Proposed Budget, pp. 40 and 96.

[11] CTA President's FY2016 Proposed Budget, p. 46.

[12] John Hilkevitch, "Transit riders are warned to brace for possible service cuts, fare hikes," *Chicago Tribune,* March 19, 2015.

[13] "Mixed News for Chicago area as House Oks road, transit bill," *Crain's Chicago Business*, November 6, 2015, http://www.chicagobusiness.com/article/20151106/BLOGS02/151109873#utm_medium=email&utm_source=ccb-morning10&utm_campaign=ccb-morning10-20151106 (last accessed November 9, 2015).

The Civic Federation believes that it is overly optimistic to expect State funding levels to return to normal levels at a time of such funding uncertainty. Our concern is that the RTA and CTA are relying on the restoration of State funds without fully accounting for the State's continued fiscal deterioration.

While the loss from the reduced fare subsidy is relatively small in the context of a $1.47 billion budget, the Civic Federation believes that a more prudent course given the State of Illinois' precarious fiscal position would be for the CTA to prepare multi-year revenue and expenditure trends that include the modeling of various revenue and expenditure options. The CTA could then prepare a budget that prioritizes what spending it would fund if the State did not restore the reimbursement. For example, due to funding uncertainty from the State of Illinois, previous City Colleges of Chicago budgets have assumed a lower level of funding from the State and include a menu of items that would be incorporated into the budget if more resources from the State became available.[14]

Lack of Detail in Budget Book

Although the CTA provides ample narrative in its budget book to help explain the capital 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 sufficient detail on how the Authority has dealt with the reduction in the state subsidy for free and reduced-fare rides in FY2015 or how it will deal with reduced funding in FY2016 should the historical level of funding for free and reduced-fare rides not be restored. Such information, including measures the agency implemented and dollar estimates associated with each measure, should be included in the Executive Summary or budget forecast. Without these details, it can be difficult to evaluate the Authority's projection that the budget will be balanced by year-end.

Additionally, although labor expenses represent nearly 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 Authority's budget, including wages, health care, pension contributions, workers' compensation and payroll taxes for Social Security and Medicare.

Long-Term Stability of the CTA Pension Fund

Beginning in 2006, the Illinois General Assembly enacted a number of reforms that have had a significant effect on the CTA pension fund, and that the Civic Federation supported. The urgency for reform of the CTA pension fund arose from an actuarial projection that the fund would be unable to pay retiree health care costs by 2008 and would 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

[14] City Colleges of Chicago, FY2014 Annual Operating Budget, p. 9.

increases and dramatic increases in the cost of health care over the past few decades.[15] The legislated reforms specifically addressed each of these issues.

While acknowledging the progress the Fund has made since it was close to insolvency, the Civic Federation retains some concerns about the fund's overly optimistic expected rate of return of 8.25%, which remains well above other local and State of Illinois funds, even after it was dropped in FY2013.[16] According to the National Association of State Retirement Administrators (NASRA) Public Fund Survey of large public pension funds, the CTA's expected rate of return was also high compared to other plans nationally, as only five of the 126 funds surveyed had expected rates of return above 8.0%.[17] The assumed rate of return, also called the discount rate, is an important assumption because it is used to calculate the present value of future pension obligations. A higher rate decreases the present value of future commitments to employees and retirees and results in lower current statutorily required pension contributions. Too high of a rate artificially decreases current contributions at the expense of future taxpayers.

Additionally, the Fund's 50-year plan to get to 90% is less than ideal from an actuarial perspective. In the January 1, 2015 actuarial valuation report, the CTA Fund's actuary recommended the fund's Board of Trustees consider, "moving towards a contribution of the Actuarial Math Contribution over the next several years."[18] Their suggested "Actuarial Math Contribution" would have a goal of 100% funding, rather than the 90% goal included in Illinois state law; use an actuarial value of assets to control contribution volatility, rather than the market value currently required under state law; and pay off the unfunded liability over 20 years, rather than the 50-year amortization laid out in state law. The actuary estimated that a contribution under these funding rules would total 34.147% of payroll, compared to the current total contribution of 24.375%, or an increase of approximately $37 million in contributions that could be split between the CTA and its employees.

If the CTA pension fund is to remain stable over the long run at an affordable cost to taxpayers, these ongoing issues must be examined and addressed by the CTA in cooperation with the Pension Fund trustees and the State of Illinois.

Civic Federation Recommendations

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

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[15] 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.

[16] See Civic Federation, "Comparing Investment Return Assumptions of Illinois Pension Funds to National Trends," January 29, 2015 for more information. Available at https://www.civicfed.org/iifs/blog/comparing-investment-return-assumptions-illinois-pension-funds-national-trends. The Board of Trustees of the CTA Pension Fund choose the expected rate of return.

[17] NASRA, "Issue Brief: Public Pension Plan Investment Return Assumptions," Updated May 2015. Available at http://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf.

[18] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter from Buck Consultants.

Develop an Alternative Budget Plan

The Chicago Transit Authority's proposed FY2016 operating budget relies on capital and operating funds that may not be made available in the coming fiscal year. The FY2016 proposed budget assumes the State of Illinois will restore the reduced fare subsidy to the full amount of approximately $28 million and that the Authority will receive its prior years' capital funding from the State even though $221 million in FY2015 capital funds have still not been received. The State is facing serious financial challenges and has been operating without a budget for nearly five months. In addition, the U.S. House of Representatives and Senate have passed differing versions of a federal transportation funding bill that will still need to be reconciled before being sent to the President for his approval.

The CTA's proposed FY2016 budget does not provide a detailed alternative spending plan that would inform stakeholders of what will happen should the expected funding not be made available to the Authority. While the RTA is reportedly working with the service boards to develop contingency ideas, the Civic Federation strongly believes that the public is entitled to information about the consequences of a failure to act on the part of the State of Illinois within the budget document.[19]

The Federation recommends that the CTA develop and publicly release an alternative budget plan for FY2016 and future years that lays out the actions that would be taken if expected funding is not received, including expenditure cuts and what capital projects would have to be delayed or cancelled.

Work with the RTA, Illinois General Assembly and Governor to Re-Evaluate the State Mandated Free and Reduced Fare Programs

The CTA estimates that it provides nearly $100 million in state mandated free rides and federally mandated reduced-fare rides, but is projected to only receive $14.2 million in reimbursements through the state subsidy.[20] Governor Rauner's FY2016 State budget proposes reducing funding to the CTA by $130 million. The Regional Transportation Authority has made public that eliminating or reducing the benefits under the state mandated free and reduced fare programs is an option if the Governor's proposed budget is enacted.[21]

The Seniors Ride Free Program was first implemented in 2008 by former Governor Blagojevich, but was scaled back in 2011 when former Governor Quinn signed Public Act 96-1527 into law, which limited the Seniors Ride Free Program to only seniors that meet certain income eligibility requirements. Low-income seniors and individuals with disabilities that meet certain income requirements are still eligible for free transit rides, and senior citizens with higher incomes and individuals with disabilities pay half price fares pursuant to a Federal Transit Administration requirement that transit systems accepting Federal funding must not charge senior citizens and individuals with disabilities more than 50% of normal rates during non-peak times.

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[19] Jon Hilkevitch, "Transit riders are warned to brace for possible service cuts, fare hikes," *Chicago Tribune,* March 19, 2015.
[20] CTA President's FY2016 Budget Recommendations, p. 24
[21] Jon Hilkevitch, "Transit riders are warned to brace for possible service cuts, fare hikes," *Chicago Tribune,* March 19, 2015.

The Civic Federation recommends the CTA work with the Regional Transportation Authority, Illinois General Assembly and Governor Rauner to re-evaluate the state mandated free and reduced fare program and provide only the federally required reduced-fare benefit to seniors and individuals with disabilities.

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 concerns section above.

The Federation improvements include adding detail on labor expenses including wages, health care, pension contributions, workers' compensation and payroll taxes for Social Security and Medicare, as well as 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.

Additionally, 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.

Finally, the Federation recommends that the CTA provide detail on potential cuts that would occur if the reduced-fare subsidy is not restored for the coming fiscal year.

End the Use of Back-Loaded Debt Issuances

The CTA should set forth a level-principal policy for new bond issuances in order to avoid extraordinarily expensive back-loaded debt issuances and protect its long-term debt capacity. In FY2014 the CTA issued $555.0 million in long-term capital bonds with no principal payments until after FY2041.[22] Delaying principal payments until the out-years of the bonds creates moderate near-term savings for the CTA's annual debt service payments. However, holding the principal for 25 years and longer greatly increases the total interest cost for the capital projects financed with this borrowing. In all, the CTA will pay interest totaling $854.6 million through FY2049 for this borrowing. The annual debt service payment for these bonds will increase by $50.2 million in 2041. This is an increase between $28.6 million in FY2040 to an annual payment of $78.8 million in FY2041 and though FY2049. The spike in debt service will limit future borrowing capacity and lead to potential budget stress in these final years of repayment.

The CTA also issued capital improvement bonds on October 26, 2011 with principal payments delayed for 10 years. The 2011 Sales Tax Receipts Revenue bonds totaled $476.9 million in new funds for capital projects but will cost $446.5 million in total interest payments through FY2040.[23]

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[22] Chicago Transit Authority, Sales Tax Receipts Revenue Bonds, Series 2014, *Official Statement*, June 18, 2014, p. 19.
[23] CTA President's FY2016 Budget Recommendation, p. 132.

The Civic Federation opposes the issuance of bonds with heavily back-loaded principal amounts because of the increased interest cost and stress caused in future budget years by ballooning of debt service payments resulting from this structure. In some circumstances it is appropriate to delay principal payments during the construction of new capital assets to allow for completion and receipt of new revenues or savings associated with capital upgrades. However, it is not fiscally responsible to issue debt with repayment beyond the usable life of the assets or with no principal payments until the final years of the debt service schedule.

Prohibit "Scoop and Toss" Refundings

The CTA should update its debt policy to prohibit refinancing that extends the life of outstanding principal to reap near-term operating savings without reducing the actual total debt service owed. Although the CTA does not include refinancing debt as part of its recommended FY2016 budget, the Civic Federation remains concerned about its past use of "scoop and toss" refunding, which often takes place outside the annual budget process.

In 2004 the CTA enacted a debt policy that prohibits the use of long-term debt for operating purposes and endeavors to avoid high cost borrowing for capital projects.[24] However, the CTA issued refunding bonds in FY2010 and FY2011 that reduced annual operating costs for debt service but extended the life of the principal owed.

On May 6, 2010, the CTA issued $90.7 million in capital refunding bonds to pay for $42.8 million in principal amounts due in FY2010 and $44.8 million due in FY2011. By refinancing this debt for 25 years the CTA freed up additional operating funds that would have otherwise been dedicated to debt service payments, a refinancing maneuver commonly referred to as "scoop and toss." Although the refunding of the bonds provided short-term savings for the FY2010 and FY2011 budgets, the extension of the life of the bonds for 25 years greatly increased the total interest payments due on the originally borrowed funds. Further increasing the cost is the back-loaded structure of the refunding bonds, which do not include principal payments until FY2027. The CTA will pay an additional $63.6 million in interest costs for this borrowing from through FY2028.[25]

The Federation opposes any future refinancing that extends the life of current debt and does not provide actual economic savings compared to total existing debt service costs.

The CTA should formalize additional debt policies to prohibit extensions of the life of existing debt in a way that only lowers near-term debt service payments at a higher overall cost. The CTA should also prevent any refinancing that does not create real economic savings compared to total existing debt service costs.

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[24] CTA President's FY2014 Budget Recommendation, p. 99.
[25] CTA President's FY2013 Budget Recommendation, p. 121.

Work With the CTA Pension Fund and Illinois General Assembly to Re-Examine Assumptions, Contribution Methods and Funding Schedule for the CTA Pension Fund

For fiscal year 2013 the CTA Pension Fund lowered its expected investment rate of return to 8.25% from 8.5% after previously reducing it from 8.75% in FY2010. The expected rate of return prior to FY2008 had been set at 9.0% during collective bargaining.[26] Of the major local pension funds in the Chicago area, the CTA Fund has by far the highest expected rate of return. The next highest is the Chicago Fire Fund at 8.0% with the rest of the funds in the 7.5%-7.75% range after several reduced their rates in the last few fiscal years. At the State of Illinois, all five funds' expected rates of return now range from 7.0% to 7.5%.

Additionally, in its annual review of the CTA Pension Fund's financial statements, the Illinois Auditor General must determine whether the Fund's assumptions are "unreasonable in the aggregate." In its November 2014 review, the Auditor General noted that the then 8.25% rate of return used by the Plan, "remains at the upper end of the investment return assumptions used by other plans" and recommended that the Fund "annually review the reasonableness of its investment return assumption,"[27] rather than wait for the next experience study, which will not be completed until 2019.[28]

As noted above, the assumed rate of return is used to calculate the present value of future pension obligations. A higher rate decreases the present value of future commitments to employees and retirees and results in lower statutorily required CTA pension contributions. If expected investment returns are lowered, then the CTA must increase its contributions to provide a given amount of retirement benefits. Because the CTA's return assumption is out of the mainstream among pension funds in Illinois and around the country, the Civic Federation encourages the CTA Pension Fund Board of Trustees to study reducing the rate further. Such an action could increase unfunded liabilities and triggering higher contribution rates for employees and the CTA. However, it would also ensure greater intergenerational equity as less of the burden of funding retirement benefits would fall on future generations who have not benefitted from current employees' and retirees' service.

The Federation additionally believes it would benefit the fund to explore whether its funding schedule should be changed. As the CTA Pension Fund's actuary noted in the January 1, 2015 actuarial valuation, "white papers on funding policies for public sector plans developed over the past few years suggest a funding policy be sufficient to pay the normal cost on the entry age normal cost basis and amortize the unfunded actuarial accrued liability over a fixed period of 20 years."[29] The current CTA Pension Fund statutory funding schedule is a 50-year plan ending in 2058 and is calculated on a different actuarial basis, projected unit credit. Current employer and employee contribution rates are higher than the minimum amount required under state law and are projected to result in a 91.37% funded ratio in 2039.[30] However, this projection is based on the fund achieving the exceptionally high investment returns assumed and would change if those

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[26] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2014*, p. 25.
[27] State of Illinois Office of the Auditor General, *2014 Annual Review Information Submitted by the Retirement Plan for CTA Employees*, November 2014, synopsis and p. 8.
[28] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter.
[29] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, p. 5.
[30] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, p. 15.

assumptions were reduced in the future. What is clear is that a 50-year funding plan is too long and unfairly burdens future riders and taxpayers to the benefit of lower contributions by current riders and taxpayers. While finding additional funding for pensions would be difficult for the CTA, it should work with the Pension Fund Board of Trustees and Illinois General Assembly to explore a more actuarially sound funding plan that would more equitable divide the cost of current and retired workers' pensions between current and future taxpayers and employees.

Study Zone Fare or Peak Hour Options and Consider Indexing Fares

In FY2013 the CTA approved a $5.00 flat fee for passengers leaving O'Hare airport. This was a step forward for the agency since the additional fare increased revenues while still providing a reasonable value for riders traveling from O'Hare airport to downtown.

The Civic Federation recommends that the CTA go further and 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.

In addition, the Civic Federation recommends that the CTA consider following the Government Finance Officers Association (GFOA) best practice of adopting a charges and fees policy and possibly including tying fare rates to an annual escalator to help guide the board when making difficult decisions. One of the many benefits of such a policy is that it will "smooth charges and fees over several years rather than having uneven impacts" on transit customers.[31]

Implement a Formal Long-Term Financial Plan

The CTA has faced significant gaps between ongoing revenues and expenses in past 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. While the CTA projects balanced budgets through FY2018 those budgets assume flat labor costs and make other assumptions that may not come to pass. Additionally, with ongoing capital needs and back-loaded debt service costs coming due in future years, 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.[32] 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

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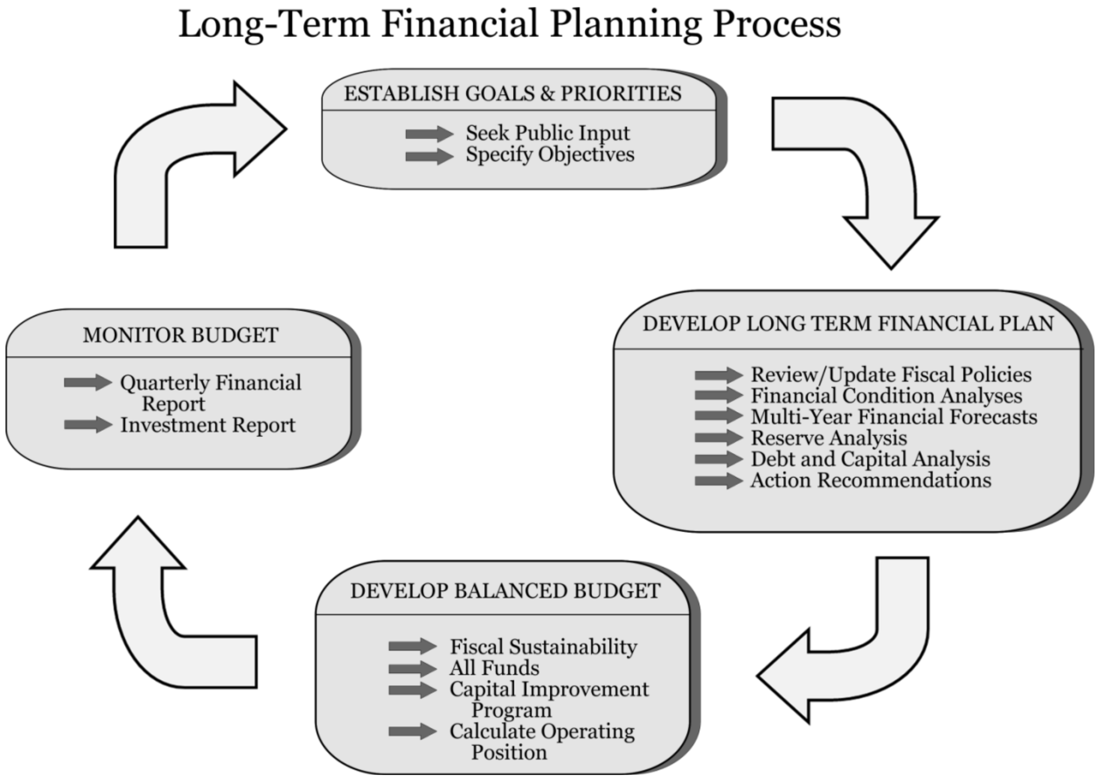
[31] Government Finance Officers Association, "Establishing Government Charges and Fees," (http://www.gfoa.org/establishing-government-charges-and-fees). (last visited November 12, 2014)
[32] The graphic illustration of the long-term financial planning process is based on the City of San Clemente, California's 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.

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.



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

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; 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 Dorval Carter, Jr., Acting Chief Financial Officer Tom McKone and Budget Director Yvonne Towers 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 FY2016 budget compared to previous years. This year, the CTA's operating budget will total $1.47 billion, a 2.2%, or $31.5 million, increase from the FY2015 adopted appropriation of approximately $1.44 billion.

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 FY2012 through FY2014; FY2015 adopted appropriations and FY2016 proposed appropriations.[33]

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 promotion, travel and meetings, contractual and maintenance services, leases and rentals, general expenses, pension obligation bond debt, as well as the $13 per hour minimum wage established in 2014 for certain contractual services.[34] Other Expenses are projected to increase by 4.9%, or $12.7 million, between the FY2015 adopted budget and FY2016 proposed budget. The increase in Other Expenses mostly reflects the initial payment of the 2014 Sales Tax Receipts Revenue Bonds' debt service.[35]

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 CTA has budgeted $9.5 million for FY2016, which is a $6.0 million, or 171.4%, increase from the FY2015 adopted budget.

Appropriations for power, or electricity, will increase by 5.8%, or $1.7 million, in FY2016 due to increased electricity rates charged by ComEd. Electricity for powering the rail lines continues to be purchased through a combination of wholesale advance block purchases and real-time pricing through strategic hedging.[36] The CTA has already purchased about 80% of its anticipated power needs in advance; only the remaining 20% will be exposed to real-time market price fluctuations.[37] Security costs will increase by $271,000, or 1.9%, over the two-year period. The increase in security costs is due to contract escalation rates.[38] Material expenses are also expected to increase in FY2016 by 12.5%, or $9.2 million, primarily due to increased service levels, an older than planned fleet, increased replacement parts for vehicles nearing the end of their warranty and the overhauling of the bus fleet.[39]

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[33] Adopted appropriations refer to appropriations approved by the CTA Board of Trustees. A breakdown of labor expenses was provided by the CTA to the Civic Federation upon request. For data including the FY2015 Budget, FY2015 Forecast and FY2016 Proposed figures, see Appendix A on page 52 of this report.

[34] CTA President's FY2016 Budget Recommendations, p. 44; and information provided by CTA budget staff on October 28, 2015.

[35] CTA President's FY2016 Budget Recommendations, p. 44.

[36] CTA President's Budget Recommendations, FY2012, p. 27; FY2013, p. 37; FY2014, p. 38; and FY2015, p.44.

[37] CTA President's FY2016 Budget Recommendations, p. 44.

[38] CTA President's FY2016 Budget Recommendations, p. 44.

[39] CTA President's FY2016 Budget Recommendations, p. 43.

Appropriations for fuel will decline in FY2016 by 32.7%, or $18.1 million, from the FY2015 adopted appropriations of $55.4 million. The fuel budget is managed using CTA's fixed priced purchasing policy. Fixed fuel purchase is projected at 80% of 2016 usage. For the FY2016 budget, fuel prices are budgeted $0.85 less than FY2015 at $2.15 per gallon for FY2016, which represents the average price the CTA has secured in 2016 at the time of the release of the budget.[40]

In a five-year comparison, the CTA's operating budget will increase by 14.2%, or $183.7 million, between the actual expenditures in FY2012 and proposed appropriations for FY2016.

Labor expenses have increased each year since FY2012. Following layoffs and service reductions in FY2010, labor expenses began to rise in FY2011 due to collectively bargained wage increases of 3.5% effective January 1, 2011 for members of the Amalgamated Transit Union (ATU) and prevailing wage increases for members of the Craft Coalition unions.[41] Labor expenses will constitute 69.5% of the proposed FY2016 operating budget, which is a slight decrease from 69.7% in the FY2015 budget and 71.4% in FY2012. Labor expenses as a percentage of the total operating budget have averaged 69.8% over the past five years.

Over the five-year period between FY2012 to FY2016 spending for material, fuel, security and provision for injuries and damages are projected to decrease by 3.4%, 40.8%, 60.8% and 60.4%, respectively. As noted above, these reductions in spending are attributable to commodities hedging and price contracts as well as maintenance savings resulting from a newer and more efficient fleet. In contrast, spending for power is projected to increase by $6.4 million, or 25.7%, rising from $25.0 million in FY2012 to $31.5 million proposed in FY2016, primarily due to increased ComEd electricity rates and increased service levels.

CTA Operating Budget by Object of Expenditure: FY2012-FY2016
(in $ thousands)

Object	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Labor	$ 921,884	$ 948,272	$ 965,868	$ 1,005,919	$ 1,025,634	$ 19,715	2.0%	$ 103,750	11.3%
Other Expenses									
Utilities	$ 17,620	$ 19,657	$ 23,059	$ 24,178	$ 24,058	$ (120)	-0.5%	$ 6,438	36.5%
Advertising/Promotion	$ 616	$ 732	$ 738	$ 1,142	$ 1,198	$ 56	4.9%	$ 582	94.5%
Travel & Meetings	$ 450	$ 538	$ 639	$ 1,129	$ 1,332	$ 203	18.0%	$ 882	196.0%
Contractual Services	$ 59,592	$ 81,063	$ 94,334	$ 104,339	$ 102,012	$ (2,327)	-2.2%	$ 42,420	71.2%
Leases & Rentals	$ 3,157	$ 2,734	$ 2,401	$ 2,630	$ 2,896	$ 266	10.1%	$ (261)	-8.3%
General Expenses	$ 20,648	$ 25,779	$ 5,993	$ 8,808	$ 10,286	$ 1,478	16.8%	$ (10,362)	-50.2%
Pension Obligation Bond	$ 32,707	$ 114,832	$ 115,746	$ 119,166	$ 118,043	$ (1,123)	-0.9%	$ 85,336	260.9%
Debt Service	$ -	$ -	$ -	$ -	$ 14,298	$ 14,298	-	$ 14,298	
Subtotal Other Expenses	**$ 134,790**	**$ 245,335**	**$ 242,910**	**$ 261,392**	**$ 274,123**	**$ 12,731**	**4.9%**	**$ 139,333**	**103.4%**
Material	$ 85,437	$ 60,353	$ 80,963	$ 73,331	$ 82,534	$ 9,203	12.5%	$ (2,903)	-3.4%
Fuel	$ 62,908	$ 61,836	$ 59,476	$ 55,396	$ 37,259	$ (18,137)	-32.7%	$ (25,649)	-40.8%
Security	$ 37,468	$ 24,160	$ 13,628	$ 14,427	$ 14,698	$ 271	1.9%	$ (22,770)	-60.8%
Power	$ 25,020	$ 26,174	$ 33,568	$ 29,736	$ 31,458	$ 1,722	5.8%	$ 6,438	25.7%
Provision for Injuries & Damages	$ 24,000	$ -	$ 3,500	$ 3,500	$ 9,500	$ 6,000	171.4%	$ (14,500)	-60.4%
Total	**$ 1,291,507**	**$ 1,366,130**	**$ 1,399,913**	**$ 1,443,701**	**$ 1,475,206**	**$ 31,505**	**2.2%**	**$ 183,699**	**14.2%**

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

Source: CTA President's Budget Recommendations:FY2014, p. 42; FY2015, p. 48; FY2016, p. 48; and information provided by CTA, November 4, 2014 and October 28, 2015.

Labor Expenses

The chart below displays a detailed breakdown for labor expenses over the five-year period from FY2012 to FY2016. This information is not provided in the CTA's budget document and was

[40] CTA President's FY2016 Budget Recommendations, p. 44.
[41] CTA President's FY2012 Budget Recommendations, pp. 18-19.

provided by the CTA to the Civic Federation upon request.

Base wages and salaries will increase by 2.5%, or $15.0 million, between the FY2015 adopted budget and the FY2016 proposed budget. The increase in wages and salaries over the two-year period is attributable to prior year's contractual wage increases, a wage rate progression effective December 2015, and an extra day due to 2016 being a leap year. In contrast, overall benefits costs will decrease by 3.7%, or $15.8 million, over the two-year period.

Base wages will increase over the five-year period by 13.4%, or $72.1 million. The primary driver behind the increase over the five-year period, as noted above, is due to contractual wage increases tied to labor agreements. During the same time period, total benefits will decrease by $5.6 million, or 1.3%, which partially offset the increase in wages and salaries. Although the majority of the benefits have decreased over the five-year period, pension contributions have increased by $21.2 million, rising from $98.5 million in FY2012 to $119.7 million in FY2016.

CTA Labor Expenses: FY2012-FY2016
(in $ thousands)

Object	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Base Wages & Salaries	$ 538,628	$ 558,387	$ 565,139	$ 595,686	$ 610,679	$ 14,993	2.5%	$ 72,051	13.4%
Benefits									
Vacation	$ 44,210	$ 38,446	$ 35,699	$ 42,830	$ 42,033	$ (797)	-1.9%	$ (2,177)	-4.9%
Holiday	$ 25,440	$ 23,969	$ 22,768	$ 24,721	$ 24,134	$ (587)	-2.4%	$ (1,306)	-5.1%
Sick	$ 4,943	$ 4,667	$ 4,576	$ 5,361	$ 5,255	$ (106)	-2.0%	$ 312	6.3%
Jury Duty	$ 799	$ 901	$ 946	$ 1,311	$ 1,295	$ (16)	-1.2%	$ 496	62.1%
Workers' Compensation	$ 60,129	$ 50,059	$ 49,092	$ 57,484	$ 56,345	$ (1,139)	-2.0%	$ (3,784)	-6.3%
Tuition Aid	$ 101	$ 159	$ -	$ -	$ -	$ -	-	$ (101)	-100.0%
FICA	$ 48,365	$ 46,506	$ 45,434	$ 48,489	$ 47,291	$ (1,198)	-2.5%	$ (1,074)	-2.2%
Unemployment Insurance	$ 2,451	$ 2,492	$ 1,043	$ 1,847	$ 1,841	$ (6)	-0.3%	$ (610)	-24.9%
Group Insurance	$ 127,794	$ 127,057	$ 119,010	$ 119,137	$ 115,762	$ (3,375)	-2.8%	$ (12,032)	-9.4%
Uniform Allowance	$ 1,394	$ 1,485	$ 1,656	$ 1,370	$ 1,314	$ (56)	-4.1%	$ (80)	-5.7%
Supplemental Retirement	$ 5,056	$ 4,613	$ 7,983	$ 4,110	$ -	$ (4,110)	-	$ (5,056)	-
Incentive Retirement	$ 1,413	$ 1,485	$ 2,788	$ 1,668	$ -	$ (1,668)	-	$ (1,413)	-
Pension	$ 98,487	$ 108,497	$ 109,735	$ 122,354	$ 119,683	$ (2,671)	-2.2%	$ 21,196	21.5%
Subtotal Benefits	**$ 420,582**	**$ 410,336**	**$ 400,730**	**$ 430,682**	**$ 414,953**	**$ (15,729)**	**-3.7%**	**$ (5,629)**	**-1.3%**
Fringe Benefit Offset	$ (17,481)	$ -	$ -	$ -	$ -	$ -	-	$ 17,481	-
Other Labor Credits	$ (19,844)	$ (20,451)	$ -	$ (20,448)	$ -	$ 20,448	-	$ 19,844	-
Total	**$ 921,885**	**$ 948,272**	**$ 965,869**	**$ 1,005,920**	**$ 1,025,632**	**$ 19,712**	**2.0%**	**$ 103,747**	**11.3%**

Note: Totals may differ from budget documents due to rounding.
Source: Information provided by CTA, November 5, 2013; November 4, 2014; and October 28, 2015

REVENUES

The CTA receives its operating funding both from system-generated revenues (revenues generated internally by the CTA, such as fares, concessions and advertising) and from public funding sources (sales taxes, which are distributed by the Regional Transportation Authority, and the real estate transfer tax). Each of these revenue sources is examined below. [42]

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

The following section and subsequent table examine revenue trends from FY2012 to FY2016 using actual data when available for FY2012 through FY2014, FY2015 budget figures as approved by the CTA's Board of Trustees and FY2016 proposed budget figures.

[42] For data including the FY2015 Budget, FY2015 Forecast and FY2016 Proposed figures, see Appendix B on page 52 of this report.

The President's FY2016 Budget Recommendations include over $1.4 billion in revenues, which is a 2.2%, or $31.5 million, increase from the adopted FY2015 budget levels but is an increase of $47.4 million, or 3.3%, from the projected FY2015 levels due to the State of Illinois not increasing the reduced fare subsidy.. Estimated year-end revenues for FY2015 are $15.9 million below FY2015 budgeted. Forecasted revenues for fares and passes are lower than expected for FY2015, they were projected to be $3.9 million over FY2014 actual revenues, but are forecasted to be $2.0 million less than budgeted mainly due to the drop in ridership because of extreme weather in the winter and spring of the FY2015.[43]

The FY2016 revenue total includes $684.7 million from system-generated revenue and $790.5 million in public funding through the Regional Transportation Authority (RTA). System-generated revenue in FY2016 will decrease by $2.8 million, or 0.4%, below the FY2015 adopted budget levels. Farebox revenues, which represent 86.2% of system-generated revenue, will total $590.5 million in FY2016 which represents a 0.2%, or $1.3 million, increase from the FY2015 budget. There are no changes to fees proposed in the FY2016 budget.

In FY2013 there were a number of increases to non-base fare rates including 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.[44] However, 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.[45] 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.[46]

Advertising, charter and concession revenue will increase by approximately $2.0 million or 6.7%, from the FY2015 adopted budget to $32.0 million in FY2016. The increase reflects continued growth in advertisement sales for digital advertising panels in CTA stations.[47] Over the past five years, revenue from advertising, charter and concessions has increased steadily by $6.3 million, or 24.7%. Investment income in FY2016 is budgeted at $880,000 which is an increase of $200,000 over FY2015. Low interest rates and continued late payments from the State continue to yield minimal interest income. [48]

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.[49] 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.[50] This represents $22.0 million in police services for FY2015 and FY2016, provided at no charge to the CTA. In

[43] CTA President's FY2016 Budget Recommendations, p. 37.
[44] CTA President's FY2013 Budget Recommendations, p. 38.
[45] CTA President's FY2016 Budget Recommendations, p. 42.
[46] The CTA must provide half fare rides to all people aged 65 or older per a federal requirement tied to funding.
[47] CTA President's FY2016 Budget Recommendations, p. 38.
[48] CTA President's FY2016 Budget Recommendations, p. 46.
[49] The CTA notes that in-kind revenues are included as system-generated revenues in its explanation of the statutory required contributions on page 46 of the FY2016 Budget Recommendations.
[50] CTA President's FY2016 Budget Recommendations, p. 46.

addition, Cook County provides in-kind services through the Sheriff's Work Alternative Program, which assigns non-violent offenders to help CTA workers clean bus turnarounds and garages.[51]

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.[52] The State of Illinois provides a reduced-fare subsidy to the CTA as a partial reimbursement for the number of discounted and free rides given to students, low-income seniors, veterans and people with disabilities. In 2013 the State reduced its reimbursement, which caused the CTA to lose approximately $6.9 million in FY2013 and would have caused the loss of over $8.0 million in the first half of FY2014. The Regional Transportation Authority (RTA) provided nearly $8.2 million to replace the reduced fare subsidy for the first half of FY2014.[53] The State eventually restored the funding in May 2014 and then cut the subsidy again for FY2015. In the CTA's FY2015 forecasted budget the reimbursement is projected to be $14.2 million which is a 50.0% reduction compared to historical funding. The Illinois General Assembly and the Governor have neither passed nor approved a budget for FY2016, so the final amount of the reduced-fare subsidy is unknown at this time. However, the Authority assumes that reimbursements will increase to $28.3 million.[54]

Other revenue, which includes non-capital grants, parking charges, filming fees, third-party contractor reimbursements and rental revenue is expected to decline by approximately $6.3 million, or 18.5%, from FY2015 adopted figures to $27.9 million in FY2016.

Public funding for the CTA will increase in FY2016 by 4.5% above the FY2015 budget according to RTA projections. This represents a $34.3 million increase, from $756.2 million to $790.5 million. Public funding through the RTA reflects approximately 53.6% of the system's resources in FY2016. The projected increase is due to anticipated continued improvement in sales tax receipts for the next year.[55] 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.[56] For details on the structure of public funding from the RTA, see page 23 of this analysis.

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. It excludes security expenses and pension obligation bond debt service, and includes some grant revenues. The formula explains the difference between the recovery ratio and the percentage of public funding through the RTA as a percent of operating revenues. The RTA Act requires that the entire RTA region must achieve an annual recovery ratio of at least

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[51] CTA President's FY2016 Budget Recommendations, p. 46.
[52] The CTA must provide half fare rides to all people aged 65 or older per a federal requirement tied to funding.
[53] CTA President's FY2014 Proposed Budget, pp. 40 and 96.
[54] CTA President's FY2016 Proposed Budget, pp. 45-46.
[55] CTA President's FY2016 Budget Recommendations, p. 47.
[56] CTA President's FY2016 Budget Recommendations, p. 48.

50.0%. For FY2016 the CTA is estimated to recover 55.4% of its operating expenses through system-generated revenues.[57]

The five-year revenue trend reflects significant dollar increases in RTA funding and fares and passes. Income from fares and passes will increase by $41.7 million, or 7.6%, largely due to fare structure changes. Public funding from the RTA will increase by 22.5%, or $145.0 million. Since FY2012, public funding has increased on average by approximately $29.1 million annually, which the CTA attributes to improving sales tax receipts and higher returns from real estate transfer taxes in Chicago.[58] System-generated revenue will increase by $38.7 million, or 6%, above FY2012 actual revenues.

CTA Operating Budget Revenue: FY2012-FY2016
(in $ millions)

Source	FY2012 Actual	FY2013 Actual	FY2014 Actual	FY2015 Adopted	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
System-Generated Revenue									
Fares and Passes	$ 548.8	$ 574.0	$ 583.3	$ 589.2	$ 590.5	$ 1.3	0.2%	$ 41.7	7.6%
Reduced Fare Reimbursement	$ 27.8	$ 21.9	$ 28.3	$ 28.3	$ 28.3	$ -	0.0%	$ 0.5	2.0%
Advertising, Charter & Concessions	$ 25.7	$ 25.7	$ 27.6	$ 30.0	$ 32.0	$ 2.0	6.7%	$ 6.3	24.7%
Investment Income	$ 0.7	$ 0.4	$ 0.4	$ 0.7	$ 0.9	$ 0.2	29.5%	$ 0.2	31.2%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%
Other Revenue	$ 38.1	$ 41.9	$ 36.1	$ 34.3	$ 27.9	$ (6.3)	-18.5%	$ (10.1)	-26.6%
Total System-Generated Revenue	**$ 646.0**	**$ 669.0**	**$ 680.7**	**$ 687.5**	**$ 684.7**	**$ (2.8)**	**-0.4%**	**$ 38.7**	**6.0%**
Public Funding through RTA	**$ 645.5**	**$ 697.2**	**$ 739.2**	**$ 756.2**	**$ 790.5**	**$ 34.3**	**4.5%**	**$ 145.0**	**22.5%**
Transfer from Capital-Preventive Maintenance Funds	$ -	$ -	$ -	$ -	$ -	$ -	-	$ -	-
Total	**$ 1,291.5**	**$ 1,366.1**	**$ 1,419.9**	**$ 1,443.7**	**$ 1,475.2**	**$ 31.5**	**2.2%**	**$ 183.7**	**14.2%**

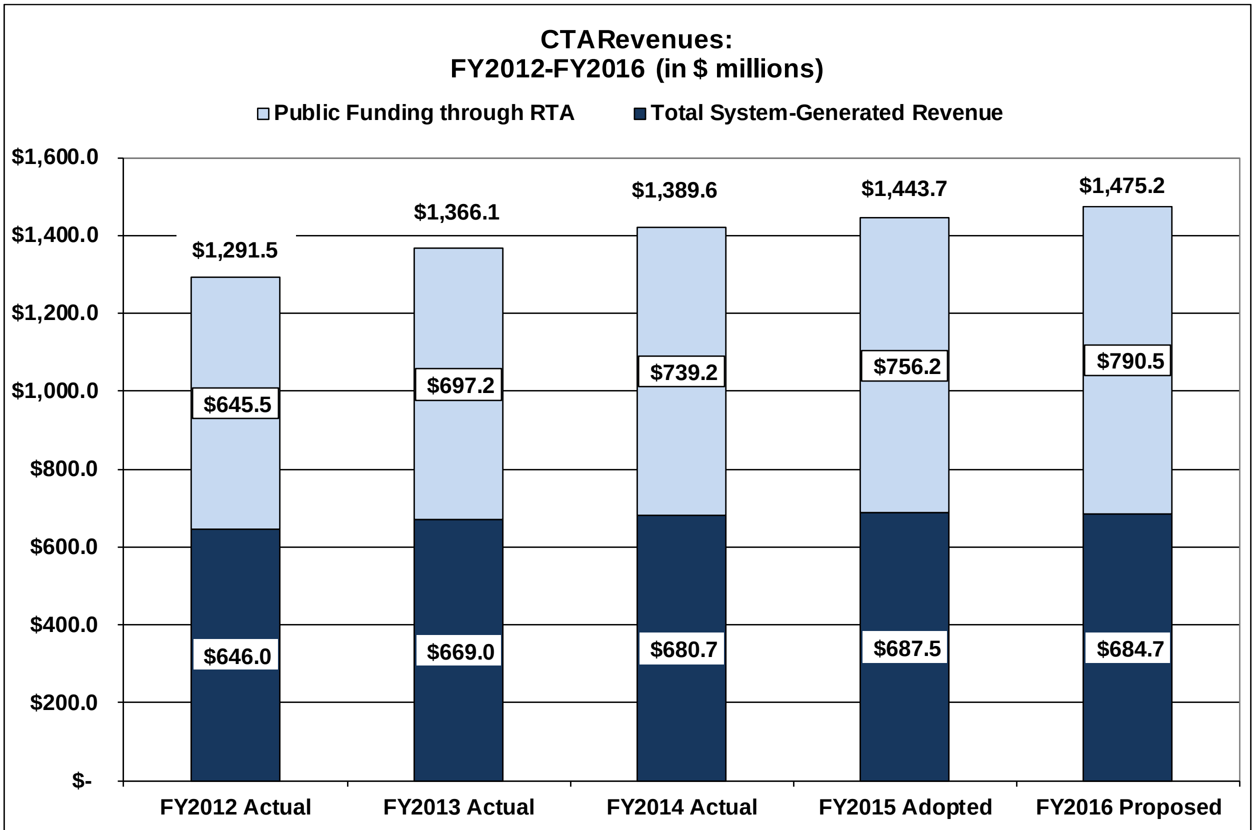
Source: CTA President's FY2014 Budget Recommendations, p. 41 and FY2016, p. 48.

The following exhibit illustrates system-generated revenues and public funding between FY2012 and FY2016. Funding from both system-generated revenue and public funding from RTA increased slightly by an average of 3.6% from FY2012 through FY2015 and will decrease slightly in FY2016 by 0.4%, or $2.8 million. Public funding through the RTA incrementally increases from FY2012 through FY2016 by an average of 5.4%.

[57] CTA President's FY2016 Budget Recommendations, p. 52.
[58] CTA President's FY2016 Budget Recommendations, pp. 39 and 47.

Structure of Public Funding for the CTA from the RTA

The CTA receives public funding from three sources: 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.



Source: CTA President's FY2014 Budget Recommendations, p. 42; and FY2016, p. 48.

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.[59] 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
- 0.75% sales tax on general merchandise and qualifying food, drugs and medical appliances in DuPage, Kane, Lake, McHenry and Will Counties.[60]

The CTA also receives funds at a tax rate of 0.3% on real estate transfers in the City of Chicago.

[59] See Public Act 095-0708.

[60] 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.

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.[61] The RTA also has authority to levy taxes on automobile rentals, motor fuel and off-street parking facilities, but has not exercised this authority.[62]

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

RTA Sales Tax Distribution: FY2016			
	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 FY2016 Budget Recommendations, p. 112.

The next exhibit details public funding for the CTA provided through the RTA since FY2012. 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 shown below and actual total public funding provided through the RTA as shown in previous exhibits in FY2012 through FY2014, comparisons are not applicable.

As a result of the above sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $581.6 million in total sales tax revenue from the RTA in FY2016. When compared to revenues in the FY2015 proposed budget, this is a $24.9 million, or 4.5%, increase. Of the $581.6 million, $365.1 million is expected to come directly from the sales tax distribution formula and $216.4 million will be RTA discretionary funds, allocated from the 15% of total tax revenue retained by the RTA.

The CTA expects to receive nearly $64 million from real estate transfer taxes collected in Chicago in FY2016, which is a slight decrease of 0.1%, or $55,000, from FY2015. The CTA will also receive $126.8 million in revenues from the RTA sales tax increase and State funding enacted in 2008 by P.A. 95-0708, which is an increase of $7.7 million, or 6.4%, over FY2015.

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[61] CTA President's FY2016 Budget Recommendations, p. 113.
[62] 70 ILCS 3615/4.03.

CTA Sources of Public Funding Through the RTA: FY2012-FY2016 (in $ millions)									
	FY2012 Proposed	FY2013 Proposed	FY2014 Proposed	FY2015 Proposed	FY2016 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
RTA Formula Sales Tax Revenues	$ 301.4	$ 314.6	$ 335.6	$ 349.6	$ 365.1	$ 15.6	4.4%	$ 63.7	21.2%
RTA Discretionary Sales Tax	$ 168.7	$ 181.0	$ 188.1	$ 207.1	$ 216.4	$ 9.3	4.5%	$ 47.7	28.3%
Sub-Total RTA Sales Tax	**$ 470.1**	**$ 495.7**	**$ 523.6**	**$ 556.7**	**$ 581.6**	**$ 24.9**	**4.5%**	**$ 111.5**	**23.7%**
Real Estate Transfer Tax (Chicago)	$ 28.0	$ 36.2	$ 47.9	$ 63.6	$ 63.6	$ (0.1)	-0.1%	$ 35.5	126.7%
Real Estate Transfer Tax (25% Public Transportation Fund)	$ 7.0	$ 9.1	$ 12.0	$ 15.9	$ 15.9	$ (0.0)	-0.1%	$ 8.9	126.7%
Sales Tax and PTF per PA 95-0708	$ 111.5	$ 112.1	$ 117.3	$ 119.1	$ 126.8	$ 7.7	6.4%	$ 15.3	13.7%
Reduced Fare Reimbursement Replacement	$ -	$ -	$ 8.2		$ -	$ -			
Total	**$ 616.6**	**$ 653.0**	**$ 708.9**	**$ 755.3**	**$ 787.8**	**$ 32.5**	**4.3%**	**$ 171.2**	**27.8%**

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 FY2012-FY2014 differ from actual figures in the previous exhibits.

*Innovation, Coordination and Enhancement (ICE) Fund.

Source: CTA President's FY2012 Budget Recommendations, p. 86; FY2013, p. 94; FY2014, p. 90; FY2013, p. 96; FY2015 p. 110; and FY2016, p. 114.

PERSONNEL

The CTA plans to fund 9,869 positions in FY2016. This is an increase of 0.9%, or 88 positions, from the FY2015 adopted budget. The Authority is estimating increases of 112 scheduled transit operation (STO) positions, which includes bus operators, motormen and conductors. The CTA also plans decreases in 27 administrative positions and 23 non-STO operating positions.[63] Over the past ten years, the budgeted CTA workforce has declined by 9.5% or 1,038 positions.

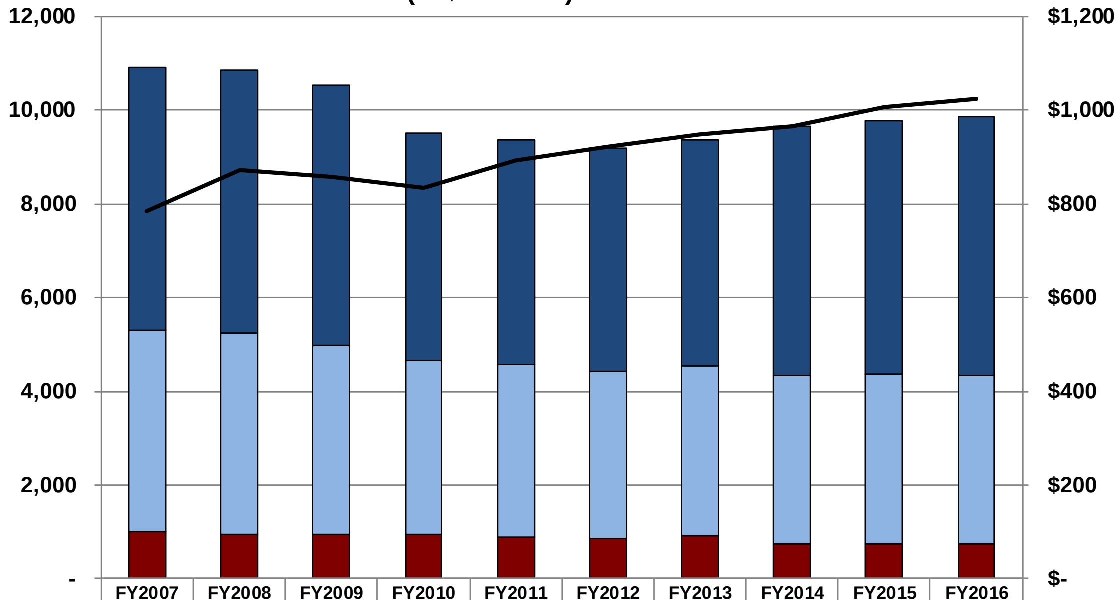
The ten-year decline includes reductions of:

- 257 administrative positions, or 25.8%;
- 81 STO positions, or 1.4%; and
- 700 non-STO operating positions, or 16.3%.

From FY2015 to FY2016 labor costs will increase by 2.0%, or nearly $20.0 million, due primarily to the prior year's contractual wage increases; a contractual wage rate progression that begins on December 1, 2015; healthcare cost increases; and the additional day due to the leap year.[64] Over the five-year period from FY2012 to FY2016, labor costs increase by $103.8 million, or 11.3%. Over the ten-year period from FY2007 through 2016 labor costs increase by 30.7%, or $240.8 million, despite a decrease of 1,038 employees. The chart below exhibits STO positions, Non-STO operational positions and Administrative positions as well as the trend for labor costs over a ten-year period.

[63] CTA President's FY2016 Budget Recommendations, pp. 48 and 53; Communication between CTA Office of Finance & Budget and the Civic Federation.
[64] CTA President's FY2016 Budget Recommendations, p. 43.

CTA Labor Appropriations and Budgeted Positions by Type: FY2007 - FY2016 (in $ millions)



	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
TOTAL	10,907	10,867	10,540	9,520	9,377	9,206	9,381	9,661	9,781	9,869
STO	5,605	5,634	5,552	4,868	4,796	4,778	4,836	5,322	5,412	5,524
Non-STO Operations	4,304	4,287	4,045	3,709	3,684	3,569	3,638	3,612	3,612	3,604
Administration	998	946	943	943	897	859	907	727	742	741
Labor ($)	$784.8	$873.6	$856.5	$835.1	$893.8	$921.9	$948.3	$965.9	$1,005.9	$1,025.6

Note: STO represents Scheduled Transit Operations and includes staffing for bus and rail operations.
Source: Information provided by CTA, October 30, 2015; CTA President's Budget Recommendations FY2007-FY2016.

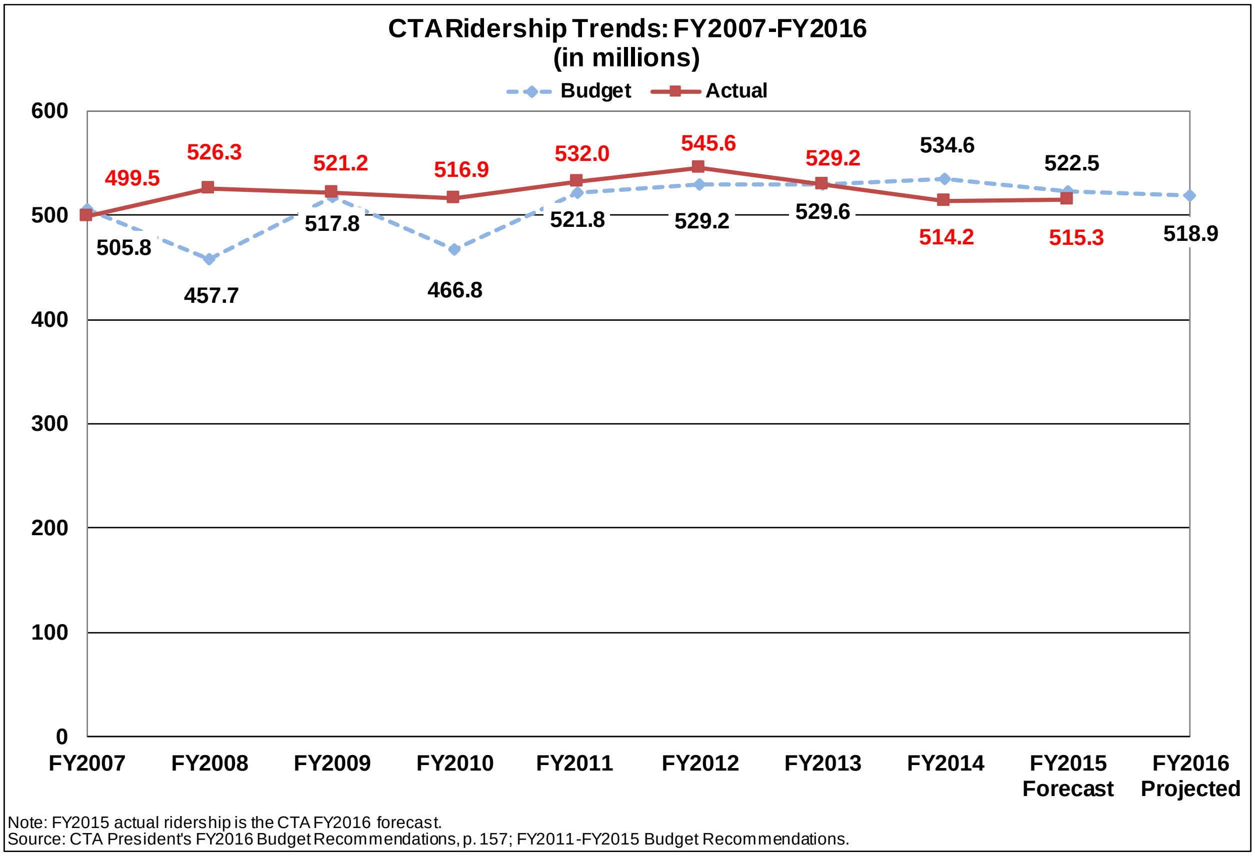
RIDERSHIP

The CTA projects that ridership will be 518.9 million rides in FY2016. The FY2016 ridership is projected to be an increase of 3.6 million rides, or 0.7%, from the FY2015 forecast and a decrease of 3.6 million rides, or 0.7% from the FY2015 original budget. 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).[65]

Over the ten-year period, ridership will increase 3.9%, or 19.4 million rides, from 499.5 million actual rides in FY2007 to 518.9 million rides projected in FY2016. Over the five-year period ridership is projected to fall by 4.9%, or 26.7 million rides from its peak in FY2012 of 545.6 million rides. The CTA attributes the high number of rides in FY2012 to increasing parking rates and particularly favorable weather that year. The drop in ridership in FY2013 was due to extensive track work on the Red Line and the implementation of increased rates for fare passes.[66] The further decline in ridership in FY2014 and FY2015 was attributed to extreme weather during the first quarter of both fiscal years. [67] The FY2016 budget projects a slight increase in ridership

[65] CTA President’s FY2015 Budget Recommendations, p. 198.
[66] Communication with the CTA budget staff, October 18, 2013.
[67] CTA President’s FY2015 Budget Recommendations, p. 42; and FY2016 Budget Recommendations, p. 37.

from FY2015 forecasted ridership primarily due to improvements in the unemployment rate in the region.[68]



PRODUCTIVITY MEASURES

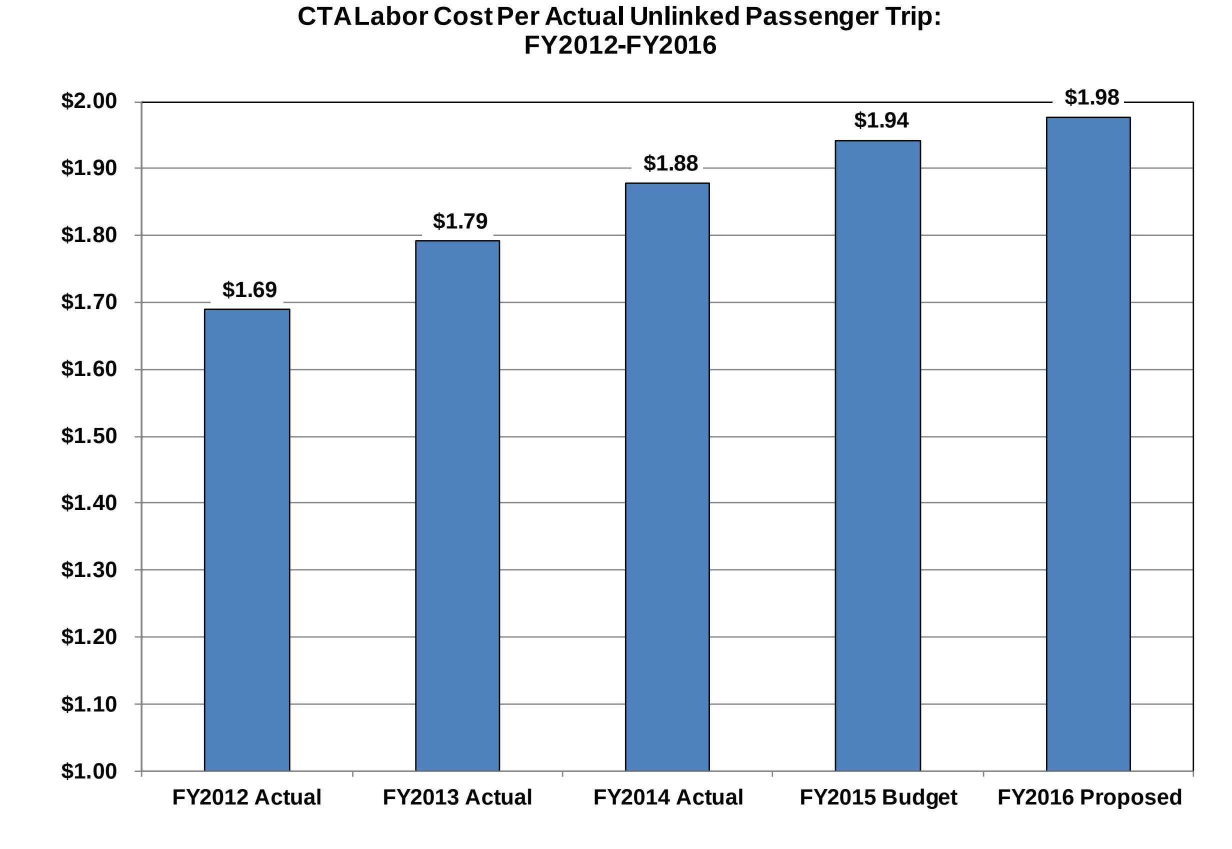
In this analysis, the Civic Federation uses two measures to assess CTA's productivity over time: labor cost per actual unlinked passenger trip and operating expense per passenger mile.[69] The data used to calculate the productivity measures is obtained from the annual budget documents.

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 increased steadily from $1.69 in FY2012 to $1.98 in FY2016.

Between FY2012 and FY2016, productivity has declined because ridership, which fell by 0.7% on average each year has not kept pace with labor costs, which grew by 11% on average each year. As a result, the ratio has steadily increased over the five-year period, rising from $1.69 in 2012 to $1.98 projected in FY2016. The decrease in ridership was the result of track construction and increased rates in fare passes in FY2013 and extreme winter weather in FY2014 and FY2015. The labor cost per unlinked passenger trip is expected to increase between FY2015 and

[68] CTA President's FY2016 Budget Recommendations, p. 37.
[69] "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). CTA President's FY2016 Budget Recommendations, p. 206.

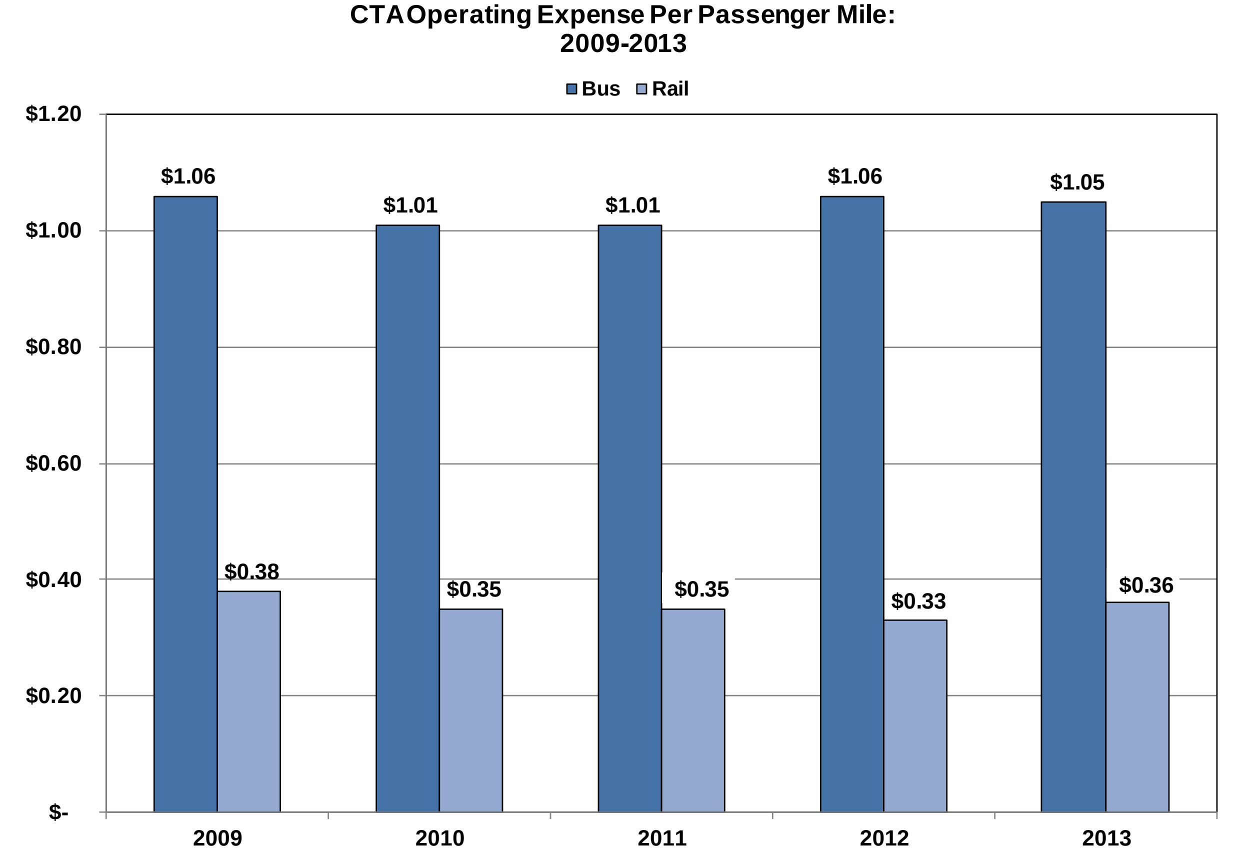
FY2016 by $0.04 from $1.94 to $1.98. This is due to a 2.5% increase in labor costs compared to a 0.7% decrease in ridership over the previous year.



Source: CTA President's FY2014 Budget Recommendations, pp. 42 and 135; FY2014; and FY2015, pp. 48 and 151; and FY2016, pp. 48 and157.

The chart below illustrates operating expense per passenger mile for bus and rail service between 2009 and 2013, the most recent years for which data is available. As with all transit systems, rail service is more cost effective than bus service because there is higher ridership on rail service. The operating expense per passenger mile for rail service has fluctuated over the past five years from a high of $0.38 in 2009 to its lowest point in 2012 of $0.33 before increasing slightly again in 2013 to $0.36 per passenger mile.

The operating expense per passenger mile for bus service has also fluctuated over the last five years. It changed from a low of $1.01 in 2010 and 2011 to a high of $1.06 in 2009 and 2012 before declining slightly again 2013 to $1.05 per passenger mile.



Source: CTA President's Budget Recommendations, FY2012-FY2016.

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 management, five members appointed by the Amalgamated Transit Union and one appointed by the Regional Transportation Authority.[70]

[70] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2014*, p. 17.

In FY2014 the Fund had 8,251 active employees and 9,890 beneficiaries for a ratio of 0.83 active members for every beneficiary.[71] This ratio has fallen from 1.18 in FY2005 as the number of active members has declined and the number of beneficiaries has risen. This trend puts financial stress on the fund as there are fewer employees contributing to the fund and more annuity payments to make.

Chicago Transit Authority Pension Fund Membership: FY2005-FY2014			
Fiscal Year	**Active Employees**	**Beneficiaries**	**Ratio of Active to Beneficiary**
FY2005	10,644	8,998	1.18
FY2006	9,710	9,116	1.07
FY2007	9,635	9,215	1.05
FY2008	9,689	9,356	1.04
FY2009	9,865	9,275	1.06
FY2010	8,932	9,310	0.96
FY2011	8,751	9,418	0.93
FY2012	8,317	9,591	0.87
FY2013	8,186	9,693	0.84
FY2014	8,251	9,890	0.83
Ten-Year Change	**-2,393**	**892**	**-0.35**
Ten-Year % Change	**-22.5%**	**9.9%**	**-29.5%**

Source: Retirement Plan for CTA Employees Financial Statements, FY2005-FY2014.

Recent Reforms

Major reforms of the 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 health care 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 health care over the past few decades.[72] 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 health care 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 were similar to the funding plan for the State of Illinois' five retirement systems.[73]

[71] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2014*, p. 17.
[72] 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.
[73] 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.

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 health care 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 (POB) 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 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's 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 years 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 years 2013 and 2014-2040. This was an increase from 11.3% for the CTA and 8.65% for the employees in plan year 2012.[74] While the funded ratio fell to 58.2% in FY2014, the pension fund's actuary stated that the contribution rates stated above are still expected to keep funding levels on a trajectory to be at least equal to 60% of actuarial liabilities by 2024 and through fiscal year-end 2040, as required under state law, if the plan experiences no net actuarial losses.

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 three years to ten 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 Health Care Trust. The infusion of $1.1 billion into the retirement fund was expected to raise its funded ratio to approximately 80%.[75]

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 Health Care Trust, health

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[74] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2013*, p. 17.
[75] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 3. Actual year-end funded ratio on a smoothed actuarial basis in FY2008 was 75.6%.

care liabilities for the pension fund decreased from $1.8 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[76] 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 health care benefits.[77]

The CTA Fund actuaries adjusted the retirement probability assumptions due to the changes in retirement eligibility age, required years of service and health care eligibility that took effect January 18, 2008. These assumption changes reduced the FY2007 actuarial liabilities by $28.0 million.[78]

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 returns immediately. This contributed to the decrease in funded ratio between FY2010 and FY2011 from 70.1% to 59.2%.[79] In FY2013 the actuaries changed several actuarial assumptions, including reducing the expected rate of return on investments to 8.25% from 8.50% and a reduction in assumed inflation rate to 3.25%, among other economic and demographic assumption changes. These changes increased the liability by $148,841,651.

For the first time, in the FY2014 actuarial valuation report, the CTA Fund's actuary recommended the fund's Board of Trustees consider, "moving towards a contribution of the Actuarial Math Contribution over the next several years."[80] Their suggested contribution would have a goal of 100% funding, rather than the 90% goal included in Illinois state law; use an actuarial value of assets to control contribution volatility, rather than the market value currently required under state law; and pay off the unfunded liability over 20 years using layered amortization, rather than the 50-year amortization laid out in state law. The actuary estimated that a contribution under these funding rules would total 34.147% of payroll, compared to the current total contribution of 24.375%.

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 34.4% on an actuarial value basis in FY2005 and declined to 25.2% in FY2006 before climbing to 75.6% in FY2008. The increase in the funded ratio is largely attributed to a one-time extraordinary employer contribution of $1.1 billion from the issue of debt, which nearly doubled the fund's total actuarial assets.[81]

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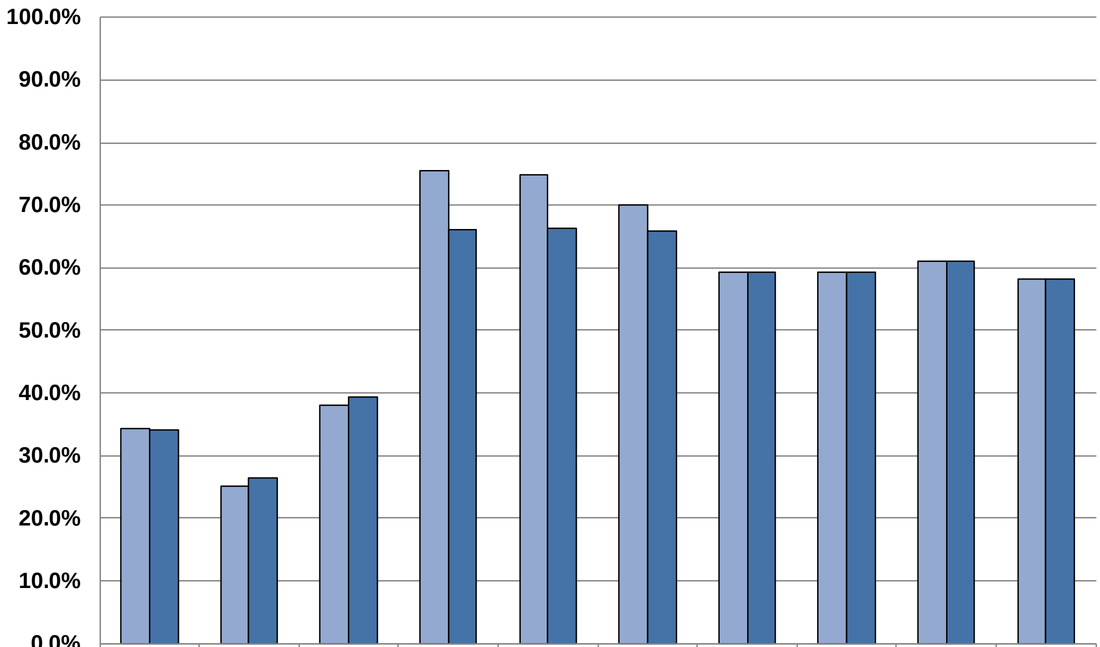
[76] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[77] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2009*, p. 4.
[78] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 4.
[79] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
[80] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter from Buck Consultants.
[81] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 2.

A trust fund was also created in May 2008 to assume full responsibility for health care funding, payment and administration on July 1, 2009. The FY2009 actuarial value funded ratio dropped slightly to 74.8% due to changes in population, actuarial assumptions, payroll and investment return.[82] 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.[83] 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.[84] The funded ratio remained level for FY2012 at 59.4% before climbing slightly to 60.9% in FY2013 due to strong investment returns and despite actuarial changes including a reduction to the assumed long-run rate of return to 8.25% from 8.5%.[85] The funded ratio fell in FY2014 to 58.2% due mostly to investment returns less than the expected rate of return.[86]

CTA Employees' Pension Fund Funded Ratios: Actuarial Value of Assets and Market Value of Assets: FY2005-FY2014



	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Actuarial Value	34.4%	25.2%	38.0%	75.6%	74.8%	70.1%	59.2%	59.4%	60.9%	58.2%
Market Value	34.0%	26.5%	39.3%	66.0%	66.3%	65.9%	59.2%	59.4%	60.9%	58.2%

Note: Due to a change in the accounting for pension fund assets effective in FY2011, the market value and actuarial value are equal for that year and all subsequent years.
Source: Retirement Plan for CTA Employees Financial Statements, FY2005-FY2014.

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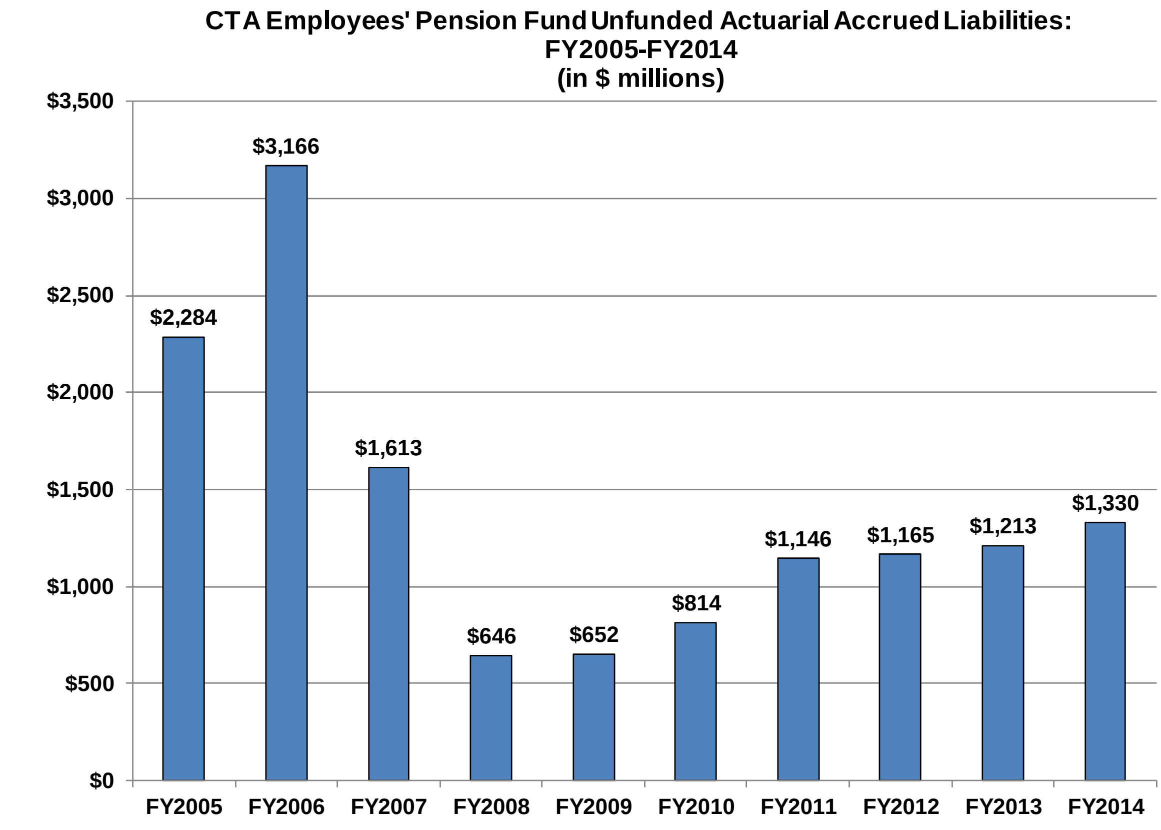
82 Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2010*, p. 1.
83 Retirement Plan for CTA Employees, *Actuarial Valuation as of January 2, 2011*, p. 1. The discount rate assumption was reduced in order to better reflect the expected long-term investment return on plan assets.
84 Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
85 Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2014*, p. 3-4.
86 Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, p. 4.

Unfunded Actuarial Accrued Liabilities

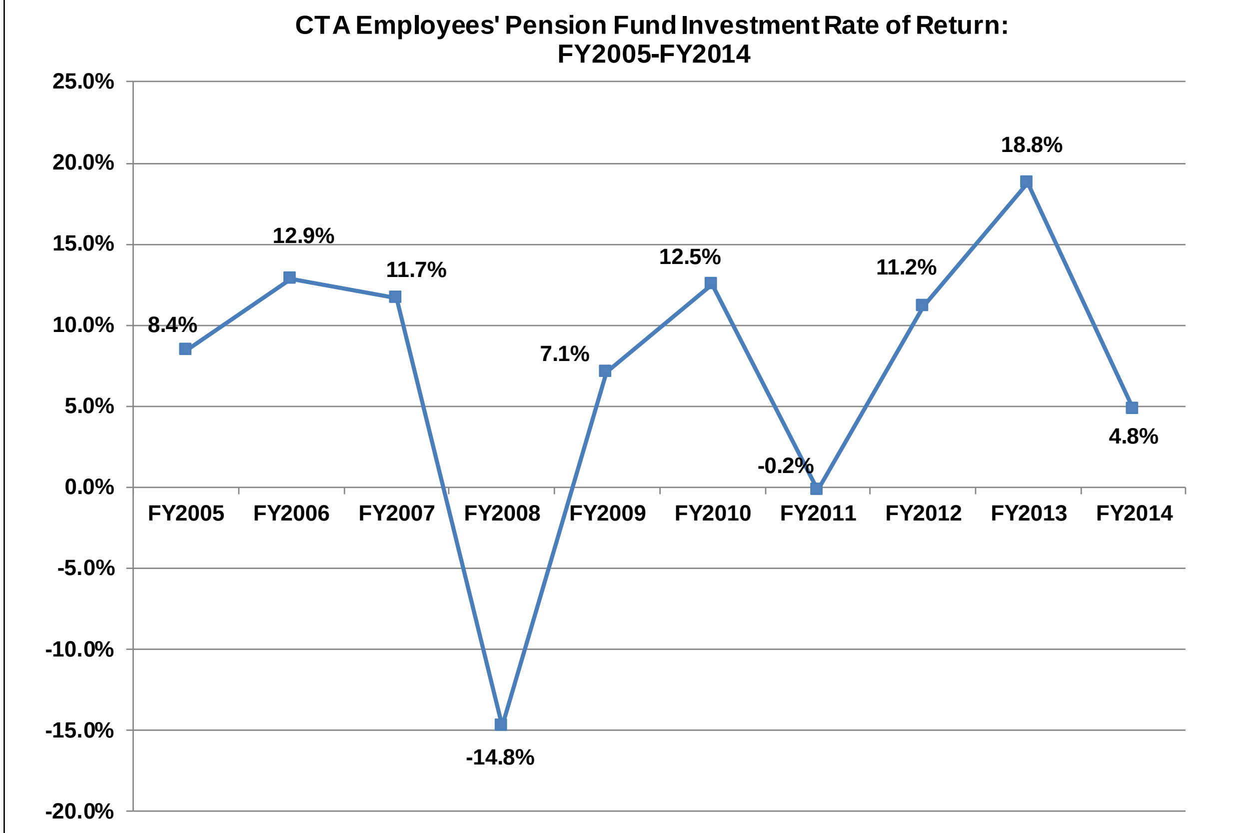
Unfunded actuarial accrued liabilities are the dollar value of pension liabilities not covered by assets. As the exhibit below shows, unfunded liabilities for the CTA pension fund grew from nearly $2.3 billion in FY2005 to almost $3.2 billion in FY2006 before falling to $0.6 billion in FY2008. This $2.5 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 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. Unfunded liabilities increased slightly in FY2012 as a result of insufficient employer contributions not completely offset by greater than expected investment returns. Unfunded liabilities increased slightly again in FY2013 due to increases in liabilities not completely offset by high investment returns and more significantly in FY2014 due to investment returns less than the assumed rate of return.



Source: Retirement Plan for CTA Employees Financial Statements, FY2005-FY2014.

Investment Rates of Return

Between FY2005 and FY2014, the investment rate of return for the CTA Employees' Pension Fund has fluctuated, with a high of 18.8% in FY2013 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.[87] The average return between FY2005 and FY2014 was 7.2%, less than the current assumed rate of return of 8.25%.[88]



Source: Retirement Plan for CTA Employees Actuarial Valuations, FY2005-FY2014.

Employer Annual Required Contribution

The financial reporting requirements for public pension funds and their associated governments are set by the Governmental Accounting Standards Board (GASB). GASB standards until FY2013 required disclosure of an Annual Required Contribution (ARC), which was an amount equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years.[89] Normal cost is that portion of the present value of pension plan benefits and administrative expenses which is allocated to a given valuation year and is calculated using one of six standard actuarial cost methods. Each of these methods

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[87] Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.

[88] Over the past ten years, the CTA Pension Fund's expected rate of return assumption has been reduced twice. Between FY2005 and FY2009, it was 8.75%; between FY2010 and FY2012 it was 8.5% and was lowered to 8.25% for the 2013 and 2014 fiscal years.

[89] The ARC reporting requirement was established by GASB Statements 25 and 27. GASB Statements 67 and 68 will end the requirement for ARC disclosure. No substitute measure of a government's annual pension funding adequacy was proposed by GASB.

provides a way to calculate the present value of future benefit payments owed to active employees. The methods also specify procedures for systematically allocating the present value of benefits to time periods, usually in the form of the normal cost for the valuation year and the actuarial accrued liability (AAL). The actuarial accrued liability is that portion of the present value of benefits which is not covered by future normal costs.

ARC was a financial reporting requirement but not a funding requirement. The statutorily required CTA contribution to its pension fund is set in the state pension code. However, because paying the normal cost and amortizing the unfunded liability over a period of 30 years does represent a reasonably sound funding policy, the ARC can be used as an indicator of how well a public entity is actually funding its pension plan.

Even though public pension funds are not required to report an ARC after their FY2013 actuarial valuations, a final FY2014 ARC for the CTA Fund was calculated in the FY2013 valuation. In the FY2014 valuations, a different calculation, the Actuarially Determined Contribution (ADC), which is based on the pension plan's own actuarial funding policy (if it has one) will be required to be reported. As noted above, in the FY2014 actuarial valuation, the CTA Fund's actuary also calculated an "Actuarial Math Contribution," which is calculated on a different basis from the prior years' ARC numbers. In order to provide a consistent ten-year trend, the Civic Federation uses FY2014 ARC data, not "Actuarial Math" data, in the following section.

The following table compares the ARC to the actual CTA contribution over the last ten years. In FY2005 through FY2007 the employer contribution was significantly below the ARC. The difference between the ARC and the actual employer contribution grew from a $133.0 million shortfall in FY2005 to $173.4 million in FY2007. The difference between the ARC and the employer contribution was negative in FY2008 because of an extraordinary infusion of pension obligation bond funds into the fund. After the passage of P.A. 95-0708, the new funding requirements raised the employer contribution as a percentage of the ARC to between 34.9% and 51.8%. The CTA is on a 50-year payment plan to get the pension fund to 90% funded, while the ARC calls for a 30-year amortization and a 100% funding goal, so the CTA's required payments under its funding plan are below those required under the GASB reporting requirement. The cumulative ten-year difference between the ARC and the actual employer contribution is a surplus of nearly $8.0 million despite significant underfunding because of the employer contribution of over $1.1 billion in FY2008, which offsets the shortfalls in the other nine years examined below.

Expressing ARC as a percent of payroll provides a sense of scale and affordability. In FY2005 the ARC was 32.9% of payroll while the actual employer contribution was 3.6% of payroll. In FY2014 the pension ARC was 29.3% of payroll while the actual employer contribution was 14.6% of payroll, net of contributions to pension obligation bond debt service. Employees contributed 10.125% of salary to the pension fund in FY2014.

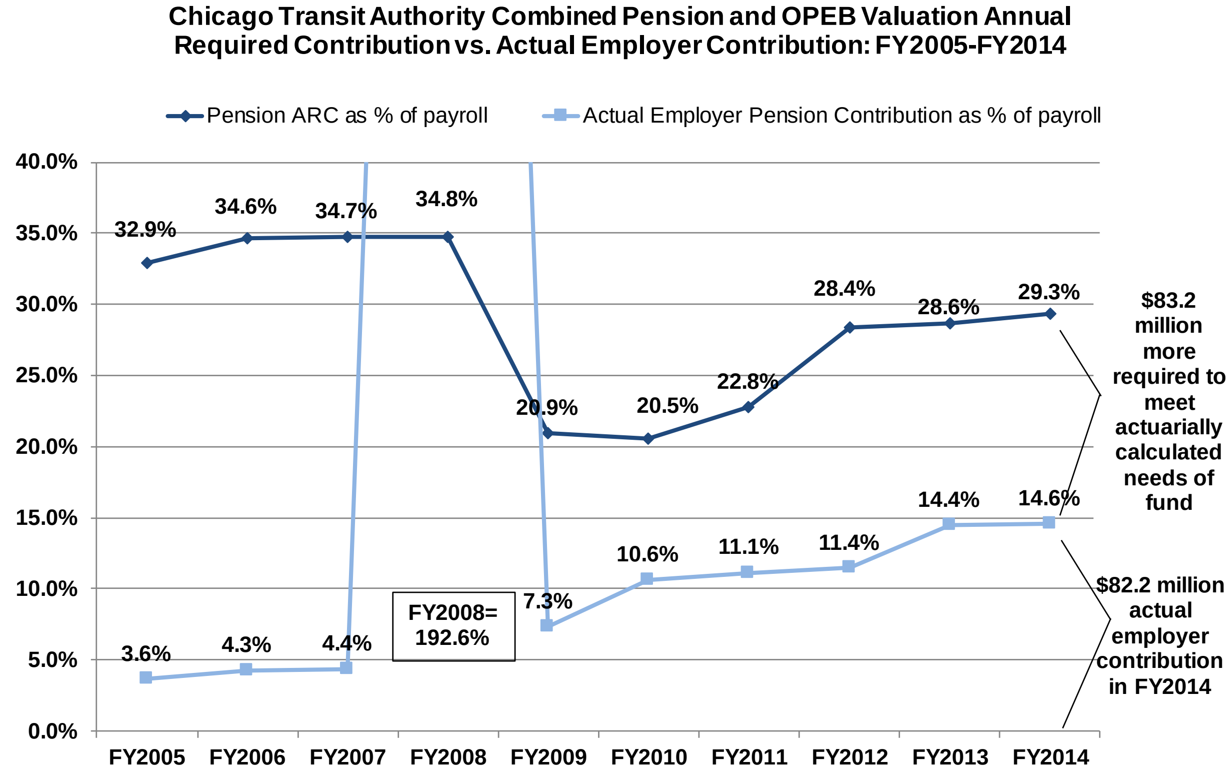
CTA Pension Fund Schedule of Employer Contributions - Pension Plan as Computed for GASB Statement 25								
Fiscal Year	**Employer Annual Required Contribution (1)**	**Actual Employer Contribution (2)**	**Shortfall (1-2)**	**% of ARC Contributed**	**Payroll**	**ARC as % of Payroll**	**Actual Employer Contribution as % of Payroll**	**Actuarial Funded Ratio**
2005	$ 180,227,000	$ 19,850,000	$ 160,377,000	11.0%	$ 547,532,000	32.9%	3.6%	34.4%
2006	$ 194,926,000	$ 23,931,000	$ 170,995,000	12.3%	$ 562,567,000	34.6%	4.3%	25.2%
2007	$ 198,457,000	$ 25,038,000	$ 173,419,000	12.6%	$ 571,314,000	34.7%	4.4%	38.0%
2008	$ 206,670,000	$ 1,165,947,000	$ (959,277,000)	564.2%	$ 594,139,000	34.8%	196.2%	75.6%
2009	$ 118,717,000	$ 41,448,000	$ 77,269,000	34.9%	$ 567,173,247	20.9%	7.3%	74.8%
2010	$ 108,478,000	$ 56,216,000	$ 52,262,000	51.8%	$ 528,287,879	20.5%	10.6%	70.1%
2011	$ 123,158,582	$ 60,318,000	$ 62,840,582	49.0%	$ 541,353,693	22.8%	11.1%	59.2%
2012	$ 155,600,474	$ 62,788,000	$ 92,812,474	40.4%	$ 548,515,157	28.4%	11.4%	59.4%
2013	$ 157,594,269	$ 79,518,000	$ 78,076,269	50.5%	$ 550,616,338	28.6%	14.4%	60.9%
2014	$ 165,499,808	$ 82,268,000	$ 83,231,808	49.7%	$ 564,827,965	29.3%	14.6%	58.2%

Note: Data for all years shows pension obligations only, not including OPEB.

* Although the actuarial valuation shows the percent of ARC contributed as a combination of employer and employee contributions, this table shows only employer contributions as a percent of ARC.

Source: CTA Actuarial Valuation Reports.

The graph below illustrates the gap between the ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts shrank from a 29.3 percentage point shortfall in FY2005 to a 14.7 percentage point shortfall in FY2014. The FY2008 infusion of over one billion dollars was a contribution of 192.6%, or $959.2 million, more than the ARC for that year. To fund the pension plan at a level that would both cover normal cost and amortize the unfunded liability over 30 years, the District would have needed to contribute an additional 14.7% of payroll, or $83.2 million, in FY2014.



Note: FY2008 employer contribution was 196.2% of the ARC due to the deposit of bond proceeds. In FY2008 and after, the CTA employer contribuiton is net of a 6% credit for debt service payments on pension obligation bonds.
Source: Retirement Plan for CTA Employees Actuarial Valuation Report as of January 1, 2014, p. 26.

OTHER POST EMPLOYMENT BENEFITS

Public Act 95-0708 created a separate Retiree Health care Trust to manage and fund CTA retiree health benefits and a one-time pension obligation bond of which no less than $528.8 million in proceeds was deposited into the trust. As a result, health care liabilities for the pension fund decreased from $1.8 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[90] The CTA and the CTA pension fund have no further funding obligations regarding retiree health insurance. The health care trust is administered by the CTA pension fund Executive Director. As of January 1, 2015 the Chicago Transit Authority Retiree Health Care Trust reported total present value of projected benefits of $803.8 million and total income and assets of $873.4 million, for a 108.7% coverage ratio.[91]

[90] P.A. 95-0708; Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[91] Chicago Transit Authority Retiree Healthcare Trust, *Actuarial Valuation as of January 1, 2015*, p. 4.

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.[92]

Short-term liabilities are financial obligations that must be satisfied within one year. They can include short-term debt, accounts payable, accrued payroll, advances 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:

- *Accounts Payable & Accrued Expenses*: 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:* Security deposits on rents and concessions, various grant deposits and other deposits required from vendors that do business with the CTA; and
- *Advances from the RTA:* Funds provided by the RTA for future capital projects.

In FY2014 the CTA reported that total short-term liabilities increased by $10.7 million, or 4.7%, from the previous year. Since FY2010 all short-term liabilities have increased by $88.1 million, or 38.4%. The single largest short-term liability reported in FY2014 was accounts payable and accrued expenses at $154.6 million. This liability rose by 57.0% or $56.1 million between FY2010 and FY2014, but fell 13.9% between FY2013 and FY2014. Accrued payroll increased by 20.0% or $20.4 million in the same time period.

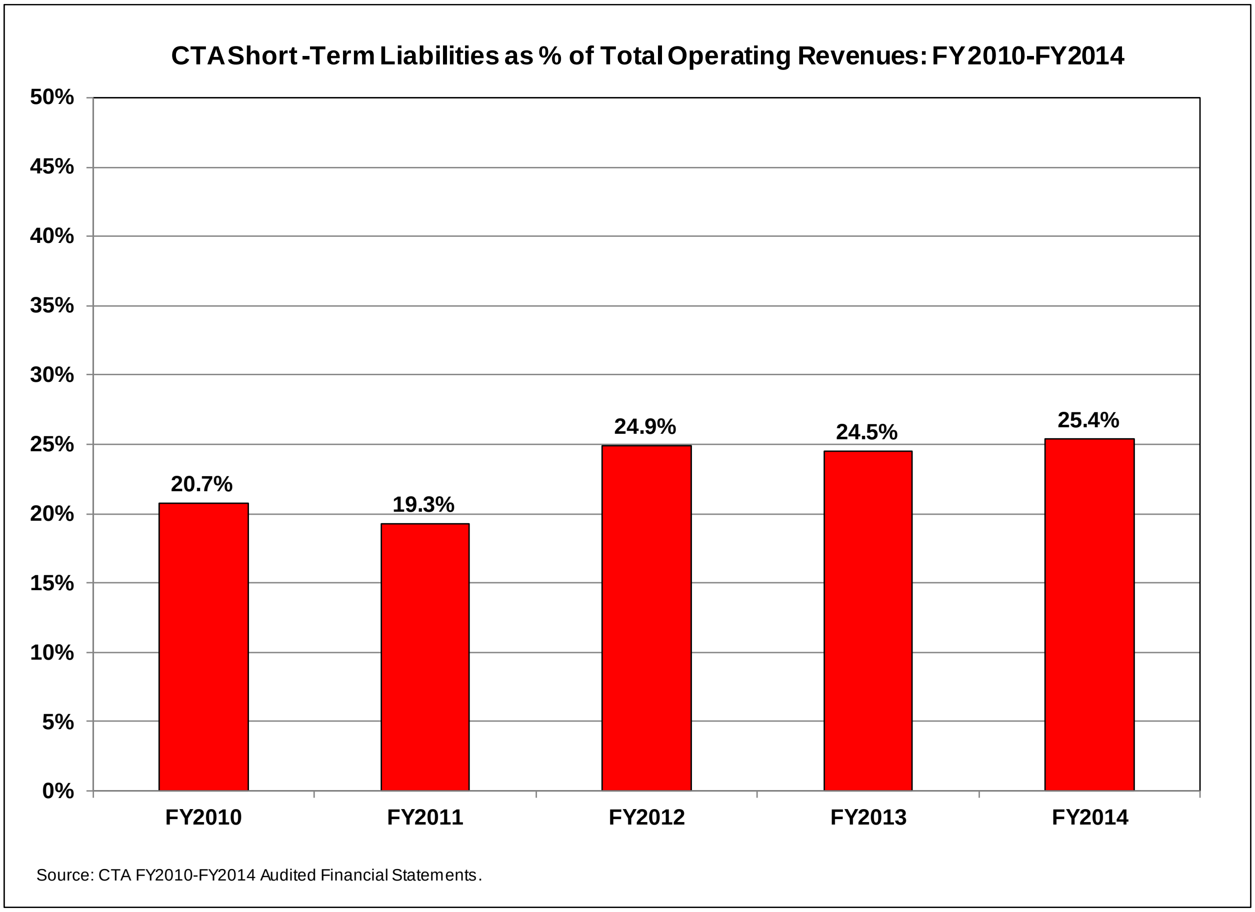
CTA Short-Term Liabilities for Business-Type Activities by Category: FY2010-FY2014
(in $ thousands)

Liability	FY2010	FY2011	FY2012	FY2013	FY2014	Two Year $ Change	Two Year % Change	Five Year $ Change	Five Year % Change
Accounts Payable & Accrued Expenses	$ 98,463	$ 90,746	$ 144,256	$ 168,274	$ 154,563	$ (13,711)	-13.9%	$ 56,100	57.0%
Accrued Payroll	$ 101,964	$ 98,489	$ 102,081	$ 107,051	$ 122,383	$ 15,332	15.0%	$ 20,419	20.0%
Accrued Interest Payable	$ 19,460	$ 21,451	$ 21,107	$ 20,370	$ 22,335	$ 1,965	10.1%	$ 2,875	14.8%
Advances and Deposits	$ 9,511	$ 9,392	$ 8,440	$ 10,997	$ 18,173	$ 7,176	75.4%	$ 8,662	91.1%
Advances from RTA	$ -	$ -	$ -	$ -		$ -	---	$ -	---
Total	**$ 229,398**	**$ 220,078**	**$ 275,884**	**$ 306,692**	**$ 317,454**	**$ 10,762**	**4.7%**	**$ 88,056**	**38.4%**

Source: CTA FY2010-FY2014 Audited Financial Statements.

[92] CTA FY2013-FY2014 Financial Statements, Note 2: Summary of Significant Accounting Policies, p. 22

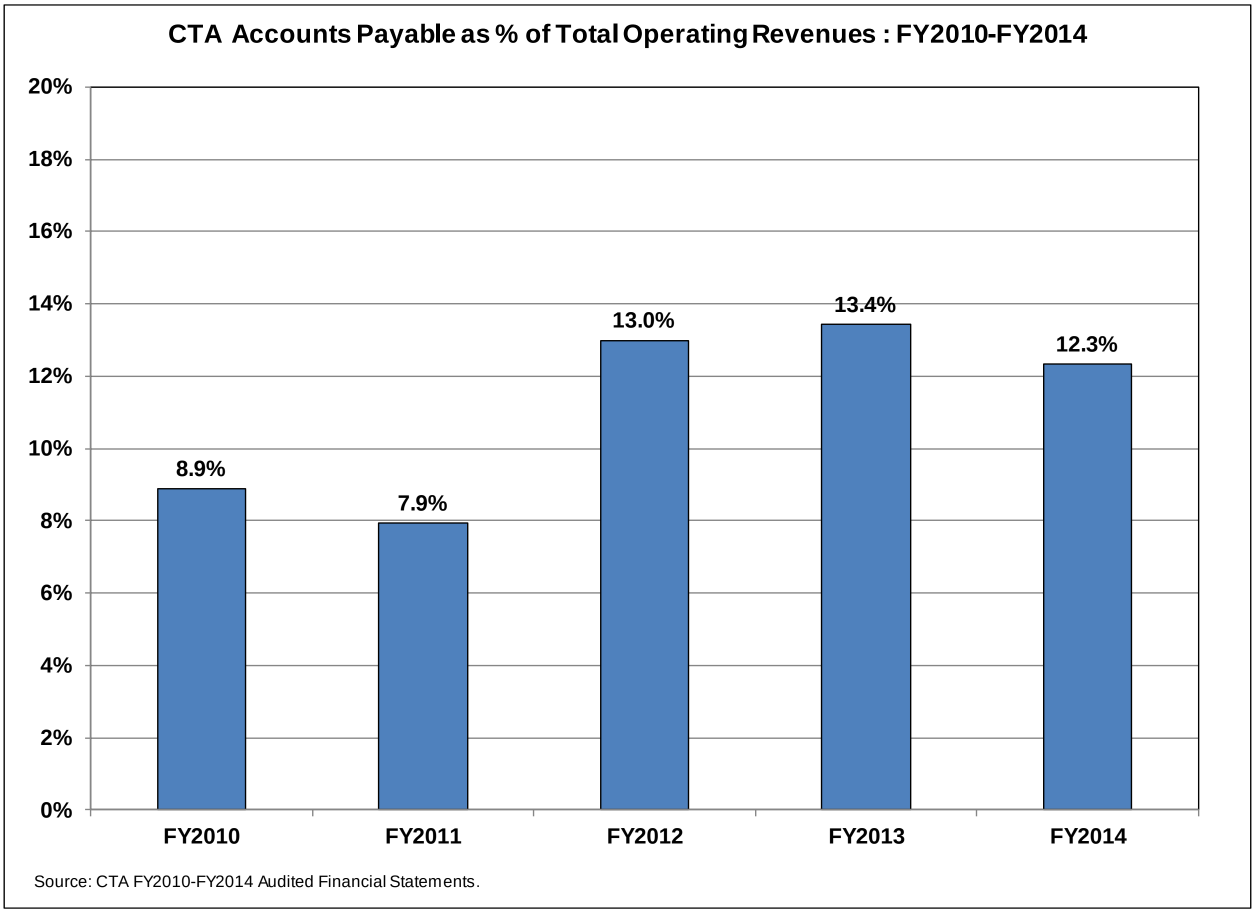
The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. Increases in this ratio may be a warning sign of a government's future financial difficulties.[93] Between FY2010 and FY2014, short-term liabilities averaged 22.9%, rising from 20.7% in FY2010 to 25.4% in FY2014. The ratio remained stable between FY2012 and FY2014, rising slightly from 24.9% to 25.4%.



[93] 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), pp. 77 and p. 169.

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 8.9% to 13.4% between FY2010 and FY2013 before falling to 12.3% in FY2014. The increase between FY2011 to FY2012 was due primarily to a two-year $53.5 million increase in accounts payable and accrued expenses liabilities. The accounts payable ratio averaged 11.1% over the five year period reviewed.



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.[94]
In addition to the short-term liabilities listed above, the current ratio formula uses the current assets of a government, including:

[94] 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 the annual injury and damage obligations as required by Section 39 of the Metropolitan Transportation Authority Act;[95]
- *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;
- *Materials and Supplies*: Materials and supplies are current assets that are stated at the lower of average cost or market value and consist principally of maintenance supplies and repair parts;[96] and
- *Prepaid Expenses*: 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;[97] and
- *Derivative Instrument:* Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.[98]

The CTA's current ratio was 2.1 in FY2014, the most recent year for which data are available. In the past five years, the Authority's current ratio averaged 2.4, which is above the benchmark of 2.0. From FY2010 to FY2014, the current ratio fell from 2.6 to 2.1.

CTA Current Ratio for Business-Type Activities: FY2010-FY2014
(in $ thousands)

	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Asset									
Cash and cash equivalents	$ 111,579	$ 119,467	$ 124,090	$ 95,621	$ 16,505	$ (79,116)	-82.7%	$ (95,074)	-85.2%
Cash and cash equivalents reserved for damage reserve	$ 102,361	$ 107,920	$ 121,395	$ 114,622	$ 105,994	$ (8,628)	-7.5%	$ 3,633	3.5%
Investments	$ 26,999	$ 3,020	$ 1,000	$ 20	$ 86,032	$ 86,012	430060.0%	$ 59,033	218.6%
Grants receivable due from the RTA	$ 196,141	$ 228,966	$ 246,638	$ 276,970	$ 273,431	$ (3,539)	-1.3%	$ 77,290	39.4%
Grants receivable: Capital Projects from federal & state sources	$ 39	$ 5,098	$ 33	$ 33	$ -	$ (33)	-100.0%	$ (39)	-100.0%
Grants receivable: unbilled work in progress	$ 63,991	$ 64,107	$ 92,536	$ 88,703	$ 109,401	$ 20,698	23.3%	$ 45,410	71.0%
Grants receivable: Other	$ 1,928	$ 1,131	$ 809	$ 70	$ -	$ (70)	-100.0%	$ (1,928)	-100.0%
Accounts receivable, net	$ 23,773	$ 26,881	$ 40,772	$ 48,881	$ 42,834	$ (6,047)	-12.4%	$ 19,061	80.2%
Materials and supplies, net	$ 63,522	$ 58,501	$ 46,056	$ 44,387	$ 33,975	$ (10,412)	-23.5%	$ (29,547)	-46.5%
Prepaid expenses and other assets	$ 5,883	$ 5,502	$ 5,399	$ 7,080	$ 5,245	$ (1,835)	-25.9%	$ (638)	-10.8%
Derivative instrument	$ 2,158	$ -	$ 172	$ 1,023	$ -	$ (1,023)	--	$ (2,158)	-
Total Current Assets	**$ 598,374**	**$ 620,593**	**$ 678,900**	**$ 677,410**	**$ 673,417**	**$ (3,993)**	**-0.6%**	**$ 75,043**	**12.5%**
Current Liability									
Accounts Payable & Accrued Expenses	$ 98,463	$ 90,746	$ 144,256	$ 168,274	$ 154,563	$ (13,711)	-13.9%	$ 56,100	57.0%
Accrued Payroll	$ 101,964	$ 98,489	$ 102,081	$ 107,051	$ 122,383	$ 15,332	15.0%	$ 20,419	20.0%
Accrued Interest Payable	$ 19,460	$ 21,451	$ 21,107	$ 20,370	$ 22,335	$ 1,965	10.1%	$ 2,875	14.8%
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Advances from RTA	$ -	$ -	$ -	$ -	$ -	$ -	---	$ -	---
Total Current Liabilities	**$ 229,398**	**$ 220,078**	**$ 275,884**	**$ 306,692**	**$ 317,454**	**$ 10,762**	**3.5%**	**$ 88,056**	**38.4%**
Current Ratio	**2.6**	**2.8**	**2.5**	**2.2**	**2.1**				

Source: CTA FY2010-FY2014 Audited Financial Statements.

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.

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95 CTA FY2013-FY2014 Audited Financial Statements, p. 23.
96 CTA FY2013-FY2014 Audited Financial Statements, p. 23.
97 Investopedia.com at http://www.investopedia.com/terms/p/prepaidexpense.asp#ixzz1bEsrAQ9P (last accessed November 10, 2015).
98 CTA FY2013-FY2014 Audited Financial Statements, p. 69.

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 (as of 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 (as of 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 FY2010 and FY2014 total CTA long-term liabilities decreased by 6.9%, or nearly $380.4 million, falling from nearly $5.6 billion to about $5.2 billion. In the two-year period between FY2013 and FY2014 they decreased by 11.7%, or $684.7 million. Much of this decrease is due to $1.2 billion in reduced capital lease obligations between FY2013 and FY2014; these reductions are associated with acceleration of the purchase option date for certain capital lease agreements.[99]

Most long-term liabilities are bonds payable and capital lease obligations. In FY2014 these two categories combined accounted for 90.2%, or $4.7 billion, of all long-term liabilities. During the five years reviewed, these categories averaged 92.3% of all long-term obligations.

[99] This means that the CTA retired the lease debt at an early date. CTA FY2013-FY2014 Audited Financial Statements, p. 7.

In 2008 the CTA issued $1.9 billion in pension obligation and retiree health care revenue bonds to increase funding in the CTA's pension fund and create a retiree health trust.[100] Since January 1, 2009 all retiree benefits are now paid from the Retiree Health Care Trust established by Public Act 95-708, not the CTA.[101] The liabilities shown below for the net OPEB obligation represent debt service on the retiree health care bonds.

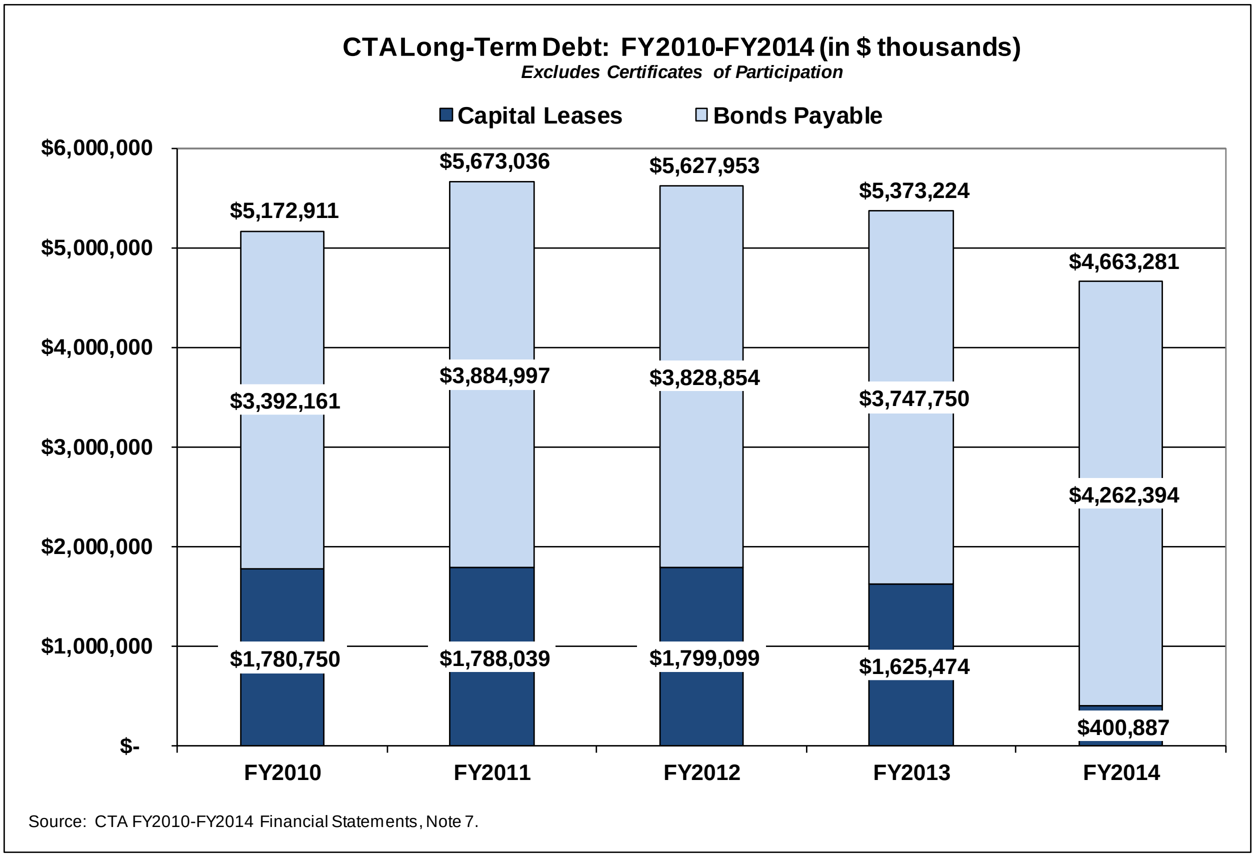
CTA Long-Term Liabilities by Category: FY2010-FY2014 (in $ thousands)									
	FY2010	FY2011	FY2012	FY2013	FY2014	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Self insurance claims	$ 222,227	$ 253,001	$ 257,071	$ 262,138	$ 280,254	$ 18,116	6.9%	$ 58,027	26.1%
Capital lease obligations	$ 1,780,750	$ 1,788,039	$ 1,799,099	$ 1,625,474	$ 400,887	$ (1,224,587)	-75.3%	$ (1,379,863)	-77.5%
Bonds payable	$ 3,392,161	$ 3,884,997	$ 3,828,854	$ 3,747,750	$ 4,262,394	$ 514,644	13.7%	$ 870,233	25.7%
Certificates of Participation	$ 66,887	$ 61,514	$ 55,886	$ 49,907	$ 43,486	$ (6,421)	-12.9%	$ (23,401)	-
Net Pension Obligation	$ 16,269	$ 15,757	$ 38,277	$ 59,455	$ 84,130	$ 24,675	41.5%	$ 67,861	417.1%
Net OPEB Obligation	$ 2,874	$ 3,687	$ 3,934	$ 4,120	$ 4,213	$ 93	2.3%	$ 1,339	46.6%
Other Long-term liabilities	$ 68,859	$ 65,180	$ 61,210	$ 105,495	$ 94,250	$ (11,245)	-10.7%	$ 25,391	36.9%
Total	**$ 5,550,027**	**$ 6,072,175**	**$ 6,044,331**	**$ 5,854,339**	**$ 5,169,614**	**$ (684,725)**	**-11.7%**	**$ (380,413)**	**-6.9%**

Source: CTA FY2010-FY2014 Audited Financial Statements, Note 7: Long-Term Obligations.

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 FY2010 and FY2014. It excludes the relatively small amount spent on certificates of participation. The CTA's long-term debt decreased by 9.9%, or $509.6 million, between FY2010 and FY2014. This is a decrease from roughly $5.2 billion to $4.7 billion. In the two-year period between FY2013 and FY2014, long-term debt fell by $709.9 million, or 13.2%. Much of that decrease is due to $1.2 billion in reduced capital lease obligations associated with acceleration of the purchase option date for certain capital lease agreements.[102]

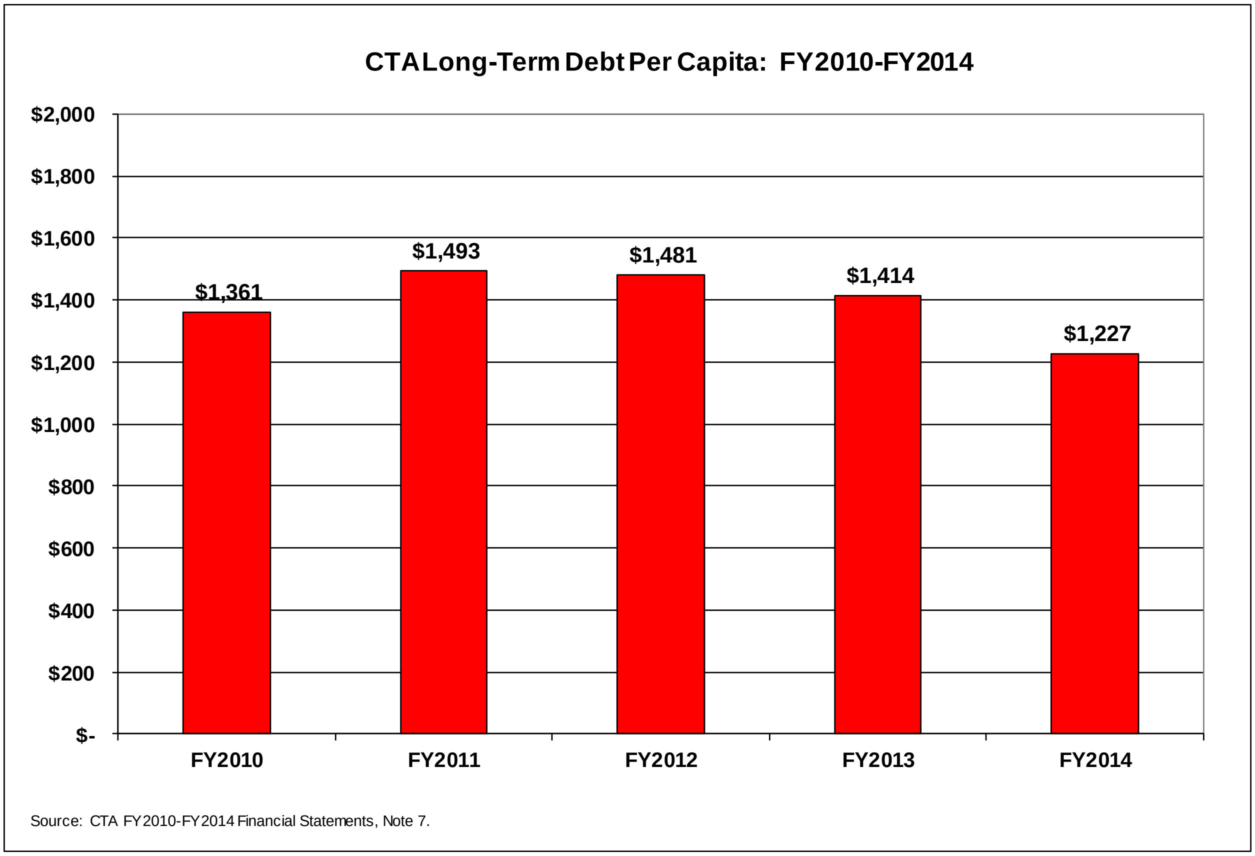
[100] CTA FY2013-FY2014 Audited Financial Statements, p. 46.
[101] CTA FY2013-FY2014 Audited Financial Statements, p. 46.
[102] This means that the CTA retired the lease debt at an early date. CTA FY2013-FY2014 Audited Financial Statements, p. 7.



Long-Term Debt Per Capita

A common ratio used by ratings 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[103] and divides it by the population served by the CTA. At the 2010 census, this population was 3.7 million. In succeeding years, the service population increased slightly to 3.8 million. In FY2010 long-term debt per capita was $1,361. By FY2014, long-term debt per capita had decreased to $1,227, a 9.9% decrease. Long-term debt per capita fell by 13.2% between FY2013 and FY2014. Much of that decrease is due to $1.2 billion in reduced capital lease obligations associated with acceleration of the purchase option date for certain capital lease agreements.[104] This is a positive trend.

[103] This excludes certificates of participation, as noted previously.
[104] This means that the CTA retired the lease debt at an early date. CTA FY2013-FY2014 Audited Financial Statements, p. 7.



Debt Service Ratio

Pension obligation debt service, retiree health care 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.[105] Between FY2012 and FY2016, pension obligation bond debt service as a percentage of operating appropriations is expected to average 11.1%, which is below the range of 15% to 20% considered high by the ratings agencies.[106]

CTA Debt Service as a Percentage of Appropriations: FY2012-FY2016

	Debt Service	Total Appropriation	Ratio
FY2012	$ 141,386,832	$ 1,262,905,000	11.2%
FY2013	$ 156,574,008	$ 1,358,831,000	11.5%
FY2014	$ 156,577,659	$ 1,401,247,000	11.2%
FY2015	$ 156,574,139	$ 1,443,703,000	10.8%
FY2016	$ 156,573,519	$ 1,475,207,000	10.6%

Source: CTA President's FY2016 Budget Recommendations, p. 128.

[105] Information provided by CTA Budget Office, November 4, 2011.
[106] Standard & Poor's, *Public Finance Criteria 2007*, p. 64. See also Moody's Investors Services, *General Obligation Bonds Issued by U.S. Local Governments*, October 2009, p. 18.

Current CTA Bond Ratings

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

CTA Credit Ratings				
	Sales/Transfer Tax Receipt Revenue Bonds	**TIFIA (US DOT) Loan**	**Building Revenue Bonds (PBC Debt)**	**Capital Grant Receipts Revenue Bonds**
Moody's	A1	Not Rated	A2	A3
S&P	AA	A+	A+	A
Kroll	AA	AA-	Not rated	Not rated
Fitch	Not rated	Not rated	Not rated	BBB

Sources: CTA President's FY2016 Budget Recommendations, p. 118.

CTA CAPITAL PLAN FY2016-FY2020

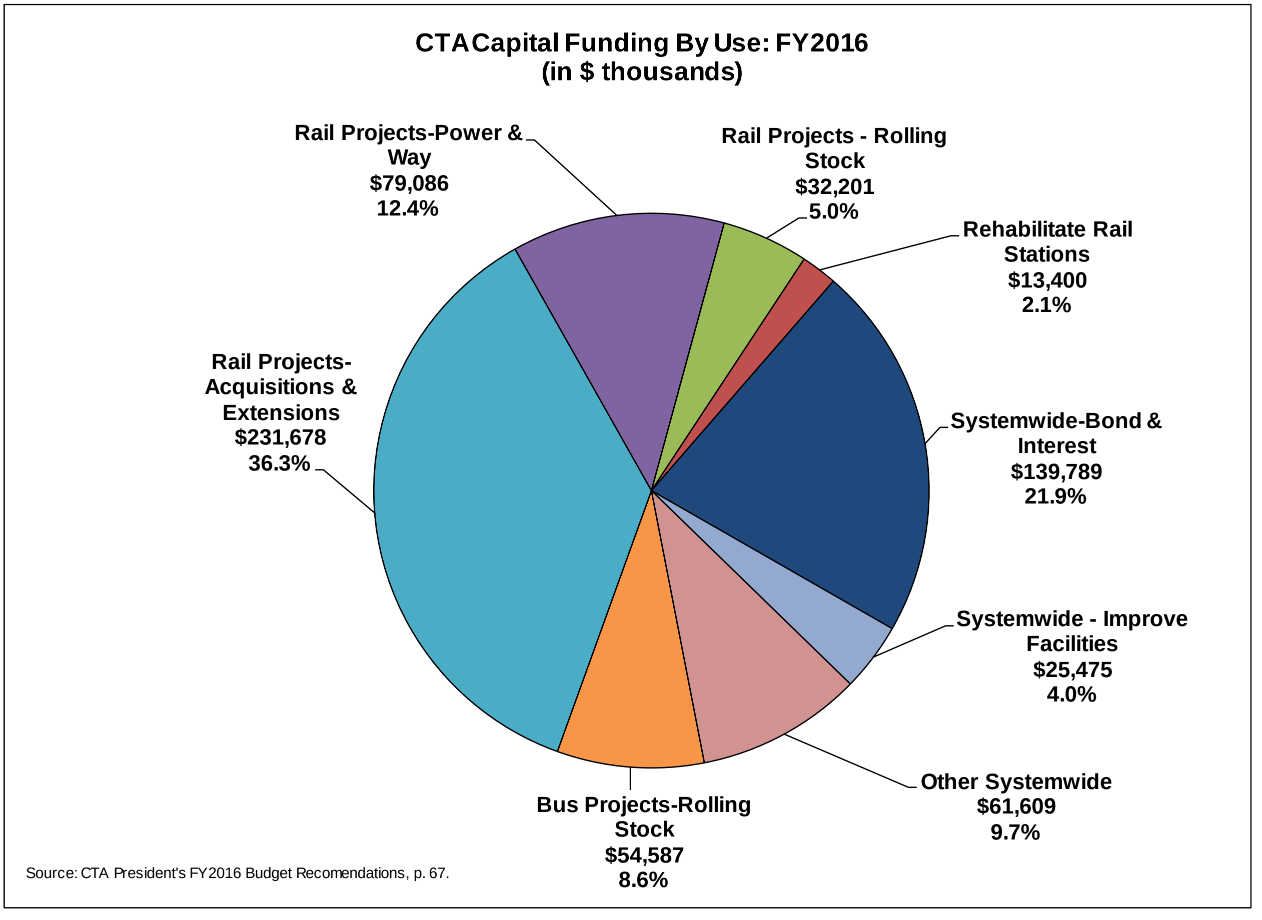
The CTA five-year capital plan proposes a total of $2.3 billion in funding. Federal funds will account for 67.2% of all funding. At this time there is no state funding available. The remaining 32.8% of all capital funding, or just over $760.7 million, will be funded from the RTA bond program, RTA Innovation, Coordination and Enhancement ICE) Fund of the RTA, CTA funds and the CTA bond program.

CTA Capital Funding by Source: FY2016-FY2020 (in $ millions)							
Source	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**$ Total**	**% of Total**
New Funding Available							
Federal Funding	$ 274,113	$ 278,069	$ 286,321	$ 319,821	$ 403,575	$ 1,561,899	67.2%
State Funding	$ -	$ -	$ -	$ -	$ -	$ -	0.0%
RTA Bond	$ -	$ 71,500.00	$ -	$ -	$ 79,000	$ 150,500	6.5%
RTA ICE	$ 4,837	$ 6,052	$ 6,270	$ -	$ -	$ 17,159	0.7%
CTA Funds	$ 1,875	$ 1,875	$ 1,875	$ 15,000	$ -	$ 20,625	0.9%
CTA Bond Program	$ 145,000	$ -	$ -	$ -	$ -	$ 145,000	6.2%
CTA Bond for RPM	$ 212,000	$ -	$ 215,405	$ -	$ -	$ 427,405	18.4%
Total	**$ 637,825**	**$ 357,496**	**$ 509,871**	**$ 334,821**	**$ 482,575**	**$ 2,322,588**	**100.0%**

Source: CTA President's FY2016 Budget Recommendations p. 89.

CTA capital funding by use in FY2016 is shown in the next exhibit.

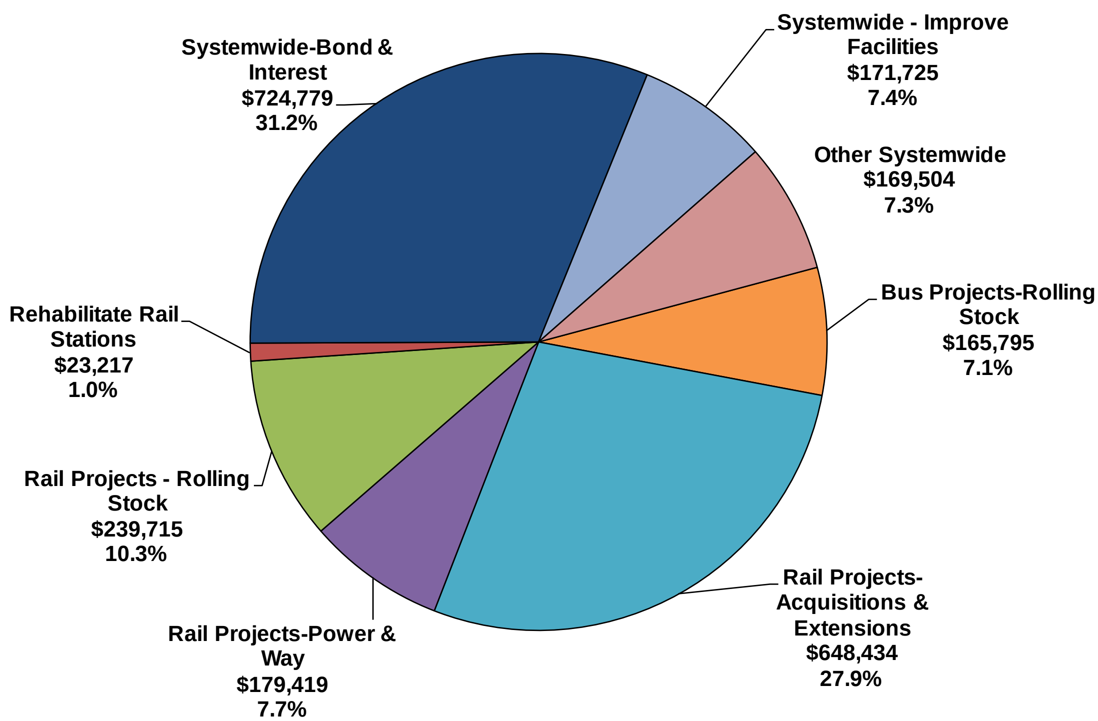
- Rail acquisition and extension projects will use $231.7 million, or 36.3%, of all spending.
- Bond financing costs will total $139.8 million, or 21.9%, of the total.
- Rail rolling stock[107] projects will spend $32.2 million, or 5.0%, of FY2016 funding while bus rolling stock projects will use $54.6 million, or 8.6%.
- Approximately $13.4 million will be spent rehabilitating rail stations.
- Other funding uses include $25.5 million for systemwide facilities improvements, $79.1 million for rail power and way projects and $61.6 million for a wide variety of other systemwide projects.



[107] Rolling stock refers to equipment used for transportation, including buses and trains.

A five-year breakdown of CTA capital funding is shown next. System-wide bond financing costs will be the biggest use of funds, at $724.8 million, or 31.2%, of the total. This will be followed by rail project acquisitions and extensions at $648.4 million, or 27.9%, of the total. Rolling stock for rail projects will use $239.7 million, while bus rolling stock projects will use $165.8 million.

CTA Capital Funding By Use: FY2016-FY2020
(in $ thousands)



Source: CTA President's FY2016 Budget Recomendations, p. 67.

CTA Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[108]

- A comprehensive inventory of all government-owned assets, with description of useful life and current condition;
- A narrative description of the CIP process including how criteria for projects were determined and whether materials and meetings were made available to the public;
- A five-year summary list of all projects and expenditures by project that includes funding sources for each project;

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[108] National Advisory Council on State and Local Budgeting Recommended Practice 9.10: Develop a Capital Improvement Plan, p. 34; Government Finance Officers Association, Best Practices, Development of Capital Planning Policies, October 2011.

- Criteria for projects to earn funding in the capital budget including a description of an objective and needs-based prioritization process;
- Publicly available list of project rankings based on the criteria and prioritization process;
- Information about the impact of capital spending on the annual operating budget for each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

Once the CIP process is completed, the plan should be formally adopted by the governing body and integrated into its long-term financial plan. There should be opportunities for public input into the process. A well-organized and annually updated CIP helps ensure efficient and predictable execution of capital projects and helps efficiently allocate scarce resources. It is important that a capital budget prioritize and fund the most critical infrastructure needs before funding new facilities or initiatives.

The checklist that follows assesses how well the CTA's CIP conforms to best practice guidelines. It is important to note that the CTA develops its CIP in accordance with guidelines established by the Regional Transportation Authority (RTA). The annual RTA budget includes five-year capital program information for CTA, Metra and Pace, the three service boards it oversees. The information RTA provides includes:

- Five-year summaries of capital program expense by category for the CTA, Metra and Pace;
- A discussion of capital impact on operations;
- A discussion of the amount of capital funds available for the RTA's ten-year plan; and
- A discussion of capital impact on maintenance operations.

The CTA CIP, as published in its annual budget, conforms to most best practice guidelines. However it does not provide a description of the CIP process, whether stakeholder input is included in CIP development and/or if there is a formal CIP public hearing prior to adoption.

Chicago Transit Authority Capital Improvement Program Checklist	
Does the government prepare a formal capital improvement plan?	Yes
How often is the CIP updated?	Annually
Does the capital improvement plan include:	
• *A narrative description of the CIP process?*	No
• *A five-year summary list of projects and expenditures by project that includes funding sources for each project?*	Yes
• *Information about the impact and amount of capital spending on the annual operating budget for each project?*	Yes
• *Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project?*	Yes
• *The time frame for fulfilling capital projects?*	Information provided for five-year periods
Are projects ranked and/or selected according to a formal prioritization or needs assessment process?	Not in the CIP
Is the capital improvement plan made publicly available for review by elected officials and citizens?	
• *Is the CIP published in the budget or a separate document?*	It is published in the budget document
• *Is the CIP available on the Web?*	Yes, in the budget document
Are there opportunities for stakeholders to provide input into the CIP?	
• *Is there stakeholder participation on a CIP advisory or priority setting committee?*	No information in CIP
• *Does the governing body hold a formal public hearing at which stakeholders may testify?*	No information in CIP
• *Is the public permitted at least ten working days to review the CIP prior to a public hearing?*	No information in CIP
Is the CIP formally approved by the governing body of the government?	It is approved with the budget
Is the CIP integrated into a long term financial plan?	Unclear

APPENDIX A

CTA Operating Budget by Object of Expenditure: FY2015 Adopted, FY2015 Forecast & FY2016 Proposed (in $ thousands)							
Object	**FY2015 Adopted**	**FY2015 Forecast**	**FY2016 Proposed**	**Forecast to Proposed $ Change**	**Forecast to Proposed % Change**	**Adopted to Proposed $ Change**	**Adopted to Proposed % Change**
Labor	$ 1,005,919	$ 1,000,896	$ 1,025,634	$ 24,738	2.5%	$ 19,715	2.0%
Material	$ 73,331	$ 83,025	$ 82,534	$ (491)	-0.6%	$ 9,203	12.5%
Fuel	$ 55,396	$ 49,222	$ 37,259	$ (11,963)	-24.3%	$ (18,137)	-32.7%
Power	$ 29,736	$ 28,210	$ 31,458	$ 3,248	11.5%	$ 1,722	5.8%
Provision for Injuries & Damages	$ 3,500	$ -	$ 9,500	$ 9,500	-	$ 6,000	171.4%
Security	$ 14,427	$ 14,350	$ 14,698	$ 348	2.4%	$ 271	1.9%
Pension Obligation Bonds	$ 119,166	$ 115,821	$ 118,043	$ 2,222	1.9%	$ (1,123)	-0.9%
Contractual Services	$ 104,339	$ 105,201	$ 102,012	$ (3,189)	-3.0%	$ (2,327)	-2.2%
Utilities	$ 24,178	$ 23,836	$ 24,058	$ 222	0.9%	$ (120)	-0.5%
Advertising/Promotion	$ 1,142	$ 677	$ 1,198	$ 521	77.0%	$ 56	4.9%
Travel & Meetings	$ 1,129	$ 734	$ 1,332	$ 598	81.5%	$ 203	18.0%
Leases & Rentals	$ 2,630	$ 2,392	$ 2,896	$ 504	21.1%	$ 266	10.1%
General Expenses	$ 8,808	$ 3,407	$ 10,286	$ 6,879	201.9%	$ 1,478	16.8%
Debt Service	$ -	$ -	$ 14,298	$ 14,298	-	$ 14,298	-
Total	**$ 1,443,701**	**$ 1,427,771**	**$ 1,475,206**	**$ 47,435**	**3.3%**	**$ 31,505**	**2.2%**

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

Source: CTA FY2016 President's Budget Recommendations, p. 48; and Information provided by CTA, October 28, 2015.

APPENDIX B

CTA Operating Budget Revenue: FY2015 Adopted, FY2015 Forecast & FY2016 Proposed (in $ millions)							
Source	**FY2015 Adopted**	**FY2015 Forecast**	**FY2016 Proposed**	**Forecast to Proposed $ Change**	**Forecast to Proposed % Change**	**Adopted to Proposed $ Change**	**Adopted to Proposed % Change**
System-Generated Revenue							
Fares and Passes	$ 589.2	$ 587.2	$ 590.5	$ 3.4	0.6%	$ 1.3	0.2%
Reduced Fare Reimbursement	$ 28.3	$ 14.2	$ 28.3	$ 14.2	100.0%	$ 0.0	0.1%
Advertising, Charter & Concessions	$ 30.0	$ 30.1	$ 32.0	$ 1.9	6.2%	$ 2.0	6.7%
Investment Income	$ 0.7	$ 1.3	$ 0.9	$ (0.4)	-33.3%	$ 0.2	29.5%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%
Other Revenue	$ 34.3	$ 32.9	$ 27.9	$ (4.9)	-15.0%	$ (6.4)	-18.5%
Total System-Generated Revenue	**$ 687.5**	**$ 670.7**	**$ 684.7**	**$ 14.0**	**2.1%**	**$ (2.8)**	**-0.4%**
Public Funding through RTA	**$ 756.2**	**$ 757.1**	**$ 790.5**	**$ 33.4**	**4.4%**	**$ 34.3**	**4.5%**
Total	**$ 1,443.7**	**$ 1,427.8**	**$ 1,475.2**	**$ 47.4**	**3.3%**	**$ 31.5**	**2.2%**

Source: CTA President's FY2016 Budget Recommendations, p. 48.