The Civic Federation

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CHICAGO TRANSIT AUTHORITY PRESIDENT'S FY2018 BUDGET RECOMMENDATIONS

Analysis and Recommendations

December 12, 2017

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

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EXECUTIVE SUMMARY

The Civic Federation **opposes** the Chicago Transit Authority's FY2018 proposed operating budget of $1.51 billion because it relies on the RTA's overly optimistic projections of State funding and $17.5 million in short-term borrowing for operations to close the previous year's budgetary shortfall. The CTA has not released a plan as to how it will make additional cuts in FY2018 to pay back the borrowing and then shore up the budget when an anticipated $14 million in State funding does not materialize as it has not for the last four years. A more sustainable path would be to generate additional revenue by implementing increased fares during high demand periods in concert with the proposed increase to base fares in order to structurally balance the budget without jeopardizing service levels.

The CTA faces multiple grave financial challenges and must update its business model in order to remain viable over the long-term. These financial challenges include:

- Cuts in State funding for public transit;
- The State's failure to provide new capital funding for transit;
- Increased competition from alternative transit options such as Uber and Divvy;
- Unrealistic guidance from the RTA on the CTA's revenue assumptions in the face of the State's unbalanced budget and multi-billion dollar bill backlog; and
- The severe financial, operational and capital funding challenges that all Chicago-area transit agencies are facing but that have not been adequately addressed by the RTA. The RTA, which has access to additional statutorily authorized funding sources, has not used this authority even though the State has continued to reduce its levels of funding.

In each fiscal year since FY2015 the RTA has guided the CTA down a risky financial path by providing overly optimistic revenue marks that ignored the State's continued fiscal deterioration. The Civic Federation considers the CTA's FY2018 budget to be unbalanced because it does not provide a publicly available plan as to how it will pay back the $17.5 million in short-term borrowing and deal with the likely scenario that the State will not restore the reduced fare subsidy. Short-term borrowing to close prior-year budget shortfalls is unsustainable, as has been amply demonstrated by the Chicago Public Schools.

Instead the CTA should develop a publicly available plan that would **balance its budget without cutting service**. One option would be to generate additional fare revenue by using a tool popularized by its newest competitors in the ride-share industry: surge pricing. The CTA could charge commuters a reasonable increased price of as much as 50 cents for the convenience of traveling during high demand periods. The Civic Federation suggests that rail and express bus service would be the ideal candidates for surge pricing as they are often overcrowded and their customers are more likely to pay for convenience.

There are many positives in this budget, including spending reductions of approximately $9.7 million, or 0.6%, below last year's budget due primarily to eliminating 45 non-union positions and a freeze in hiring for an additional 70 union and non-union positions.[1] The CTA's proposed FY2018 budget also recognizes the need for a modest increase in base bus and rail fares — after almost nearly a decade of no increases — which is expected to generate $23 million in additional revenue. The Civic Federation supports these actions to help close the budgetary shortfall. This budget also includes a new and innovative local funding source for capital projects through an intergovernmental agreement with the City of Chicago from an increase in the City's ground transportation tax on ridesharing companies.

[1] CTA President's FY2018 Budget Recommendations, p. 2; and Information provided by CTA budget staff, November 21, 2017.

The Civic Federation recognizes that CTA's difficult financial condition is due in large part to funding cuts made by the State of Illinois. The CTA has only received approximately half of the reduced-fare subsidy of $28.3 million from the State each year since FY2015. However, the proposed FY2018 budget continues to rely on the full reduced-fare subsidy even though the State's FY2018 budget cut the Public Transportation Fund (PTF) funding by 10% and imposed a 2% permanent surcharge on RTA sales tax receipts in addition to continuing the reduced level of subsidy for reduced fares. Also, the State has not passed a comprehensive state capital funding bill since 2009, which would typically provide approximately $200 million annually in much-needed capital dollars.[2]

The CTA has made great strides to improve the transit experience by modernizing its fleet of bus and rail cars and improving service levels, accessibility and security in order to compete for ridership with the growing use of alternative transit options. But it has had to rely exclusively on local sources for funding. The recent creation of the new transit TIF district in the City of Chicago and access to a portion of the City's ground transportation tax on ride-sharing vehicles for capital improvement projects are innovative responses to the State's abdication of its responsibility to transit agencies in Illinois. The CTA estimates that it needs approximately $950 million annually to keep its capital stock in good repair but its five-year capital plan only provides for an average of $540 million in funding annually, which is a substantial funding gap that continues to grow and **cannot** be funded only through local sources.[3]

In order for the CTA, Metra and Pace to continue to function as key economic assets to the region, the Civic Federation believes the State and RTA must exercise their responsibility to provide essential operating and capital support. The State must develop a capital improvement plan that adequately funds transit needs across Illinois. The Federation additionally suggests that the Chicago region might be better served by a truly integrated regional transit agency that serves both the suburbs and city by promoting coordination rather than competition, encouraging reasonable planning and recognizing State budget reality.

The Civic Federation offers the following **key findings** from the FY2018 Recommended Budget:
- The CTA's proposed FY2018 operating budget will total $1.51 billion, a 0.6%, or $9.7 million, decrease from the FY2017 adopted budget of $1.52 billion;
- Labor expenses will be $1.046 billion, which is a decrease of 0.4%, or $4.4 million, from $1.05 billion in FY2017;
- System-generated revenue in FY2018 is expected to be $707.6 million, which is an increase of $21.2 million, or 3.1%, compared to the FY2017 adopted budget levels. The increase is due to a proposed fare increase, additional advertising revenue and a new Ground Transportation Tax imposed by the City of Chicago on ride-sharing;
- Public funding through the Regional Transportation Authority is projected to be $806.9 million, which is a decrease of $31.0 million, or 3.7%, from the FY2017 adopted budget;
- The CTA expects ridership to decrease from the FY2017 forecast by 18.0 million rides, or 3.7%, and a decline of 34.2 million rides, or 6.9% from the FY2017 adopted budget to a total of 462.1 million rides in FY2018. Over a ten year period, ridership is expected to decline by 11.3%, or 59.1 million rides, from 521.2 million rides in FY2009 to 462.1 million rides projected in FY2018;
- The unfunded actuarial accrued liability of the CTA Pension Fund increased by $62.3 million from $1.52 billion in FY2015 to $1.59 billion in FY2016. The pension fund's funded ratio fell to 52.5% in FY2016 due to investment returns below expectations, increased liabilities and demographic losses; and

[2] CTA President's FY2018 Budget Recommendations, p. 30.
[3] CTA President's FY2018 Budget Recommendations, p. 84.

- Over the five-year period from FY2012 to FY2016, the CTA's long-term debt decreased by 23.7% from $5.6 billion to $4.3 billion.

The Civic Federation has the following **concerns** about the CTA's FY2018 recommended budget and future financial stability:

- Borrowing to close the FY2017 end of year budget deficit. This is a sign of budgetary stress and could result in increased short-term borrowing in FY2018;
- The CTA is facing a structural imbalance and the fare increase is insufficient to close the budget gap should State funding projections not materialize;
- Overly optimistic State funding projections at a time when the State's FY2018 budget passed in July 2017 is not balanced and its current backlog of unpaid bills is hovering around $9 billion and is being repaid through the issuance of long-term debt;
- The RTA's overly optimistic revenue projections have led the CTA down a path of financial instability. The RTA has also failed to implement statutorily authorized revenue sources that could have alleviated the operational and capital challenges the transit agencies in the Chicago region are currently facing;
- Ridership continues to decline and a clearly laid out strategy on how the CTA will curb the decline in ridership is not publicly available;
- Uncertain outcome of ongoing labor negotiations after negotiations stalled and both parties agreed to arbitration;
- While the CTA has made improvements to its budget book in recent years, the FY2018 budget book does not include sufficient details on operating expenses or deficit-reduction measures implemented mid-year to account for the reduction in State of Illinois funding;
- Issuing bonds with heavily back-loaded principal amounts causing increased interest costs and future budgetary stress; 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, contributions and the funding schedule.

The Civic Federation **supports** the following elements of the CTA's FY2018 recommended budget:

- Implementing savings and increasing non-farebox revenues;
- Working with the City of Chicago to access additional capital funding through the increased tax on ride-sharing companies; and
- Increasing fares for the first time in nearly a decade while committing to no reductions in service levels.

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

- Implement a peak-hour-based increased fare for rail and express bus service; and
- The State should adopt a new state transportation funding program;
- The State should re-evaluate the state imposed permanent sales tax collection surcharge of 2%;
- Improve the budget document by providing more detail about full-time equivalent positions by department and other labor related expenses;
- Refrain from excessively back-loaded repayment schedules 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, contributions and funding schedule for the CTA Pension Fund; and
- Explore the consolidation of transit agencies in Northeastern Illinois with the goal of reducing administrative costs and improving transit in the region.

CIVIC FEDERATION POSITION

The Civic Federation **opposes** the Chicago Transit Authority's FY2018 proposed operating budget of $1.51 billion because it relies on the RTA's overly optimistic projections of State funding and $17.5 million in short-term borrowing for operations to close the previous year's budgetary shortfall. The CTA has not released a plan as to how it will make additional cuts in FY2018 to pay back the borrowing and then shore up the budget when an anticipated $14 million in State funding does not materialize as it has not for the last four years. A more sustainable path would be to generate additional revenue by implementing increased fares during high demand periods in concert with the proposed increase to base fares in order to structurally balance the budget without jeopardizing service levels.

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In each fiscal year since FY2015 the RTA has guided the CTA down a risky financial path by providing overly optimistic revenue marks that ignored the State's continued fiscal deterioration. The Civic Federation considers the CTA's FY2018 budget to be unbalanced because it does not provide a publicly available plan as to how it will pay back the $17.5 million in short-term borrowing and deal with the likely scenario that the State will not restore the reduced fare subsidy. Short-term borrowing to close prior-year budget shortfalls is unsustainable, as has been amply demonstrated by the Chicago Public Schools.

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[4] CTA President's FY2018 Budget Recommendations, p. 2; and Information provided by CTA budget staff, November 21, 2017.

almost nearly a decade of no increases — which is expected to generate $23 million in additional revenue. The Civic Federation supports these actions to help close the budgetary shortfall. This budget also includes a new and innovative local funding source for capital projects through an intergovernmental agreement with the City of Chicago from an increase in the City's ground transportation tax on ridesharing companies.

The Civic Federation recognizes that CTA's difficult financial condition is due in large part to funding cuts made by the State of Illinois. The CTA has only received approximately half of the reduced-fare subsidy of $28.3 million from the State each year since FY2015. However, the proposed FY2018 budget continues to rely on the full reduced-fare subsidy even though the State's FY2018 budget cut the Public Transportation Fund (PTF) funding by 10% and imposed a 2% permanent surcharge on RTA sales tax receipts in addition to continuing the reduced level of subsidy for reduced fares. Also, the State has not passed a comprehensive state capital funding bill since 2009, which would typically provide approximately $200 million annually in much-needed capital dollars.[5]

The CTA has made great strides to improve the transit experience by modernizing its fleet of bus and rail cars and improving service levels, accessibility and security in order to compete for ridership with the growing use of alternative transit options. But it has had to rely exclusively on local sources for funding. The recent creation of the new transit TIF district in the City of Chicago and access to a portion of the City's ground transportation tax on ride-sharing vehicles for capital improvement projects are innovative responses to the State's abdication of its responsibility to transit agencies in Illinois. The CTA estimates that it needs approximately $950 million annually to keep its capital stock in good repair but its five-year capital plan only provides for an average of $540 million in funding annually, which is a substantial funding gap that continues to grow and **cannot** be funded only through local sources.[6]

In order for the CTA, Metra and Pace to continue to function as key economic assets to the region, the Civic Federation believes the State and RTA must exercise their responsibility to provide essential operating and capital support. The State must develop a capital improvement plan for the State that adequately funds transit needs across Illinois. The Federation additionally suggests that the Chicago region might be better served by a truly integrated regional transit agency that serves both the suburbs and city by promoting coordination rather than competition, encouraging reasonable planning and recognizing State budget reality.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the CTA President's FY2018 Budget Recommendations.

[5] CTA President's FY2018 Budget Recommendations, p. 30.
[6] CTA President's FY2018 Budget Recommendations, p. 84.

Borrowing to Close FY2017 End of Year Budget Gap

In FY2017 the greater-than-expected decline in ridership coupled with the decline in State funding and the continued low level of reduced-fare reimbursement has resulted in the CTA needing to use $17.5 million in short-term borrowing in order to close its end of year deficit.

The Civic Federation is very concerned because the short-term borrowing in FY2017 is a sign of budgetary stress. The CTA has only said it will pay back the borrowing with unspecified further efficiencies and future revenue growth, despite declines in sales tax receipts and continued reductions in State funding. Should the State of Illinois continue to fund reduced fare reimbursements at the same level as the last four budget years instead of restoring it as the CTA and RTA anticipate, the CTA will need to find even more cuts or it could be forced to use expensive short-term borrowing again at the end of FY2018.

Structural Imbalance and Insufficient Fare Increase

The CTA's FY2018 budget has a structural deficit which even the 25 cent fare increase likely will not close. A structurally balanced budget is one in which recurring revenues meet recurring expenditures. The CTA budget is technically balanced only because it makes an unreasonable assumption about State funding. The CTA is again budgeting in FY2018 for the full $28.3 million reimbursement from the State based on information provided by the RTA. However, the funding is not included in the State budget passed in July 2017.

The CTA is not likely to receive $28.3 million in reimbursements from the State of Illinois for free and reduced fare subsidies in FY2018. Based on the State's actions in FY2015 through FY2018, the CTA can expect to receive only half that amount or roughly $14 million. Therefore, is it reasonable to conclude that the FY2018 budget is short about $14 million. This large sum will have to be made up through mid-year expenditure cuts, additional fare hikes or more expensive short-term borrowing.

The Civic Federation believes that it is unrealistic to expect State funding for CTA free and reduced rides to return to normal levels at a time when the State's FY2018 budget passed in July 2017 is not balanced and its current backlog of unpaid bills is hovering around $9 billion and is being repaid through the issuance of long-term debt.[7]

Ongoing State Funding Cuts

The State of Illinois operated without a comprehensive budget for two years. As a result of the ongoing state budget constraints, the CTA will not receive $220.9 million in capital funding from the State that it was promised. The State of Illinois also provides a 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. The State of Illinois cut the subsidy by 50% in FY2015, where it has remained based on FY2015 and FY2016 actual data and FY2017 forecasted data even though the RTA projected State funding levels would be restored for FY2017.[8] With the passage of a State budget for FY2018, the CTA is again budgeting in FY2018

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[7] Illinois Comptroller's Website, https://illinoiscomptroller.gov/ (last accessed December, 8, 2017).
[8] CTA President's FY2016 Budget Recommendations, pp. 22 and 23.

for the full $28.3 million reimbursement from the State based on information provided by the RTA.[9] However, the funding is not included in the State budget passed in July 2017. The CTA has budgeted to receive the full reimbursement every year and has had to make adjustments throughout each budget year to close the resulting deficit when the State did not restore the revenue. The Federation cautioned the CTA each year that it was highly unlikely the full reduced fare subsidy would be restored given the State's deteriorating financial condition. While the Civic Federation understands the RTA and CTA's unwillingness to concede that the transit agencies can do without the State reimbursement for reduced fares, at some point reality must take hold.

In addition, the State reduced the State Public Transportation Fund (PTF) funding by 10% for one year in its FY2018 budget and imposed a permanent surcharge on the collection of sales tax receipts, which combined resulted in a mid-year decline in state funding of $12.0 million in FY2017 and a $33.0 million loss in state funding for the CTA in FY2018.[10]

The Civic Federation once again cautions the CTA that it is overly optimistic to expect State funding to return to normal levels at a time when the State's FY2018 budget passed in July 2017 is not balanced and its current backlog of unpaid bills is hovering around $9 billion and is being repaid through the issuance of long-term debt.[11]

While the CTA projects balanced budgets through FY2020, those budgets assume funding from the State reimbursement for free and reduced fare rides will be restored, funding from the State Public Transportation Fund (PTF), which was cut by 10% in the State's FY2018 budget, will be restored and labor expenses will only increase slightly.[12] The projections of State funding restoration in FY2018 and beyond ignores the current financial condition of the State.

RTA's Overly Optimistic Revenue Projections and Failure to Use its Statutory Authority to Provide Additional Financial Assistance to CTA, Metra and Pace

The CTA's budget shortfall at the end of the current fiscal year is due in part to overly optimistic revenue projections that were provided to the CTA by the RTA. In FY2015 the State of Illinois cut in half its reimbursement to the CTA for free and reduced fare rides the CTA provides according to State law and has not restored the reimbursement to the previous level of $28.3 million since that time. Even though the State had gone two years without a budget by the time the CTA developed its FY2017 budget, the RTA instructed the CTA to include the full subsidy in its budget. Predictably, the funding did not materialize and was in fact coupled with additional funding cuts when the State eventually passed a budget in July 2017. The result is that the CTA will end the current budget year with a $17.5 million shortfall that it plans to close with short-term borrowing.

Despite years of evidence that the State's precarious fiscal condition means that a restoration of the previous level of funding is highly unlikely, the RTA has again instructed the CTA to rely

9 CTA President's FY2018 Budget Recommendations, p. 40.
10 CTA President's FY2018 Budget Recommendations, p. 33; and Information provided to the Civic Federation on November 21, 2017.
11 Illinois Comptroller's Website, https://illinoiscomptroller.gov/ (last accessed December, 8, 2017).
12 CTA President's FY2018 Budget Recommendation, pp. 23 and 45.

upon receiving the full $28.3 million in its FY2018 budget. The Civic Federation comprehends that the RTA and CTA argue that the State will make the reduced fare subsidy cut permanent if the CTA demonstrates it can close its budget gap without full state funding. We do not find the argument convincing. The Civic Federation is concerned that it is risky to direct the CTA develop a budget for FY2018 that is structurally unbalanced due to an unwillingness to acknowledge a permanent cut to State funding, particularly in the context of needing to find budgetary cuts or additional revenues to pay back $17.5 million in short-term borrowing during the coming fiscal year.

The CTA, Metra and Pace are all facing significant financial pressures due to many of the same stresses: lower sales tax revenue and state funding and insufficient capital funding. Metra has annually implemented significant increases in fares four years running and will reduce service in FY2018 and Pace will increase its fares for the first time since 2009 in its FY2018 budget.[13] The RTA is charged with financial oversight, funding and planning for all three transit operators, and despite their financial distress has not moved to increase its own funding sources. The RTA has authority to levy taxes on automobile rentals, motor fuel and off-street parking facilities, but has not exercised this authority despite ongoing cuts to State funding. The Civic Federation believes the RTA should explore tapping these sources of revenue to ensure all three transit boards have access to sufficient operating funding in an environment of uncertainty surrounding State funding.

Declining Ridership

The CTA projects that ridership will be 462.1 million rides in FY2018, a decrease of 18.0 million rides, or 3.7%, from the FY2017 year-end forecast and is projected to decrease by 34.2 million rides, or 6.9%, from the FY2017 adopted budget. Over the ten-year period beginning in FY2009, ridership will decrease by 11.3%, or 59.1 million rides, from 521.2 million actual rides in FY2009 to 462.1 million rides projected in FY2018.

Revenue from fares and passes represents 82.4% of system-generated revenue in FY2018. System-generated revenue in FY2018 is projected to increase by $21.2 million, or 3.1%, above the FY2017 adopted budget levels due to the revenue generated from the increase in Chicago's ground transportation tax and shared with the CTA. Fare box revenue is projected to increase by 0.3%, or $1.9 million to $583.1 million in FY2018. This $1.9 million increase is due to the proposed increase in fares.

The CTA highlights that many transit agencies nationwide have also experienced similar declines in ridership due to increased use of ride-sharing and other modes of transportation as well as historically low fuel prices. The Civic Federation is concerned that the CTA is facing increased financial stress on other revenue sources given that ridership continues to decline and a clearly laid out strategy on how the CTA will curb the decline in ridership is not publicly available.

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[13] Mary Wisniewski, "Pace board approves 25-cent fare hike for 2018," *Chicago Tribune*, November 8, 2017. http://www.chicagotribune.com/news/columnists/wisniewski/ct-met-pace-fare-hike-20171108-story.html; Mary Wisniewski, "Metra board OKs fare hikes, service cuts for next year — and warns there could be more," *Chicago Tribune*, November 10, 2017. http://www.chicagotribune.com/news/columnists/wisniewski/ct-metra-fare-hike-20171109-story.html.

Uncertain Outcome of Ongoing Labor Negotiations

The labor contracts that represent the majority of the CTA's transit workers expired at the end of 2015.[14] The CTA had been in negotiations with its labor partners, but negotiations stalled and both parties agreed to arbitration.[15] Labor expenses compose 69.1% of the CTA's operating budget in FY2018. While the CTA's proposed FY2018 budget projects labor expenses to decline by $4.4 million from the FY2017 budget, the CTA's financial projections for 2019 and 2020 assume labor expenses to increase by 2.0%.[16] The CTA recognizes this is largely dependent upon the outcome of the labor negotiations.

The Civic Federation is concerned that if the outcome of the labor negotiations is not favorable to the CTA and transit users, the financial impact will place greater financial stress on the CTA at a time when ridership is continuing to decline, state funding cuts continue and it faces a chronic mismatch between revenues and expenditures.

Lack of Detail in Budget Book

The Civic Federation is concerned that the budget book does not provide sufficient detail in a number of areas. The CTA includes five years of budget data and a two-year financial plan to provide the reader with a clear understanding of budgetary trends. The CTA also 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. These are all good practices.

However, the CTA does not adequately explain how it has dealt with the reduction in the state reimbursement for free and reduced-fare rides since FY2015, the State-funding cuts mid-year in FY2017 or how it will deal with reduced funding in FY2018 should the historical level of funding from the State not be restored.

Additionally, labor expenses represent nearly 70% of total CTA operating expenses, but the budget document does not provide complete detail on all components of labor expense. This information would provide greater transparency for a significant portion of the CTA's budget, including wages, healthcare, pension contributions, workers' compensation and payroll taxes for Social Security and Medicare.

Back-Loaded Debt Issuances

The CTA has continued to issue heavily back-loaded debt in recent years. Delaying bond principal payments until the out-years creates moderate near-term savings for the CTA's annual debt service payments. However, holding the principal for such a long period of time greatly increases the total interest cost for the capital projects financed with this borrowing. The spike in debt service will limit future borrowing capacity and lead to potential budget stress in these final years of repayment.

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[14] CTA President's FY2018 Budget Recommendations, p. 45.
[15] Mary Wisniewski, "Can CTA rail workers strike? They can threaten," *Chicago Tribune,* July 17, 2017.
[16] CTA President's FY2018 Budget Recommendations, p. 45.

On October 26, 2011 the CTA issued capital improvement bonds 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 $404.6 million in total interest payments through FY2040.[17]

On July 10, 2014 the CTA issued $555.0 million in long-term capital bonds with no principal payments until after FY2041.[18] The CTA will pay interest totaling $840.3 million through FY2049 on the 2014 series.[19]

In FY2017 the CTA issued an additional $296.0 million in long-term capital bonds with no principal payments until after FY2041. In all, the CTA will pay interest totaling $419.3 million on the 2017 series.[20]

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.

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 healthcare costs by 2008 and would run out of money by 2013 if nothing was done to boost assets or reduce liabilities. The fund's poor financial health was primarily the result of insufficient employer and employee contributions, early retirement programs, benefit increases and dramatic increases in the cost of healthcare over the past few decades.[21] The legislated reforms specifically addressed each of these issues.

While acknowledging and supporting 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%. This reate remains well above other local and State of Illinois funds, whose expected rates of return on investment range from 6.75% to 7.75%. 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 three of the 127 funds surveyed had expected rates of return above

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[17] CTA President's FY2018 Budget Recommendations, p. 118.
[18] CTA President's FY2018 Budget Recommendations, p. 115.
[19] CTA President's FY2018 Budget Recommendations, p. 119.
[20] CTA President's FY2018 Budget Recommendations, p. 120.
[21] 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.

8.0%.[22] 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. Therefore, a reduction to the rate of return assumption would increase the present value of liabilities and lower its funded ratios. The CTA's funded ratio-based funding plan means such a move would trigger even larger employer and employee contributions. It would be difficult for the CTA to fund a large pension contribution increase, but the fund's future relies on sufficient funding.

Furthermore, the fund's 50-year plan to get to 90% funded is less than ideal from an actuarial perspective. In the January 1, 2016 actuarial valuation report, the CTA pension 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."[23] 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. In the FY2016 actuarial report, the actuary estimated that the total contribution under these funding rules would be 34.89% of payroll, compared to the total contribution starting in FY2018 of 24.0% or 18.0%, net of the credit for pension obligation bond (POB) debt repayments.[24]

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.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the CTA President's FY2018 Budget Recommendations.

Increasing Fares While Avoiding Reductions in Service Levels

The CTA is proposing to increase its base fares for the first time since 2009 by $0.25 for bus and rail. The CTA will also increase the cost of a 30-day pass by $5.00 and implement a slight increase in the reduced fares paid by seniors and persons with disabilities that meet certain income requirements. The Civic Federation supports this fare increase as a reasonable revenue enhancement in the context of a nearly decade-long freeze in base fares and reductions in State funding. The CTA has also committed not to reduce service levels.

[22] NASRA, "Issue Brief: Public Pension Plan Investment Return Assumptions," Updated February 2017. Available at http://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf
[23] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, cover letter from Conduent.
[24] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 7.

Implementing Savings and Increasing Non-Farebox Revenue

The CTA has taken a number of steps to better control expenses and increase non-farebox revenues in recent years. These savings were achieved by locking in prices for fuel and power, controlling labor costs through the elimination of positions and increasing advertising and concession revenue. These savings and increases in revenue have allowed the CTA to maintain service levels and improve the transit experience for CTA customers. The management efficiencies and savings implemented by the CTA have also helped to stave off increases in base fares since 2009. According to the CTA, the savings and new revenue total approximately $300 million since 2011.[25] Additionally, without savings garnered in FY2017, the year-end budget shortfall would have been worse.

The Civic Federation supports these efforts and commends the Transit Authority for continuing to be innovative in its approach to providing high quality transit service to the Chicago region.

Working With the City of Chicago to Access Additional Capital Funding

As part of the City of Chicago's annual budget approval process, the City Council amended the Chicago Municipal Code to increase the City of Chicago's ground transportation tax on ride sharing vehicles such as Uber and Lyft by $0.15 in FY2018 with an additional increase of $0.05 in FY2019. The City also adopted an intergovernmental agreement between the City of Chicago and Chicago Transit Authority allowing for the City to annually provide $16.0 million in revenue from the tax to the CTA for capital purposes. The tax revenue will allow the CTA to issue bonds to fund $179 million of capital improvements.[26]

The Civic Federation supports this new source of funding as an innovative approach in light of the fact that the State has not passed a capital funding bill since 2009. However, this will not have an immediate positive impact on the CTA's operating budget.

Civic Federation Recommendations

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

Increase Fares During Hours of Increased Demand for Rail and Express Bus Service

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. In FY2018 the CTA is proposing to increase base fares for bus and rail by $0.25 as well as slight increases for reduced fares and monthly passes in order to offset the decline in farebox revenue. This will be the first base fare increase since 2009 and is projected to generate $23 million in new revenue.

The Civic Federation recommends that the CTA also implement increased fares by as much as $0.50 during high demand periods for rail and express bus service in order to structurally balance

[25] CTA President's FY2018 Budget Recommendations, p. 2.
[26] CTA President's FY2018 Budget Recommendations, p. 49.

the FY2018 budget without cutting service. The Federation believes that rail and express bus service would be ideal candidates for peak hour pricing because they are often overcrowded and their customers are more likely to pay for the convenience.

The State Should Adopt a New Transportation Funding Program

The State of Illinois has not had a state transportation funding program since 2009's *Illinois Jobs Now!* program. The CTA received its last distribution from *Illinois Jobs Now!* in FY2014. The lack of state matching funds for transit projects has caused the CTA and its sister agencies to forgo federal transit grants and delay or scale back capital projects. While the CTA and City of Chicago have been innovative in their efforts to leverage local dollars for the local match of federal grants through the newly created Transit TIF and sharing of ground transportation tax revenue, this is not sustainable and will not address the capital backlog facing the CTA, Metra and Pace. The CTA's state of good repair (SOGR) backlog is approaching $13 billion.[27] The CTA will need $23.08 billion over 10 years just to address the SOGR backlog, according to the RTA.[28]

The Civic Federation urges the Illinois General Assembly and Governor to adopt a transportation funding program for public transit, stressing the importance transit has on the economic strength of the region and state.

The State Should Re-evaluate the Recently Imposed Sales Tax Collection Surcharge

As part of the State's FY2018 enacted budget, it placed a surcharge or collection fee of 2.0% on the portion of the sales tax generated above the State-imposed rate of 6.25%. This was meant to offset the cost related to the Illinois Department of Revenue administering the sales tax collections and disbursements to local governments. There appears to be no publicly available study that justifies the collection fee of 2.0%, which is expected to generate $60 million in revenue for the State, resulting in a loss of approximately $9 million for the CTA in FY2018.[29]

The Civic Federation urges the CTA to work with the RTA, its sister agencies, the Illinois General Assembly and Governor to re-evaluate the sales tax collection surcharge of 2.0%. The Civic Federation does not oppose the State recouping some revenues to offset its costs for administering the sales tax statewide. However, the 2.0% surcharge was not implemented in a transparent way and does not appear to have justification for the rate imposed. Balancing the State's budget on the back of already struggling local governments is not a recipe for financial sustainability.

Improve the Level of Detail Surrounding Labor Expenses in Budget Book

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.

[27] CTA President's FY2018 Budget Recommendations, p. 55.
[28] CTA President's FY2018 Budget Recommendations, p. 84.
[29] CTA President's FY2018 Budget Recommendations, p. 33.

The Federation recommends that the CTA include additional detail on labor expenses including wages, healthcare, 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 help readers understand the changes in staffing structure of the CTA over the years.

Finally, the Federation recommends that the CTA provide detail on the cuts that have occurred because reduced and free fare subsidy was not restored in recent years and the coming year.

Avoid Back-Loaded Debt Issuances

The CTA should avoid extraordinarily expensive back-loaded debt issuances and protect its long-term debt capacity.

As detailed in the related concern above, the CTA has relied on a series of long-term debt issuances with principal payments that are heavily back-loaded. 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 such a long period of time greatly increases the total interest cost for the capital projects financed with this borrowing. In all, the CTA will pay interest totaling $1.7 billion through FY2051 on the back-loaded long-term debt issued in 2011, 2014 and 2017 that totaled $1.3 billion in principal. The spike in debt service will limit future borrowing capacity and lead to potential budget stress in these final years of repayment. 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.

Institute a Policy to 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 FY2018 budget, the Civic Federation remains concerned about its past use of "scoop and toss" refunding, which often takes place outside the annual budget process.

Although the CTA has not engaged in this financial practice since FY2010 and FY2011, the CTA Board 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.

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% in collective bargaining.[30] Of the major local pension funds in the Chicago area, the CTA fund has by far the highest expected rate of return. The rest of the funds are in the 7.25%-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 6.75% to 7.25%.

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 2017 review, the Auditor General noted that the 8.25% rate of return used by the plan, "remains at the upper end of the investment return assumptions used by other plans" and was much higher than the 10-year historical rate of return on retirement plan investments of 5.3%. According to the Auditor General, the plan's Executive Director says the plan's investment consultant expects the fund to obtain a total average annualized 10-year return of 8.28%. The Auditor General recommended that the fund "annually review the reasonableness of its investment return assumption," rather than wait for the next experience study, which will not be completed until 2019.[31]
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. While the ensuing increase in required payments would be painful, such a move 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, 2017 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."[32] 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 projected to result in a 94.62% funded ratio in 2037.[33] However, this projection is based on the fund achieving the exceptionally high investment returns assumed

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[30] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2014*, p. 25.
[31] State of Illinois Office of the Auditor General, *2017 Annual Review of Information Submitted by the Retirement Plan for CTA Employees*, November 2017, synopsis; and Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, cover letter.
[32] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 5.
[33] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 14.

and would change if those 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 is the right thing to do to balance the interests of retirees, workers, and current and future taxpayers.

The Civic Federation recognizes that properly funding CTA pensions will be costly and could require further fare hikes or other revenue enhancements. However, it is imperative that the CTA Retirement Fund not lose all of the ground it gained through the 2008 pension reforms and pension obligation bonds.

Explore the Consolidation of Transit Agencies in Northeastern Illinois With the Goal of Reducing Administrative Costs and Improving Transit

While the CTA has worked to improve transit operations by making significant capital investments in its infrastructure and assets to improve the customer experience, its capital reinvestment needs over a 10-year period are estimated at approximately $23.08 billion, or 54% of the total capital needs of $37 billion for all three major transit agencies in the region.

The CTA is moving forward with its long held commitment to enhance transit service on the south side of Chicago by extending the Red Line south to 130th Street. This project alone is estimated to cost approximately $2.3 billion to build and does not yet have a dedicated funding source, though the transit TIF could be a source of funding for the project.[34] At the same time Metra is reducing service on the Metra Electric Line as well as other rail lines it operates and increasing fares at the same time.

The Federation believes that there are efficiencies and savings to be had through the consolidation of all three transit agencies into an integrated regional transit agency and will improve public transit access across the region as a whole. A model that could work well in the Chicago region is the Los Angeles County Metropolitan Transportation Authority, which serves as transportation planner and coordinator, designer, builder and operator. This model could allow for a more efficient and effective transportation system for northeastern Illinois.

[34] Public Act 99-0792.

ACKNOWLEDGEMENTS

The Civic Federation would like to express its appreciation to Chicago Transit Authority President Dorval Carter, Jr., Chief Financial Officer Jeremy Fine and Vice President of Budget and Capital Finance Michele Curran and their staff for their willingness to answer our questions about the budget.

APPROPRIATIONS

This section provides an analysis of appropriations in the CTA's proposed FY2018 budget compared to previous years. This year, the CTA's operating budget will total $1.51 billion, a 0.6%, or $9.7 million, decrease from the FY2017 adopted appropriation of approximately $1.52 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 FY2014 through FY2016; FY2017 adopted appropriations and FY2018 proposed appropriations.[35]

Labor expenses are the largest category of expenses and will decrease between by 0.4%, or $4.4 million, from $1.05 billion in FY2017 to $1.046 billion in FY2018. The decrease in labor expenses in FY2018 is primarily due a reduction of 45 non-union positions and the freezing of an additional 70 positions.[36]

The "Other Expenses" category is the second largest expenditure category after labor expenses. This category includes utilities for CTA facilities, non-capital grant expenses, travel and meetings, advertising and promotions, contractual and maintenance services, leases and rentals, debt service payments, other general expenses and pension obligation bond debt. Other expenses are projected to decrease by 1.6%, or $4.7 million, between the FY2017 adopted budget and FY2018 proposed budget. The decrease in other expenses is primarily attributed to a decrease in general expenses of $5.2 million, or 122.5%, and a reduction in utility expenses of $902,000, or 3.7%, below the prior year.

Over the two-year period between FY2017 and FY2018 the CTA budget for provisions for injuries and damages will decline by $4.5 million or 47.4%. The amount budgeted is determined by the CTA's actuaries based on claims history and future projections.[37] It changes considerably from year to year.

Appropriations for fuel will decrease by $370,000, or 1.1%, in FY2018 to $33.6 million. The increase in fuel expenses is due to higher anticipated pricing compared to FY2017.[38] The CTA has managed fuel expenses through a fixed price purchasing policy and will continue to do so in FY2018 by securing 70% of its forecasted fuel need.[39] Power, which is the for electricity to power rail lines, will stay relatively flat in FY2018 compared to FY2017. Power is purchased through a new "load flowing" strategy, where the price of a percentage of consumption is fixed, regardless of the consumption level.[40] Security costs will increase by $966,000, or 5.7%, over the

[35] 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 FY2017 Budget, FY2017 Forecast and FY2018 Proposed figures, see Appendix A on page 63 of this report.
[36] CTA President's FY2018 Budget Recommendations, p. 2.
[37] CTA President's FY2018 Budget Recommendations, p. 38.
[38] CTA President's FY2018 Budget Recommendations, p. 38.
[39] CTA President's FY2018 Budget Recommendations, p. 38.
[40] CTA President's FY2018 Budget Recommendations, p. 38.

two-year period. The increase in security costs is due normal cost escalation for contracted security services.[41] Material expenses are also expected to increase in FY2018 by 3.6%, or $3.2 million, primarily due to repairs and maintenance to the CTA's fleet that will no longer be covered by warranty.[42]

Over a five-year period, the CTA's operating budget will increase by 8.2%, or $114.6 million, between the actual expenditures in FY2014 and proposed appropriations for FY2018.

Labor expenses steadily increased between FY2014 and FY2017 before declining slightly in FY2018. Over the five-year period, labor expenses increased by 8.3% or $80.2 million. 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.[43] However, as previously noted, in FY2018 the CTA plans to eliminate 45 non-union positions and freeze an additional 70 union and non-union positions.[44] The labor contracts that represent the majority of the CTA's transit workers expired at the end of 2015.[45] The CTA had been in negotiations with its labor partners, but negotiations stalled and both parties agreed to arbitration, which creates uncertainty regarding future labor costs.[46] Labor expenses will constitute 69.1% of the proposed FY2018 operating budget, which is a slight increase from 68.9% in the FY2017 budget. Labor expenses as a percentage of the total operating budget have averaged 69.3% over the past five years.

Over the five-year period beginning in FY2014 the largest five-year dollar increase will be in debt service spending, which will increase from $0 to $28.9 million. Contractual services will see the second largest dollar increase over the five-year period increasing from $94.3 million in FY2014 to $109.1 million in FY2018, an increase of $14.8 million. Spending for material will increase over the five-year period by $11.5 million from nearly $81 million in FY2014 to $92.4 million in FY2018. Spending for fuel is projected to see the largest decrease by $25.9 million, or 43.5%, declining from $59.5 million in FY2014 to $33.6 million proposed in FY2018. This is

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[41] CTA President's FY2017 Budget Recommendations, p. 39.
[42] CTA President's FY2017 Budget Recommendations, p. 38.
[43] CTA President's FY2012 Budget Recommendations, pp. 18-19.
[44] CTA President's FY2018 Budget Recommendations, p. 2; and Information provided by the CTA on November 21, 2017.
[45] CTA President's FY2018 Budget Recommendations, p. 45.
[46] Mary Wisniewski, "Can CTA rail workers strike? They can threaten," *Chicago Tribune*, July 17, 2017.

primarily due to a combination of the CTA strategically purchasing its fuel in advance and historically low fuel prices.[47]

CTA Operating Budget by Object of Expenditure: FY2014-FY2018 (in $ thousands)									
Object	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Adopted	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Labor	$ 965,868	$ 1,002,486	$ 1,027,047	$ 1,050,436	$ 1,046,059	$ (4,377)	-0.4%	$ 80,191	8.3%
Other Expenses									
Utilities	$ 23,059	$ 24,562	$ 23,234	$ 24,152	$ 23,250	$ (902)	-3.7%	$ 191	0.8%
Advertising/Promotion	$ 738	$ 691	$ 924	$ 1,212	$ 1,226	$ 14	1.2%	$ 488	66.1%
Travel & Meetings	$ 639	$ 556	$ 535	$ 1,667	$ 1,472	$ (195)	-11.7%	$ 833	130.4%
Contractual Services	$ 94,334	$ 104,278	$ 105,003	$ 109,349	$ 109,063	$ (286)	-0.3%	$ 14,729	15.6%
Leases & Rentals	$ 2,401	$ 2,586	$ 3,150	$ 3,062	$ 3,224	$ 162	5.3%	$ 823	34.3%
General Expenses	$ (4,574)	$ (6,858)	$ (8,079)	$ 4,248	$ (954)	$ (5,202)	-122.5%	$ 3,620	-79.1%
Pension Obligation Bond	$ 115,746	$ 112,281	$ 111,779	$ 111,943	$ 112,535	$ 592	0.5%	$ (3,211)	-2.8%
Non-Capital Grant Expense	$ 10,567	$ 13,957	$ 16,712	$ 8,749	$ 9,500	$ 751	8.6%	$ (1,067)	-10.1%
Debt Service	$ -	$ -	$ 14,298	$ 28,597	$ 28,947	$ 350	1.2%	$ 28,947	-
Subtotal Other Expenses	**$ 242,910**	**$ 252,053**	**$ 267,556**	**$ 292,979**	**$ 288,263**	**$ (4,716)**	**-1.6%**	**$ 45,353**	**18.7%**
Material	$ 80,963	$ 83,507	$ 82,921	$ 89,176	$ 92,425	$ 3,249	3.6%	$ 11,462	14.2%
Fuel	$ 59,476	$ 49,830	$ 32,738	$ 33,946	$ 33,576	$ (370)	-1.1%	$ (25,900)	-43.5%
Security	$ 13,628	$ 14,431	$ 14,095	$ 16,838	$ 17,804	$ 966	5.7%	$ 4,176	30.6%
Power	$ 33,568	$ 28,818	$ 29,283	$ 31,365	$ 31,369	$ 4	0.0%	$ (2,199)	-6.6%
Provision for Injuries & Damages	$ 3,500	$ 13,000	$ 10,500	$ 9,500	$ 5,000	$ (4,500)	-47.4%	$ 1,500	42.9%
Total	**$ 1,399,913**	**$ 1,444,125**	**$ 1,464,140**	**$ 1,524,240**	**$ 1,514,496**	**$ (9,744)**	**-0.6%**	**$ 114,583**	**8.2%**

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

Source: CTA President's Budget Recommendations: FY2018, pp. 22 and 23; and information provided by CTA, December 8, 2017.

Labor Expenses

The table below provides a detailed breakdown for labor expenses over the five-year period from FY2014 to FY2018. This information is not provided in the CTA's budget document and was provided by the CTA to the Civic Federation upon request.

Base wages and salaries are expected to increase by 1.6%, or $9.9 million, between the FY2017 adopted budget and the FY2018 proposed budget. Benefit costs will decrease by 3.3%, or $14.3 million, over the same two-year period.

Over the five-year period from FY2014 to FY2018, base wages will increase by 10.9%, or $61.7 million. The primary driver behind the increase over the five-year period, is due to contractual wage increases tied to labor agreements. During the same time period, total benefits will increase by $18.5 million or 4.6%. While the majority of the benefits have remained flat or decreased over the five-year period, pension contributions have increased by $26.1 million, or 23.8%,

[47] CTA FY2017 Budget, p. 33; and CTA President's FY2018 Budget Recommendations, p. 38.

rising from $109.7 million in FY2014 to $135.8 million in FY2018.

CTA Labor Expenses: FY2014-FY2018 (in $ thousands)									
Object	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Adopted	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Base Wages & Salaries	$ 565,139	$ 604,241	$ 615,419	$ 616,871	$ 626,811	$ 9,940	1.6%	$ 61,672	10.9%
Benefits									
Vacation	$ 40,489	$ 40,041	$ 42,270	$ 43,593	$ 39,824	$ (3,769)	-8.6%	$ (665)	-1.6%
Holiday	$ 23,051	$ 23,796	$ 24,331	$ 25,039	$ 22,941	$ (2,098)	-8.4%	$ (110)	-0.5%
Sick	$ 4,461	$ 4,784	$ 4,787	$ 5,208	$ 4,478	$ (730)	-14.0%	$ 17	0.4%
Jury Duty	$ 1,181	$ 1,183	$ 1,153	$ 1,288	$ 1,136	$ (152)	-11.8%	$ (45)	-3.8%
Workers' Compensation	$ 50,941	$ 53,902	$ 58,756	$ 50,011	$ 52,196	$ 2,185	4.4%	$ 1,255	2.5%
Tuition Aid	$ -	$ -	$ -	$ -	$ -	$ -	-	$ -	-
FICA	$ 44,519	$ 46,393	$ 47,280	$ 48,320	$ 47,333	$ (987)	-2.0%	$ 2,814	6.3%
Unemployment Insurance	$ 1,316	$ 381	$ 692	$ 415	$ 579	$ 164	39.5%	$ (737)	-56.0%
Group Insurance	$ 112,347	$ 109,939	$ 110,357	$ 119,689	$ 109,897	$ (9,792)	-8.2%	$ (2,450)	-2.2%
Uniform Allowance	$ 1,673	$ 1,688	$ 1,383	$ 1,838	$ 1,417	$ (421)	-22.9%	$ (256)	-15.3%
Supplemental Retirement	$ 8,367	$ 1,782	$ 2,709	$ 1,940	$ 2,641	$ 701	36.1%	$ (5,726)	-68.4%
Incentive Retirement	$ 2,676	$ (411)	$ 1,153	$ 2,601	$ 1,006	$ (1,595)	-61.3%	$ (1,670)	-62.4%
Pension	$ 109,708	$ 114,766	$ 116,758	$ 133,602	$ 135,799	$ 2,197	1.6%	$ 26,091	23.8%
Subtotal Benefits	**$ 400,729**	**$ 398,244**	**$ 411,629**	**$ 433,544**	**$ 419,247**	**$ (14,297)**	**-3.3%**	**$ 18,518**	**4.6%**
						$ -		$ -	
Fringe Benefit Offset	$ -	$ -	$ -	$ -	$ -	$ -	-	$ -	-
Other Labor Credits	$ -	$ -	$ -	$ -	$ -	$ -	-	$ -	-
Total	**$ 965,868**	**$ 1,002,485**	**$ 1,027,048**	**$ 1,050,415**	**$ 1,046,058**	**$ (4,357)**	**-0.4%**	**$ 80,190**	**8.3%**

Note: Totals may differ due to rounding.
*FY2017 Adopted and FY2018 Proposed budget figures are estimated, not actual, fringe benefits.
Source: Information provided by CTA, November 5, 2013; November 4, 2014; October 28, 2015; November 11, 2016; and December 12, 2017.

REVENUES

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

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

This section examines revenue trends from FY2014 to FY2018, as shown in the table that follows. The Civic Federation uses actual data when available for FY2014 through FY2016, adopted FY2017 budget figures as approved by the CTA's Board of Trustees and FY2018 proposed budget figures. However, it is important to note that due to State cuts to CTA funding, lower than expected sales tax revenues and ongoing ridership declines, year-end FY2017 revenues are projected to be $38.9 million under budget. The CTA plans to use short-term borrowing to make up the remaining year-end budget shortfall of $17.5 million.[48] A comparison of FY2017 budgeted, FY2017 year-end projected and FY2018 proposed revenues can be found in Appendix B of this report.

The President's FY2018 Budget Recommendations include $1.51 billion in operating revenues, which is a 0.6%, or $9.7 million, decrease from the adopted FY2017 revenue level of $1.52 billion. However, it is a $64.8 million change from the FY2017 year-end forecast. The FY2018 revenue total includes $707.6 million from system-generated revenue and $806.9 million in public funding through the Regional Transportation Authority (RTA). System-generated revenue

[48] CTA President's FY2018 Budget Recommendations, p. 25.

will compose 45.0% of total operating resources and public funding through the RTA will compose 55.0% of the CTA's resources in FY2018.

System-generated revenue in FY2018 will increase by $21.2 million, or 3.1%, compared to the FY2017 adopted budget levels. The increase is due to a fare increase, additional advertising revenue and a new Ground Transportation Tax imposed by the City of Chicago on ride-sharing, which is expected to generate $16 million for CTA capital improvements.[49]

The CTA is proposing a fare increase in FY2018 for the first time since 2009. Revenue from fares and passes represents 82.4% of system-generated revenue. Farebox revenue is projected to total $583.1 million in FY2018, which is a 0.3%, or $1.9 million increase from the adopted FY2017 budget. However, year-end FY2017 farebox revenue is expected to be only $560.4 million. Therefore, the fare increase will represent a $23 million increase from the estimated revenue at year-end. The fare increase is discussed further in the next section.

The CTA has historically received a reimbursement, or subsidy, from the State of Illinois for providing free rides to low-income seniors and people with disabilities per Public Act 96-1527.[50] The reduced fare subsidy is a partial reimbursement for the number of discounted and free rides given to students, low-income seniors, veterans and people with disabilities. The full reimbursement was approximately $28 million. However, the State cut the subsidy in half in FY2015 to $14.6 million and it remained at that level in FY2016. The CTA budgeted the full $28.3 million reimbursement for FY2017, but only received $14.6 million again in FY2017 due to the State budget impasse. The CTA's FY2018 budget proposal is counting on the restored level of $28.3 million, and the CTA notes that it will continue to make the case with the RTA and other service boards for the subsidy to be restored to historic levels.[51] However, the State of Illinois budget only allocated $14.6 million to the CTA for FY2018.

Advertising, charter and concession revenue is projected to increase by approximately $3.2 million or 9.0%, from the FY2017 adopted budget to $38.3 million in FY2018. The increase reflects an increase in minimum guarantees in advertising contracts and management initiatives to increase digital advertising.[52] Over the past five years, advertising, charter and concessions revenue has increased by 39.1% or $10.8 million.

Investment income in FY2018 is budgeted at $1.6 million, which is an increase of $500,000 above FY2017. Low interest rates and late payments from the State continue to yield minimal interest income.[53]

The CTA receives a statutory annual payment of $5.0 million from local governments – $3.0 million from the City of Chicago and $2.0 million from Cook County – required by the Regional Transportation Authority Act.[54] The amounts contributed to the CTA by the City of Chicago and

[49] CTA President's FY2018 Budget Recommendations, p. 33.
[50] As of FY2012 the CTA no longer provides free rides to all persons aged 65 or older. The CTA must provide half fare rides to all people with disabilities and people aged 65 or older per a federal requirement tied to funding.
[51] CTA President's FY2018 Budget Recommendations, p. 33.
[52] CTA President's FY2018 Budget Recommendations, p. 40.
[53] CTA President's FY2018 Budget Recommendations, p. 41.
[54] CTA President's FY2018 Budget Recommendations, p. 41.

Cook County have remained unchanged since 1985. The City of Chicago also makes in-kind law enforcement contributions of $22.0 million to the CTA for police services.[55] In 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.[56]

Other revenue includes non-capital grants, parking fees, property sales and rentals, merchandise sales, third-party reimbursements and filming fees.[57] Other revenue is projected to increase by $15.7 million from $35.5 million budgeted in FY2017 to $51.2 million budgeted for FY2018, an increase of 44.3%. The increase is due to a new ride-hailing fee that will be collected by the City of Chicago that is expected to bring in an additional $16 million for capital rail improvements that will improve commuter times and safety and security.[58]

Public funding for the CTA is established by the Regional Transportation Authority (RTA) based on sales tax and real estate transfer tax projections.[59] Public funding from the RTA will decrease in FY2018 by $31.0 million, or 3.7%, from the FY2017 budget, from $837.9 million to $806.9 million. The decrease is the result of cuts included in the State of Illinois FY2018 budget and lower than projected sales tax revenues. The State cut the Public Transportation Fund by 10%, impacting $24 million of the CTA's revenue, and implemented a 2% surcharge for sales tax collection, impacting $9 million of CTA revenue.[60] Public funding from the RTA is discussed further below.

Over the five-year period from FY2014 to FY2018, public funding through the RTA is expected to increase by $67.7 million or 9.2%. System-generated revenue is projected to increase by $26.9 million or 4.0%. Income from fares and passes will decrease slightly by $200,000. Advertising, charter and concessions revenue is also projected to increase significantly, by 39.1% or $10.8 million.

CTA Operating Budget Revenue: FY2014-FY2018 (in $ millions)

Source	FY2014 Actual	FY2015 Actual	FY2016 Actual	FY2017 Adopted	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
System-Generated Revenue									
Fares and Passes	$ 583.3	$ 587.1	$ 577.0	$ 581.3	$ 583.1	$ 1.9	0.3%	$ (0.2)	0.0%
Reduced Fare Reimbursement	$ 28.3	$ 14.6	$ 14.4	$ 28.3	$ 28.3	$ -	0.0%	$ 0.0	0.0%
Advertising, Charter & Concessions	$ 27.6	$ 31.2	$ 35.0	$ 35.2	$ 38.3	$ 3.2	9.0%	$ 10.8	39.1%
Investment Income	$ 0.4	$ 1.1	$ 1.6	$ 1.1	$ 1.6	$ 0.5	42.7%	$ 1.2	279.1%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%
Other Revenue	$ 36.1	$ 36.4	$ 43.6	$ 35.5	$ 51.2	$ 15.7	44.3%	$ 15.1	41.9%
Total System-Generated Revenue	**$ 680.7**	**$ 675.5**	**$ 676.6**	**$ 686.3**	**$ 707.6**	**$ 21.2**	**3.1%**	**$ 26.9**	**4.0%**
Public Funding through RTA	**$ 739.2**	**$ 793.0**	**$ 809.7**	**$ 837.9**	**$ 806.9**	**$ (31.0)**	**-3.7%**	**$ 67.7**	**9.2%**
Total	**$ 1,419.9**	**$ 1,468.5**	**$ 1,486.3**	**$ 1,524.2**	**$ 1,514.5**	**$ (9.7)**	**-0.6%**	**$ 94.6**	**6.7%**

Source: CTA President's FY2018 Budget Recommendations, pp. 22-23.

The CTA is required to meet an annual recovery ratio of at least 50.0% based on the RTA Act. The recovery ratio measures the proportion of operating expenses recovered from operating revenues by dividing system-generated revenues by operating expenses. It serves as an indicator of the CTA's financial performance. The ratio excludes depreciation, security expenses and

[55] CTA President's FY2018 Budget Recommendations, p. 41.
[56] CTA President's FY2018 Budget Recommendations, p. 41.
[57] CTA President's FY2018 Budget Recommendations, p. 41 and 107.
[58] CTA President's FY2018 Budget Recommendations, p. 41.
[59] CTA President's FY2018 Budget Recommendations, p. 42.
[60] CTA President's FY2018 Budget Recommendations, p. 33.

pension obligation bond debt service, and includes some grant revenues. In FY2018 the CTA is estimated to recover 57.12% of its operating expenses through system-generated revenues.[61]

Fares

The CTA is proposing to increase base fares for the first time in nearly ten years in FY2018. Bus fares are proposed to increase from $2.00 to $2.25, and rail fares are proposed to increase from $2.25 to $2.50. This will put CTA rail fare more in line with the fares charged by comparable urban rail systems. The CTA also proposes an increase to the 30-day pass from $100 to $105. The proposed fare rate increase is expected generate nearly $23.0 million in additional revenue for the CTA in FY2018 compared to FY2017 year-end estimates.[62]

Base fares for bus and rail travel have not increased since FY2009, when bus fares increased by $0.25 to $2.00 (transit card) and $2.25 (cash) and train fares increased by $0.25 to $2.25.[63] In FY2013 the CTA increased a number of non-base fare rates including fare passes and fares for trips departing from O'Hare Airport. The 30-day pass increased from $86 to $100. The CTA also equalized mandated reduced fares for qualified riders to the statutory 50% of base fares.[64] 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.[65]

The table below shows a comparison of CTA's proposed fares to its peer cities. The CTA's proposed fare increase would put it slightly above the average bus fare and rail fare among six other transit systems. The average bus fare among the six cities in the table below, not including Chicago, is $2.12 and the average rail fare is $2.38. The average 30-day pass among the six cities

[61] CTA President's FY2018 Budget Recommendations, p. 23.
[62] CTA President's FY2018 Budget Recommendations, p. 34.
[63] CTA President's FY2016 Budget Recommendations, p. 42.
[64] CTA President's FY2013 Budget Recommendations, p. 38.
[65] The CTA must provide half fare rides to all people aged 65 or older and people with disabilities per a federal requirement tied to funding.

excluding Chicago is $105.33, which would put the CTA's proposed 30-day pass charge of $105 right in line with the average.

A Comparison of Fares Across Transit Agencies As of December 2017 (in $ dollars)					
City	**Bus Fare**	**Express Bus Fare**	**Rail Fare**	**30-Day/Monthly Pass Cost**	**Reduced Fare (Senior/Disabled)**
Chicago (proposed)	**$2.25**	**-**	**$2.50**	**$105.0**	**$1.10 (Bus) $1.25 (Rail)**
Atlanta	$2.50	-	$2.50	$95.00	$1.00
New York City	$2.75	$6.50	$2.75	$121.00	$1.35
Philadelphia	$2.00 [1]	-	$2.00 [1]	$96.00	Senior: Free Disabled: $1.25
Boston	$1.70	$4.00 (Inner) and $5.25 (Outer)	$2.25	$85.00	$0.85 - Bus $1.10 - Rail
Washington D.C.	$2.00	$4.25 Regular $2.00	$2.00-$6.00 [2]	$135.00 [3]	$1.00
Los Angeles	$1.75	$2.50 Regular $1.35	$1.75	$100.00	$0.75 Rush Hours; $0.35 Non-Rush

[1] Zone charge may apply. Transfer charge $1.00

[2] The fares are zone based and depend on hours traveled. Full fares are paid during peak hours varying from $2.25 to $6.00

[3] Washington D.C. offers select calendar month passes to registered customers for different rates. A $135.0 pass covers systemwide access for commuters who would generally pay $2.25 per ride.

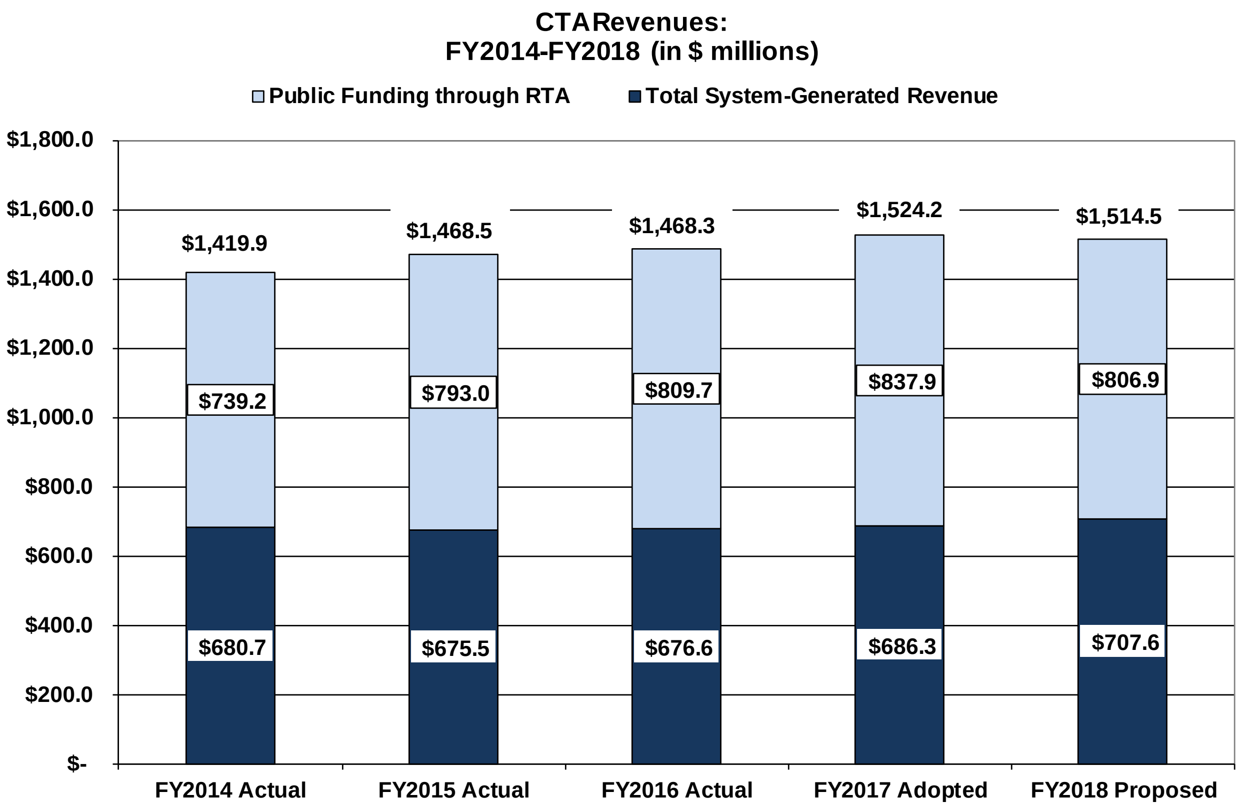
Source: CTA FY2018 Recommended Budget, p. 191.

Public Funding from the RTA

The CTA's public funding is provided through the Regional Transportation Authority (RTA) and comes 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.[66] The

[66] CTA President's FY2017 Budget Recommendations, p. 29.

chart below provides a comparison of public funding and system-generated revenue from FY2014 through FY2018.



Source: CTA President's FY2018 Budget Recommendations, pp. 22-23.

Pursuant to the Regional Transportation Authority Act of 1983,[67] the RTA has the statutory authority to collect sales taxes 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.[68]

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[67] 70 ILCS 3615/4.03.

[68] 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.

Of the total statutory sales tax revenue collected, the RTA retains 15% and distributes the remaining 85% to three service boards – the CTA, Metra and Pace – according to the following statutory formula:

RTA Sales Tax Distribution: FY2018			
	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 FY2018 Budget Recommendations, p. 104.

In addition, 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.[69] The CTA receives funds at a tax rate of 0.3% on real estate transfers in the City of Chicago.

The RTA receives additional monies from the State of Illinois. The State Treasurer transfers an amount equal to 25% of RTA sales tax collections from the State General Fund 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.[70] The RTA also has authority to levy taxes on automobile rentals, motor fuel and off-street parking facilities, but has not exercised this authority.

The next table details public funding for the CTA provided through the RTA from FY2014-FY2018 using proposed revenue figures from each year's adopted budget based on RTA projections.

Total public RTA funding is projected to be $806.9 million in FY2018, which is an increase of $98.0 million, or 13.8%, over five years since FY2014. Compared to the FY2017 proposed funding level, total RTA funding is projected to decrease by $31.0 million, or 3.7%, in FY2018 due to State funding cuts and lower than projected sales tax revenue.

As a result of the RTA sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $592.8 million in total sales tax revenue from the RTA in FY2018. This is a $21.7 million, or 3.5%, decrease from the FY2017 sales tax revenue projection of $614.5 million. The reduction is due to cuts in the State of Illinois budget including a new 2% surcharge on sales tax collections and cuts to the Public Transportation Fund.[71] Of the $592.8 million in sales tax revenue, $381.2 million is expected to come directly from the sales tax distribution formula and $211.6 million will be RTA discretionary funds, allocated from the 15% of total tax revenue retained by the RTA.

[69] Public Act 095-0708.
[70] CTA President's FY2018 Budget Recommendations, p. 105.
[71] CTA President's FY2018 Budget Recommendations, p. 33.

The CTA expects to receive $66.6 million from real estate transfer taxes collected in Chicago in FY2018, which is an increase of 3.0%, or $1.9 million, from the FY2017 proposed budget. The CTA will also receive $124.8 million in revenues from the RTA sales tax increase and State funding enacted in 2008 by P.A. 95-0708. This is a decrease of $11.0 million, or 8.1%, from the proposed FY2017 level.

In FY2018, the CTA will also utilize $6.0 million in funding from the Innovation, Coordination, and Enhancement (ICE) program for general operating purposes. ICE is an RTA program that provides capital and operating assistance.[72]

CTA Sources of Public Funding Through the RTA: FY2014-FY2018
(in $ millions)

	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Adopted	FY2018 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
RTA Formula Sales Tax Revenues	$ 335.6	$ 349.6	$ 365.1	$ 386.9	$ 381.2	$ (5.7)	-1.5%	$ 45.7	13.6%
RTA Discretionary Sales Tax	$ 188.1	$ 207.1	$ 216.4	$ 227.6	$ 211.6	$ (16.0)	-7.0%	$ 23.5	12.5%
Sub-Total RTA Sales Tax	**$ 523.6**	**$ 556.7**	**$ 581.6**	**$ 614.5**	**$ 592.8**	**$ (21.7)**	**-3.5%**	**$ 69.2**	**13.2%**
Real Estate Transfer Tax (Chicago)	$ 47.9	$ 63.6	$ 63.6	$ 64.7	$ 66.6	$ 1.9	3.0%	$ 18.8	39.2%
Real Estate Transfer Tax (25% Public Transportation Fund)	$ 12.0	$ 15.9	$ 15.9	$ 16.2	$ 16.7	$ 0.5	3.0%	$ 4.7	39.2%
Sales Tax and PTF per PA 95-0708	$ 117.3	$ 119.1	$ 126.8	$ 135.8	$ 124.8	$ (11.0)	-8.1%	$ 7.5	6.4%
RTA Non-Statutory (Other)	$ -	$ 0.9	$ 1.7	$ 0.6	$ -	$ (0.6)	-100.0%	$ -	N/A
ICE Funding*	$ -	$ -	$ 5.8	$ 6.1	$ 6.0	$ (0.1)	-1.5%	$ 6.0	100.0%
Reduced Fare Reimbursement Replacement	$ 8.2	$ -	$ -	$ -	$ -	$ -	100.0%	$ (8.2)	-100.0%
Total	**$ 708.9**	**$ 756.2**	**$ 795.3**	**$ 837.9**	**$ 806.9**	**$ (31.0)**	**-3.7%**	**$ 98.0**	**13.8%**

Note: Totals may differ from budget book due to rounding. Figures presented for FY2014-FY2017 are adopted public funding revenues from the President's Budget Recommendations. Actual revenue figures are not available.

*Innovation, Coordination and Enhancement (ICE) Funding.

Source: CTA President's FY2014 Budget Recommendations, p. 96; FY2015 p. 110; FY2016, p. 114; FY2017, p. 102; and FY2018, p. 106.

PERSONNEL

The CTA plans to fund a total of 9,897 positions in FY2018, compared to 9,939 positions budgeted in FY2017. This is a decrease from the FY2017 adopted budget of 42 positions. The CTA plans to decrease the number of administrative positions by 45, while increasing the number of Scheduled Train Operations (STO) positions by 3, for a net decrease of 42 positions.

Personnel changes over a ten year period are shown in the next chart. Over the past ten years, the budgeted CTA workforce has declined by 6.1% or 643 positions, while labor cost has increased by 22.1%, or $189.6 million. The CTA's workforce reached its lowest level over the past ten years in 2012 with 9,206 positions, and has increased since then.

The ten-year decline includes personnel reductions of:

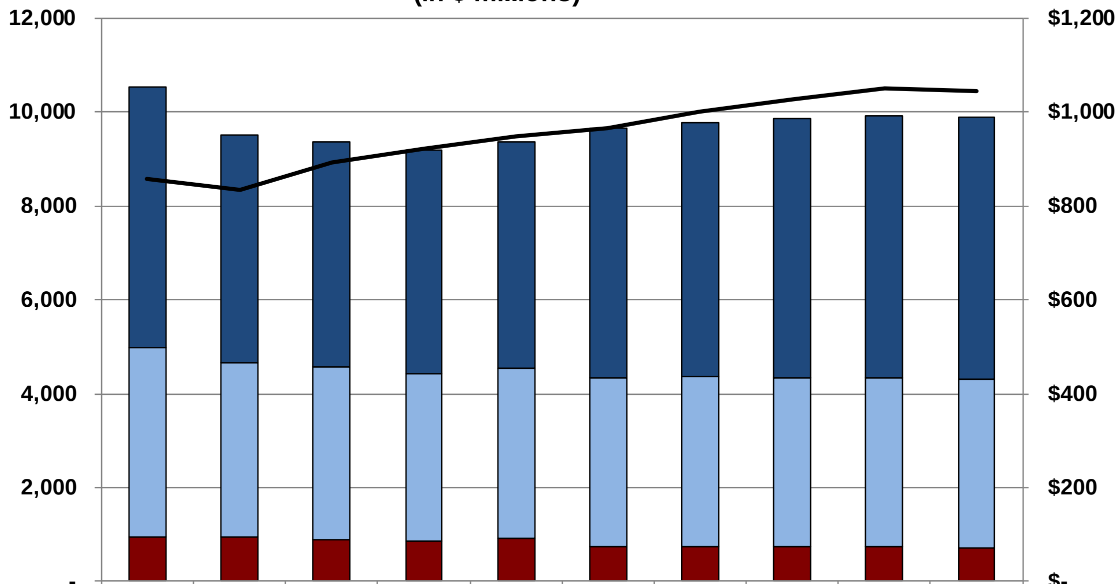
- 239 administrative positions, or a 25.3% decrease;
- 45 scheduled transit operation (STO) positions, or a 0.8% decrease; and
- 449 non-STO operating positions, or an 11.1% decrease.

[72] The ICE program is an RTA competitive funding program, established as part of the 2008 Mass Transit Reform Legislation. The program is intended to enhance the coordination, innovation, and quality of public transportation.

Labor costs in FY2018 are budgeted at $1.05 billion, a decrease of $4.4 million from the FY2017 adopted budget. This decrease in labor cost is due to the reduction of 45 non-union positions and restricting hiring on an additional 70 positions while holding service levels flat, but the labor cost reductions are partially offset by an increase in pension costs.[73] Over the ten-year period from FY2009 through FY2018, labor costs are expected to increase by 22.1%, or $190.0 million, despite a decrease of 643 employees over the same period.

The chart below presents a position count and labor cost trend over the past ten years, with classification by position type (STO, Non-STO Operations and Administration).

CTA Labor Appropriations and Budgeted Positions by Type: FY2009-FY2018 (in $ millions)



	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
TOTAL	10,540	9,520	9,377	9,206	9,381	9,661	9,781	9,869	9,939	9,897
STO	5,552	4,868	4,796	4,778	4,836	5,322	5,412	5,524	5,594	5,597
Non-STO Operations	4,045	3,709	3,684	3,569	3,638	3,612	3,612	3,604	3,596	3,596
Administration	943	943	897	859	907	727	742	741	749	704
Labor ($)	$856.5	$835.1	$893.8	$921.9	$948.3	$965.9	$1,002.5	$1,027.0	$1,050.4	$1,046.1

Note: STO represents Scheduled Transit Operations and includes staffing for bus and rail operations.
Source: Information provided by CTA, December 8, 2017; and CTA President's Budget Recommendations FY2009-FY2018.

RIDERSHIP

The CTA projects that ridership will be 462.1 million rides in FY2018.[74] The FY2018 ridership is projected to decrease by 18.0 million rides, or 3.7%, from the FY2017 year-end forecast and a decrease of 34.2 million rides, or 6.9% from the FY2017 adopted 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).[75]

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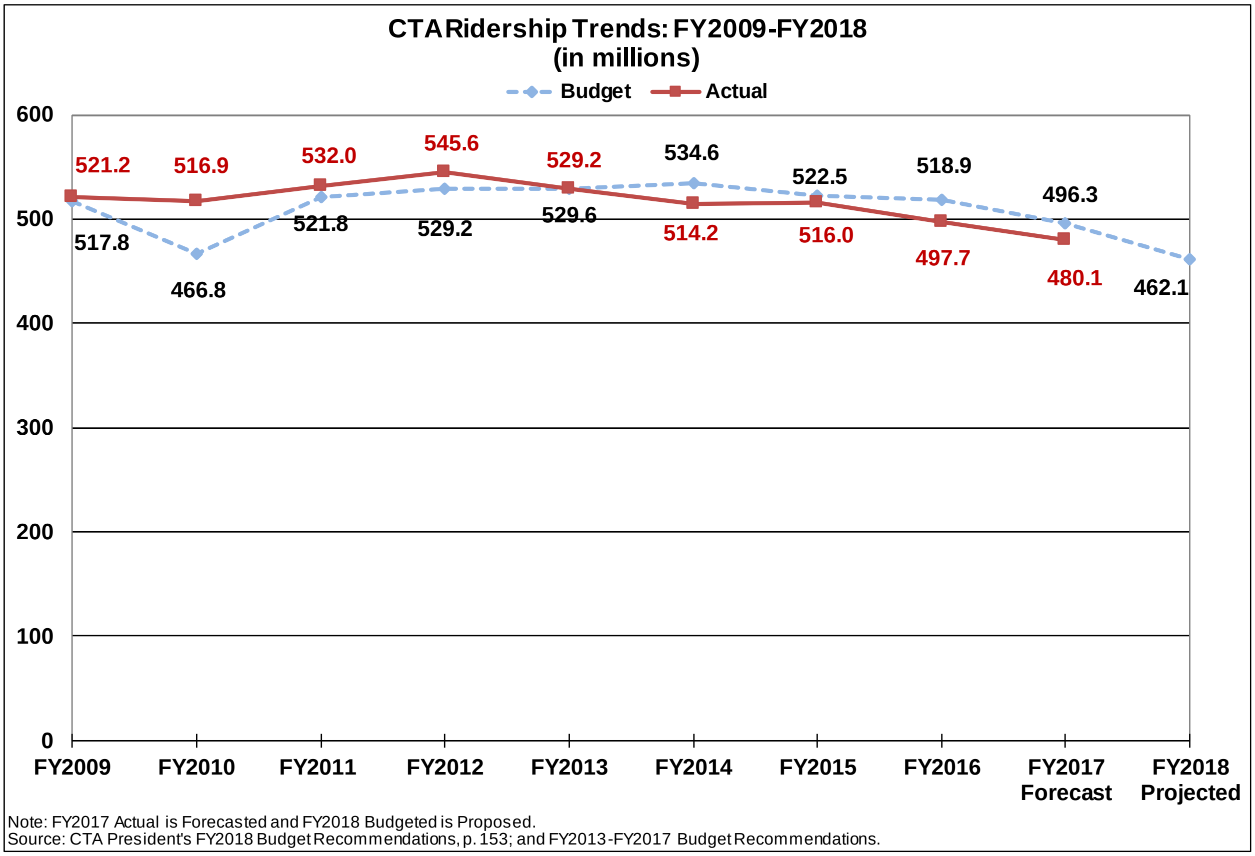
[73] CTA President's FY2018 Budget Recommendations, p. 37.
[74] CTA President's FY2018 Budget Recommendations, p. 43.
[75] CTA President's FY2018 Budget Recommendations, p. 201.

Over the ten-year period beginning in FY2009, ridership will decrease by 11.3%, or 59.1 million rides, from 521.2 million actual rides in FY2009 to 462.1 million rides projected in FY2018. Ridership is projected to fall by 15.3%, or 83.5 million rides since 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.[76] The further decline in ridership in FY2014 and FY2015 was attributed to extreme weather during the first quarter of both fiscal years.[77] The decline in ridership between FY2016 and the projected decline in FY2018, according to the CTA, is attributed to increased competition from bike and ride share companies such as Uber and Divvy, low fuel prices and increased car usage.[78]



[76] Communication with the CTA budget staff, October 18, 2013.
[77] CTA President's FY2015 Budget Recommendations, p. 42; and FY2016 Budget Recommendations, p. 37.
[78] CTA President's FY2018 Budget Recommendations, p. 28.

PRODUCTIVITY MEASURES

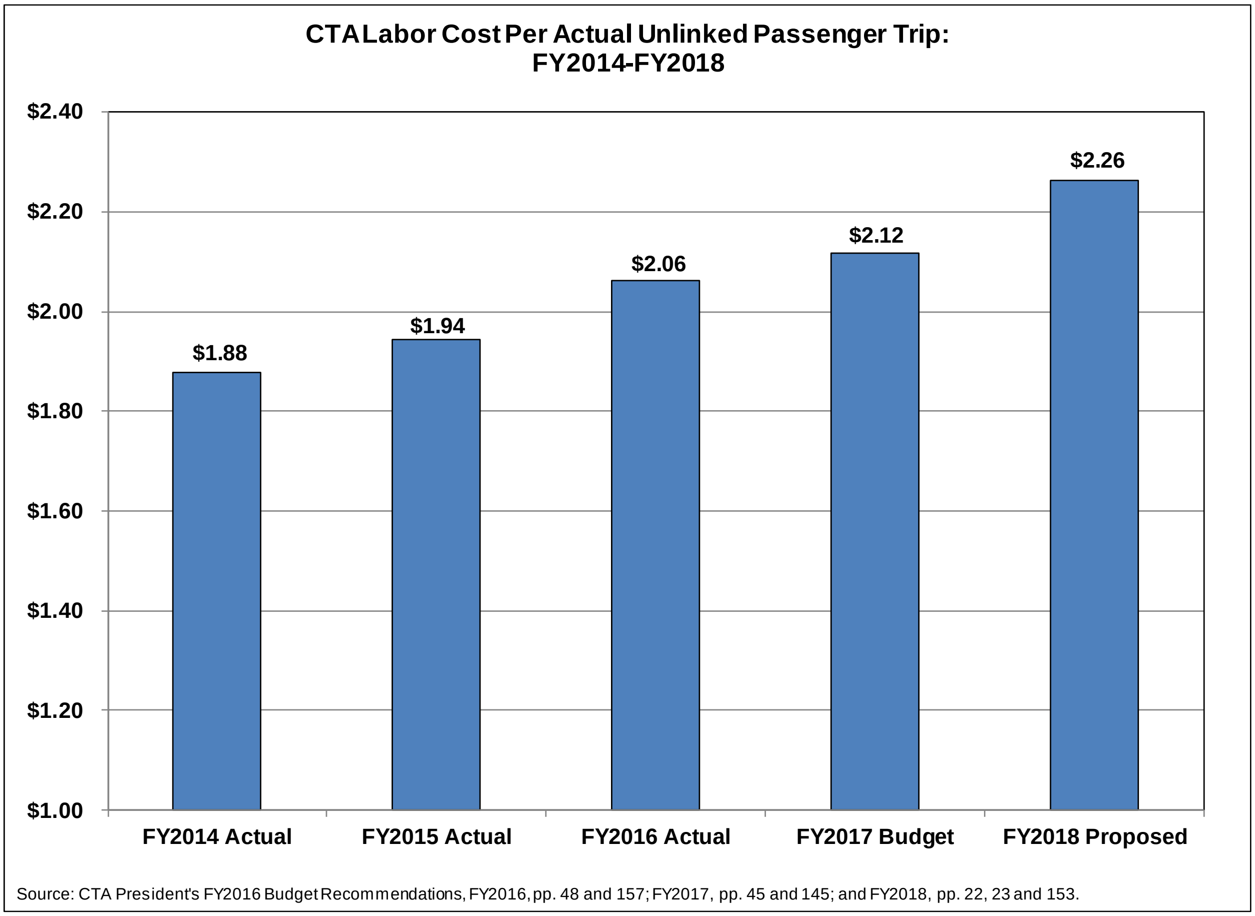
In this analysis, the Civic Federation uses two measures to assess CTA's productivity over time: labor cost per actual unlinked passenger trip and operating expense per passenger mile.[79] The data used to calculate the productivity measures is obtained from the annual budget documents.

Productivity can be measured in terms of labor cost per unlinked passenger trip. The term "unlinked passenger trip" refer to total number of rides. Each passenger is counted each time that passenger boards a vehicle (bus or rail).[80] A lower dollar amount indicates higher productivity. The labor cost per unlinked passenger trip indicator increased steadily from $1.88 in FY2014 to $2.26 in FY2018.

Between FY2014 and FY2018, productivity has declined because ridership, which fell by 2.6% on average each year, has not kept pace with labor costs, which grew by 2.0% on average each year. As a result, the ratio has steadily increased over the five-year period, rising from $1.88 in FY2014 to $2.26 projected in FY2018. The decrease in ridership was, according to the CTA, reportedly the result of extreme winter weather in FY2014 and FY2015, the continually increasing competition from alternative transit operations such as Uber and Divvy, and low fuel prices in FY2016 and FY2017 which prompted increased car usage.[81] The labor cost per unlinked passenger trip is expected to increase between FY2017 and FY2018 by $0.14 from $2.12 to $2.26. This is due to a 0.4% decrease in labor costs compared to a 6.9% decrease in ridership over the previous year.

[79] "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 FY2018 Budget Recommendations, p. 212.
[80] CTA President's FY2018 Budget Recommendations, p. 201.
[81] CTA President's FY2018 Budget Recommendations, p. 28.

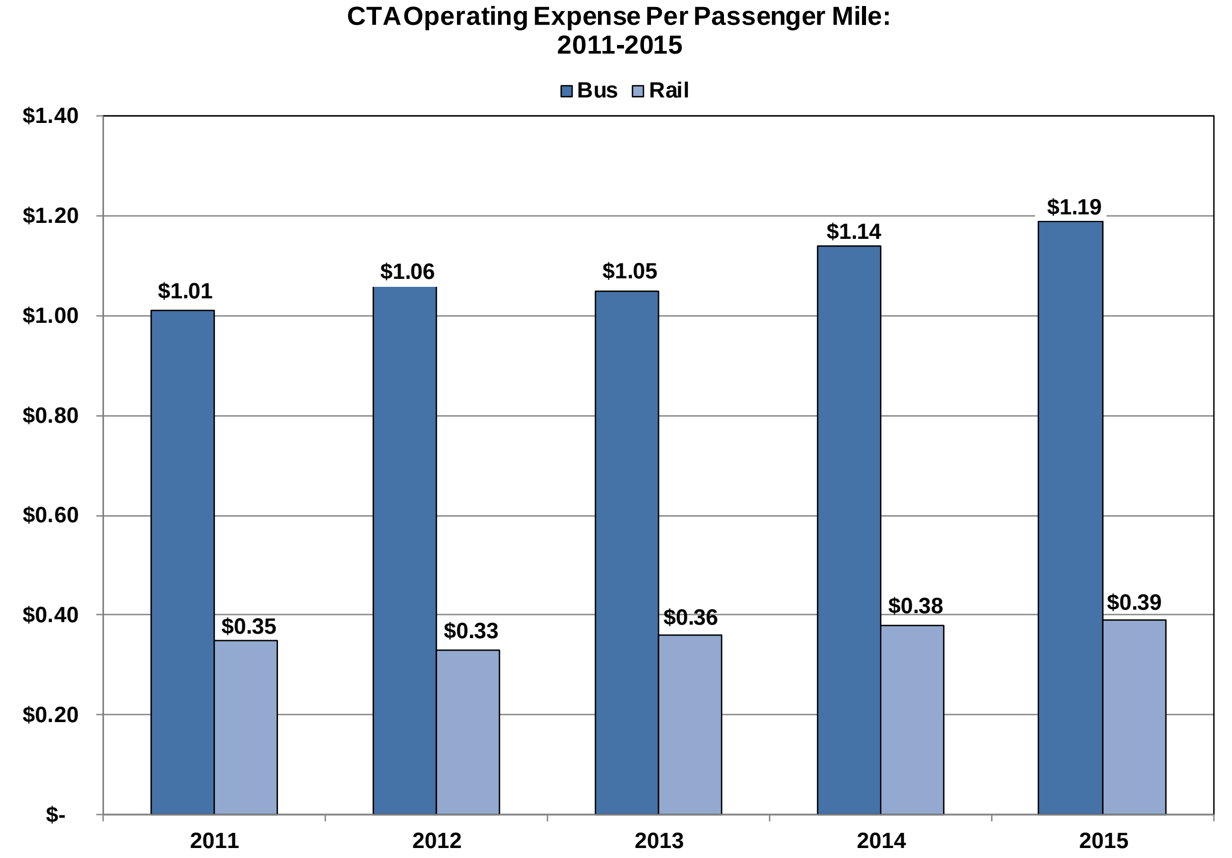
The proposed FY2018 budget is the first year since FY2010 where labor costs are projected to decrease from the year before. This is due to the elimination of 45 non-union positons and restricting hiring on an additional 70 positions.[82]



The chart below illustrates operating expense per passenger mile for bus and rail service between 2011 and 2015, the most recent years for which data are 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 only slightly over the past five years, declining from $0.35 in 2011 to $0.33 in 2012 before increasing to its highest point in 2015 at $0.39 per passenger mile.

[82] CTA President's FY2018 Budget Recommendations, p. 2

The operating expense per passenger mile for bus service has increased by $0.18 over the last five years. It increased from a low of $1.01 in 2011 to $1.19 per passenger mile in 2015.



Source: CTA President's Budget Recommendations, FY2014-FY2017; and FY2018, pp. 178 and 180.

The table below shows Chicago's operating expense per mile for bus and rail relative to its peer cities. Chicago's rail system cost of $0.39 per passenger mile is the lowest among its peers and is $0.23 lower than the highest cost per passenger mile. Chicago's bus system has a cost of $1.19 per passenger mile, which is the second lowest among peer cities and $0.52 lower than the highest cost per passenger mile.

Operating Expense Per Passenger Mile for Selected Cities 2015 National Transit Database Data			
Transit System	Bus	Transit System	Rail
New York	$ 1.71	Washington D.C.	$ 0.62
Washington D.C.	$ 1.47	Boston	$ 0.59
Boston	$ 1.29	New York	$ 0.48
Philadelphia	$ 1.23	Atlanta	$ 0.46
Chicago	**$ 1.19**	Philadelphia	$ 0.43
Los Angeles	$ 0.70	**Chicago**	**$ 0.39**

Source: CTA President's FY2018 Budget Recommendations, pp. 178 and 180.

PENSION FUND

The Civic Federation analyzes 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 up to FY2016, the most recent year for which audited data are available, and describes CTA pension benefits. There is also a discussion of the Fund's liabilities as reported according to accounting standards required by Governmental Accounting Standards Board Statements No. 67 and 68 (GASB 67 and 68). Unless otherwise stated, the numbers used in this chapter are statutorily required numbers used for funding purposes.

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. Changes to Illinois statutes codified most aspects of the plan into state statute that were previously the subject of collective bargaining. 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.[83]

In FY2016 the Fund had 8,129 active employees and 10,150 beneficiaries for a ratio of 0.80 active members for every beneficiary.[84] This ratio has fallen by 23.4% from 1.05 in FY2007 as the number of active members has declined and the number of beneficiaries has risen. A decline in the ratio of active employees to retirees can create fiscal stress for an underfunded pension plan like the CTA Fund because it means there are fewer dollars in employee contributions going

[83] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2016*, p. 17.
[84] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2016*, p. 18.

into the fund and more in annuity payments flowing out of the fund. The CTA Pension Fund was forced to liquidate assets to pay benefits in FY2014 and FY2015 given low investment returns.[85]

Chicago Transit Authority Pension Fund Membership: FY2007-FY2016			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
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
FY2015	8,204	10,028	0.82
FY2016	8,129	10,150	0.80
Ten-Year Change	**-1,506**	**935**	**-0.24**
Ten-Year % Change	**-15.6%**	**10.1%**	**-23.4%**

Source: Retirement Plan for CTA Employees Financial Statements, FY2007-FY2016.

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 healthcare costs by 2008 and run out of money by 2013 if nothing was done to boost assets or reduce liabilities. The fund's poor financial health was primarily the result of insufficient employer and employee contributions, early retirement programs, benefit increases and dramatic increases in the cost of healthcare over the past few decades.[86] The legislated reforms specifically addressed each of these issues.

Passed in the spring of 2006 as part of the FY2007 Budget Implementation Act, Public Act 94-0839 required that beginning January 1, 2009 the CTA and its employees make annual pension contributions sufficient to bring the funded ratio to 90% by the end of 2058. The Act specified that payments are to be made as a level percentage of payroll, and that post employment healthcare benefits provided by the pension fund were to be excluded from the actuarial calculations used to determine required contributions. The 50-year schedule and 90% funding target were similar to the funding plan for the State of Illinois' five retirement systems.[87]

The second piece of CTA pension reform legislation, Public Act 95-0708, was passed on January 18, 2008 and made changes to the pension and retiree healthcare benefits and contributions.

[85] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2015*, p. 5.
[86] 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.
[87] See for example Civic Federation, "Is 90% Pension Funding the Right Target for Illinois?," December 7, 2016. Available at https://www.civicfed.org/iifs/blog/90-pension-funding-right-target-illinois.

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.[88] While the funded ratio fell to 58.2% in FY2014, the pension fund's actuary stated that the contribution rates stated above were 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. However, the plan did experience an actuarial loss in FY2015, falling to 53.4% funded. This triggered higher contributions for FY2017-FY2040 of a net 17.925% for the CTA and 11.962% for employees. In FY2016 higher contributions were again triggered by actuarial losses, with the fund falling to 52.5%. Contributions for the CTA starting in FY2018 of a net 18.019% and 12.010% for employees.[89]

P.A. 95-0708 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.

The legislation 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

[88] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2013*, p. 17.
[89] Retirement Plan for Chicago Transit Authority Employees, *Actuarial Valuation Report as of January 1, 2017*, cover letter.

Health Care Trust. The infusion of $1.1 billion into the retirement fund was expected to raise its funded ratio to approximately 80%.[90]

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, healthcare liabilities for the pension fund decreased from $1.8 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[91] The FY2008 actuarial valuation for the CTA fund assumed that by June 30, 2009 the pension fund will no longer bear any responsibility for funding retiree healthcare benefits.[92]

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%.[93] 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 $148.8 million. In FY2016 the Retirement Fund changed its actuarial asset valuation method back to a five-year smoothed method. This change resulted in an actuarial gain of $16.1 million.[94]

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."[95] 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. In the FY2016 actuarial report, the actuary estimated that the total contribution under these funding rules would be 34.89% of payroll, compared to the total contribution starting in FY2018 of 24.0%.[96]

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 25.2% in FY2006 on an actuarial value basis before climbing to 75.6% in FY2008. The increase in the funded ratio is largely attributed to a one-time

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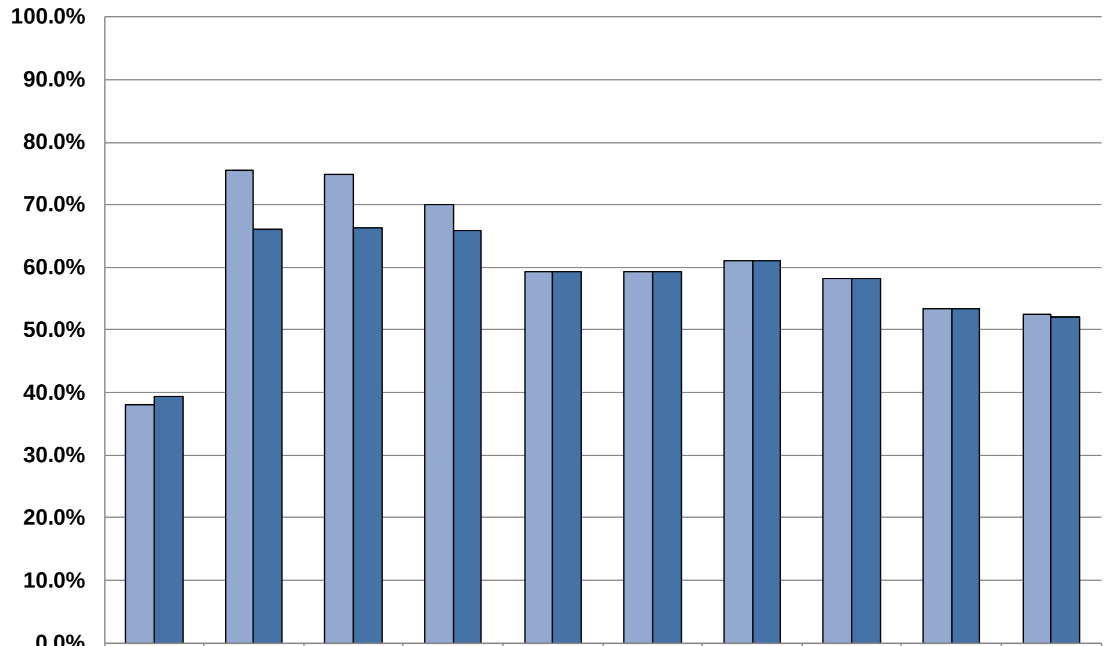
[90] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 3. Actual year-end funded ratio on a smoothed actuarial basis in FY2008 was 75.6%.
[91] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[92] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2009*, p. 4.
[93] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
[94] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 9.
[95] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter from Buck Consultants.
[96] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 7.

extraordinary employer contribution of $1.1 billion from the issue of debt, which nearly doubled the fund's total actuarial assets.[97]

In the three years following the infusion of cash in FY2008, the funded ratio fell steadily, mostly due to changes to actuarial assumptions.[98] 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.[99] The funded ratio remained relatively level for the next three fiscal years before declining steadily in FY2014-FY2016. The decline in FY2016 due to investment returns less than assumptions and demographic loss.[100]

CTA Employees' Pension Fund Funded Ratios: Actuarial Value of Assets and Market Value of Assets: FY2007-FY2016



	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Actuarial Value	38.0%	75.6%	74.8%	70.1%	59.2%	59.4%	60.9%	58.2%	53.4%	52.5%
Market Value	39.3%	66.0%	66.3%	65.9%	59.2%	59.4%	60.9%	58.2%	53.4%	52.0%

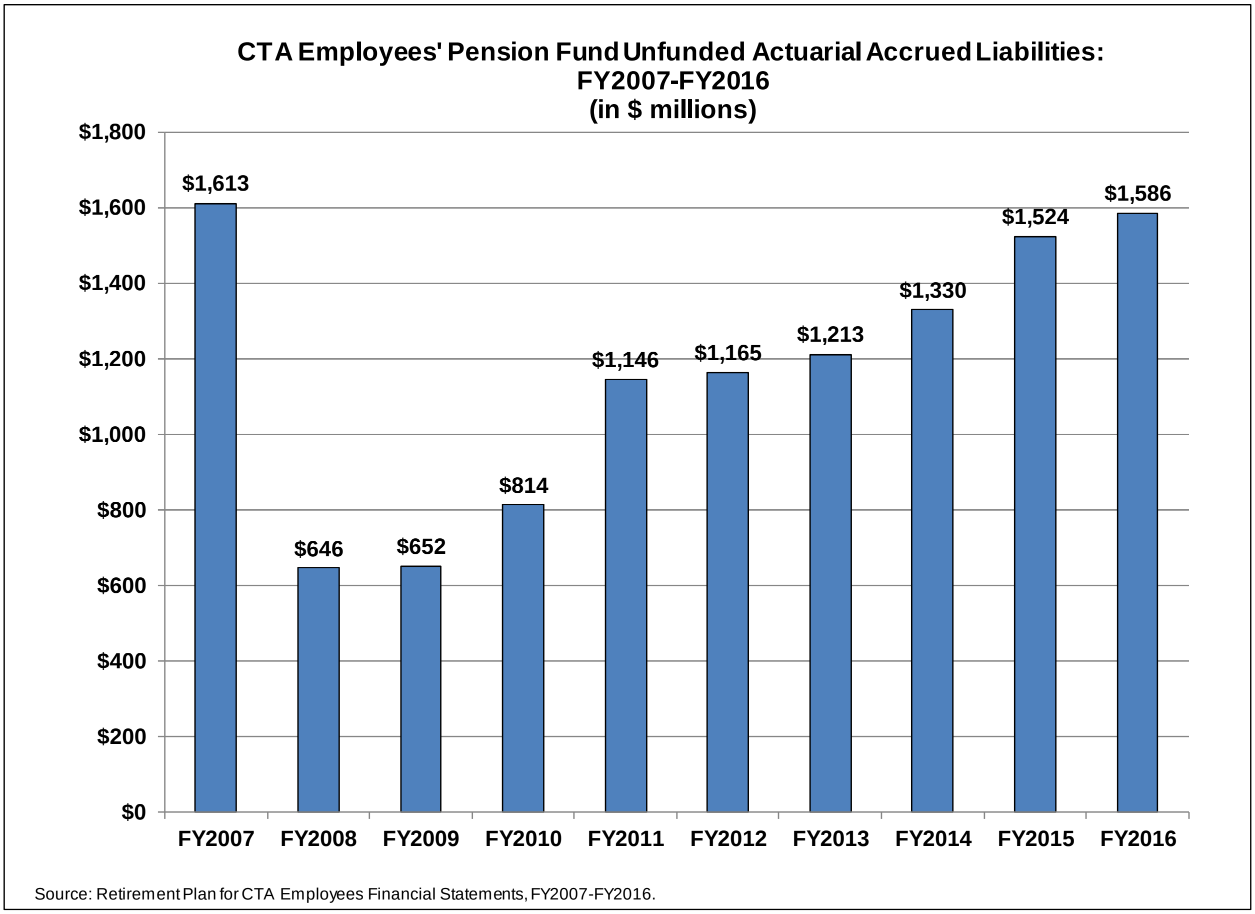
Note: Due to a change in the accounting for pension fund assets effective in FY2011, the market value and actuarial value are equal for that year through FY2015. In FY2016 the fund changed its accounting back to smoothed value of assets for actuarial purposes.
Source: Retirement Plan for CTA Employees Financial Statements, FY2007-FY2016.

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 were $1.6 billion in FY2007 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.

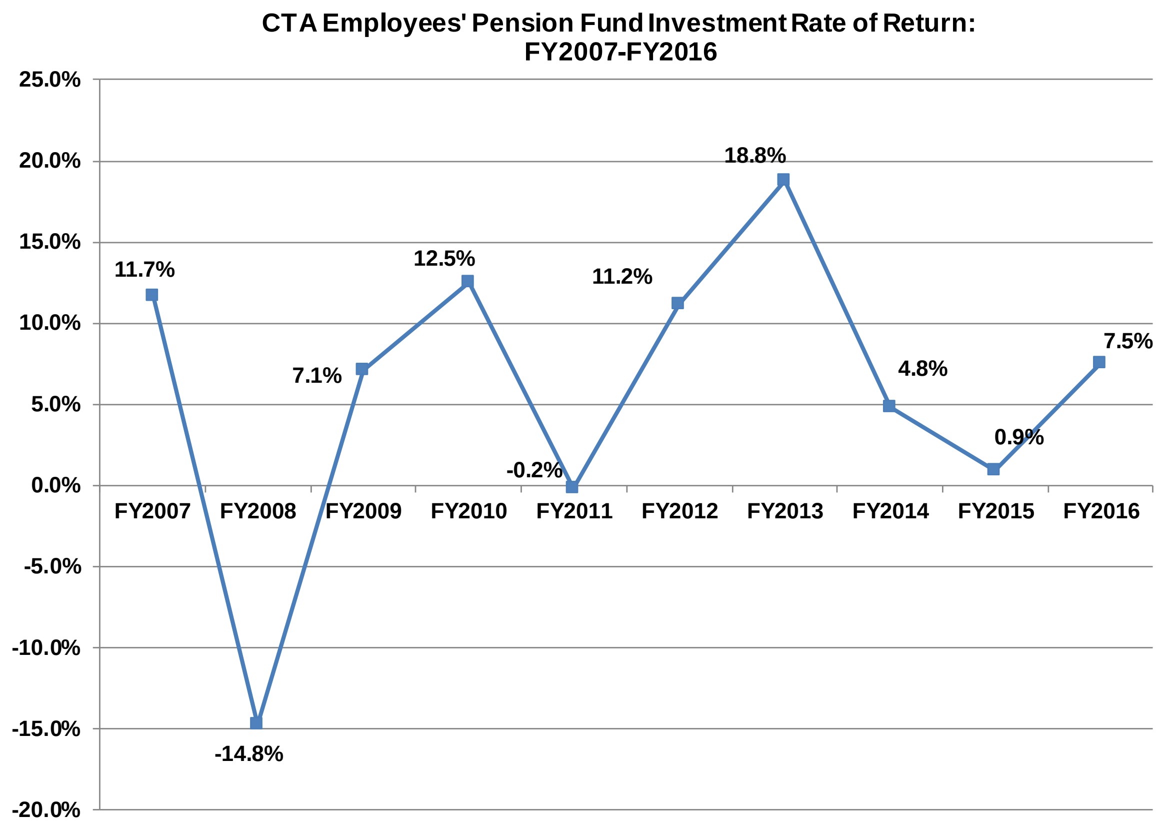
[97] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 2.
[98] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2010*, p. 1., Retirement Plan for CTA Employees, *Actuarial Valuation as of January 2, 2011*, p. 1.
[99] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
[100] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 4.

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 steadily over the next several years, mostly due to low investment returns and changes to actuarial assumptions. In FY2016 unfunded liabilities increased by $62.3 million, due to investment returns below expectations and increased liabilities and demographic losses. Unfunded liabilities are now almost as large as they were in FY2007.



Investment Rates of Return

Between FY2007 and FY2016, 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.[101] The average return between FY2007 and FY2015 was 5.9%, less than the current assumed rate of return of 8.25%.[102]



Source: Retirement Plan for CTA Employees Actuarial Valuations, FY2007-FY2016.

Pension Liabilities as Reported Under Governmental Accounting Standards Board Statements No. 67 and 68

In 2012 the Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards for public pension plans and for governments, Statements No. 67 and 68 (GASB 67 and 68). According to GASB, the new standards were intended to "improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations."[103] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information

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[101] Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.
[102] Over the past ten years, the CTA Pension Fund's expected rate of return assumption has been reduced twice. Between FY2006 and FY2009, it was 8.75%; between FY2010 and FY2012 it was 8.5% and was lowered to 8.25% for 2013 and thereafter.
[103] Governmental Accounting Standards Board, Pension Standards for State and Local Governments. Available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.

about pensions in the notes to the financial statements and in required supplementary information sections. It is important to note that GASB intended to separate pension reporting from pension funding. Thus, the numbers reported according to GASB 67 and 68 standards are not used to determine how much a government must contribute to its pensions. They are a reporting, NOT a funding requirement. The CTA and other governments will continue to use traditional public pension accounting methods to determine funding requirements. However, as the GASB 67 and 68 numbers can provide important new ways to understand a fund's sustainability, the Federation will address them here.

The CTA Pension Fund began reporting according to GASB 67 in its FY2014 CAFR and actuarial valuations. The CTA began reporting according to GASB 68 in its FY2015 financial statements.

The total pension liability, fiduciary net position, net pension liability and ADC[104] are all calculated on a different basis both from what used to be required by GASB and from the traditional public pension actuarial basis.

Total Pension Liability – This number is similar in concept to the actuarial accrued liability (AAL) discussed above, but is NOT the same. The actuarial cost method and discount rate (among other things) are different. All plans are required to use:

- Entry age normal actuarial cost method and level percent of payroll. The CTA Pension Fund uses projected unit credit, a different cost allocation method, for statutory reporting and funding purposes.
- Single blended discount rate, instead of basing the discount rate only on projected investment earnings. The discount rate is used to calculate the present value of the future obligations of a pension fund. The discount rate has an inverse relationship to actuarial liabilities, such that a lower discount rate will result in higher liabilities.
  - If a government is projected to have enough assets to cover its projected benefit payments to current and inactive employees, it can use the expected return on investments as its discount rate.
  - If a government is projected to reach a crossover point beyond which projected assets are insufficient to cover projected benefit payments, then a blended discount rate must be used. Benefit payments projected to be made from that point forward are discounted using a high-quality municipal bond interest rate. The blended rate is a single equivalent rate that reflects the investment rate of return and the high-quality municipal bond interest rate.
  - The CTA Pension Fund was not projected to reach the crossover point, so its GASB 67 and 68 reporting is discounted at the full 8.25% assumed rate of return.

Fiduciary Net Position – This number is essentially the market value of assets in the pension plan as of the end of the fiscal year, not the assets as calculated on an actuarially smoothed basis under previous reporting requirements. The CTA Fund also uses market value as its actuarial value of assets to determine statutory employer contribution requirements.

[104] Other differences and newly reported numbers are not central to the discussion here.

Net Pension Liability – This number is similar in concept to the unfunded actuarial accrued liability, but again is NOT the same. It is the difference between the Total Pension Liability and the Fiduciary Net Position of the fund. Governments are required to report the Net Pension Liability in their Statements of Net Position in their financial statements, according to GASB 68.

Actuarially Determined Contribution (ADC) – Another change from previous standards is that funds are no longer required to report an Annual Required Contribution (ARC) based on standards promulgated by GASB. Instead, the funds will calculate an Actuarially Determined Contribution or ADC that reflects their own funding plan, unless that funding scheme does not follow actuarial standards of practice. Then the fund must report an ADC that is calculated according to actuarial standards of practice. It is again important to emphasize that the ADC is a reporting and not a funding requirement. See the discussion below for a summary of how the basis for calculating the CTA Fund ADC differs from the ARC.

Difference between the ADC and ARC

Depending on the employer's funding plan, a pension fund's ADC may be very similar to the previously reported ARC. The chart below summarizes the main assumptions behind the CTA Pension Fund calculations of ADC and ARC. The main difference between the two numbers is that the ADC has a shorter, 20-year escalating open amortization period and the ARC had a longer 30-year open amortization period. An open amortization period remains the same every year (e.g., each valuation amortizes UAAL over 30 years), while a closed amortization period declines as each year passes (e.g., successive valuations amortize at 20 years, 19 years, 18 years, etc.). The ADC uses the actuarially calculated UAAL number instead of the GASB 67 net pension liability number, which also makes it similar to the ARC. Additionally, the ADC need not follow the GASB 67 and 68 requirement of using the market value of assets, but that is what the CTA Fund already uses.

Calculation of the Actuarially Determined Contribution (ADC) vs the Annual Required Contribution (ARC)		
	ADC (FY2015 and After)	**ARC (FY2014 and Earlier)**
Amortization Period	20-year open with a 2% escalator	30-year open
Amortization Method	Level % of Payroll	Level Dollar
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit
Actuarial Value of Assets	Market Value	Market Value (2011 and after)
Investment Rate of Return	8.25%	8.25% (2013 and after)

Source: CTA Pension Fund FY2016 and FY2014 Actuarial Valuations.

The following table compares the ADC/ARC to the actual CTA contribution over the last ten years. In FY2007 the employer contribution was$173.4 million below the ARC. 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 ADC calls for a 20-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 $131.9 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.

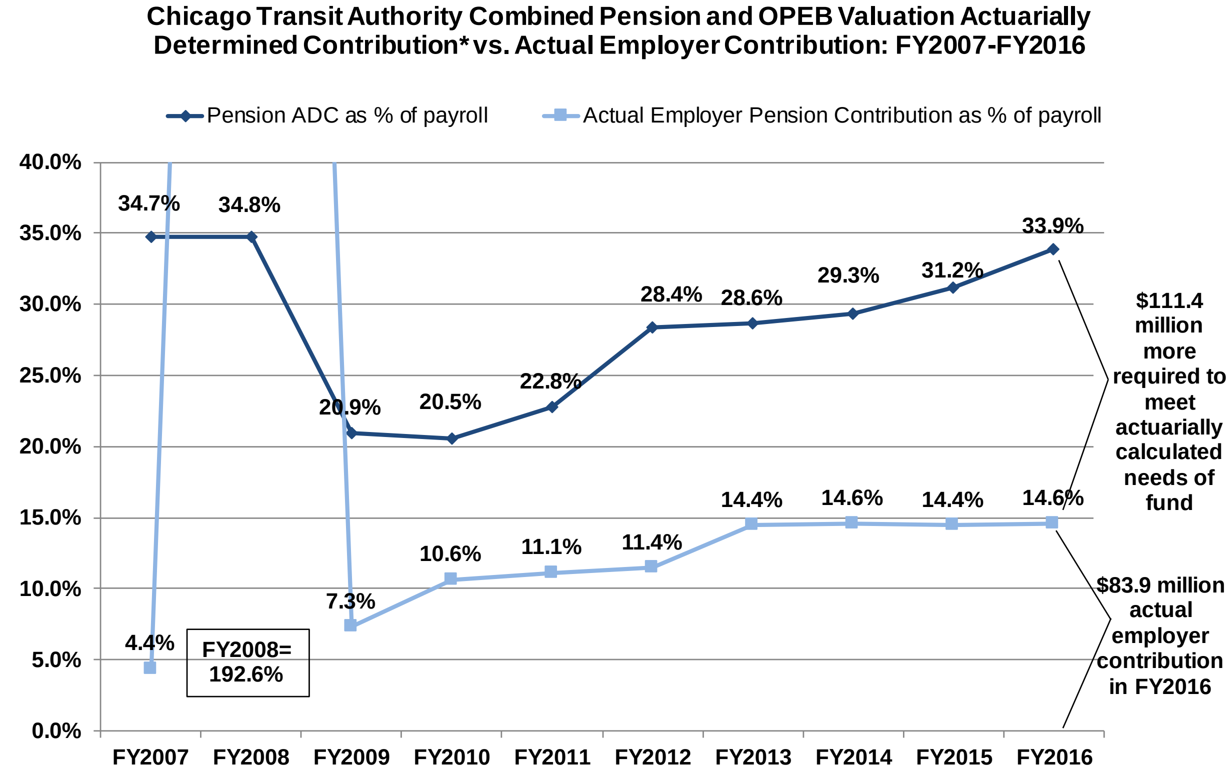
Expressing ADC/ARC as a percent of payroll provides a sense of scale and affordability. In FY2007 the ARC was 34.7% of payroll while the actual employer contribution was 4.4% of payroll. In FY2016 the pension ADC was 33.9% of payroll while the actual employer contribution was 14.6% of payroll, net of contributions to pension obligation bond debt service. Employees contributed 10.125% of salary to the pension fund in FY2016.

CTA Pension Fund
Schedule of Employer Contributions - Pension Plan as Computed for GASB Statement 25/67

Fiscal Year	Employer Actuarially Determined Contribution (1)*	Actual Employer Contribution (2)	Shortfall (1-2)	% of ADC* Contributed	Payroll	ADC* as % of Payroll	Actual Employer Contribution as % of Payroll	Actuarial Funded Ratio
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%
2015	$ 178,861,000	$ 82,800,000	$ 96,061,000	46.3%	$ 573,548,196	31.2%	14.4%	53.4%
2016	$ 195,225,784	$ 83,855,000	$ 111,370,784	43.0%	$ 575,443,885	33.9%	14.6%	52.5%

Note: Data for all years shows pension obligations only, not including OPEB.
*Before 2014, this was the Annual Required Contribution or 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 30.4 percentage point shortfall in FY2007 to a 19.4 percentage point shortfall in FY2016. 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 20 years, the District would have needed to contribute an additional 19.4% of payroll, or $111.4 million, in FY2016.



Note: FY2008 employer contribution was 196.2% of the ARC due to the deposit of bond proceeds. In FY2008 and after, the CTA employer contribution is net of a 6% credit for debt service payments on pension obligation bonds.
* Annual Required Contribution prior to FY2014.
Source: Retirement Plan for CTA Employees Actuarial Valuation Reports for FY2007-FY2016

<u>Chicago Transit Authority Pension Fund Reported Liabilities Under GASB Statements No. 67 and 68</u>

The following table shows the CTA Fund pension financial reporting under GASB 67 and 68. Fiduciary Net Position as a percentage of Total Pension Liabilities is analogous to a funded ratio as calculated under actuarial standards. In contrast to other Chicago-area governments, CTA's pension liability reporting under GASB 67 and 68 is not significantly different from its statutorily reported numbers calculated on an actuarial basis. The reason is that projected assets are forecast to be sufficient to cover projected benefit payments and therefore the full expected rate of return on assets can be used as a discount rate. Other local governments' pension funds have also been projected to reach such a crossover point beyond which projected benefit payments will exceed assets and therefore must use a lower discount rate, which results in higher present values for liabilities and net pension liabilities.[105]

Chicago Transit Authority Pension Fund GASB 67 Reporting FY2013-FY2015					
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution*
FY2013	$ 3,220,532,359	$ 1,892,714,102	$ 1,327,818,257	58.77%	$ 157,594,269
FY2014	$ 3,283,153,697	$ 1,855,912,051	$ 1,427,241,646	56.53%	$ 165,499,808
FY2015	$ 3,352,031,110	$ 1,743,216,432	$ 1,608,814,678	52.00%	$ 178,861,000
FY2016	$ 3,456,992,119	$ 1,736,369,178	$ 1,720,622,941	50.23%	$ 195,225,784
Four-Year Change	**$ 236,459,760**	**$ (156,344,924)**	**$ 392,804,684**	**-8.54%**	**$ 37,631,515**
Four-Year % Change	**7.34%**	**-8.26%**	**29.58%**		**23.88%**

* Annual Required Contribution (ARC) in FY2013.

Source: FY2014-FY2016 CTA Retirement Fund Actuarial Valuations. FY2013 numbers were presented in the FY2014 report.

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, healthcare liabilities for the pension fund decreased from $1.8 billion as of January 1, 2007 to $68.8 million as of January 1, 2008.[106] The healthcare trust is administered by the CTA pension fund Executive Director. As of January 1, 2017 the Chicago Transit Authority Retiree Health Care Trust reported total present value of projected benefits of $858.1 million and total income and assets of $ 893.9 million, for a 104.2% coverage ratio.[107] On May 5, 2016, the Illinois Supreme Court issued a ruling on *Matthews v. Chicago Transit Authority*, 2016 IL 117638. The case explores whether the 2008 reform legislation that altered retiree healthcare benefits for members of the CTA Pension Fund violated the pension protection clause of the Illinois Constitution. The claims of one of the two groups of plaintiffs were dismissed and the claims of the second group were remanded to the trial court for further proceedings.[108] According to the website of the CTA Pension Fund, "The Trustees for the Retirement Plan and Retiree Health Care Trust are working with their attorneys to evaluate the next steps. In the meantime, there will be no changes in the administration of the Retirement Plan and the Retiree Health Care Trust."[109]

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[105] For more on discount rates and how they impact measurements of the present value of liabilities, read the Civic Federation blog: https://www.civicfed.org/iifs/blog/state-pension-liabilities-rise-due-lower-expected-investment-returns and https://www.civicfed.org/civic-federation/blog/local-government-pension-funds-lower-their-expected-investment-rates-return-fy.

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

[107] Chicago Transit Authority Retiree Healthcare Trust, *Actuarial Valuation as of January 1, 2016*, p. 4.

[108] *Matthews v. Chicago Transit Authority*, 2016 IL 117638. Available at http://www.illinoiscourts.gov/opinions/SupremeCourt/2016/117638.pdf.

[109] CTA Pension Fund website, "Update: Matthews v. The CTA, et al," available at http://ctaretirement.org/news/

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.[110]

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.

Between FY2012 and FY2016 total short-term liabilities increased by $11.9 million, or 4.3%, from the previous year. The single largest short-term liability reported in FY2016 was accrued payroll at $164.7 million. In the two-year period between FY2015 and FY2016, accrued payroll rose by 25.9% or $26.4 million. The large increase was due to increases in payroll-related accruals associated with anticipated wage increase and labor related grievances.[111] Accounts payable and accrued expenses decreased by 23.7% or $34.2 million.

Since FY2012 all short-term liabilities increased by $112.0 million or 40.6%. Much of that increase was due to a $62.6 million increase in accrued payroll and a $44.0 million increase in advances and deposits. That increase occurred for three principal reasons:

1. The receipt of insurance proceeds related to several significant property damage claims to be used for the repair/replacement of those capital assets (approximately $18.2 million);
2. Advance capital funding received for Innovation, Coordination and Enhancement (ICE) grant funds received in 2015 and 2016 (approximately $15.0 million); and
3. Advance capital funding received associated with Tax Increment Financing districts (approximately $7.7 million).[112]

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[110] CTA FY2014-FY2015 Financial Statements, Note 2: Summary of Significant Accounting Policies, p. 22
[111] Information provided by CTA Budget Office, December 8, 2017.
[112] Information provided by CTA Budget Office, December 8, 2017.

In the five-year period between FY2012 and FY2016, accounts payable and accrued expenses rose by 3.5% or $5.0 million, while accrued interest payable increased by 1.5% or $314,000.

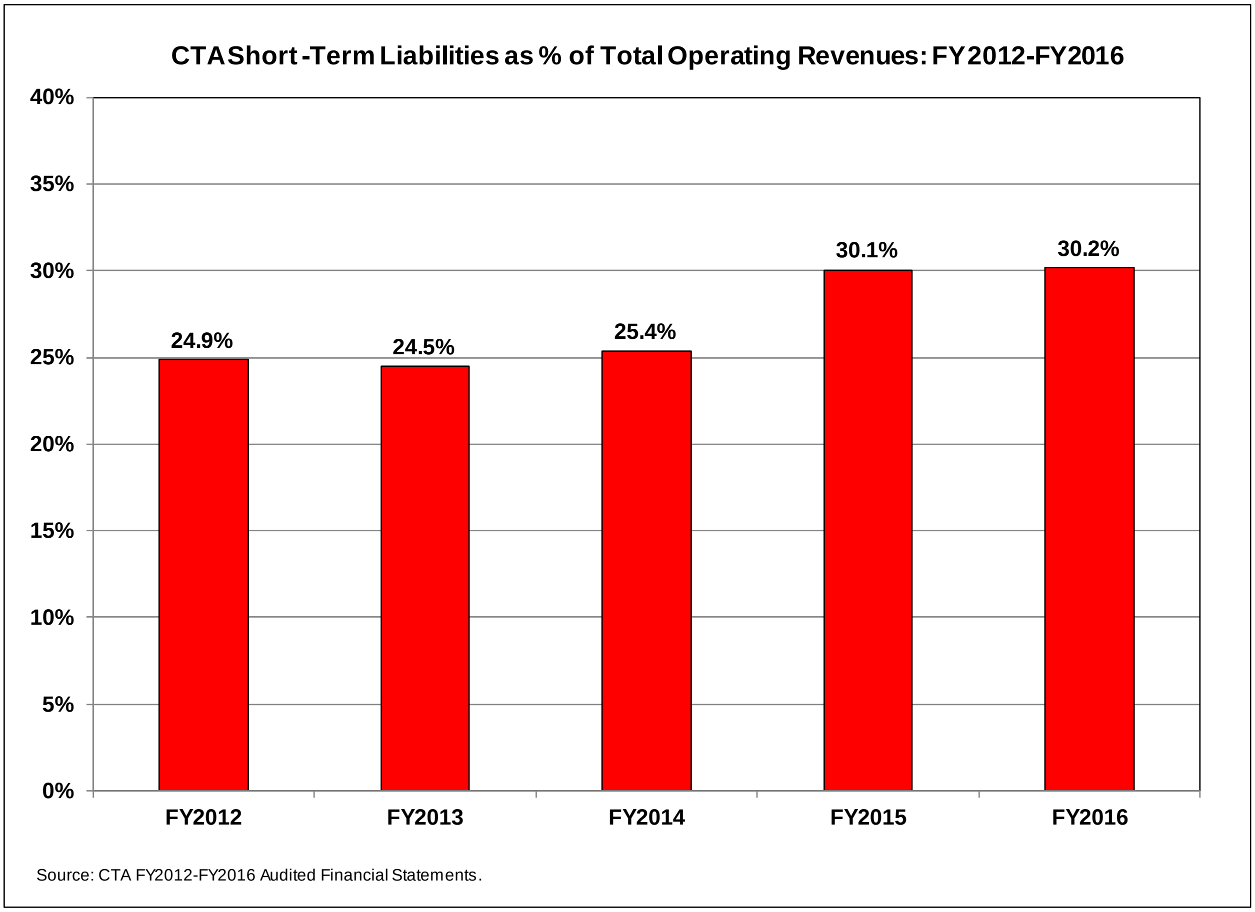
CTA Short-Term Liabilities for Business-Type Activities by Category: FY2012-FY2016 (in $ thousands)									
Liability	FY2012	FY2013	FY2014	FY2015	FY2016	Two Year $ Change	Two Year % Change	Five Year $ Change	Five Year % Change
Accounts Payable & Accrued Expenses	$ 144,256	$ 168,274	$ 154,563	$ 183,494	$ 149,299	$ (34,195)	-23.7%	$ 5,043	3.5%
Accrued Payroll	$ 102,081	$ 107,051	$ 122,383	$ 138,262	$ 164,669	$ 26,407	25.9%	$ 62,588	61.3%
Accrued Interest Payable	$ 21,107	$ 20,370	$ 22,335	$ 22,407	$ 21,421	$ (986)	-4.7%	$ 314	1.5%
Advances and Deposits	$ 8,440	$ 10,997	$ 18,173	$ 31,765	$ 52,484	$ 20,719	245.5%	$ 44,044	521.8%
Total	**$ 275,884**	**$ 306,692**	**$ 317,454**	**$ 375,928**	**$ 387,873**	**$ 11,945**	**4.3%**	**$111,989**	**40.6%**

Source: CTA FY2012-FY2016 Audited Financial Statements.

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.[113] Between FY2012 and FY2016, short-term liabilities averaged 27.0%, rising from 24.9% in FY2012 to 30.2% in FY2016. The increase over time was

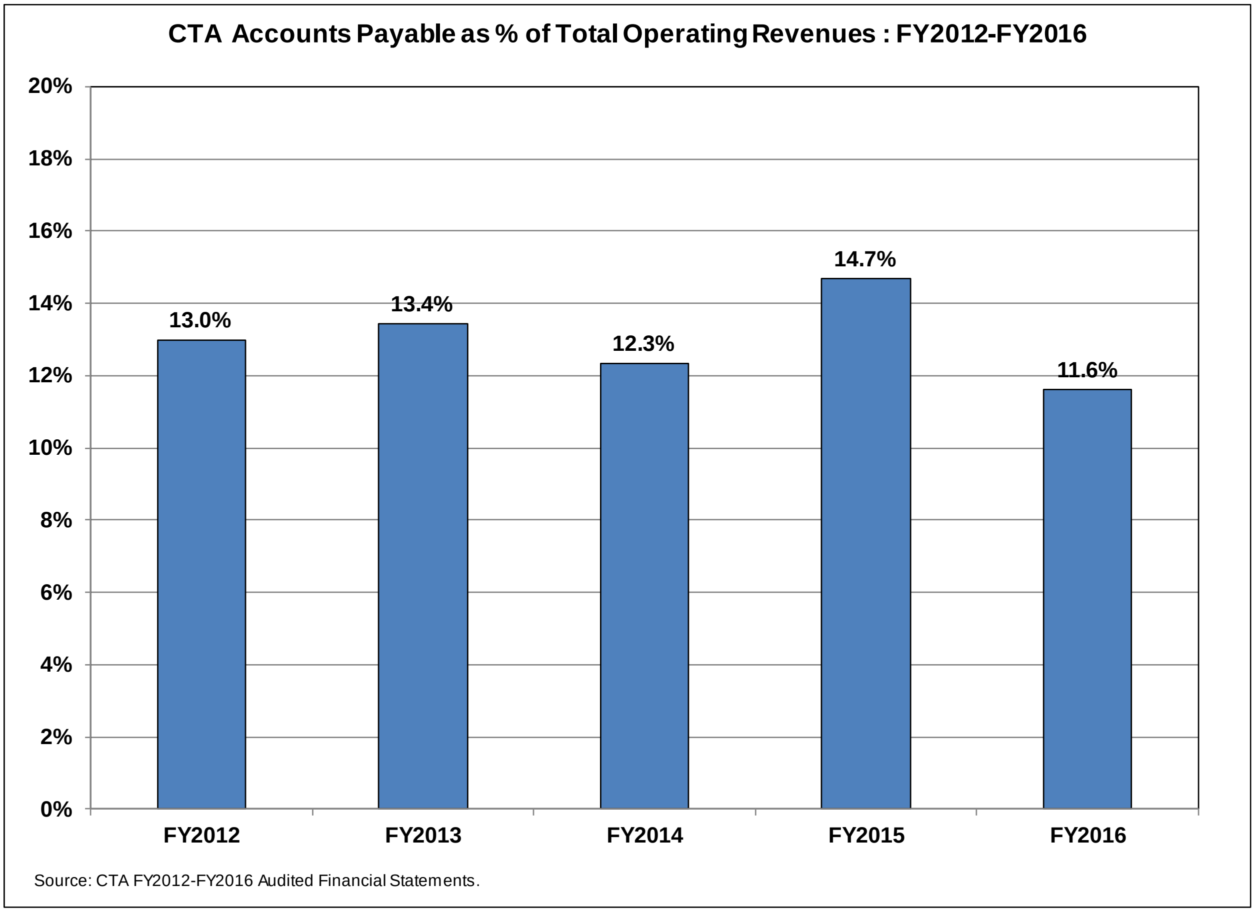
[113] Operating funds are those funds used to account for general operations – the General Fund, Special Revenue Funds and the Debt Service Fund. See Karl Nollenberger, Sanford Groves and Maureen G. Valente. *Evaluating Financial Condition: A Handbook for Local Government* (International City/County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

primarily due to increases in accrued payroll and advances and deposits. If increases in the ratio continue in future years the trend should be monitored.



Accounts Payable and Accrued Expenses Ratio

Over time, rising amounts of accounts payable and accrued expenses 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 fell from 13.0% to 11.6% over the five-year period analyzed. Over the five-year period reviewed, the accounts payable ratio averaged 13.0%. The ratio decrease between FY2015 and FY2016 from 14.7% to 11.6% is a positive indicator.



Current Ratio

The current ratio is a measure of liquidity. The ratio is calculated by dividing current assets by current liabilities. 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.[114]

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

- *Cash and cash equivalents*: Assets that are cash or can be converted into cash immediately, including petty cash, demand deposits and certificates of deposit. Cash and cash equivalents reserved for damage reserve are amounts set aside to fund the annual

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

injury and damage obligations as required by Section 39 of the Metropolitan Transportation Authority Act;[115]

- *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;[116] 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;[117] and
- *Derivative Instrument:* Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.[118]

The CTA's current ratio was 2.1 in FY2016, the most recent year for which data are available. In the past five years, the Transit Authority's current ratio averaged 2.2, which is above the preferred benchmark of 2.0. From FY2012 to FY2016, the current ratio fell from 2.5 to 2.1.

CTA Current Ratio for Business-Type Activities: FY2012-FY2016
(in $ thousands)

	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Asset									
Cash and cash equivalents	$ 124,090	$ 95,621	$ 16,505	$ 85,438	$ 79,127	$ (6,311)	-7.4%	$ (44,963)	-36.2%
Cash and cash equivalents reserved for damage reserve	$ 121,395	$ 114,622	$ 105,994	$ 97,010	$ 103,755	$ 6,745	7.0%	$ (17,640)	-14.5%
Investments	$ 1,000	$ 20	$ 86,032	$ 107,192	$ 119,942	$ 12,750	11.9%	$ 118,942	11894.2%
Grants receivable due from the RTA	$ 246,638	$ 276,970	$ 273,431	$ 310,502	$ 315,372	$ 4,870	1.6%	$ 68,734	27.9%
Grants receivable: Capital Projects from federal & state sources	$ 33	$ 33	$ -	$ -	$ -	$ -	---	$ (33)	-100.0%
Grants receivable: unbilled work in progress	$ 92,536	$ 88,703	$ 109,401	$ 110,810	$ 100,886	$ (9,924)	-9.0%	$ 8,350	9.0%
Grants receivable: Other	$ 809	$ 70	$ -	$ 28	$ 2,376	$ 2,348	---	$ 1,567	193.7%
Accounts receivable, net	$ 40,772	$ 48,881	$ 42,834	$ 36,072	$ 37,997	$ 1,925	5.3%	$ (2,775)	-6.8%
Materials and supplies, net	$ 46,056	$ 44,387	$ 33,975	$ 34,174	$ 30,622	$ (3,552)	-10.4%	$ (15,434)	-33.5%
Prepaid expenses and other assets	$ 5,399	$ 7,080	$ 5,245	$ 5,085	$ 5,575	$ 490	9.6%	$ 176	3.3%
Derivative instrument	$ 172	$ 1,023	$ -	---	---	---	--	---	---
Total Current Assets	**$ 678,900**	**$ 677,410**	**$ 673,417**	**$ 786,311**	**$ 795,652**	**$ 9,341**	**1.2%**	**$ 116,752**	**17.2%**
Current Liability									
Accounts Payable & Accrued Expenses	$ 144,256	$ 168,274	$ 154,563	$ 183,494	$ 149,299	$ (34,195)	-23.7%	$ 5,043	3.5%
Accrued Payroll	$ 102,081	$ 107,051	$ 122,383	$ 138,262	$ 164,669	$ 26,407	25.9%	$ 62,588	61.3%
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Total Current Liabilities	**$ 275,884**	**$ 306,692**	**$ 317,454**	**$ 375,928**	**$ 387,873**	**$ 11,945**	**3.2%**	**$ 111,989**	**40.6%**
Current Ratio	**2.5**	**2.2**	**2.1**	**2.1**	**2.1**				

Source: CTA FY2012-FY2016 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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[115] CTA FY2015-FY2016 Audited Financial Statements, p. 23.
[116] CTA FY2015-FY2016 Audited Financial Statements, p. 23.
[117] Investopedia.com, "Prepaid expense" at https://www.investopedia.com/terms/p/prepaidexpense.asp, retrieved November 28, 2017.
[118] CTA FY2014-FY2015 Audited Financial Statements, p. 81.

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 Pension Liabilities*: Beginning in FY2015, the CTA reports 100% of the net pension liabilities of its pension fund in the Statement of Net Position to comply with GASB Statement Number 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of CTA long-term liabilities **reported** has increased substantially. This is because the data will reflect a more holistic approach to measuring the liabilities of the government, which the previous NPO pension measurement did not. The amount owed by the CTA to its pension fund has not significantly changed. It is only being reported more transparently.
- *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 FY2012 and FY2016 total CTA long-term liabilities increased by 4.6%, or nearly $277.5 million. In the two-year period between FY2015 and FY2016 they increased slightly by 0.8%, or $49.3 million.

Most long-term liabilities are bonds payable and capital lease obligations. In FY2016 these two categories combined accounted for 67.9%, or $4.3 billion, of all long-term liabilities. During the five years reviewed, these categories averaged 79.0% of all long-term obligations. Capital lease obligation amounts owed fell by 89.1% or $1.6 billion during this period due to the acceleration of the purchase option date for certain of these agreements.[119]

The single largest increase in long-term liabilities between FY2012 and FY2016 was for net pension obligations and liabilities. This obligation was reported to rise by 4,207.5% or over $1.6 billion. As noted above, this does not represent a new, large increase in liabilities. Rather, it is

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[119] This means that the CTA retired the lease debt at an early date. CTA FY2014-FY2015 Audited Financial Statements, p. 7.

due to the new pension liability reporting requirements of GASB Statement No. 68, which present a more transparent approach to measuring these liabilities than the previous approach.

In 2008 the CTA issued $1.9 billion in pension obligation and retiree healthcare revenue bonds to increase funding in the CTA's pension fund and create a retiree healthcare trust. 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.[120] The liabilities shown below for the net OPEB obligation represent debt service on the retiree healthcare bonds.

CTA Long-Term Liabilities by Category: FY2012-FY2016
(in $ thousands)

	FY2012	FY2013	FY2014	FY2015	FY2016	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Self insurance claims	$ 257,071	$ 262,138	$ 280,254	$ 283,841	$ 269,267	$ (14,574)	-5.1%	$ 12,196	4.7%
Capital lease obligations	$ 1,799,099	$ 1,625,474	$ 400,887	$ 212,598	$ 195,248	$ (17,350)	-8.2%	$ (1,603,851)	-89.1%
Bonds payable	$ 3,828,854	$ 3,747,750	$ 4,262,394	$ 4,179,027	$ 4,097,122	$ (81,905)	-2.0%	$ 268,268	7.0%
Certificates of Participation	$ 55,886	$ 49,907	$ 43,486	$ 36,724	$ 29,775	$ (6,949)	-18.9%	$ (26,111)	---
Net Pension Obligation/Liability*	$ 38,277	$ 59,455	$ 1,371,034	$ 1,470,041	$ 1,648,772	$ 178,731	12.2%	$ 1,610,495	4207.5%
Net OPEB Obligation	$ 3,934	$ 4,120	$ 4,213	$ 4,637	$ 5,052	$ 415	8.9%	$ 1,118	28.4%
Other Long-term liabilities	$ 61,210	$ 105,495	$ 94,250	$ 85,601	$ 76,545	$ (9,056)	-10.6%	$ 15,335	25.1%
Total	**$ 6,044,331**	**$ 5,854,339**	**$ 6,456,518**	**$ 6,272,469**	**$ 6,321,781**	**$ 49,312**	**0.8%**	**$ 277,450**	**4.6%**

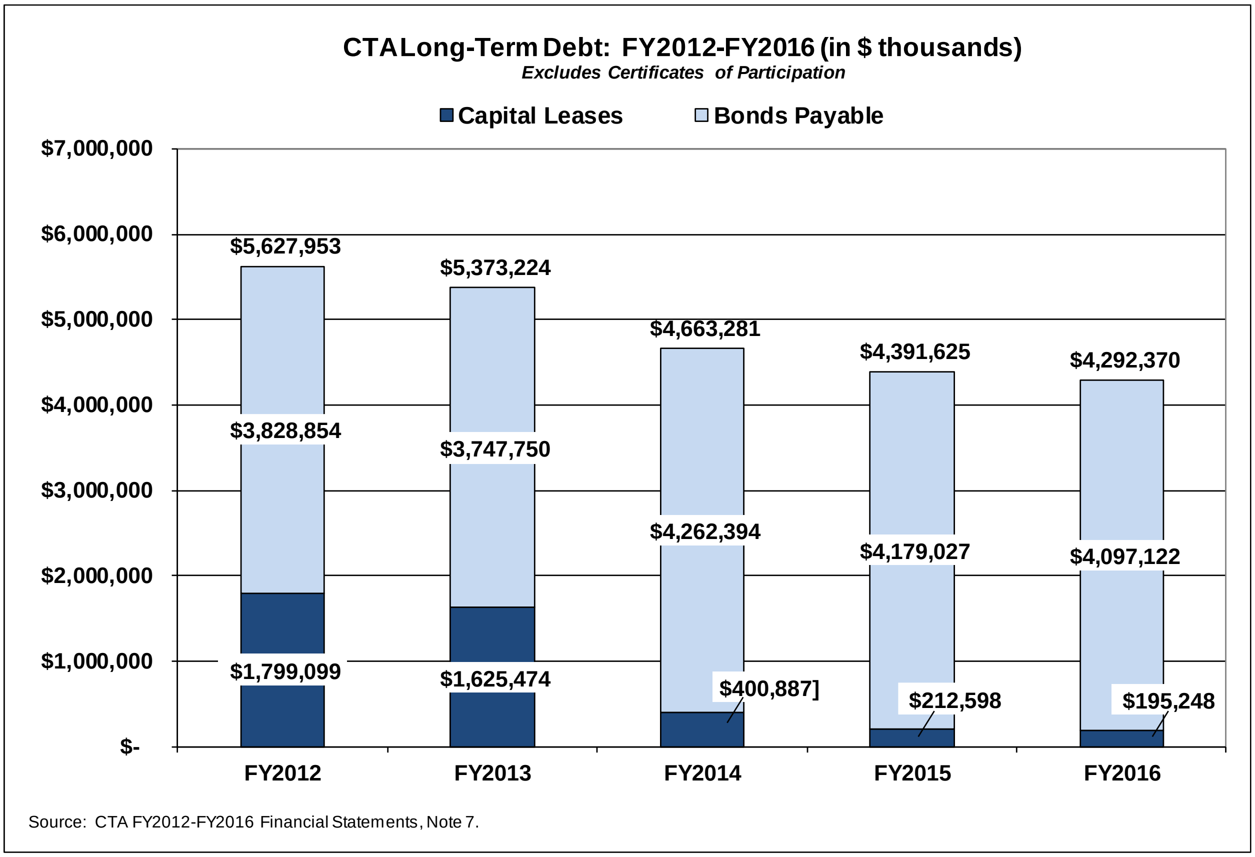
Source: CTA FY2012-FY2016 Audited Financial Statements, Note 7: Long-Term Obligations.
* Beginning in FY2015, Governments report 100% of their net pension liabilities rather than the net pension obligations. Net pension liabilities for FY2014 were restated in the FY2015 CTA audited financial statements.

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 FY2012 and FY2016. It excludes the relatively small amount spent on certificates of participation. In that period, the CTA's total long-term debt decreased by

[120] CTA FY2015-FY2016 Audited Financial Statements, p. 49.

23.7%, or roughly $1.3 billion. This is a decrease from roughly $5.6 billion to $4.3 billion. In the two-year period between FY2015 and FY2016, total long-term debt fell by $99.3 million, or 2.3%. Much of the decreases over time are due to a reduction of $1.6 billion in capital lease obligations associated with acceleration of the purchase option date for certain of these agreements. This means that the CTA retired the lease debt at an early date.[121]

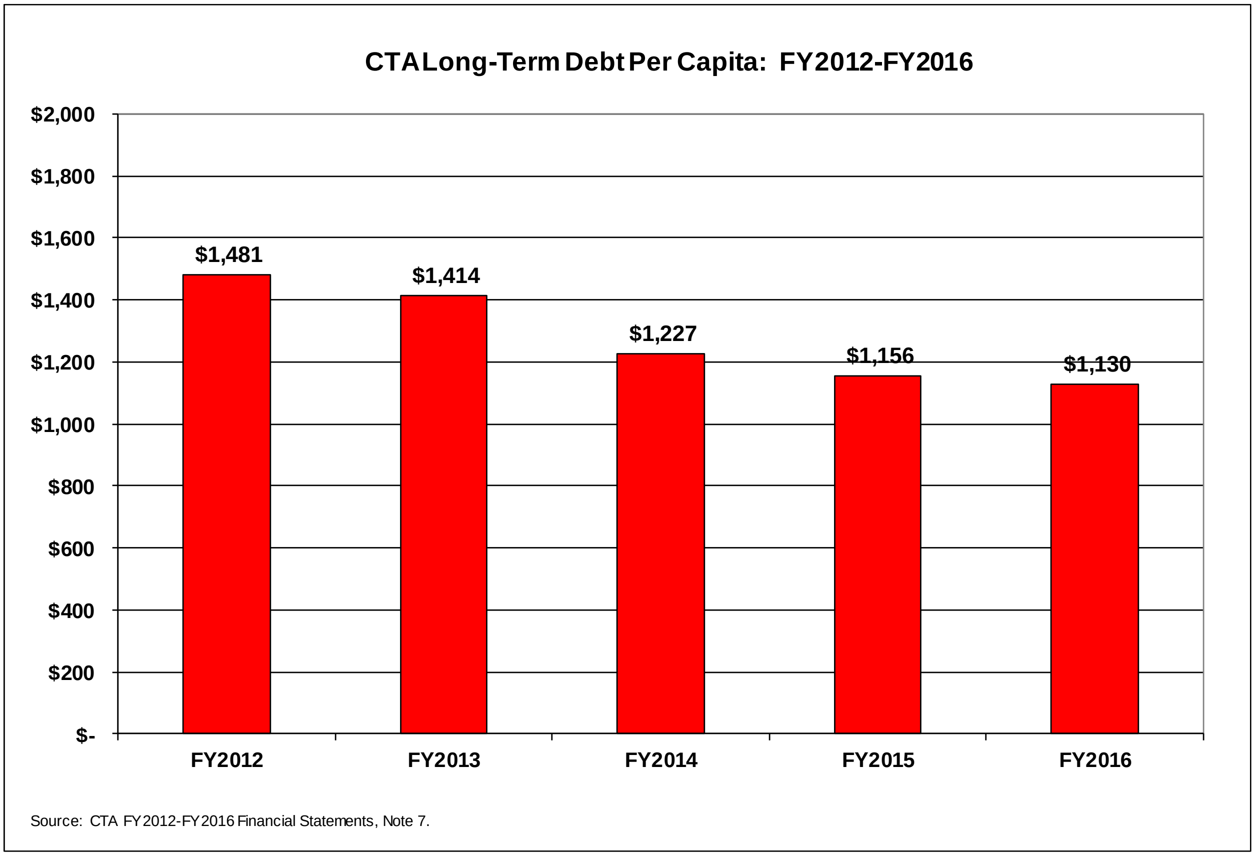


Long-Term Debt Per Capita

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[122] 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 FY2012 long-term debt per capita was $1,481. By FY2016, the ratio had decreased to $1,130, a 23.7% decrease. Long-term debt per capita fell by 2.3% between FY2015 and FY2016. Much of the decrease over time is due to $1.6 billion in reduced capital lease obligations associated with acceleration of the purchase option

[121] See CTA FY2014-FY2015 Audited Financial Statements, p. 7.
[122] This excludes certificates of participation, as noted previously.

date for certain of those agreements; this means that the CTA retired the lease debt at an early date.[123] The reduction in long-term debt per capita is a positive trend.



Debt Service Ratio

Pension obligation debt service, retiree healthcare funding and lease payments on Public Building Commission debt are the only debt service paid out of the CTA's operating budget. The source of debt service funding for other CTA bonds is federal capital grants.[124] Between FY2014 and FY2018, pension obligation bond debt service as a percentage of operating appropriations is

[123] CTA FY2014-FY2015 Audited Financial Statements, p. 7.
[124] Information provided by CTA Budget Office, November 4, 2011.

expected to average 10.7%, which is below the range of 15% to 20% considered high by the ratings agencies.[125]

CTA Debt Service as a Percentage of Appropriations: FY2014-FY2018			
	Debt Service	Total Appropriation	Ratio
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%
FY2017	$ 156,573,869	$ 1,524,239,000	10.3%
FY2018	$ 156,572,944	$ 1,514,495,000	10.3%

Source: CTA President's FY2018 Budget Recommendations, pp. 23 and 116; FY2016 CTA President's FY2018 Budget Recommendations, pp. 48 and 128; FY2015 CTA President's FY2018 Budget Recommendations, pp. 48 and 123.

Current CTA Bond Ratings

The CTA's outstanding debt is assigned the following ratings as of November 2, 2017:

CTA Credit Ratings as of 11/28/17				
	Sales/Transfer Tax Receipt Revenue Bonds	TIFIA (US DOT) Loan	Building Revenue Bonds (PBC Debt)	Capital Grant Receipts Revenue Bonds
Moody's	A3	Not rated	Baa1	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 FY2018 Budget Recommendations, p. 111.

CTA CAPITAL PLAN FY2018-FY2022

The CTA five-year capital plan for FY2018-FY2022 proposes a total of $2.7 billion in funding. Federal funds will account for 79.7% of all funding. At this time there is still no state funding available; the State of Illinois has not had a funded mass transit bond program since 2014.[126] The remaining 20.3% of all capital funding, or just over $548.2 million, will include funding from the RTA bond program, CTA funds, funds from Cook County and $287.2 million in CTA bonds for Red and Purple Line Modernization project. In 2018, CTA will also issue capital

[125] 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.
[126] CTA President's FY2018 Budget Recommendations p. 49.

bonds that are supported by the City of Chicago's Ground Transportation Tax. The issuance is expected to generate $179 million of project funds.[127]

CTA Capital Funding by Source: FY2018-FY2022 (in $ thousands)							
Source	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**$ Total**	**% of Total**
New Funding Available							
Federal Funding	$ 428,063	$ 408,014	$ 502,445	$ 405,806	$ 409,208	$ 2,153,536	79.7%
Local Funding							
RTA Bonds	$ -		$ 79,000			$ 79,000	2.9%
Enhanced Mobility Seniors/Disabilities	$ 380					$ 380	0.0%
Invest in Cook	$ 235					$ 235	0.0%
CTA Bond-Ground Transportation Tax	$ 179,000					$ 179,000	6.6%
CTA-Bus Proceeds	$ 1,875					$ 1,875	0.1%
CTA- Red/Purple Modernization	$ 287,249					$ 287,249	10.6%
Subtotal Local Funding	**$ 468,739**	**$ -**	**$ 79,000**	**$ -**	**$ -**	**$ 547,739**	**20.3%**
CTA Operating Match	$ 485	$ -	$ -	$ -	$ -	$ 485	0.0%
Total	**$ 897,287**	**$ 408,014**	**$ 581,445**	**$ 405,806**	**$ 409,208**	**$ 2,701,760**	**100.0%**

Source: CTA President's FY2018 Budget Recommendations p. 52.

CTA capital funding by use in FY2018 will total $896.8 million. A breakdown of funding uses is shown in the next exhibit.

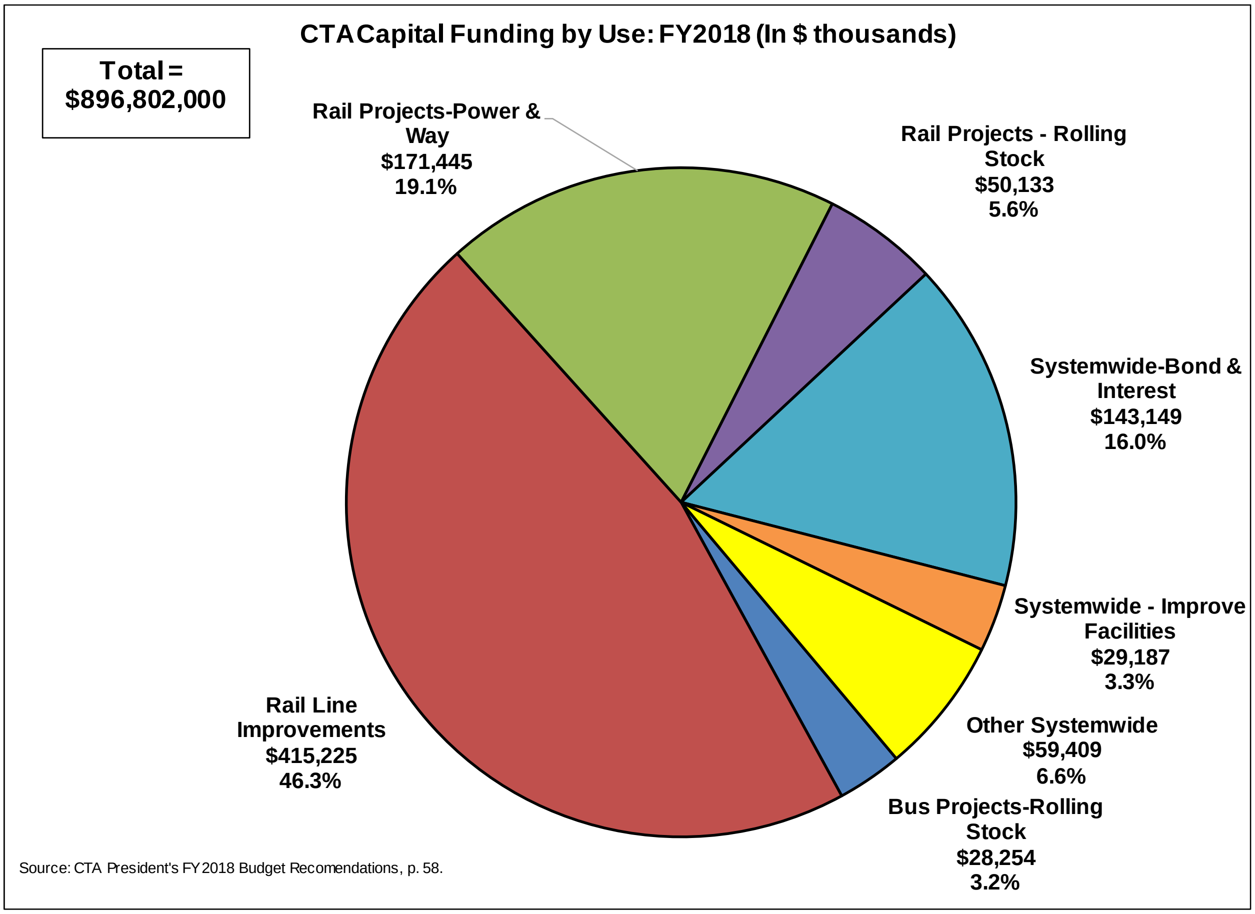
- Rail line improvements will use $415.2 million, or 46.3%, of all spending;
- $171.4 million, or 19.1% of all spending, will be used for rail power and way projects;
- Bond financing costs will total $143.1 million, or 16.0%, of total spending;
- Rail rolling stock[128] projects will spend $50.1 million, or 5.6%, of FY2018 funding while

[127] CTA President's FY2018 Budget Recommendations p. 55.

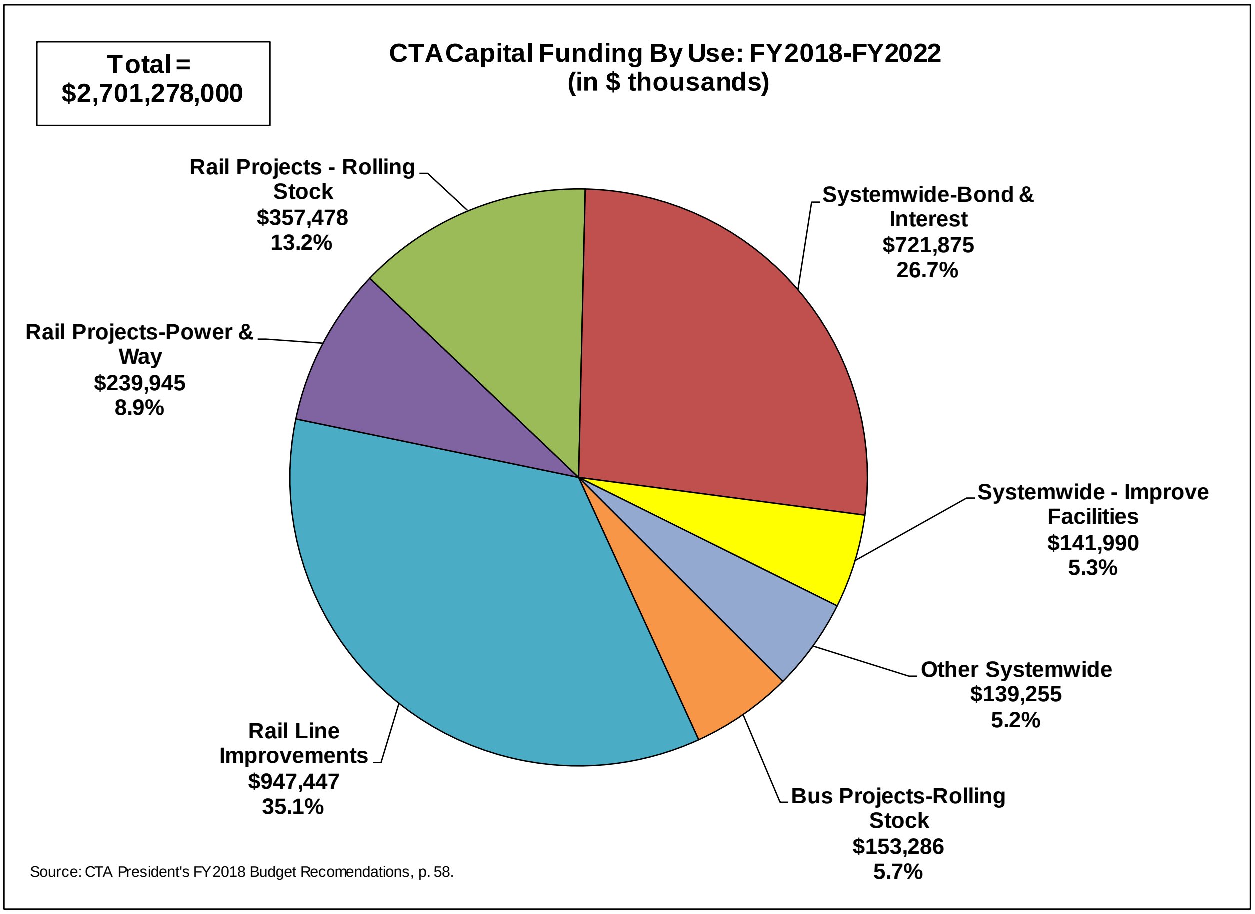
[128] Rolling stock refers to equipment used for transportation, including buses and trains.

bus rolling stock projects will use $28.3 million, or 3.2%;

- Systemwide expense to improve facilities will use $29.2 million; and
- Other funding uses include $59.4 million.



A five-year breakdown of CTA capital funding is shown next. Rail line improvements will be the biggest use of funds, at $947.4 million, or 35.1%, of the total. This will be followed by systemwide bond financing costs at $721.9 million or 26.7% of the total. Rolling stock for rail projects will use $357.5 million, while bus rolling stock projects will use $153.3 million.



CTA Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[129]

- 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;
- 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;

[129] 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.

- 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

The following table provides a comparison between the adopted FY2017 budget, the FY2017 year-end forecast and the FY2018 proposed budget expenditures. The CTA President's FY2018 Budget Recommendation totals $1.51 billion. Due to a reduction in State funding, the CTA reduced its FY2017 expenditures in order to better align revenues with expenditures. The CTA forecasts it will end FY2017 $57.0 million, or 3.7%, below its originally adopted FY2017 budget of $1.52 billion. The CTA is proposing to increase its appropriations in FY2018 by $47.3 million, or 3.2% above the FY2017 forecast and a decrease of $9.7 million, or 0.6% from the FY2017 adopted budget.

FY2017 Adopted, FY2017 Forecast & FY2018 Proposed (in $ millions									
Object	**FY2017 Adopted**	**FY2017 Forecast**	**FY2018 Proposed**	**Adopted to Forecast $ Change**	**Adopted to Forecast % Change**	**Forecast to Proposed $ Change**	**Forecast to Proposed % Change**	**Adopted to Proposed $ Change**	**Adopted to Proposed % Change**
Labor	$ 1,050.4	$ 1,038.4	$ 1,046.1	$ (12.0)	-1.1%	$ 7.7	0.7%	$ (4.4)	-0.4%
Material	$ 89.2	$ 87.6	$ 92.4	$ (1.6)	-1.8%	$ 4.9	5.6%	$ 3.2	3.6%
Fuel	$ 33.9	$ 28.9	$ 33.6	$ (5.0)	-14.8%	$ 4.6	16.1%	$ (0.4)	-1.1%
Power	$ 31.4	$ 28.1	$ 31.4	$ (3.3)	-10.5%	$ 3.3	11.8%	$ 0.0	0.0%
Provision for Injuries & Damages	$ 9.5	$ 3.2	$ 5.0	$ (6.3)	-66.7%	$ 1.8	57.9%	$ (4.5)	-47.4%
Security	$ 16.8	$ 17.3	$ 17.8	$ 0.5	2.8%	$ 0.5	2.9%	$ 1.0	5.7%
Pension Obligation Bonds	$ 111.9	$ 103.6	$ 112.5	$ (8.3)	-7.4%	$ 8.9	8.6%	$ 0.6	0.5%
Contractual Services	$ 109.3	$ 96.1	$ 109.1	$ (13.3)	-12.1%	$ 13.0	13.5%	$ (0.3)	-0.3%
Utilities	$ 24.2	$ 22.2	$ 23.3	$ (2.0)	-8.3%	$ 1.1	5.0%	$ (0.9)	-3.7%
Non-Capital Grant Expense	$ 8.7	$ 9.6	$ 9.5	$ 0.9	9.8%	$ (0.1)	-1.1%	$ 0.8	8.6%
Advertising & Promotions	$ 1.2	$ 0.5	$ 1.2	$ (0.7)	-56.6%	$ 0.7	133.1%	$ 0.0	1.2%
Travel & Meetings	$ 1.7	$ 0.4	$ 1.5	$ (1.2)	-74.6%	$ 1.0	248.0%	$ (0.2)	-11.7%
Leases & Rentals	$ 3.1	$ 2.2	$ 3.2	$ (0.9)	-28.7%	$ 1.0	47.8%	$ 0.2	5.3%
Other General Expenses	$ 4.2	$ 0.6	$ (1.0)	$ (3.6)	-85.9%	$ (1.6)	-259.0%	$ (5.2)	-122.5%
Debt Service	$ 28.6	$ 28.6	$ 28.9	$ -	0.0%	$ 0.3	1.2%	$ 0.3	1.2%
Total	**$ 1,524.2**	**$ 1,467.2**	**$ 1,514.5**	**$ (57.0)**	**-3.7%**	**$ 47.3**	**3.2%**	**$ (9.7)**	**-0.6%**

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

Source: CTA FY2018 President's Budget Recommendations, pp. 22 and 23; and information provided by CTA on December 8, 2017.

APPENDIX B

The following table provides a comparison between the adopted FY2017 budget, the FY2017 year-end forecast and the FY2018 proposed budget revenues. The President's FY2018 Budget Recommendation is $1.51 billion in total operating revenues, which is a 0.6%, or $9.7 million, decrease from the adopted FY2017 budget level of $1.52 billion. However, it is a $64.8 million, or 4.5%, increase from the FY2017 year-end forecast because FY2017 revenues are projected to be much lower than budgeted. The year-end projection for FY2017 is $74.5 million lower than the revenue level in the adopted FY2017 budget. The lower than projected FY2017 year-end revenue is due to State of Illinois budget cuts to CTA funding, sales tax revenues coming in less than expected and ongoing ridership declines.

CTA Operating Budget Revenue: FY2017 Adopted, FY2017 Forecast & FY2018 Proposed (in $ millions)									
Source	**FY2017 Adopted**	**FY2017 Forecast**	**FY2018 Proposed**	**Adopted to Forecast $ Change**	**Adopted to Forecast % Change**	**Forecast to Proposed $ Change**	**Forecast to Proposed % Change**	**Adopted to Proposed $ Change**	**Adopted to Proposed % Change**
System-Generated Revenue									
Fares and Passes	$ 581.3	$ 560.4	$ 583.1	$ (20.9)	-3.6%	$ 22.7	4.1%	$ 1.9	0.3%
Reduced Fare Reimbursement	$ 28.3	$ 14.6	$ 28.3	$ (13.7)	-48.4%	$ 13.7	93.9%	$ -	0.0%
Advertising, Charter & Concessions	$ 35.2	$ 35.3	$ 38.3	$ 0.1	0.3%	$ 3.1	8.7%	$ 3.2	9.0%
Investment Income	$ 1.1	$ 2.1	$ 1.6	$ 1.0	87.3%	$ (0.5)	-23.8%	$ 0.5	42.7%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%	$ -	0.0%
Other Revenue	$ 35.5	$ 33.3	$ 51.2	$ (2.1)	-6.0%	$ 17.9	53.6%	$ 15.7	44.3%
Total System-Generated	**$ 686.3**	**$ 650.7**	**$ 707.6**	$ (35.6)	-5.2%	**$ 56.9**	**8.7%**	**$ 21.2**	**3.1%**
Public Funding through RTA	**$ 837.9**	**$ 799.0**	**$ 806.9**	$ (38.9)	-4.6%	**$ 7.9**	**1.0%**	**$ (31.0)**	**-3.7%**
Total	**$ 1,524.2**	**$ 1,449.7**	**$ 1,514.5**	**$ (74.5)**	**-4.9%**	**$ 64.8**	**4.5%**	**$ (9.7)**	**-0.6%**

Source: CTA President's FY2018 Budget Recommendations, p. 23.