The Civic Federation

Research * Information * Action * Est. 1894

CHICAGO TRANSIT AUTHORITY PRESIDENT'S FY2019 BUDGET RECOMMENDATIONS

Analysis and Recommendations

November 7, 2018

The Civic Federation • 10 N. Dearborn Street • Chicago, IL 60602 • civicfed.org

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Transit Authority's FY2019 proposed operating budget of $1.6 billion because it does not include any fare increases or service cuts despite continued shortfalls in state funding. The CTA's FY2019 budget proposes to increase spending by 2.5%, or $37.6 million, above last year's budget due primarily to contractual wage increases for union employees.

In FY2018 the CTA had to rely on $17.5 million in short-term borrowing to close the previous year's budgetary shortfall due to a greater than expected decline in ridership and an unanticipated reduction in state funding.[1] The CTA also increased base and pass fares in FY2018. While it is positive that the CTA has paid off the borrowing and will not use short-term borrowing again in FY2019, the RTA continues to direct the CTA to rely on state funding sources that have not materialized since 2015 despite the State's ongoing budgetary instability.

The State of Illinois has only provided approximately half of the reduced-fare subsidy of $28.3 million to the CTA each year since 2015. In addition, the State's FY2018 budget cut the Public Transportation Fund (PTF) funding by 10% from State FY2017 levels and imposed a 2% surcharge on RTA sales tax receipts. The State's FY2019 budget reduced the surcharge on RTA sales tax receipts to 1.5%, reduced the PTF funding cut to 5% from State FY2017 levels and continues the reduction in the reduced fare subsidy, which amounts to a $15 million reduction in funding for the CTA in FY2019 alone.[2] Additionally, the State has not passed a comprehensive state capital funding bill since 2009, which had previously provided approximately $200 million annually in much-needed capital dollars.[3]

Despite the ongoing shortfalls in state funding, the CTA and the City of Chicago have worked to improve the transit experience by making investments to modernize its fleet of bus and rail cars and improve service levels, accessibility and security in order to compete for ridership with the growing use of alternative transit options. The creation of the transit TIF district and the City of Chicago sharing a portion of the ground transportation tax on ride-sharing vehicles for capital improvement projects are innovative responses to the State's continued abdication of its responsibility to transit agencies in Illinois. The CTA estimates that it needs approximately $1.0 billion annually to keep its capital stock in good repair but its five-year capital plan only provides for an average of $577 million in funding annually. This is a substantial funding gap that continues to grow[4] and **should not** be expected to be funded only through local sources.

The Civic Federation believes that in order for the CTA, Metra and Pace to continue to function as key economic assets of the Chicago region, the State must exercise its responsibility to provide essential operating and capital support and the RTA must exercise its authority to provide essential oversight and additional support to the three service boards. The State must develop a capital improvement plan that adequately funds transit needs across Illinois. The Federation further suggests that the Chicago region may be better served by a truly integrated regional transit agency that serves the entire region and promotes coordination rather than competition, encourages reasonable planning and recognizes the financial condition of the State of Illinois.

---

[1] CTA President's FY2018 Budget Recommendations, p. 30.
[2] CTA President's FY2019 Budget Recommendations, p. 35
[3] CTA President's FY2019 Budget Recommendations, p. 2.
[4] CTA President's FY2019 Budget Recommendations, p. 86.

The Civic Federation offers the following **key findings** from the FY2019 Recommended Budget:

- CTA's operating budget will total $1.55 billion, a 2.5%, or $37.6 million, increase from the FY2018 adopted appropriation of approximately $1.5 billion;
- Labor expenses will be $1.08 billion, which is an increase of 3.6%, or $38.0 million, from $1.04 billion in FY2018;
- Over the past ten years, the budgeted CTA workforce has increased by 4.3%, or 408 positions, while labor cost has increased by 29.8%, or $249.0 million over the same period;
- Farebox revenue is projected to total $588.0 million in FY2019, which is a 0.8%, or $4.9 million increase from the adopted FY2018 budget. The $4.9 million increase between FY2018 and FY2019 is attributed to the remaining impact of the 2018 fare increase and a full year of new U-Pass rates effective fall 2018;[5]
- Public funding through the Regional Transportation Authority is projected to be $844.4 million, which is an increase of $37.4 million, or 4.6%, from the FY2018 adopted budget;
- The CTA expects ridership to decrease from the FY2018 forecast by 6.0 million rides, or 1.3%, and a decline of 800,000 rides, or 0.1% from the FY2018 adopted budget to a total of 461.3 million rides in FY2019. Over a ten year period, ridership is expected to decline by 10.8%, or 55.6 million rides, from 516.9 million rides in FY2010 to 461.3 million rides projected in FY2019;
- The unfunded actuarial accrued liability of the CTA Pension Fund increased by $34.8 million from $1.59 billion in FY2016 to $1.62 billion in FY2017; and
- Over the five-year period from FY2013 to FY2017, the CTA's long-term debt decreased by 16.1% from $5.4 billion to $4.5 billion.

The Civic Federation **supports** the following elements of the CTA's FY2019 recommended budget:

- Not relying on short-term borrowing in the FY2019 proposed budget;
- Keeping fares flat and maintaining service levels;
- 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
- Meeting fare and pass revenue projections.

The Civic Federation has the following **concerns** about the CTA's FY2019 recommended budget and future financial stability:

- Ongoing State funding shortfalls;
- Ridership continues to decline and a clearly laid out strategy on how the CTA will curb the decline in ridership or deal with ongoing lower ridership levels is not publicly available;
- While the CTA has made improvements to its budget book in recent years, the FY2019 budget book does not include sufficient details on operating expenses;
- 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; and
- RTA's failure to use its statutory authority to provide additional financial assistance to the CTA, Metra and Pace.

[5] CTA President's FY2019 Budget Recommendations, p. 40.

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

- Regional transit in Northeastern Illinois needs an adequate and stable funding source. The funding problem is twofold: the RTA does not have an adequate, dedicated revenue source to meet its enormous capital needs or operating needs other than the regional sales tax and the State of Illinois has not had a state transportation funding program since the *Illinois Jobs Now!* program in 2009.
- The State should adopt a new capital improvement program that provides adequate funding for transit;
- The CTA should conduct a study to determine the feasibility of a peak-hour-based fare structure and increased fares for express bus service;
- The State should re-evaluate the state imposed permanent sales tax collection surcharge of 1.5%;
- The CTA should improve the budget document by providing more detail about full-time equivalent positions by department and other labor related expenses;
- The CTA should institute a policy to prohibit "Scoop and Toss" refundings;
- 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 regional transit governance in Northeastern Illinois with the goal of improving transit in the region.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Chicago Transit Authority's FY2019 proposed operating budget of $1.6 billion because it does not include any fare increases or service cuts despite continued shortfalls in state funding. The CTA's FY2019 budget proposes to increase spending by 2.5%, or $37.6 million, above last year's budget due primarily to contractual wage increases for union employees.

In FY2018 the CTA had to rely on $17.5 million in short-term borrowing to close the previous year's budgetary shortfall due to a greater than expected decline in ridership and an unanticipated reduction in state funding.[6] The CTA also increased base and pass fares in FY2018. While it is positive that the CTA has paid off the borrowing and will not use short-term borrowing again in FY2019, the RTA continues to direct the CTA to rely on state funding sources that have not materialized since 2015 despite the State's ongoing budgetary instability.

The State of Illinois has only provided approximately half of the reduced-fare subsidy of $28.3 million to the CTA each year since 2015. In addition, the State's FY2018 budget cut the Public Transportation Fund (PTF) funding by 10% from State FY2017 levels and imposed a 2% surcharge on RTA sales tax receipts. The State's FY2019 budget reduced the surcharge on RTA sales tax receipts to 1.5%, reduced the PTF funding cut to 5% from State FY2017 levels and continues the reduction in the reduced fare subsidy, which amounts to a $15 million reduction in funding for the CTA in FY2019 alone.[7] Additionally, the State has not passed a comprehensive state capital funding bill since 2009, which had previously provided approximately $200 million annually in much-needed capital dollars.[8]

Despite the ongoing shortfalls in state funding, the CTA and the City of Chicago have worked to improve the transit experience by making investments to modernize its fleet of bus and rail cars and improve service levels, accessibility and security in order to compete for ridership with the growing use of alternative transit options. The creation of the transit TIF district and the City of Chicago sharing a portion of the ground transportation tax on ride-sharing vehicles for capital improvement projects are innovative responses to the State's continued abdication of its responsibility to transit agencies in Illinois. The CTA estimates that it needs approximately $1.0 billion annually to keep its capital stock in good repair but its five-year capital plan only provides for an average of $577 million in funding annually. This is a substantial funding gap that continues to grow[9] and **should not** be expected to be funded only through local sources.

The Civic Federation believes that in order for the CTA, Metra and Pace to continue to function as key economic assets of the Chicago region, the State must exercise its responsibility to provide essential operating and capital support and the RTA must exercise its authority to provide essential oversight and additional support to the three service boards. The State must develop a capital improvement plan that adequately funds transit needs across Illinois. The Federation further suggests that the Chicago region may be better served by a truly integrated regional transit agency that serves the entire region and promotes coordination rather than

[6] CTA President's FY2018 Budget Recommendations, p. 30.
[7] CTA President's FY2019 Budget Recommendations, p. 35
[8] CTA President's FY2019 Budget Recommendations, p. 2.
[9] CTA President's FY2019 Budget Recommendations, p. 86.

competition, encourages reasonable planning and recognizes the financial condition of the State of Illinois.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the CTA President's FY2019 Budget Recommendations.

Not Relying on Short-term Borrowing in the FY2019 Proposed Budget

In FY2018 the CTA had to rely on $17.5 million in short-term borrowing to close the previous year's budgetary shortfall due to a greater than expected decline in ridership and an unanticipated reduction in state funding.[10] The CTA also increased base and pass fares in FY2018. While the CTA paid off the borrowing in FY2018 through greater efficiencies and cost savings and has eliminated the use of short-term borrowing in its FY2019 proposed budget, it is again budgeting for the full $28.3 million reimbursement from the State in FY2019, which has not materialized since 2015.

The Civic Federation is encouraged the CTA was able to manage its budget and does not intend to rely on short-term borrowing to fund operations in FY2019. However, should the State of Illinois continue to fund reduced fare reimbursements at the same level as the last five budget years instead of restoring it as the CTA and RTA anticipate or ridership declines at a faster rate, the CTA will again face a funding shortfall that will force it to find even more cuts to ensure its budget ends the year in balance in order to avoid more future short-term borrowing.

Keeping Fares Flat and Maintaining Service Levels

The CTA's proposed FY2019 budget does not includes any fare increases or service cuts to balance its budget. As part of the FY2018 budget the CTA increased its base fares by $0.25 for bus and rail. The CTA also increased the cost of a 30-day pass by $5.00 and implemented a slight increase in the reduced fares paid by seniors and persons with disabilities that meet certain income requirements. This was the first increase in base fares since 2009. The Civic Federation supported this fare increase as a reasonable revenue enhancement in the context of a nearly decade-long freeze in base fares and continued shortfalls in State funding and was successful in raising the revenue the CTA desperately needs. In this context, the Civic Federation supports the CTA's decision to not impose fare increases or service cuts to balance its proposed FY2019 budget.

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 in conjunction with a necessary fare increase last year have allowed the CTA to maintain service levels and improve the transit

[10] CTA President's FY2018 Budget Recommendations, p. 30.

experience for CTA customers. According to the CTA, the savings and new revenue total approximately $330 million since 2011.[11]

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 FY2019 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 allowed the CTA to issue bonds to fund $179 million of capital improvements over a five-year period.[12]

The Civic Federation supports this source of funding as an innovative approach in light of the fact that the State has not passed a capital funding bill since 2009.

Meeting Fare and Pass Revenue Projections

In FY2018 the CTA increased its base fares by $0.25 for bus and rail. The CTA also increased the cost of a 30-day pass by $5.00 and implemented a slight increase in the reduced fares paid by seniors and persons with disabilities that meet certain income requirements. This was the first increase in base fares since 2009. The CTA originally budgeted for $583.1 million in fare and pass revenue in FY2018. It is now forecasting to end FY2018 slightly above budget at $584.0 million. In FY2019 the CTA is budgeting fare and pass revenue at $588.0 million, which is increasing due a full year of the increase to base fares that went into effect January 7, 2018 and new rate for the U-Pass that went into effect in Fall 2018.[13] The Civic Federation supported 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 Federation is encouraged by the outcome of the fare increase in terms of improving the CTA's fiscal stability while also impacting ridership according to the CTA's projections.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the CTA President's FY2019 Budget Recommendations.

Ongoing State Funding Shortfalls

The State of Illinois operated without a comprehensive budget for two years. As a result of the ongoing state budget constraints, the CTA has not received $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

---

[11] CTA President's FY2019 Budget Recommendations, p. 2.
[12] CTA President's FY2019 Budget Recommendations, p. 49.
[13] CTA President's FY2019 Budget Recommendations, p. 40.

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 even though the RTA projected State funding levels would be restored each year. In FY2019 the CTA is again budgeting for the full $28.3 million reimbursement from the State based on information provided by the RTA.[14] However, the funding is not included in the State FY2019 budget signed into law in June 2018. 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 has cautioned the CTA each year that it was highly unlikely the full reduced fare subsidy would be restored given the State's ongoing financial challenges. 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, while the State reduced its cuts to the State Public Transportation Fund (PTF) funding by five percentage points in its FY2019 budget and reduced the surcharge on the collection of sales tax receipts that was first imposed in FY2018 from 2.0% to 1.5%, the remaining funding shortfall presents a difficult budgetary challenge to the CTA and other transit agencies around the State.

The Civic Federation once again cautions the CTA and RTA that it is overly optimistic to expect State funding to return to normal levels at a time when the State's FY2019 budget passed in June 2018 is precariously balanced,[15] its backlog of unpaid bills is hovering around $7 billion and it faces enormous increases in required pension funding in the FY2020 budget, among many other challenges.[16]

While the CTA projects balanced budgets through FY2021, those budgets assume funding from the State reimbursement for free and reduced fare rides will be partially restored in State fiscal year 2020, which begins July 1, 2019, but reduced again thereafter and funding from the State Public Transportation Fund (PTF), which was cut by 5% in the State's FY2019 budget, will be restored and labor expenses will only increase slightly.[17] The projections of State funding restoration in FY2019 and beyond ignores the current financial condition of the State.

Declining Ridership

The CTA projects that ridership will be 461.3 million rides in FY2019, a decrease of 6.1 million rides, or 1.3%, from the FY2018 year-end forecast and is projected to decrease by 0.9 million rides, or 0.2%, from the FY2018 adopted budget. Over the ten-year period beginning in FY2010,

---

[14] CTA President's FY2019 Budget Recommendations, p. 40.

[15] The Illinois Institute for Illinois' Fiscal Sustainability at the Civic Federation, "Illinois FY2019 Budget Still Faces Major Hurdles," October 5, 2018, https://www.civicfed.org/iifs/blog/illinois-fy2019-budget-still-faces-major-hurdles (last accessed November 6, 2018).

[16] Illinois Comptroller's Website, https://illinoiscomptroller.gov/ (last accessed November 4, 2018) and Teachers' Retirement System of the State of Illinois, "TRS Sets the State's Preliminary FY2020 Contribution at $4.81 Billion," October 31, 2018, https://www.trsil.org/news-and-events/FY20_state_contribution (last accessed November 6, 2018).

[17] CTA President's FY2019 Budget Recommendation, pp. 25 and 45.

ridership will decrease by 10.8%, or 55.6 million rides, from 516.9 million actual rides in FY2010 to 461.3 million rides projected in FY2019.

Revenue from fares and passes represents 83.1% of system-generated revenue in FY2019. System-generated revenue is projected to stay relatively flat between FY2018 and FY2019. Fare box revenue is projected to increase by 0.8%, or $4.9 million to $588.0 million in FY2019. This $4.9 million increase is due to a full year of increased fare and pass revenue.

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 or deal with ongoing lower ridership levels is not publicly available.

Lack of Detail in the Budget Book

The Civic Federation is concerned that the budget book does not provide sufficient detail in a number of areas. However, there are positives such as the fact that 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.

Despite these good practices, 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 in FY2017 and FY2018 or how it will deal with reduced funding in FY2019 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.

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.[18] 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 financial stability and specifically its overly optimistic expected rate of return of 8.25%. This rate remains well above other local and State of Illinois funds, whose expected rates of return on investment range from 6.75% to 7.50%. 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 one of the 129 funds surveyed had expected rates of return above 8.0%.[19]

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. Starting with the FY2014 actuarial valuation report, the CTA Fund's actuary has annually recommended the fund's Board of Trustees consider, "moving towards a contribution of the Actuarial Math Contribution over the next several years."[20] 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 FY2017 actuarial report, the actuary estimated that the total contribution under these funding rules would be 34.6% of payroll, compared to the total contribution starting in FY2019 of 24.5%.[21]

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.

---

[18] 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.
[19] NASRA, "Issue Brief: Public Pension Plan Investment Return Assumptions," Updated February 2018. Available at https://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf
[20] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter from Buck Consultants.
[21] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2018*, p. 6.

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

The CTA, Metra and Pace are all facing significant financial pressures due to many of the same stresses: lower sales tax revenue, state funding shortfalls and insufficient capital funding. Metra has implemented significant increases in fares four out of the last five years and Pace increased its fares for the first time since 2009 in its FY2018 budget.[22] The RTA is charged with financial oversight, funding and planning for all three transit operators, and despite their financial distress has not moved to fully utilize 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.

Civic Federation Recommendations

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

Regional Transit in Northeastern Illinois Needs an Adequate and Stable Funding Base

A serious lack of funding means that the Regional Transportation Authority (RTA) and its service boards (CTA, Metra and Pace) are hard pressed to maintain, improve, increase or extend existing service. This is unfortunate given the significant economic development benefits of transit for the Chicago region and that significant populations are underserved by accessible transit.

The funding problem is twofold:

1. The RTA does not have an adequate, stable and dedicated revenue source to meet its enormous capital needs or operating needs other than the regional sales tax. Its current revenue base is inadequate to address the massive $19.4 billion state of good repair backlog, let alone invest in new projects. The State should consider providing the RTA with an additional local recurring revenue source such as a ride sharing tax or vehicle registration fees. The RTA also should consider exercising its existing authority to levy taxes or fees on automobile rentals, motor fuel and off-street parking facilities.
2. The State of Illinois has not had a state transportation funding program since the *Illinois Jobs Now!* program in 2009. 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. Metra has been forced to raise fares several years in a row to fund capital improvements. 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 Transit TIF and

[22] 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.

sharing of ground transportation tax revenue. However these efforts are not sufficient to address the capital backlog facing the CTA, Metra and Pace.

The State Should Adopt a New Capital Improvement Plan

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.[23] The CTA will need $23.08 billion over 10 years just to address the SOGR backlog, according to the RTA.[24]

The Civic Federation urges the Illinois General Assembly and Governor to adopt a capital improvement program that provides an adequate and stable funding source for public transit, stressing the importance transit has on the economic strength of the region and state.

Study the Feasibility of Peak Hour Pricing 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 increased 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. The increase generated $24.5 million in farebox revenue in FY2018 and at the same time the CTA saw losses in ridership in line with projections.[25] However, the CTA faces a number of financial challenges in the coming years and will need to find additional revenue, cost savings and/or resort to service cuts.

The Civic Federation recommends that the CTA conduct a study to examine the feasibility of generating revenue through increasing fares during peak hours for rail and express bus service, similar to New York City, Boston, Washington D.C. and Los Angeles.[26] The Federation believes that rail and express bus service would be ideal candidates for peak hour pricing because demand has increased significantly during these rush hour periods[27] and customers are more likely to pay for the convenience.

The State Should Re-Evaluate the 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%. The fee is meant to

[23] CTA President's FY2019 Budget Recommendations, pp. 85-86.
[24] CTA President's FY2018 Budget Recommendations, p. 86.
[25] CTA President's FY2019 Recommendations, p. 30.
[26] CTA President's FY2019 Recommendations, p. 191.
[27] CTA President's FY2010 Recommendations, pp. 9 and 16.

offset the cost related to the Illinois Department of Revenue administering the sales tax collections and disbursements to local governments. While the 2.0% fee was reduced to 1.5% in the State's FY2019 budget, there appears to be no publicly available study that justified the collection fee of 2.0% or 1.5%.

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 1.5%. The Civic Federation does not oppose the State recouping some revenues to offset its costs for administering the sales tax statewide. However, the 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.

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.

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 FY2019 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.[28] Of the major local

[28] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2014,* p. 25.

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%-7.50% 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.[29]

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, 2018 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."[30] 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 94.51% funded ratio in 2036.[31] However, this projection is based on the fund achieving the exceptionally high investment returns assumed 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.

---

[29] 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.
[30] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2018*, p. 5.
[31] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2018*, p. 14.

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 through inaction all of the ground it gained through the 2008 pension reforms and pension obligation bonds.

Consolidate Regional Transit Governance in Northeastern Illinois

The current fragmented transit governance service in northeastern Illinois is a failure. The Regional Transit Authority does not have adequate authority to enforce planning or funding decisions or to successfully develop and implement regional transit goals. The organizational missions of the three service boards are in conflict with each other and the RTA. The State of Illinois has a very limited role in providing adequate transit funding or management. The result is a transit system characterized by a mismatch of investment dollars versus actual need and serious underinvestment in critical long-term infrastructure.

Transit is a regional operation, not a localized service that operates purely within jurisdictional boundaries. The provision of transit services is most effective and efficient when they are managed under a governance model in which a regional entity has the authority to distribute funds, prioritize and select capital projects and make decisions.

The Civic Federation supports the consolidation of the RTA with its three service boards into a single integrated regional transit agency. Governance consolidation would have the potential to greatly improve public transit management, performance and access across the region as a whole. Expert opinion and research as well as the experience of other major metropolitan transit agencies support this approach. Political dynamics are different in different parts of the country, but there are several metropolitan transit governance models that could be considered; they are describe below. The structure of a governing board would likely reflect stakeholder interests. However, there should only be a single oversight Board, with full management authority.

Model #1: Full Consolidation in a Regional Authority

The Los Angeles County Metropolitan Transportation Authority (LACMTA) serves as a single, consolidated transportation planner and coordinator, designer, builder and operator for one of the country's largest counties. It is governed by a 14-member Board selected to represent regional interests. More than 9.6 million people live within its 1,433-square-mile service area.[32] In FY2017, total estimated ridership was 397.5 million utilizing nearly 1.9 million passenger miles.[33] This contrasts with the RTA's 593.5 million riders in FY2017 in a 3,749 mile service area with a population of 8.4 million.[34]

Model #2: Integrated Transit Agency with Three Operating Units

The Northeastern Illinois Public Transit Task Force recommended that an integrated transit governance system be created, governed by a single agency with one board and three operating

---

[32] Los Angeles County Metropolitan Transportation Authority. https://www.metro.net/about/about-metro/.
[33] Los Angeles County Metropolitan Transportation Authority. Interactive Estimated Ridership Stats at http://isotp.metro.net/MetroRidership/Index.aspx.
[34] Regional Transportation Authority FY2017 Comprehensive Annual Financial Report, p. 102.

units. This would differ from the current structure by enhancing the regional authority's powers and correspondingly reducing the power of the CTA, Metra and Pace by making them into operational units. This would be similar to the MTA's governance structure. The agency's Board of Directors would set policy and strategy, determine funding distributions and prioritize capital investments, while the three constituent units would be responsible for day to day operations. The Board would have balanced regional representation. The Governor would appoint some Board members, ensuring stronger State representation and engagement.

Model #3: Consolidation as a State Agency

Under this model, the regional transit authority would become a state government agency, such as the Massachusetts Bay Transportation Authority (MBTA), which is a division of the State of Massachusetts Department of Transportation (MassDOT). The MBTA provides transportation services to eastern Massachusetts and parts of Rhode Island. This includes operating subway, bus, commuter rail and ferry service. [35] The population of the MBTA service area is 3.3 million in an area of 314 square miles.[36]

[35] Massachusetts Bay Transportation Authority, "Welcome to the MBTA," at https://www.mbta.com/mbta-at-a-glance.

[36] Massachusetts Bay Transportation Authority. Ridership and Service Statistics Fourteenth Edition 2014, p. 3 at https://cdn.mbtace.com/uploadedfiles/documents/2014%20BLUEBOOK%2014th%20Edition(1).pdf.

Acknowledgments

The Civic Federation would like to express its appreciation to Chicago Transit Authority President Dorval Carter, Jr., Chief Financial Officer Jeremy Fine, Vice President of Budget and Capital Finance Michele Curran and Director of Budget, Heather Ferguson 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 FY2019 budget compared to previous years. In FY2019, the CTA's operating budget will total $1.55 billion, a 2.5%, or $37.6 million, increase from the FY2018 adopted appropriation of approximately $1.51 billion.

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

The following table displays 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 FY2015 through FY2017; FY2018 adopted appropriations; and FY2019 proposed appropriations.[37]

Labor expenses are the largest category of expenses and will increase by 3.6%, or $38.0 million, from $1.05 billion in FY2018 to $1.08 billion in FY2019. The increase in labor expenses in FY2019 is primarily due to contractual wage increases for union employees approved in 2018.[38] However, the increase is $18 million lower due to the CTA restricting the hiring of 150 positions in FY2019.[39]

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 1.9%, or $5.6 million, between the FY2018 adopted budget and FY2019 proposed budget. The decrease in other expenses is primarily attributed to a decrease in contractual services of $13.7 million, or 12.5%. However, the decrease in other expenses is offset by debt service expenses which are proposed to increase by $18.9 million, or 65.2%, over the two-year period. This increase in debt service reflects CTA's costs to maintain a state of good repair due to the lack of State funding.[40]

Over the two-year period between FY2018 and FY2019 the CTA budget for provisions for injuries and damages will increase by $2.5 million or 50.0%. The amount budgeted is determined by the CTA's actuaries based on claims history and future projections.[41] It changes considerably from year to year.

Appropriations for material will decrease by $12.4 million, or 13.4%, over the two-year period, declining from $92.4 million in FY2018 to $80.1 million in FY2019. The decline in material expenses is due to the CTA taking a more proactive approach to overhaul CTA bus and rail fleet to reduce mechanical failures.[42]

---

[37] 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 FY2018 Budget, FY2018 Forecast and FY2019 Proposed figures, see Appendix A on page 58 of this report.
[38] CTA President's FY2019 Budget Recommendations, p. 35.
[39] CTA President's FY2019 Budget Recommendations, p. 35.
[40] CTA President's FY2019 Budget Recommendations, p. 39.
[41] CTA President's FY2019 Budget Recommendations, p. 39.
[42] CTA President's FY2019 Budget Recommendations, p. 38.

Appropriations for fuel will increase by $10.5 million, or 31.3%, in FY2019 to $44.1 million. The increase in fuel expenses is due to higher anticipated pricing compared to FY2018.[43] The CTA has managed fuel expenses through a fixed price purchasing policy and will continue to do so in FY2019 by securing 85% of its forecasted fuel need.[44] The increase in security costs in FY2019 is due wage rate increases for contracted security services, which include intergovernmental agreements with Chicago and select suburban police departments.[45]

Between FY2015 and FY2019, the CTA's operating budget will increase by 7.5% or nearly $108.0 million. Labor expenses will increase by 8.1% or $81.6 million. The increase in labor expenses is primarily due to negotiated contractual wage increases, increased pension contributions and enhanced service levels.[46] Labor expenses will constitute 69.8% of the proposed FY2019 operating budget, which is a slight increase from 69.1% in the FY2018 budget. Labor expenses as a percentage of the total operating budget have averaged 70.1% over the past five years.

Over the same five-year period beginning in FY2015, other debt service spending will increase by $47.8 million as the CTA has issued a greater amount debt to fund projects due to the lack of state capital funding.[47] Contractual services will decrease by $8.9 million, or 8.5%, from $104.3 million in FY2015 to $95.4 million in FY2019. The CTA took a greater initiative in FY2018 to reduce contractual expenses.[48] Non-capital grant expense, which is used for pass-through grants, will see the largest percentage decrease at 57.0%, or nearly $8.0 million. This is due to less availability of grant funding.[49] Spending for fuel is projected decline by $5.7 million, or 11.5%, from $49.8 million in FY2015 to $44.1 million proposed in FY2019. This is primarily due to a

[43] CTA President's FY2019 Budget Recommendations, p. 38.
[44] CTA President's FY2019 Budget Recommendations, p. 38.
[45] CTA President's FY2019 Budget Recommendations, p. 39.
[46] CTA President's FY2016 Budget Recommendations, p. 43; FY2017, p. 33; FY2018, p. 26; and FY2019, p. 35.
[47] CTA President's FY2019 Budget Recommendations, p. 39.
[48] CTA President's FY2019 Budget Recommendations, p. 27.
[49] CTA President's FY2019 Budget Recommendations, p. 29.

combination of the CTA strategically purchasing its fuel in advance and historically low fuel prices.[50]

CTA Operating Budget by Object of Expenditure: FY2015-FY2019 (in $ thousands)									
Object	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Labor	$ 1,002,486	$ 1,027,047	$ 1,044,859	$ 1,046,059	$ 1,084,100	$ 38,041	3.6%	$ 81,614	8.1%
Other Expenses									
Utilities	$ 24,562	$ 23,234	$ 21,846	$ 23,250	$ 23,610	$ 360	1.5%	$ (952)	-3.9%
Advertising/Promotion	$ 691	$ 924	$ 792	$ 1,226	$ 1,326	$ 100	8.2%	$ 635	91.9%
Travel & Meetings	$ 556	$ 535	$ 500	$ 1,472	$ 1,553	$ 81	5.5%	$ 997	179.3%
Contractual Services	$ 104,278	$ 105,003	$ 84,878	$ 109,063	$ 95,400	$ (13,663)	-12.5%	$ (8,878)	-8.5%
Leases & Rentals	$ 2,586	$ 3,150	$ 2,980	$ 3,224	$ 3,599	$ 375	11.6%	$ 1,013	39.2%
General Expenses	$ (6,858)	$ (8,079)	$ (7,083)	$ (954)	$ (5,241)	$ (4,287)	449.4%	$ 1,617	-23.6%
Pension Obligation Bond	$ 112,281	$ 111,779	$ 104,469	$ 112,535	$ 108,630	$ (3,905)	-3.5%	$ (3,651)	-3.3%
Non-Capital Grant Expense	$ 13,957	$ 16,712	$ 8,636	$ 9,500	$ 6,000	$ (3,500)	-36.8%	$ (7,957)	-57.0%
Other Debt Service	$ -	$ 14,298	$ 28,841	$ 28,947	$ 47,808	$ 18,861	65.2%	$ 47,808	-
Subtotal Other Expenses	**$ 252,053**	**$ 267,556**	**$ 245,859**	**$ 288,263**	**$ 282,685**	**$ (5,578)**	**-1.9%**	**$ 30,632**	**12.2%**
Material	$ 83,507	$ 82,921	$ 83,783	$ 92,425	$ 80,064	$ (12,361)	-13.4%	$ (3,443)	-4.1%
Fuel	$ 49,830	$ 32,738	$ 28,757	$ 33,576	$ 44,084	$ 10,508	31.3%	$ (5,746)	-11.5%
Security	$ 14,431	$ 14,095	$ 17,041	$ 17,804	$ 19,307	$ 1,503	8.4%	$ 4,876	33.8%
Power	$ 28,818	$ 29,283	$ 27,373	$ 31,369	$ 34,372	$ 3,003	9.6%	$ 5,554	19.3%
Provision for Injuries & Damages	$ 13,000	$ 10,500	$ 3,167	$ 5,000	$ 7,500	$ 2,500	50.0%	$ (5,500)	-42.3%
Total	**$ 1,444,125**	**$ 1,464,140**	**$ 1,450,839**	**$ 1,514,496**	**$ 1,552,112**	**$ 37,616**	**2.5%**	**$ 107,987**	**7.5%**

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

Source: CTA President's Budget Recommendations: FY2019, pp. 24 and 25; and information provided by CTA, October 31, 2018.

Labor Expenses

The table below provides a detailed breakdown for labor expenses over the five-year period from FY2015 to FY2019. 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 3.3%, or $20.8 million, between the FY2018 adopted budget and the FY2019 proposed budget. Benefit costs will increase by 4.1%, or $17.2 million, over the same two-year period.

Over the five-year period from FY2015 to FY2019, base wages will increase by 7.2%, or $43.4 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 $38.2 million or 9.6%. While the majority of the benefits have remained flat or decreased over the five-year period, pension contributions have increased by nearly $30.0 million, or

[50] CTA President's FY2017 Budget, p. 33; FY2018, p. 38.

26.1%, rising from $114.8 million in FY2015 to $144.7 million in FY2019.

CTA Labor Expenses: FY2015-FY2019 (in $ thousands)									
Object	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Base Wages & Salaries	$ 604,241	$ 615,419	$ 614,734	$ 626,811	$ 647,659	$ 20,848	3.3%	$ 43,418	7.2%
Benefits									
Vacation	$ 40,041	$ 42,270	$ 41,129	$ 39,824	$ 41,030	$ 1,206	3.0%	$ 989	2.5%
Holiday	$ 23,796	$ 24,331	$ 23,657	$ 22,941	$ 23,616	$ 675	2.9%	$ (180)	-0.8%
Sick	$ 4,784	$ 4,787	$ 5,080	$ 4,478	$ 4,639	$ 161	3.6%	$ (145)	-3.0%
Jury Duty	$ 1,183	$ 1,153	$ 1,226	$ 1,135	$ 1,143	$ 8	0.7%	$ (40)	-3.4%
Workers' Compensation	$ 53,902	$ 58,756	$ 50,931	$ 52,196	$ 50,007	$ (2,189)	-4.2%	$ (3,895)	-7.2%
FICA	$ 46,393	$ 47,280	$ 47,486	$ 47,333	$ 50,130	$ 2,797	5.9%	$ 3,737	8.1%
Unemployment Insurance	$ 381	$ 692	$ 877	$ 579	$ 663	$ 84	14.5%	$ 282	74.0%
Group Insurance	$ 109,939	$ 110,357	$ 113,080	$ 109,897	$ 113,270	$ 3,373	3.1%	$ 3,331	3.0%
Uniform Allowance	$ 1,688	$ 1,383	$ 1,458	$ 1,417	$ 1,506	$ 89	6.3%	$ (182)	-10.8%
Supplemental Retirement	$ 1,782	$ 2,709	$ 2,744	$ 2,641	$ 2,850	$ 209	7.9%	$ 1,068	59.9%
Incentive Retirement	$ (411)	$ 1,153	$ 2,684	$ 1,006	$ 2,867	$ 1,861	185.0%	$ 3,278	-797.6%
Pension	$ 114,766	$ 116,758	$ 139,773	$ 135,799	$ 144,719	$ 8,920	6.6%	$ 29,953	26.1%
Subtotal Benefits	**$ 398,244**	**$ 411,629**	**$ 430,125**	**$ 419,246**	**$ 436,440**	**$ 17,194**	**4.1%**	**$ 38,196**	**9.6%**
Total	**$ 1,002,485**	**$ 1,027,048**	**$ 1,044,859**	**$ 1,046,057**	**$ 1,084,099**	**$ 38,042**	**3.6%**	**$ 81,614**	**8.1%**

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, December 12, 2017 and October 31, 2018.

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 for the five-year period from FY2015 to FY2019. Revenues over this period are shown in the following table. The Civic Federation uses actual data when available for FY2015 through FY2017, adopted FY2018 budget figures as approved by the CTA's Board of Trustees and FY2019 proposed budget figures. A comparison of FY2018 budgeted, FY2018 year-end projected and FY2019 proposed revenues can be found in Appendix B of this report on page 58.

The President's FY2019 Budget Recommendations include $1.55 billion in operating revenues, which is a 2.5%, or $37.6 million, increase from the adopted FY2018 revenue level of $1.51 billion. The CTA has two main operating revenue sources: system-generated revenues and public funding that passes through the Regional Transportation Authority (RTA). System-generated revenue includes fares and other revenue generated by CTA sources. Public funding includes revenue from the sales tax, public transportation funds and real estate transfer tax distributed by the RTA to its three services boards – the CTA, Metra and Pace.

The proposed FY2019 operating budget includes $707.7 million from system-generated revenue and $844.4 million in public funding through the RTA. System-generated revenue will compose 45.6% of total operating resources and public funding through the RTA will compose 54.4% of the CTA's resources in FY2019.

Total system-generated revenue proposed for the FY2019 budget will remain at nearly the same level as the prior year at $707.7 million. However, system-generated revenue will increase by $32.2 million or 4.8% over the five-year period from FY2015 to FY2019. This is primarily due to increases in FY2018 from additional advertising revenue and a new Ground Transportation Tax imposed by the City of Chicago on ride-sharing, which is projected to generate $16 million annually.[51]

Revenue from fares and passes represents 83.1% of system-generated revenue. Farebox revenue is projected to total $588.0 million in FY2019, which is a 0.8%, or $4.9 million increase from the adopted FY2018 budget. The CTA implemented a fare increase in FY2018 for the first time since 2009, which increased farebox revenue between FY2017 and FY2018 by $24.5 million based on the CTA's FY2018 year-end forecast and actual fare and pass revenues in FY2017.[52] The $4.9 million increase between FY2018 and FY2019 is attributed to the remaining impact of the 2018 fare increase and a full year of new U-Pass rates effective fall 2018.[53] See Appendix C on page 59 for more information on the fare and pass revenue.

The CTA has historically received a reduced fare 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.[54] 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 and FY2017. The CTA budgeted the full $28.3 million reimbursement in FY2018, but only received $13.9 million in FY2018 according to the CTA's year-end forecast. The CTA's FY2019 budget proposal is counting on the restored level of $28.3 million based on guidance from the RTA, 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.[55] However, the State of Illinois FY2019 enacted budget only allocated $17.6 million to the RTA for disbursement to the three service boards.[56]

Advertising, charter and concession revenue is projected to be $38.8 million in FY2019, which is a slight increase from the adopted budget level of to $38.3 million in FY2018. Over the past five years, advertising, charter and concessions revenue has increased by 24.1% or $7.5 million, which reflects management initiatives to expand advertising sales and increase digital advertising.[57]

---

[51] CTA President's FY2018 Budget Recommendations, p. 33; and CTA President's FY2019 Budget Recommendations, p. 103.
[52] CTA President's FY2019 Budget Recommendations, pp. 24-25.
[53] CTA President's FY2019 Budget Recommendations, p. 40.
[54] 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.
[55] CTA President's FY2019 Budget Recommendations, p. 36.
[56] State of Illinois, Office of Management and Budget, Enacted Appropriations by Line Item FY18 and FY19.
[57] CTA President's FY2019 Budget Recommendations, pp. 40-41.

Investment income in FY2019 is budgeted at $2.1 million, which is an increase of $500,000 above FY2018. Low interest rates and late payments from the State continue to yield minimal interest income.[58]

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.[59] The amounts contributed to the CTA by the City of Chicago and 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.[60] 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.[61]

Other revenue includes non-capital grants, a new ridesharing fee implemented by the City of Chicago on behalf of the CTA, parking fees, property sales and rentals, merchandise sales, third-party reimbursements and filming fees.[62] Other revenue is projected to decrease by $5.6 million, or 11.0%, from $51.2 million budgeted in FY2018 to $45.6 million budgeted for FY2019. The decrease is primarily due to non-capital grant revenue.[63]

Public funding for the CTA is established by the Regional Transportation Authority (RTA) based on sales tax and real estate transfer tax projections.[64] Public funding from the RTA will increase in FY2019 by $37.4 million, or 4.6%, from the FY2018 adopted budget, from $806.9 million to $844.4 million. The increase is based on RTA projections of sales tax growth.[65] Over the five-year period from FY2015 to FY2019, public funding through the RTA is expected to increase by $51.4 million or 6.5%. Public funding from the RTA is discussed further below.

CTA Operating Budget Revenue: FY2015-FY2019
(in $ millions)

Source	FY2015 Actual	FY2016 Actual	FY2017 Actual	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
System-Generated Revenue									
Fares and Passes	$ 587.1	$ 577.0	$ 559.5	$ 583.1	$ 588.0	$ 4.9	0.8%	$ 0.9	0.2%
Reduced Fare Reimbursement	$ 14.6	$ 14.4	$ 14.6	$ 28.3	$ 28.3	$ (0.0)	0.0%	$ 13.7	93.9%
Advertising, Charter & Concessions	$ 31.2	$ 35.0	$ 34.4	$ 38.3	$ 38.8	$ 0.4	1.1%	$ 7.5	24.1%
Investment Income	$ 1.1	$ 1.6	$ 3.1	$ 1.6	$ 2.1	$ 0.5	31.3%	$ 1.0	87.0%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%
Other Revenue	$ 36.4	$ 43.6	$ 33.3	$ 51.2	$ 45.6	$ (5.6)	-11.0%	$ 9.1	25.0%
Total System-Generated Revenue	**$ 675.5**	**$ 676.6**	**$ 649.9**	**$ 707.6**	**$ 707.7**	**$ 0.2**	**0.02%**	**$ 32.2**	**4.8%**
Public Funding through RTA	**$ 793.0**	**$ 809.7**	**$ 778.5**	**$ 806.9**	**$ 844.4**	**$ 37.4**	**4.6%**	**$ 51.4**	**6.5%**
Total	**$ 1,468.5**	**$ 1,486.3**	**$ 1,428.3**	**$ 1,514.5**	**$ 1,552.1**	**$ 37.6**	**2.5%**	**$ 83.6**	**5.7%**

Note: Totals may differ from budget book due to rounding.
Source: CTA President's FY2019 Budget Recommendations, pp. 24-25.

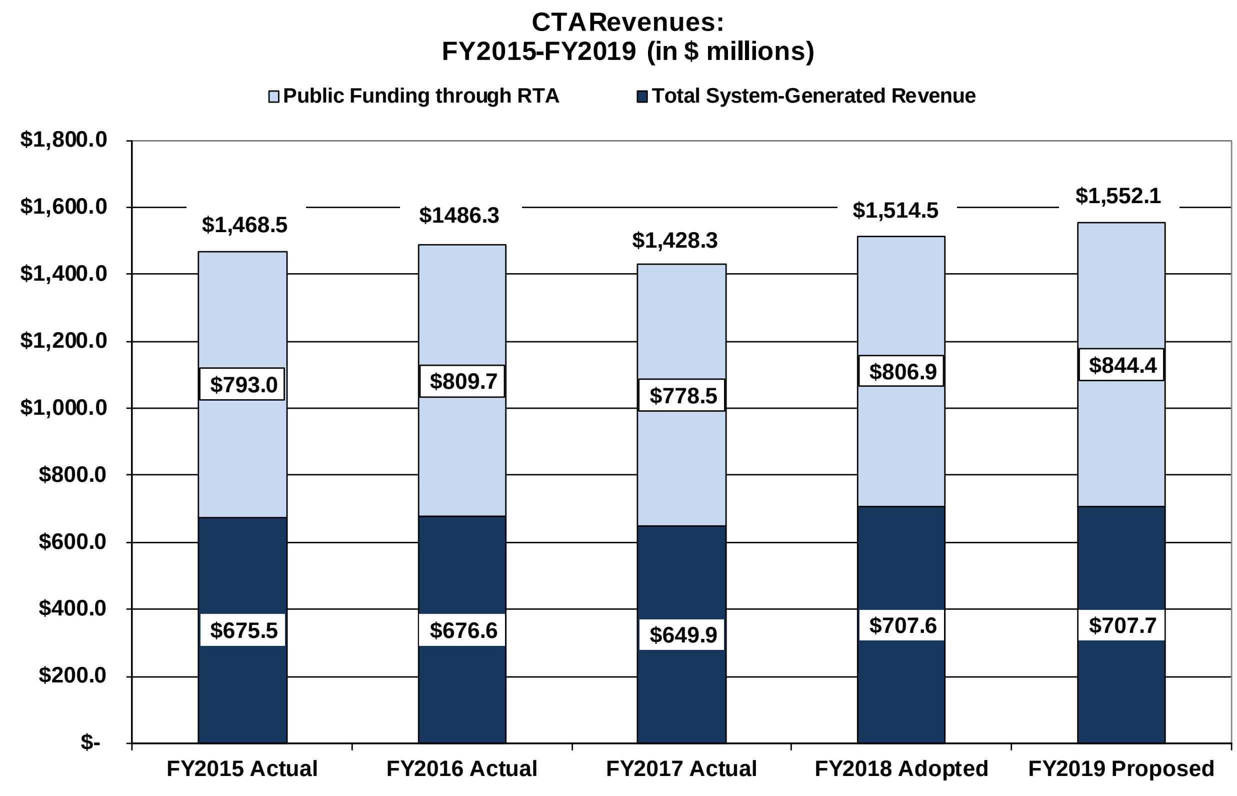
The CTA is required to meet an annual recovery ratio of at least 50.0% based on the RTA Act. The recovery ratio measures the proportion of operating expenses recovered from operating revenues by dividing system-generated revenues by operating expenses. It serves as an indicator of the CTA's financial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

58 CTA President's FY2019 Budget Recommendations, p. 41.
59 CTA President's FY2019 Budget Recommendations, p. 41.
60 CTA President's FY2019 Budget Recommendations, p. 41.
61 CTA President's FY2019 Budget Recommendations, p. 41.
62 CTA President's FY2019 Budget Recommendations, p. 41.
63 CTA President's FY2019 Budget Recommendations, p. 41.
64 CTA President's FY2019 Budget Recommendations, p. 42.
65 CTA FY2019 Budget Briefing, October 17, 2018.

pension obligation bond debt service, and includes some grant revenues. In FY2019 the CTA is estimated to recover 55.57% of its operating expenses through system-generated revenues.[66]

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.[67] The chart below provides a comparison of public funding and system-generated revenue from FY2015 through FY2019.



Source: CTA President's FY2019 Budget Recommendations, pp. 24-25.

Pursuant to the Regional Transportation Authority Act of 1983,[68] 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

[66] CTA President's FY2019 Budget Recommendations, p. 25.
[67] CTA President's FY2019 Budget Recommendations, p. 42.
[68] 70 ILCS 3615/4.03.

- 0.75% sales tax on general merchandise and qualifying food, drugs and medical appliances in DuPage, Kane, Lake, McHenry and Will Counties.[69]

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: FY2019			
	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 FY2019 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.[70] 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.[71] 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 FY2015 through FY2019 using proposed revenue figures from each year's adopted budget based on RTA projections.

Total public RTA funding is projected to be $872.7 million in FY2019, which is an increase of $116.5 million, or 15.4%, over five years since FY2015. Compared to the FY2018 proposed funding level, total RTA funding is projected to increase by $37.5 million, or 4.5%, in FY2019.

As a result of the RTA sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $623.8 million in sales tax revenue from the RTA in FY2019. This is a $31.0 million, or 5.2%, increase from the FY2018 sales tax revenue projection of $592.8 million. The increase is due to sales tax growth projections by the RTA and a reduction in the surcharge

[69] 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.
[70] Public Act 095-0708.
[71] CTA President's FY2019 Budget Recommendations, p. 105.

imposed by the State for sales tax collections from 2.0% to 1.5%.[72] Of the $623.8 million in sales tax revenue, $395.6 million is expected to come directly from the sales tax distribution formula and $228.2 million will be RTA discretionary funds allocated from the 15% of total tax revenue retained by the RTA.

The CTA expects to receive $66.6 million from real estate transfer taxes collected in Chicago in FY2019, which is level with the FY2018 adopted budget. The CTA will also receive $131.0 million in revenues from the RTA sales tax increase and State funding enacted in 2008 by P.A. 95-0708. This is an increase of $6.2 million, or 5.0%, from the proposed FY2018 level.

In FY2019, the CTA will also utilize $6.2 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.[73]

CTA Sources of Public Funding Through the RTA: FY2015-FY2019 (in $ millions)

	FY2015 Adopted	FY2016 Adopted	FY2017 Adopted	FY2018 Adopted	FY2019 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
RTA Formula Sales Tax Revenues	$ 349.6	$ 365.1	$ 386.9	$ 381.2	$ 395.6	$ 14.4	3.8%	$ 46.1	13.2%
RTA Discretionary Sales Tax	$ 207.1	$ 216.4	$ 227.6	$ 211.6	$ 228.2	$ 16.6	7.9%	$ 21.1	10.2%
Sub-Total RTA Sales Tax	**$ 556.7**	**$ 581.6**	**$ 614.5**	**$ 592.8**	**$ 623.8**	**$ 31.0**	**5.2%**	**$ 67.1**	**12.1%**
Real Estate Transfer Tax (Chicago)	$ 63.6	$ 63.6	$ 64.7	$ 66.6	$ 66.6	$ -	0.0%	$ 3.0	4.8%
Real Estate Transfer Tax (25% Public Transportation Fund)	$ 15.9	$ 15.9	$ 16.2	$ 16.7	$ 16.7	$ 0.0	0.2%	$ 0.8	4.9%
Sales Tax and PTF per Public Act 95-0708	$ 119.1	$ 126.8	$ 135.8	$ 124.8	$ 131.0	$ 6.2	5.0%	$ 12.0	10.0%
RTA Non-Statutory (Other)	$ 0.9	$ 1.7	$ 0.6	$ -	$ -	$ -	N/A	$ (0.9)	-100.0%
ICE Funding*	$ -	$ 5.8	$ 6.1	$ 6.0	$ 6.2	$ 0.2	2.8%	$ 6.2	N/A
Reduced Fare Reimbursement Replacement	$ -	$ -	$ -	$ 28.3	$ 28.3	$ 0.02	0.1%	$ 28.3	N/A
Total	**$ 756.2**	**$ 795.3**	**$ 837.9**	**$ 835.2**	**$ 872.7**	**$ 37.5**	**4.5%**	**$ 116.5**	**15.4%**

Note: Totals may differ from budget book due to rounding. Figures presented for FY2015-FY2018 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 FY2015 Budget Recommendations, p. 110; FY2016, p. 114; FY2017, p. 102; FY2018, p. 106; and FY2019, p. 106.

PERSONNEL

The CTA plans to fund a total of 9,928 positions in FY2019, compared to 9,897 positions budgeted in FY2018. This is a net increase from the FY2018 adopted budget of 31 positions. The CTA plans to decrease the number of Scheduled Transit Operations (STO), or rail and bus, positions by 37, while increasing the number of administrative positions by 12 and the number of non-STO operations positions by 56.

The increase in positions in FY2019 reflects the CTA's strategic investments in enhanced training and supervision and the expanded Second Chance program, which is a training and employment opportunity program for ex-offenders and others with barriers to employment.[74]

Labor costs in FY2019 are budgeted at $1.08 billion, an increase of $38.0 million from the FY2018 adopted budget or 3.6%.

---

[72] CTA FY2019 Budget Briefing, October 17, 2018.

[73] 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.

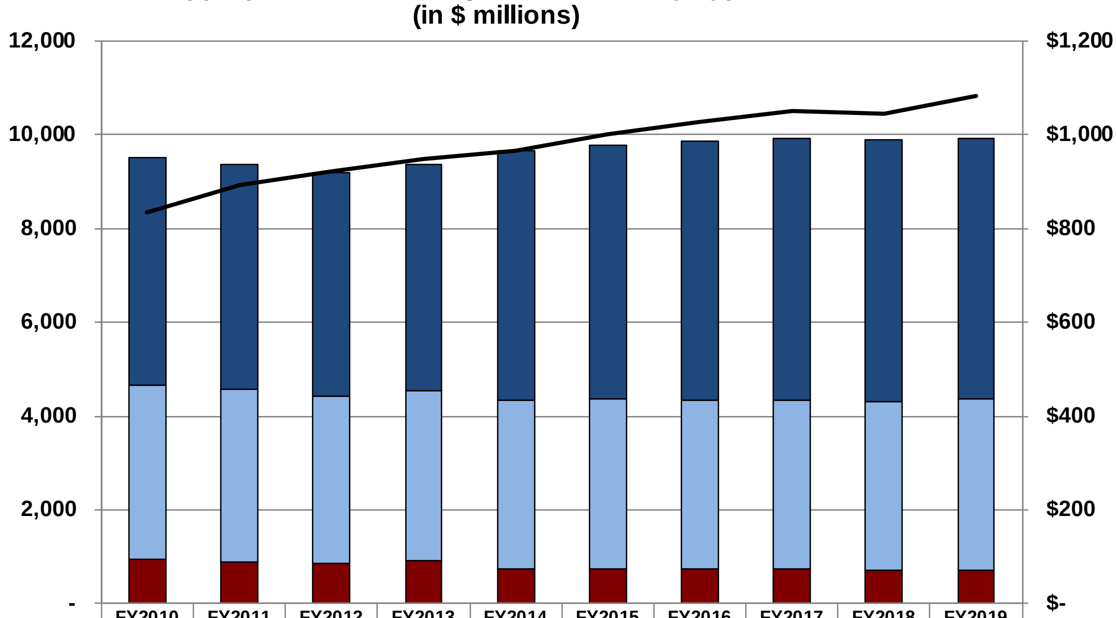
[74] CTA President's FY2019 Budget Recommendations, p. 37.

Personnel changes over the ten-year period from FY2010 through FY2019 are shown in the next chart. Over the past ten years, the budgeted CTA workforce has increased by 4.3%, or 408 positions, while labor cost has increased by 29.8%, or $249.0 million over the same period. The CTA's workforce was at its lowest level over this period in 2012 with 9,206 positions, and has increased since then.
Over the past ten years, the CTA has made the following personnel changes, resulting in a net increase of 408 positions:

- The addition of 692 Scheduled Transit Operations positions, or rail and bus operators, which represents an increase of 14.2%;
- A decrease of 227 administrative positions or 24.1%; and
- A decrease of 57 non-Scheduled Transit Operations positions, or a 0.8% decrease.

The chart below shows the CTA's 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: FY2010- FY2019
(in $ millions)



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
TOTAL	9,520	9,377	9,206	9,381	9,661	9,781	9,869	9,939	9,897	9,928
STO	4,868	4,796	4,778	4,836	5,322	5,412	5,524	5,594	5,597	5,560
Non-STO Operations	3,709	3,684	3,569	3,638	3,612	3,612	3,604	3,596	3,596	3,652
Administration	943	897	859	907	727	742	741	749	704	716
Labor ($)	$835.1	$893.8	$921.9	$948.3	$965.9	$1,002.5	$1,027.0	$1,050.4	$1,046.1	$1,084.1

Note: STO represents Scheduled Transit Operations and includes staffing for bus and rail operations.
Source: Information provided by the CTA budget office, October 31, 2018; and CTA President's Budget Recommendations FY2010-FY2019.

RIDERSHIP

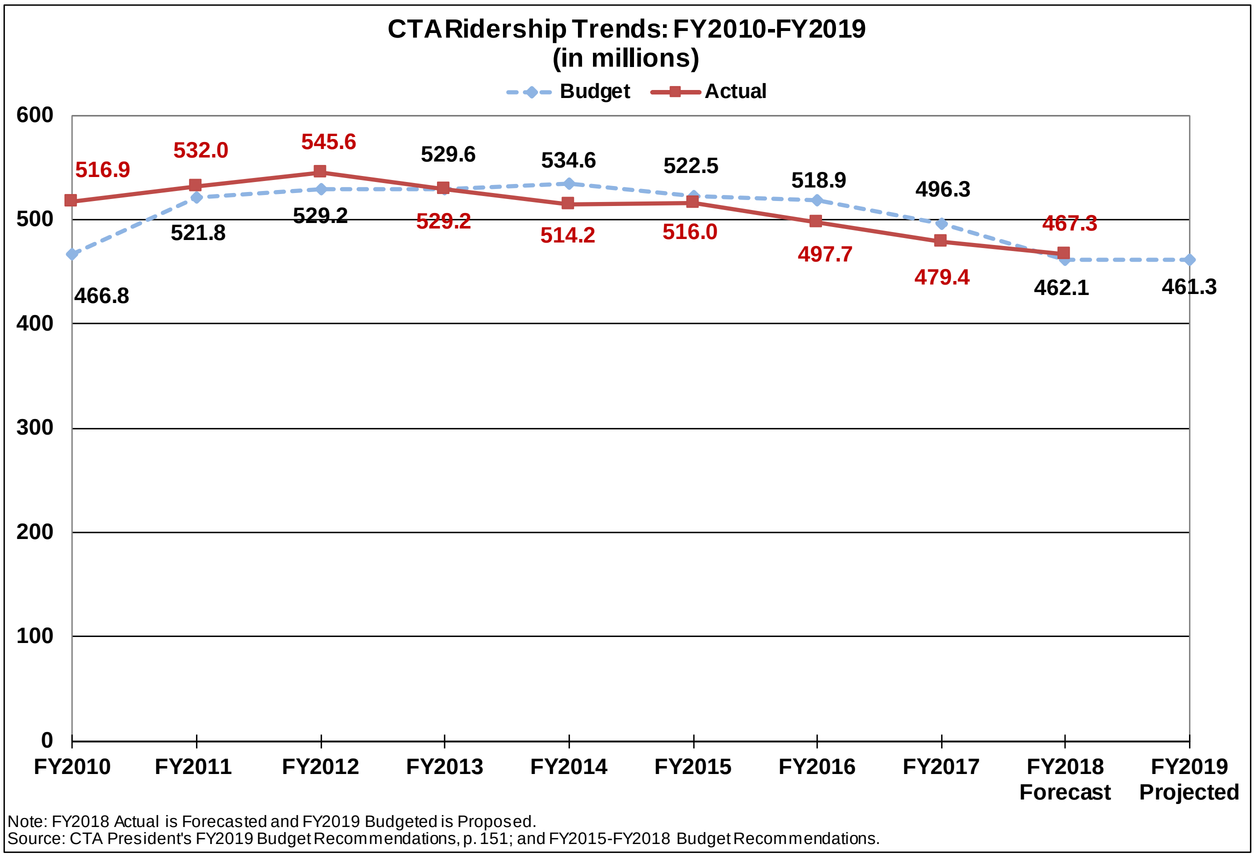
The terms “ridership” and “unlinked passenger trips” refer to total number of rides. Each passenger is counted each time that passenger boards a vehicle (bus or rail).[75]

The CTA projects that ridership will be 461.3 million rides in FY2019.[76] The FY2019 ridership is projected to decrease by 6.0 million rides, or 1.3%, from the FY2018 year-end forecast and a decrease of 800,000 rides, or 0.1% from the FY2018 adopted budget.

Over the ten-year period beginning in FY2010, ridership is projected to fall from 516.9 million rides to 461.3 million in FY2019. This is a decrease of 55.6 million rides or 10.8%. This is 84.3 million fewer rides than FY2012, during which ridership peaked at 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.[77] The further decline in ridership in FY2014 and FY2015 was attributed to extreme weather during the first quarter of both fiscal years. [78] The decline between FY2016 ridership and projected ridership in FY2019,

[75] CTA President’s FY2019 Budget Recommendations, p. 210.
[76] CTA President’s FY2019 Budget Recommendations, p. 43.
[77] Communication with the CTA budget office, October 18, 2013.
[78] CTA President’s FY2015 Budget Recommendations, p. 42; and FY2016 Budget Recommendations, p. 37.

according to the CTA, is attributed to continued competition from bike and ride share companies such as Uber and Divvy, low fuel prices and increased car usage.[79]



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. The data used to calculate the productivity measures are obtained from the annual budget documents.

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.

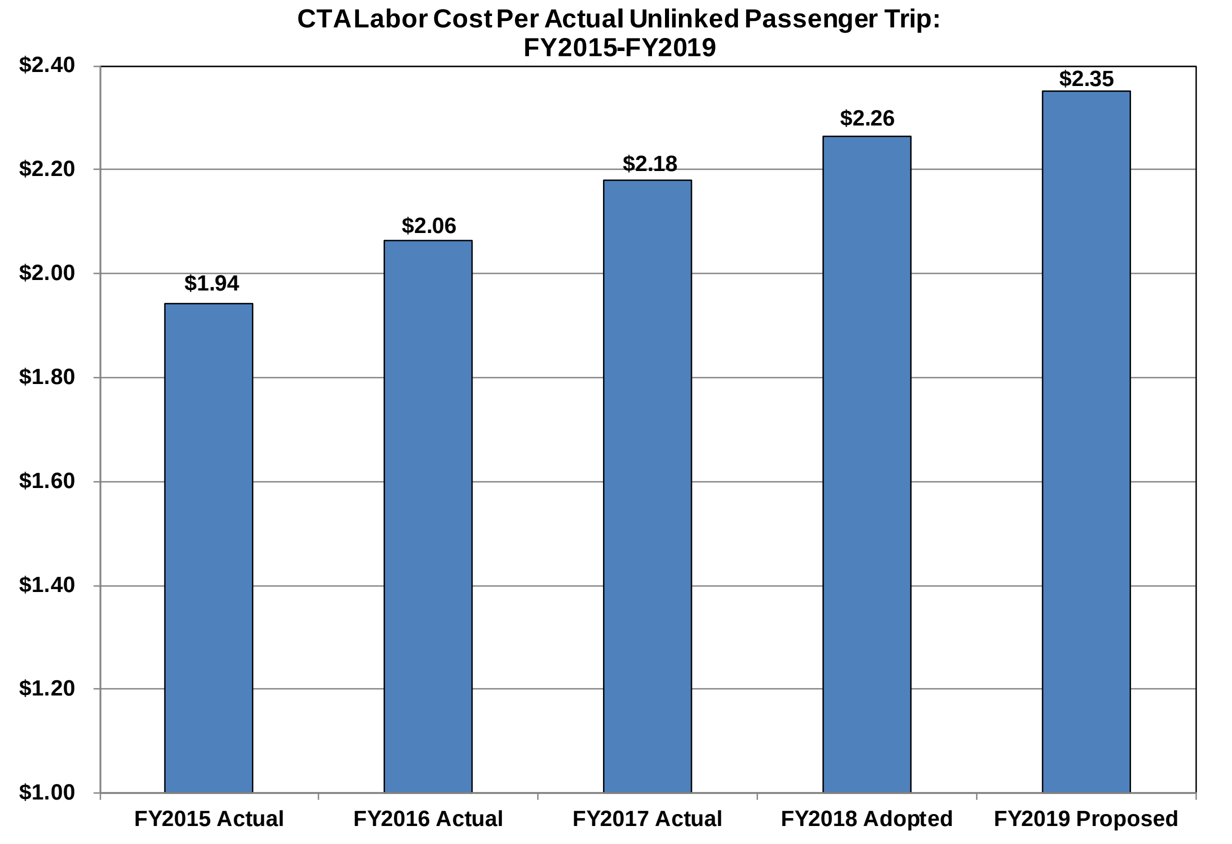
In FY2019, productivity is projected to decline as the labor cost increases to $2.35 per unlinked passenger trip, continuing a five-year trend. This is an increase of $0.09 between FY2018 and FY2019 is due to a 3.6% increase in labor costs compared to a 0.2% decrease in ridership over the previous year.

Between FY2015 and FY2019 productivity has declined as labor cost has increased and ridership has declined. Ridership fell by 2.1% on average each year, whereas labor costs have increased by

---

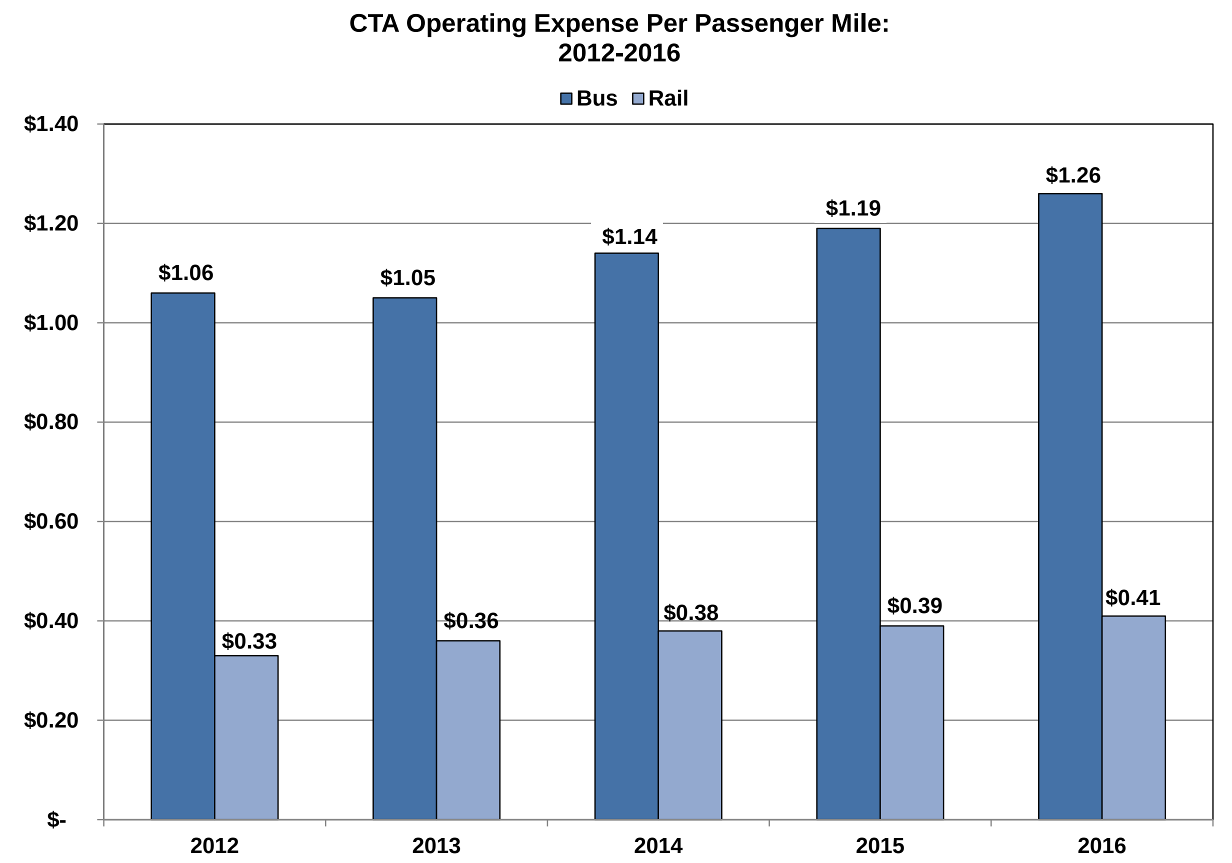
[79] CTA President's FY2019 Budget Recommendations, pp. 33 and 43.
[80] CTA President's FY2019 Budget Recommendations, p. 210.

2.3% on average each year. As a result, the ratio has continued to rise over the five-year period by $0.41, from $1.94 in FY2015 to $2.35 projected in FY2019. The CTA attributes the decline in ridership to extreme winter weather in FY2015, competition from alternative transit providers such as Uber and Divvy, and low fuel prices from FY2016 to FY2018, which encouraged more car usage.



Source: CTA President's Budget Recommendations; FY2018, pp. 22, 23 and 153; and FY2019, pp. 24, 25 and 151.

The chart below illustrates operating expense per passenger mile for bus and rail service between 2012 and 2016, the most recent years for which data are available. Within transit systems, rail service is commonly more cost effective than bus service due to higher ridership on trains. The CTA reports the operating expense for rail service has increased from $0.33 in FY2012 to $0.41 in FY2016. The operating expense for bus service has increased by $0.20 during this period. It dipped from $1.06 in FY2012 to $1.05 in FY2013, before increasing to $1.26 per passenger mile in FY2016.



Source: CTA President's Budget Recommendations, FY2015-FY2018; and FY2019, 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 remains the lowest cost among peer cities at $0.41 per passenger mile, $0.27 lower than the highest cost per passenger mile in Washington, D.C. Additionally, Chicago's bus system has a cost of $1.26 per passenger mile, third lowest among its peers and $0.53 lower than the highest cost per passenger mile in New York City.

Operating Expense Per Passenger Mile for Selected Cities 2016 National Transit Database Data			
Transit System	**Bus**	**Transit System**	**Rail**
New York	$ 1.79	Washington D.C.	$ 0.68
Washington D.C.	$ 1.48	Boston	$ 0.58
Boston	$ 1.38	New York	$ 0.50
Chicago	**$ 1.26**	Atlanta	$ 0.47
Philadelphia	$ 1.07	Philadelphia	$ 0.44
Los Angeles	$ 0.84	**Chicago**	**$ 0.41**

Source: CTA President's FY2019 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 FY2017, 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.[81]

In FY2017 the Fund had 8,192 active employees and 10,387 beneficiaries for a ratio of 0.79 active members for every beneficiary. This ratio has fallen by 23.8% from 1.04 in FY2008 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 into

[81] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2017*, p. 16.

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.[82]

Chicago Transit Authority Pension Fund Membership: FY2008-FY2017			
Fiscal Year	**Active Employees**	**Beneficiaries**	**Ratio of Active to Beneficiary**
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
FY2017	8,192	10,387	0.79
Ten-Year Change	**-1,497**	**1,031**	**-0.25**
Ten-Year % Change	**-15.5%**	**11.0%**	**-23.8%**

Source: Retirement Plan for CTA Employees Financial Statements, FY2008-FY2017.

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.[83] 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.[84]

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.

[82] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2015*, p. 5.
[83] 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.
[84] 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.[85] 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 were raised for the CTA starting in FY2018 to a net 18.019% and 12.010% for employees, where they remain for FY2019-FY2040 following the incorporation of FY2017 results.[86]

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

---

[85] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2013*, p. 17.
[86] Retirement Plan for Chicago Transit Authority Employees, *Actuarial Valuation Report as of January 1, 2018,* 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%.[87]

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.[88] 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.[89]

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%.[90] 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.[91]

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."[92] 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 FY2017 actuarial report, the actuary estimated that the total contribution under these funding rules would be 34.6% of payroll, compared to the total contribution starting in FY2019 of 24.5%.[93]

Funded Ratios – Actuarial Value of Assets

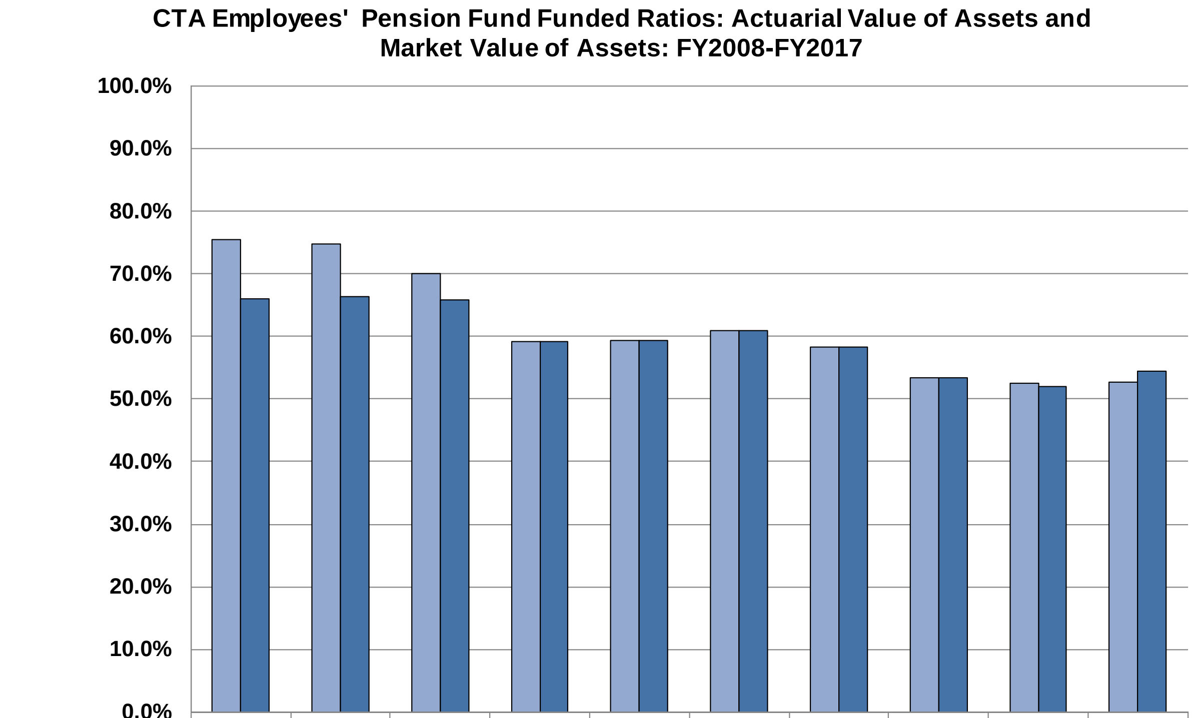
The following exhibit shows the actuarial funded ratio for the CTA Employees' Pension Fund. This ratio shows the percentage of pension liabilities covered by assets. The lower the percentage the more difficulty a government may have in meeting future obligations. The funded ratio for the CTA pension 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

---

[87] 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%.
[88] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[89] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2009*, p. 4.
[90] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
[91] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 9.
[92] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter from Buck Consultants.
[93] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2018*, p. 6.

extraordinary employer contribution of $1.1 billion from the issue of debt, which nearly doubled the fund's total actuarial assets.[94]

In the three years following the infusion of cash in FY2008, the funded ratio fell steadily, mostly due to changes to actuarial assumptions.[95] 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.[96] 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.[97] The actuarial funded ratio in FY2017 was flat and the market value funded ratio increased to 54.5% due to high investment returns.



	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Actuarial Value	75.6%	74.8%	70.1%	59.2%	59.4%	60.9%	58.2%	53.4%	52.5%	52.6%
Market Value	66.0%	66.3%	65.9%	59.2%	59.4%	60.9%	58.2%	53.4%	52.0%	54.5%

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, FY2008-FY2017.

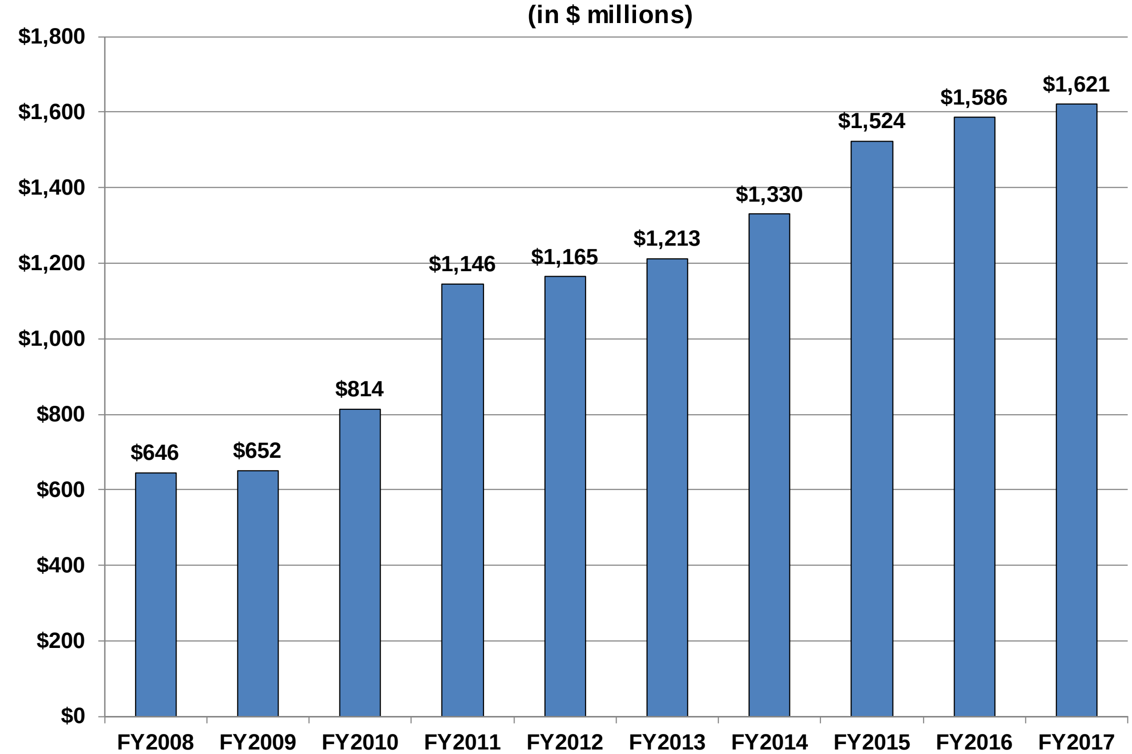
Unfunded Actuarial Accrued Liabilities

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 $645.9

[94] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 2.
[95] 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.
[96] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
[97] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2017*, p. 4.

million in FY2008, which was a decline of nearly $1 billion from the year before due to the one-time employer contribution of $1.1 billion in pension obligation bond proceeds described above. Unfunded liabilities rose to $814.2 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 FY2017 unfunded liabilities increased by $34.8 million, due to investment returns below expectations and increased liabilities and demographic losses. Unfunded liabilities are larger than they were in FY2007 before CTA pension reform.

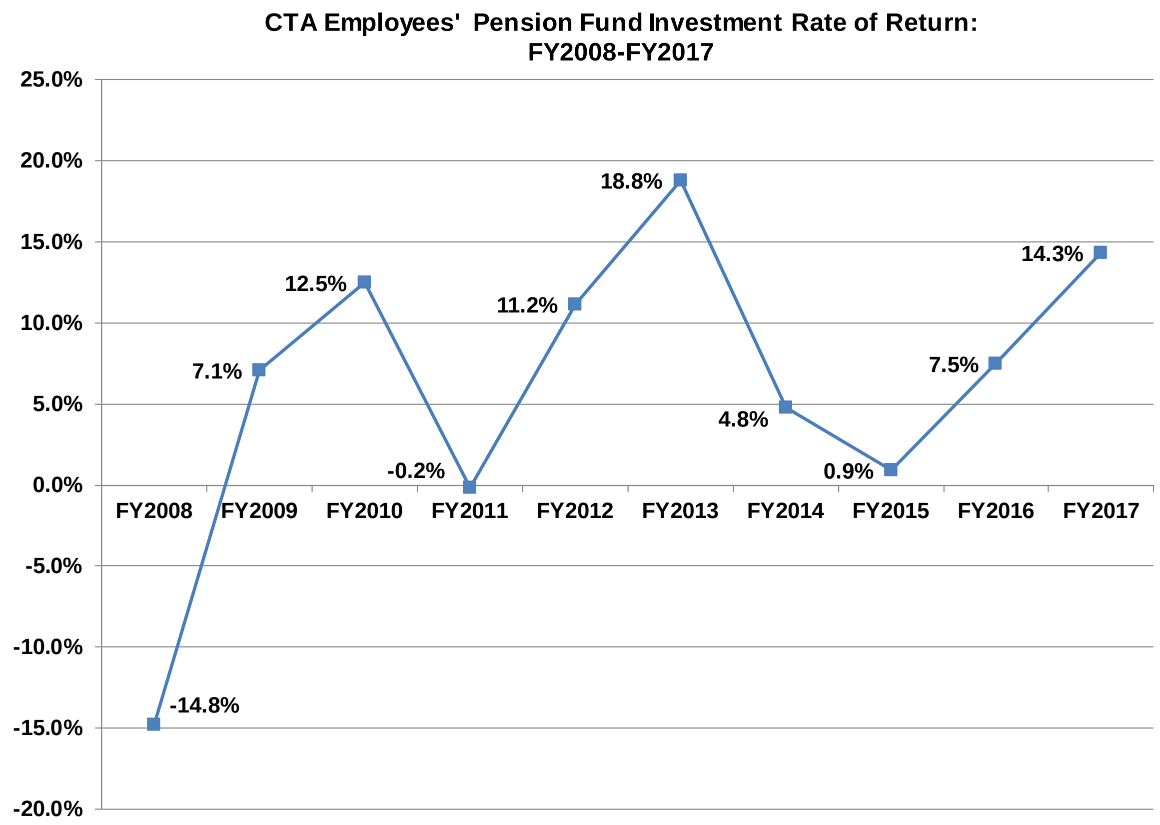
CTA Employees' Pension Fund Unfunded Actuarial Accrued Liabilities: FY2008-FY2017 (in $ millions)



Source: Retirement Plan for CTA Employees Financial Statements, FY2008-FY2017.

Investment Rates of Return

Between FY2008 and FY2017, 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.[98] The average return between FY2008 and FY2017 was 6.2%, less than the current assumed rate of return of 8.25%.[99]



Source: Retirement Plan for CTA Employees Actuarial Valuations, FY2008-FY2017.

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."[100] 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

---

[98] Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.
[99] 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.
[100] 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 comprehensive annual financial reports (CAFRs) 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[101] 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.

[101] 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 FY2008 the employer contribution was nearly a billion dollars more than the ARC, due to 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 $209.1 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 FY2008 the ARC was 34.8% of payroll while the actual employer contribution was 196.2% of payroll, again because of the pension obligation bond proceeds. In FY2017 the pension ADC was 33.7% of payroll while the actual employer contribution was 17.6% of payroll, net of contributions to pension obligation bond debt service. Employees contributed 12.01% of salary to the pension fund in FY2017.

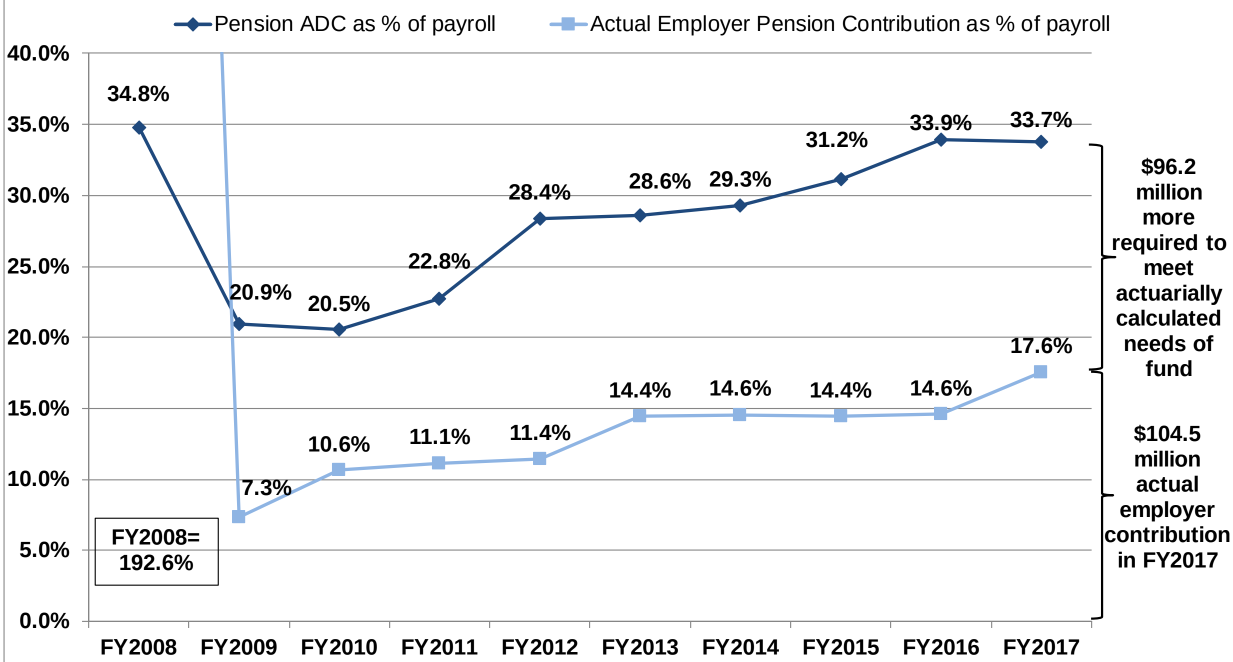
CTA Pension Fund
Schedule of Employer Contributions - Pension Plan as Computed for GASB Statement 25/67: 2008-2017

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
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%
2017	$ 200,760,757	$ 104,523,000	$ 96,237,757	52.1%	$ 595,046,668	33.7%	17.6%	52.6%

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 increased from a 13.6 percentage point shortfall in FY2009 to a 16.1 percentage point shortfall in FY2017. 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 16.2% of payroll, or $96.2 million, in FY2017.

Chicago Transit Authority Combined Pension and OPEB Valuation Actuarially Determined Contribution* vs. Actual Employer Contribution: FY2008-FY2017



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 FY2008-FY2017.

<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.[102]

Chicago Transit Authority Pension Fund GASB 67 Reporting FY2013-FY2017					
	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
FY2017	$ 3,522,802,506	$ 1,865,900,641	$ 1,656,901,865	52.97%	$ 200,760,757
Five-Year Change	**$ 302,270,147**	**$ (26,813,461)**	**$ 329,083,608**	**-5.80%**	**$ 43,166,488**
Five-Year % Change	**9.39%**	**-1.42%**	**24.78%**		**27.39%**

* Annual Required Contribution (ARC) in FY2013.

Source: FY2014-FY2017 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.[103] 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.[104]

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.[105] 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.”[106]

---

[102] 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.
[103] P.A. 95-0708; Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[104] Chicago Transit Authority Retiree Healthcare Trust, *Actuarial Valuation as of January 1, 2016*, p. 4.
[105] *Matthews v. Chicago Transit Authority*, 2016 IL 117638. Available at http://www.illinoiscourts.gov/opinions/SupremeCourt/2016/117638.pdf.
[106] 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.[107]

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.

- *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 FY2016 and FY2017 total short-term liabilities increased by $44.3 million, or 14.5%, from the previous year. The largest short-term liability reported in FY2017 was accounts payable and accrued expenses at $191.4 million. This category increased by 25.0% from the previous year, or by $42.0 million. This increase was primarily due to the timing of goods and services provided in relation to some of CTA's large capital projects such as the purchase of new rail cars, the Red Purple Modernization (RPM) project, Wilson and 95th Street station repairs and bus and rail overhauls.[108]

Since FY2013 total short-term liabilities increased by $125.5 million or 40.9%. Much of that increase was due to a $39.5 million increase in advances and deposits. That large 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 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).[109]

[107] CTA FY2016-FY2017 Financial Statements, Note 2: Summary of Significant Accounting Policies, p. 22
[108] Information provided by CTA Budget Office, October 31, 2018.
[109] Information provided by CTA Budget Office, December 8, 2017.

Other significant increases in the five-year period analyzed were:

- A 57.3% increase in accrued payroll, which rose from $107.0 million to $168.4 million. Much of that increase was due to increases in payroll-related accruals associated with anticipated wage increase and labor related grievances',[110] and
- A $23.1 million, or 13.7%, increase in accounts payable and accrued expenses.

CTA Short-Term Liabilities for Business-Type Activities by Category: FY2013-FY2017 (in $ thousands)									
Liability	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**Two Year $ Change**	**Two Year % Change**	**Five Year $ Change**	**Five Year % Change**
Accounts Payable & Accrued Expenses	$ 168,274	$ 154,563	$ 183,494	$ 149,299	$ 191,364	$ 42,065	25.0%	$ 23,090	13.7%
Accrued Payroll	$ 107,051	$ 122,383	$ 138,262	$ 164,669	$ 168,391	$ 3,722	3.5%	$ 61,340	57.3%
Accrued Interest Payable	$ 20,370	$ 22,335	$ 22,407	$ 21,421	$ 21,989	$ 568	2.8%	$ 1,619	7.9%
Advances and Deposits	$ 10,997	$ 18,173	$ 31,765	$ 52,484	$ 50,457	$ (2,027)	-18.4%	$ 39,460	358.8%
Total	**$ 306,692**	**$ 317,454**	**$ 375,928**	**$ 387,873**	**$ 432,201**	**$ 44,328**	**14.5%**	**$125,509**	**40.9%**

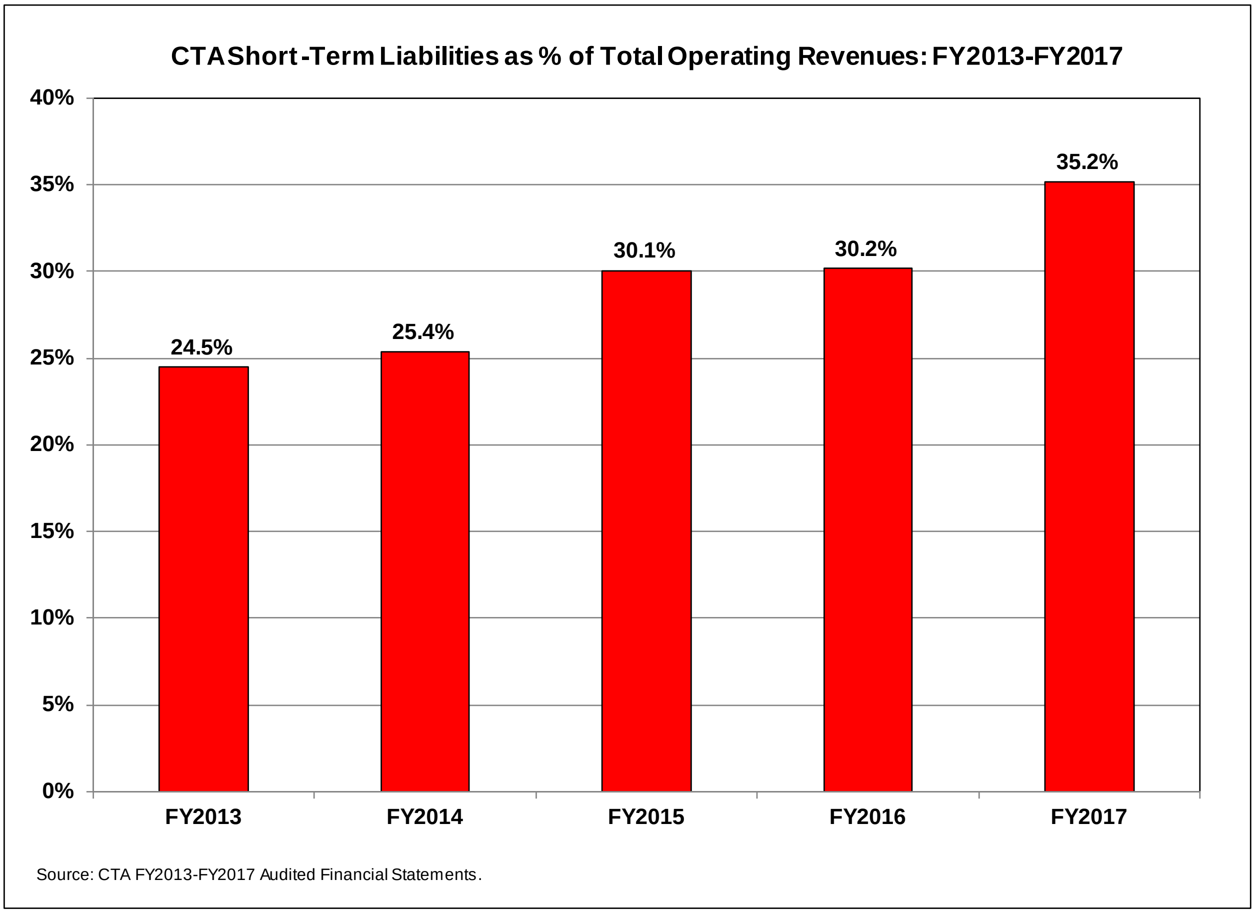
Source: CTA FY2013-FY2017 Audited Financial Statements.

The short-term liabilities to net total 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.[111] Between FY2013 and FY2017, short-term liabilities averaged 29.1%, rising from 24.5% in FY2013 to 35.2% in FY2015. The increase over time was

[110] Information provided by CTA Budget Office, December 8, 2017.

[111] 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.

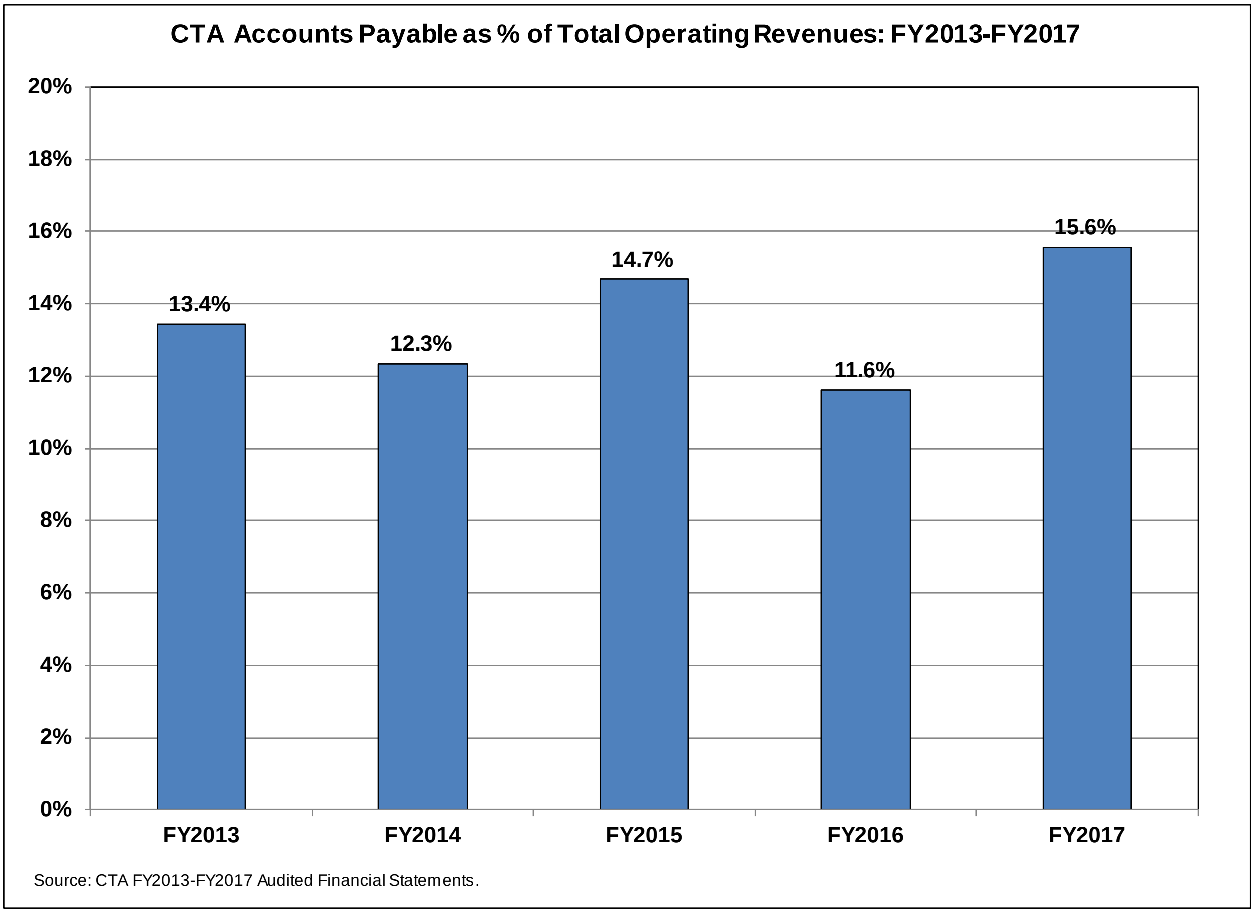
primarily due to increases in accrued payroll and advances and deposits. If increases in the ratio continue in future years the trend should be monitored.



Accounts Payable and Accrued Expenses Ratio

Over time, rising amounts of accounts payable and accrued expenses as a percentage of total operating revenues 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 rose from 13.4% to 15.6% over the five-year period analyzed. The increase between FY2016 and FY2017 was primarily due to the timing of goods and services provided in relation to some of CTA's large capital projects such as the purchase of new rail cars, the Red Purple Modernization

(RPM) project, Wilson and 95th Street station repairs and bus and rail overhauls.[112] In five-year period between FY2013 and FY2017 the accounts payable ratio averaged 13.5%.



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.[113]

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

[112] Information provided by CTA Budget Office, October 31, 2018.
[113] 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;[114]

- *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;[115]
- *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;[116] and
- *Derivative Instrument*: Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.[117]

The CTA's current ratio was 1.7 in FY2017, the most recent year for which data are available. This is below the preferred benchmark of 2.0.

In the past five years, the Transit Authority's current ratio averaged 2.0, which is the preferred benchmark. From FY2013 to FY2017, the current ratio fell from 2.2 to 1.7. The reason for the decline is that liabilities have increased by 40.9% or $125.5 million while simultaneously assets have increased by a lesser rate, 11.6% or $78.6 million. The declining trend should be monitored.

CTA Current Ratio for Business-Type Activities: FY2013-FY2017
(in $ thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Asset									
Cash and cash equivalents	$ 95,621	$ 16,505	$ 85,438	$ 79,127	$ 57,321	$ (21,806)	-27.6%	$ (38,300)	-40.1%
Cash and cash equivalents reserved for damage reserve	$ 114,622	$ 105,994	$ 97,010	$ 103,755	$ 80,011	$ (23,744)	-22.9%	$ (34,611)	-30.2%
Investments	$ 20	$ 86,032	$ 107,192	$ 119,942	$ 90,574	$ (29,368)	-24.5%	$ 90,554	452770.0%
Grants receivable due from the RTA	$ 276,970	$ 273,431	$ 310,502	$ 315,372	$ 301,291	$ (14,081)	-4.5%	$ 24,321	8.8%
Grants receivable: Capital Projects from federal & state sources	$ 33	$ -	$ -	$ -	$ -	$ -	---	$ (33)	-100.0%
Grants receivable: unbilled work in progress	$ 88,703	$ 109,401	$ 110,810	$ 100,886	$ 150,735	$ 49,849	49.4%	$ 62,032	69.9%
Grants receivable: Other	$ 70	$ -	$ 28	$ 2,376	$ 28	$ (2,348)	---	$ (42)	-60.0%
Accounts receivable, net	$ 48,881	$ 42,834	$ 36,072	$ 37,997	$ 38,090	$ 93	0.2%	$ (10,791)	-22.1%
Materials and supplies, net	$ 44,387	$ 33,975	$ 34,174	$ 30,622	$ 31,995	$ 1,373	4.5%	$ (12,392)	-27.9%
Prepaid expenses and other assets	$ 7,080	$ 5,245	$ 5,085	$ 5,575	$ 5,939	$ 364	6.5%	$ (1,141)	-16.1%
Derivative instrument	$ 1,023	$ -	---	---	---	---	--	---	---
Total Current Assets	**$ 677,410**	**$ 673,417**	**$ 786,311**	**$ 795,652**	**$ 755,984**	**$ (39,668)**	**-5.0%**	**$ 78,574**	**11.6%**
Current Liability									
Accounts Payable & Accrued Expenses	$ 168,274	$ 154,563	$ 183,494	$ 149,299	$ 191,364	$ 42,065	25.0%	$ 23,090	13.7%
Accrued Payroll	$ 107,051	$ 122,383	$ 138,262	$ 164,669	$ 168,391	$ 3,722	3.5%	$ 61,340	57.3%
Accrued Interest Payable	$ 20,370	$ 22,335	$ 22,407	$ 21,421	$ 21,989	$ 568	2.8%	$ 1,619	7.9%
Advances and Deposits	$ 10,997	$ 18,173	$ 31,765	$ 52,484	$ 50,457	$ (2,027)	-18.4%	$ 39,460	358.8%
Total Current Liabilities	**$ 306,692**	**$ 317,454**	**$ 375,928**	**$ 387,873**	**$ 432,201**	**$ 44,328**	**11.4%**	**$ 125,509**	**40.9%**
Current Ratio	**2.2**	**2.1**	**2.1**	**2.1**	**1.7**				

Source: CTA FY2013-FY2017 Audited Financial Statements.

---

[114] CTA FY2016-FY2017 Audited Financial Statements, p. 23.
[115] CTA FY2016-FY2017 Audited Financial Statements, p. 23.
[116] Investopedia.com, "Prepaid expenses" at https://www.investopedia.com/terms/p/prepaidexpense.asp, retrieved November 28, 2017.
[117] CTA FY2014-FY2015 Audited Financial Statements, p. 81.

LONG-TERM LIABILITIES

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

Total Long-Term Liabilities

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

- *Self-Insurance Claims*: The CTA is self-insured against future liabilities arising from personnel, property and casualty claims. The annual CAFR reports amounts needed to finance these future liabilities;
- *Bonds Payable, Capital Lease Obligations and Certificates of Participation*: These are amounts reported for different types of tax supported long-term debt, including general obligation debt, lease obligations and certificates of participation;
- *Net pension obligations (NPO)*: The cumulative difference (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*: Since FY2015, CTA has reported 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 these reporting changes, 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 FY2013 and FY2017 total CTA long-term liabilities increased by 13.4%, or nearly \$783.9 million. In the two-year period between FY2016 and FY2017 they increased by 5.0%, or \$316.5 million.

The majority of long-term liabilities are bonds payable. In FY2017 bonds payable accounted for 65.1%, or \$4.3 billion, of all long-term liabilities. During the five years reviewed, bonds payable averaged 65.3% of all long-term obligations. Capital lease obligation amounts owed in this same period fell by 88.6% or $1.4 billion due to the acceleration of the purchase option date for certain of these agreements.[118]

The single largest increase in long-term liabilities between FY2013 and FY2017 was for net pension obligations and liabilities. This obligation was reported to rise by 2,849.2% or roughly $1.7 billion. As noted above, this does not represent a new, large increase in liabilities. Rather, it is 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.[119] The liabilities shown below for the net OPEB obligation represent debt service on the retiree healthcare bonds.

CTA Long-Term Liabilities by Category: FY2013-FY2017
(in $ thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Self insurance claims	$ 262,138	$ 280,254	$ 283,841	$ 269,267	$ 260,400	$ (8,867)	-3.3%	$ (1,738)	-0.7%
Capital lease obligations	$ 1,625,474	$ 400,887	$ 212,598	$ 195,248	$ 184,675	$ (10,573)	-5.4%	$ (1,440,799)	-88.6%
Bonds payable	$ 3,747,750	$ 4,262,394	$ 4,179,027	$ 4,097,122	$ 4,322,320	$ 225,198	5.5%	$ 574,570	15.3%
Certificates of Participation	$ 49,907	$ 43,486	$ 36,724	$ 29,775	$ 22,633	$ (7,142)	-24.0%	$ (27,274)	---
Net Pension Obligation/Liability*	$ 59,455	$ 1,371,034	$ 1,470,041	$ 1,648,772	$ 1,753,459	$ 104,687	6.3%	$ 1,694,004	2849.2%
Net OPEB Obligation	$ 4,120	$ 4,213	$ 4,637	$ 5,052	$ 5,185	$ 133	2.6%	$ 1,065	25.8%
Other Long-term liabilities	$ 105,495	$ 94,250	$ 85,601	$ 76,545	$ 89,561	$ 13,016	17.0%	$ (15,934)	-15.1%
Total	**$ 5,854,339**	**$ 6,456,518**	**$ 6,272,469**	**$ 6,321,781**	**$ 6,638,233**	**$ 316,452**	**5.0%**	**$ 783,894**	**13.4%**

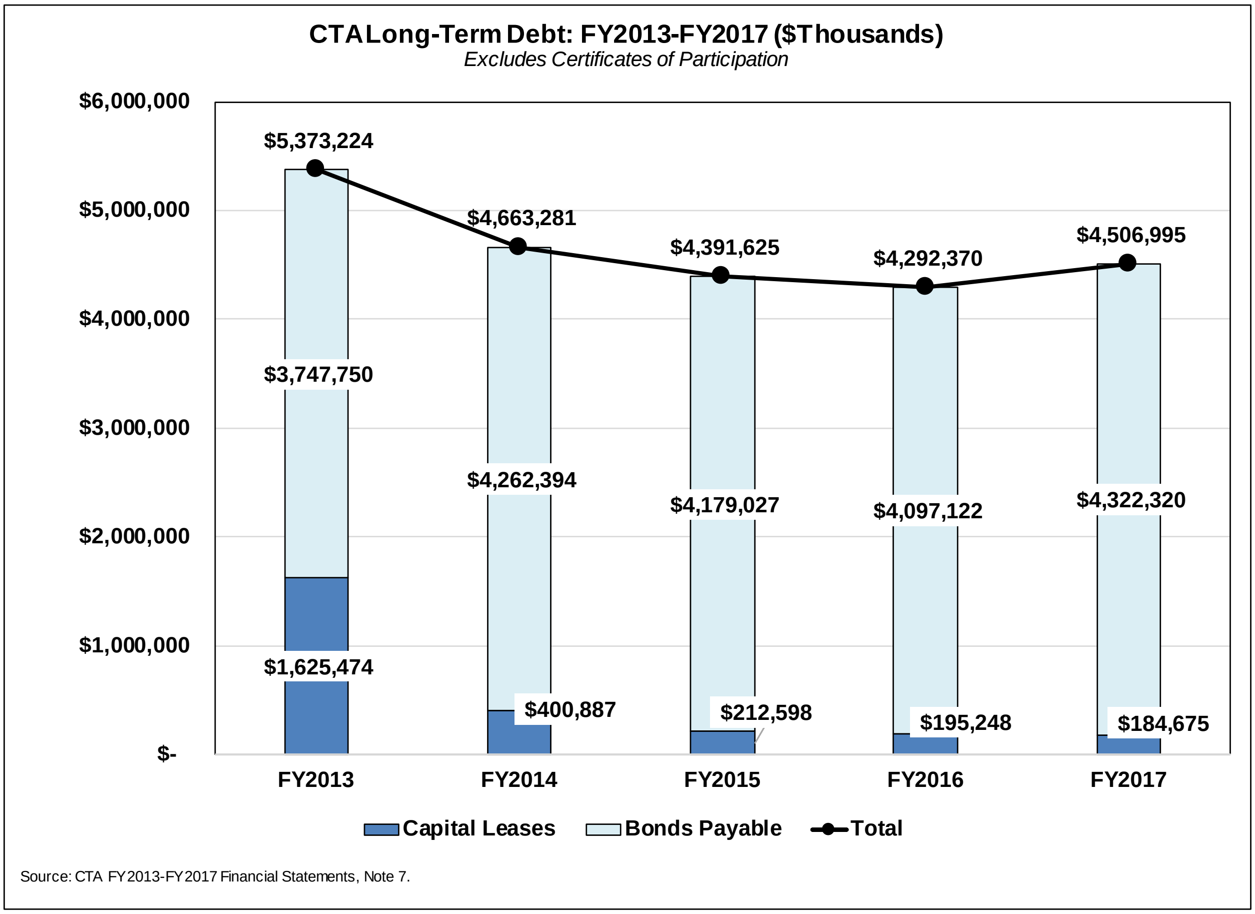
Source: CTA FY2013-FY2017 Audited Financial Statements, Note 7: Long-Term Obligations.
* Beginning in FY2015, Governments report 100% of their net pension liabilities rather than the net pension obligations. Net pension liabilities for FY2014 were restated in the FY2015 CTA audited financial statements.

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 FY2013 and FY2017. It excludes the relatively small amount spent on certificates of participation. In that five-year period, the CTA's total long-term debt decreased by 16.1%, or roughly $866.2 million, from roughly $5.4 billion to $4.5 billion. However, in the two-year period between FY2016 and FY2017, total long-term debt increased by $214.6 million, or 5.0%. Much of the five-year decrease in long-term debt is due to a reduction of $1.6 billion in capital lease obligations associated with acceleration of the purchase

118 This means that the CTA retired the lease debt at an early date. CTA FY2016-FY2017 Audited Financial Statements, p. 45.
119 CTA FY2016-FY2017 Audited Financial Statements, p. 13.

option date for certain of these agreements. This means that the CTA retired the lease debt at an early date.[120] The reduction in debt burden is a positive trend.



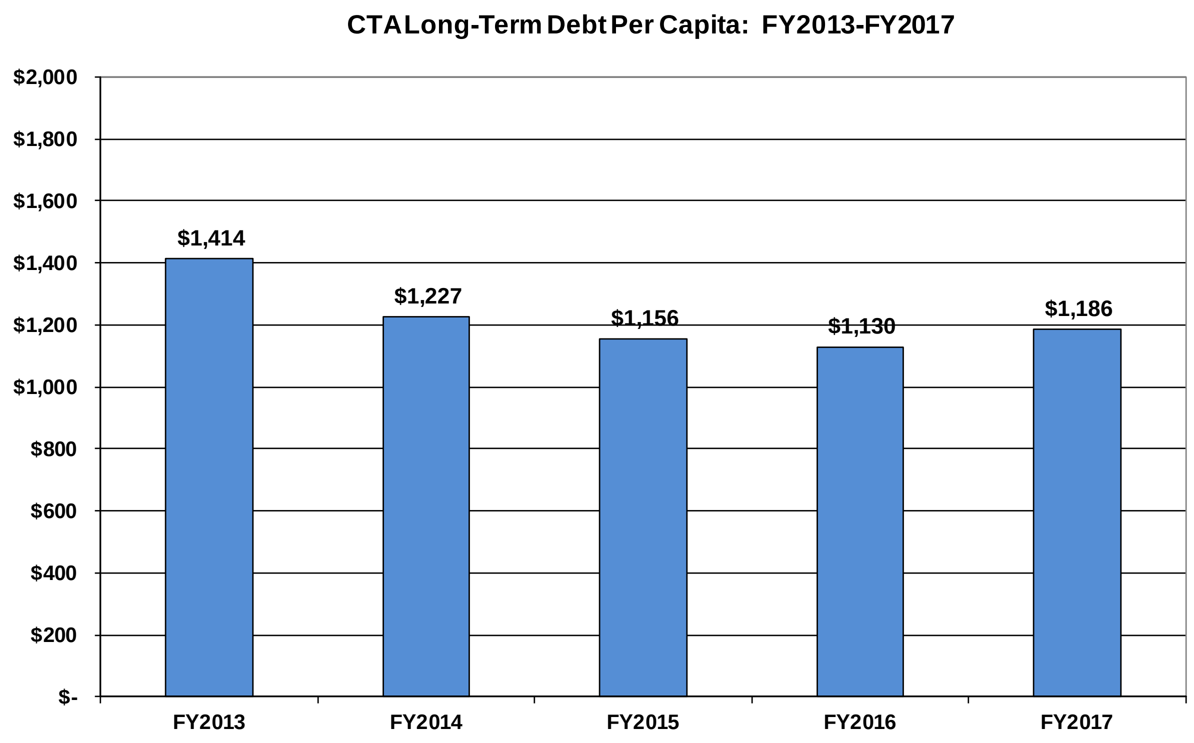
Long-Term Debt Per Capita

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[121] 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 FY2013 long-term debt per capita was $1,414. By FY2017, the ratio had decreased to $1,186, a 16.1% decrease. However, long-term debt per capita increased by 5.0% between FY2016 and FY2017. Much of the decrease over time is due to $1.6 billion in reduced capital lease obligations associated with acceleration of the purchase option date for certain of those

[120] See CTA FY2014-FY2015 Audited Financial Statements, p. 7 and CTA FY2016-FY2017 Audited Financial Statements, p. 45.
[121] This excludes certificates of participation, as noted previously.

agreements; this means that the CTA retired the lease debt at an early date.[122] The overall reduction in long-term debt per capita is a positive trend.



.Source: CTA FY2013-FY2017 Financial Statements, Note 7

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.[123] Between FY2015 and FY2019, pension obligation bond debt service as a percentage of operating appropriations is

[122] CTA FY2016-FY2017 Audited Financial Statements, p. 45.

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

expected to average 10.4%, which is below the range of 15% to 20% considered high by the rating agencies.[124]

CTA Debt Service as a Percentage of Appropriations: FY2015-FY2019			
	Debt Service	Total Appropriation	Ratio
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%
FY2019	$ 156,573,184	$ 1,552,112,000	10.1%

Source: CTA President's FY2019 Budget Recommendations, pp. 25 and 116; CTA President's FY2016 Budget Recommendations, pp. 48 and 128; CTA President's FY2015 Budget Recommendations, pp. 48 and 123.

Current CTA Bond Ratings

The CTA's outstanding debt is assigned the following ratings as of October 19, 2018:

CTA Credit Ratings as of 10/19/18				
	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 FY2019 Budget Recommendations, p. 111.

CTA CAPITAL PLAN FY2019-FY2023

The CTA five-year capital plan for FY2019-FY2023 proposes a total of $2.9 billion in funding. Federal funds will account for 75.0% 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.[125]

The remaining 24.97% of all capital funding, or $720.2 million, will include local funding from the RTA bond program, CTA bond funds and other minor sources. In 2019, CTA will also issue

[124] 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.
[125] CTA President's FY2019 Budget Recommendations p. 55.

capital bonds that are supported by the City of Chicago's Ground Transportation Tax. The issuance is expected to generate $163.0 million of project funds.[126]

CTA Capital Funding by Source: FY2019-FY2023 (in $ thousands)							
Source	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**$ Total**	**% of Total**
Federal Funding	$ 411,761	$ 505,865	$ 417,226	$ 412,628	$ 416,071	$ 2,163,551	75.00%
Local Funding							
RTA Bonds	$ -	$ 79,000			$ 65,000	$ 144,000	5.0%
Illinois Long Range Transportation Plan	$ 726	$ 642				$ 1,368	0.0%
CTA Bond	$ 26,329	$ 86,728	$ 71,490			$ 184,547	6.4%
CTA Bond - Ground Transportation Tax	$ 46,542	$ 86,536	$ 22,707	$ 7,215		$ 163,000	5.7%
CTA Bond - Red/Purple Modernization	$ 73,083	$ 107,173	$ 46,993			$ 227,249	7.9%
Subtotal Local Funding	**$ 146,680**	**$ 360,079**	**$ 141,190**	**$ 7,215**	**$ 65,000**	**$ 720,164**	**24.97%**
CTA Share for Competitive Grants	$ 368	$ 265	$ 105	$ 105	$ 105	$ 948	0.03%
Total	**$ 558,809**	**$ 866,209**	**$ 558,521**	**$ 419,948**	**$ 481,176**	**$ 2,884,663**	**100.0%**

Numbers may be slightly different than in Budget Book due to rounding.
Source: CTA President's FY2019 Budget Recommendations p. 52.

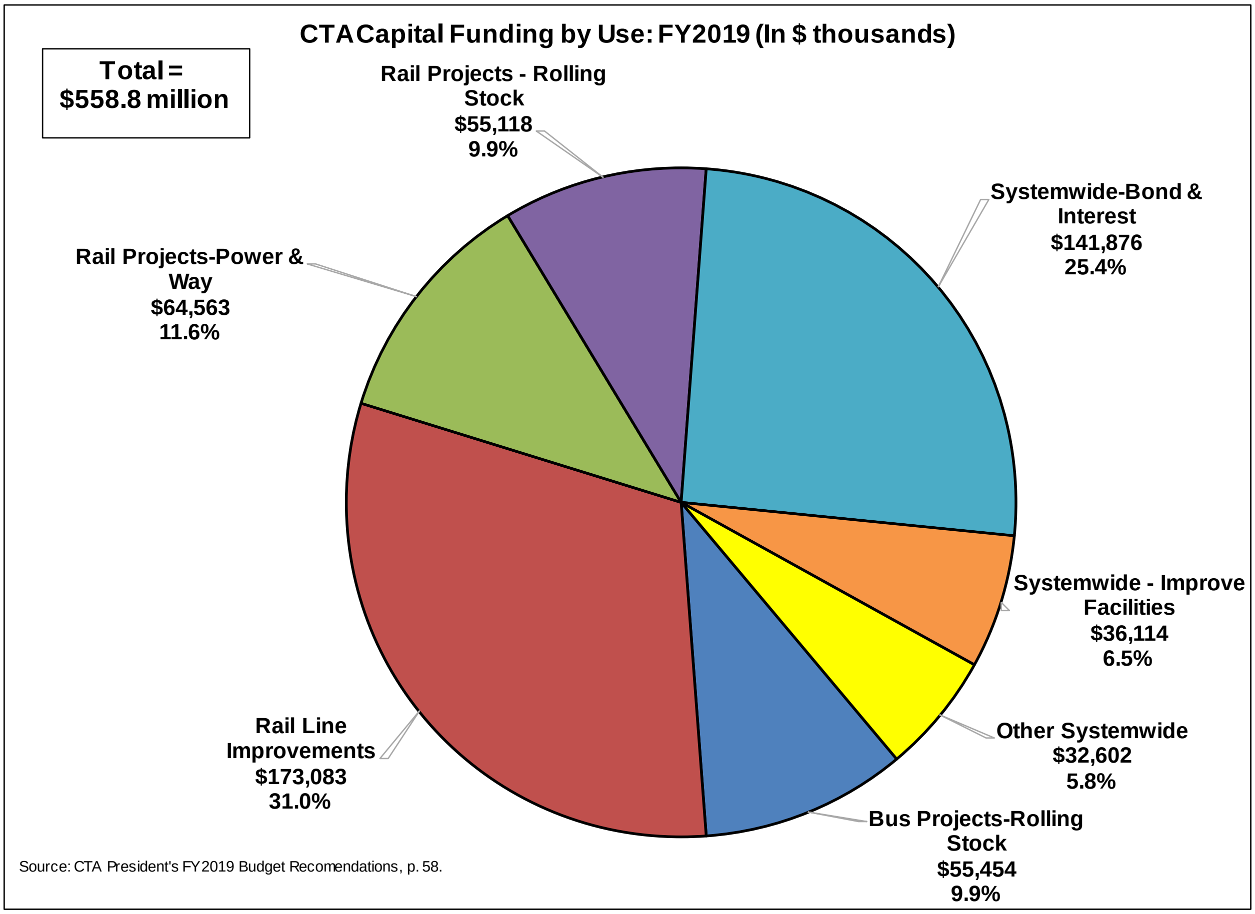
CTA capital funding by use in FY2019 will total $558.8 million. In that year:

- Rail line improvements will use $173.1 million, or 31.0%, of all spending;
- Approximately $64.6 million, or 11.6% of all spending, will be used for rail power and way projects;
- Bond financing costs will total $141.9 million, or 25.4%, of total spending;
- Rail rolling stock projects will spend $55.1 million, or 9.9%, of FY2019 funding while

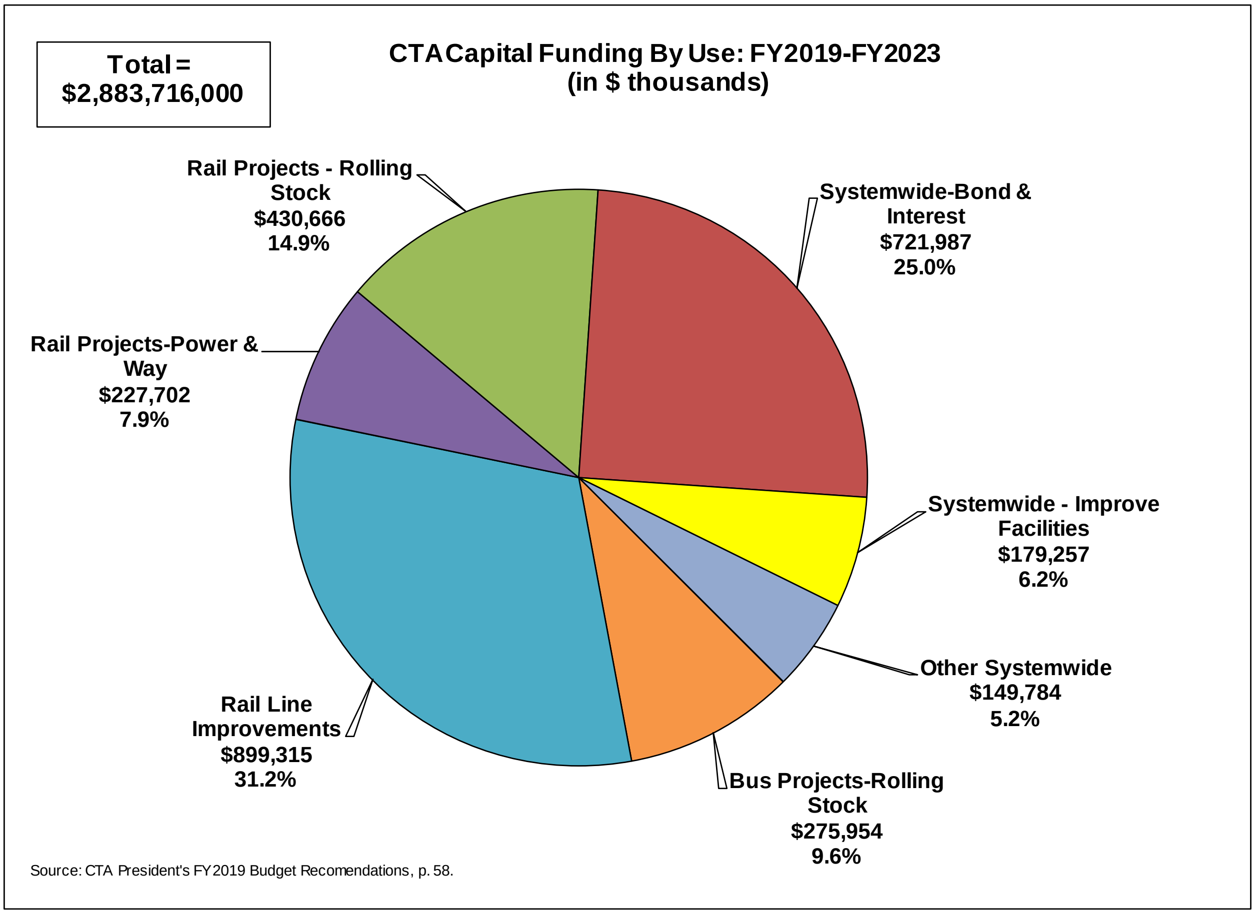
[126] CTA President's FY2019 Budget Recommendations p. 56.

bus rolling stock projects will use $55.5 million, or 9.9%;

- Systemwide expense to improve facilities will use $36.1 million; and
- Other funding uses include $32.6 million.



A five-year breakdown of CTA capital funding is shown next. Rail line improvements will be the biggest use of funds, at $899.3 million, or 31.2%, of the total. This will be followed by systemwide bond financing costs at $722.0 million or 25.0% of the total. Rolling stock for rail projects will use $430.7 million, while bus rolling stock projects will use $276.0 million.



CTA Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[127]

- 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;

[127] 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?	No information in CIP

APPENDIX A

The following table provides a comparison between the adopted FY2018 budget, the FY2018 year-end forecast and the FY2019 proposed budget expenditures. The CTA President's FY2019 Budget Recommendation totals $1.55 billion. Due to a reduction in State funding, the CTA reduced its FY2018 expenditures in order to better align revenues with expenditures. The CTA forecasts it will end FY2018 $24.3 million, or 1.6%, below its originally adopted FY2018 budget of $1.51 billion. The CTA is proposing to increase its appropriations in FY2019 by $61.9 million, or 4.2%, above the FY2018 forecast and by $37.6 million, or 2.5%, from the FY2018 adopted budget.

FY2018 Adopted, FY2018 Forecast & FY2019 Proposed
(in $ millions

Object	FY2018 Adopted	FY2018 Forecast	FY2019 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	$ 1,046.1	$ 1,068.3	$ 1,084.1	$ 22.2	2.1%	$ 15.8	1.5%	$ 38.0	3.6%
Material	$ 92.4	$ 84.3	$ 80.1	$ (8.1)	-8.8%	$ (4.3)	-5.1%	$ (12.4)	-13.4%
Fuel	$ 33.6	$ 33.5	$ 44.1	$ (0.1)	-0.3%	$ 10.6	31.7%	$ 10.5	31.3%
Power	$ 31.4	$ 30.7	$ 34.4	$ (0.7)	-2.3%	$ 3.7	12.1%	$ 3.0	9.6%
Provision for Injuries & Damages	$ 5.0	$ 5.0	$ 7.5	$ -	-	$ 2.5	50.0%	$ 2.5	50.0%
Security	$ 17.8	$ 17.8	$ 19.3	$ -	-	$ 1.5	8.4%	$ 1.5	8.4%
Pension Obligation Bonds	$ 112.5	$ 107.5	$ 108.6	$ (5.0)	-4.4%	$ 1.1	1.0%	$ (3.9)	-3.5%
Contractual Services	$ 109.1	$ 81.9	$ 95.4	$ (27.2)	-24.9%	$ 13.5	16.5%	$ (13.7)	-12.5%
Utilities	$ 23.3	$ 22.5	$ 23.6	$ (0.8)	-3.4%	$ 1.2	5.2%	$ 0.4	1.5%
Non-Capital Grant Expense	$ 9.5	$ 6.5	$ 6.0	$ (3.0)	-31.6%	$ (0.5)	-7.7%	$ (3.5)	-36.8%
Advertising & Promotions	$ 1.2	$ 0.7	$ 1.3	$ (0.5)	-41.7%	$ 0.6	85.5%	$ 0.1	8.2%
Travel & Meetings	$ 1.5	$ 0.7	$ 1.6	$ (0.8)	-53.7%	$ 0.9	127.7%	$ 0.1	5.5%
Leases & Rentals	$ 3.2	$ 2.9	$ 3.6	$ (0.3)	-10.0%	$ 0.7	24.0%	$ 0.4	11.6%
Other General Expenses	$ (1.0)	$ (0.9)	$ (5.2)	$ 0.1	-7.5%	$ (4.4)	494.2%	$ (4.3)	449.4%
Debt Service	$ 28.9	$ 28.8	$ 47.8	$ (0.1)	-0.4%	$ 19.0	65.8%	$ 18.9	65.2%
Total	**$ 1,514.5**	**$ 1,490.2**	**$ 1,552.1**	**$ (24.3)**	**-1.6%**	**$ 61.9**	**4.2%**	**$ 37.6**	**2.5%**

Note: Totals may differ from budget documents due to rounding.
Source: CTA FY2018 President's Budget Recommendations, pp. 24 and 25; and information provided by CTA on October 31, 2018.

APPENDIX B

The following table provides a comparison between revenues in the CTA's adopted FY2018 budget, the FY2018 year-end forecast and the FY2019 proposed budget revenues. The President's FY2019 Budget Recommendation is $1.55 billion in total operating revenues, which is a 2.5%, or $37.6 million, increase from the adopted FY2018 budget level of $1.51 billion.

As shown in the table, forecasted revenues for FY2018 year-end are expected to come in $24.3 million, or 1.6%, lower than the adopted levels. This is partially due to the State of Illinois cutting in half the reduced fare reimbursement to $13.9 million. Other revenue is expected to be $6.0 million below budget, primarily due to non-capital grants.[128] Public funding is also expected to end the year $5.4 million below budget because of a 5% reduction in the State's Public

[128] CTA FY2019 Budget Briefing, October 17, 2018.

Transportation Fund matching funds.[129] The remainder of revenue sources are expected to end the FY2018 year fairly close to the budgeted levels.

CTA Operating Budget Revenue: FY2018 Adopted, FY2018 Forecast & FY2019 Proposed (in $ millions)									
Source	FY2018 Adopted	FY2018 Forecast	FY2019 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	$ 583.1	$ 584.0	$ 588.0	$ 0.9	0.2%	$ 4.0	0.7%	$ 4.9	0.8%
Reduced Fare Reimbursement	$ 28.3	$ 13.9	$ 28.3	$ (14.4)	-51.0%	$ 14.4	104.1%	$ (0.0)	0.0%
Advertising, Charter & Concessions	$ 38.3	$ 38.0	$ 38.8	$ (0.4)	-1.0%	$ 0.8	2.1%	$ 0.4	1.1%
Investment Income	$ 1.6	$ 2.5	$ 2.1	$ 0.9	56.3%	$ (0.4)	-16.0%	$ 0.5	31.3%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%	$ -	0.0%
Other Revenue	$ 51.2	$ 45.2	$ 45.6	$ (6.0)	-11.6%	$ 0.3	0.7%	$ (5.6)	-11.0%
Total System-Generated Revenue	**$ 707.6**	**$ 688.6**	**$ 707.7**	$ (19.0)	-2.7%	**$ 19.1**	**2.8%**	**$ 0.2**	**0.0%**
Public Funding through RTA	**$ 806.9**	**$ 801.6**	**$ 844.4**	$ (5.4)	-0.7%	**$ 42.8**	**5.3%**	**$ 37.4**	**4.6%**
Total	**$ 1,514.5**	**$ 1,490.2**	**$1,552.1**	**$ (24.3)**	**-1.6%**	**$ 61.9**	**4.2%**	**$ 37.6**	**2.5%**

Source: CTA President's FY2019 Budget Recommendations, p. 25.

APPENDIX C

The CTA increased base fares for the first time in nearly ten years in FY2018. Bus fares increased from $2.00 to $2.25 and rail fares increased from $2.25 to $2.50. The CTA also increased the 30-day pass from $100 to $105. This change brought the CTA’s rail fare more in line with the fares charged by comparable urban rail systems.

The proposed fare rate increase was expected to generate $23.0 million in additional revenue for the CTA in FY2018 compared to FY2017 year-end estimates.[130] Based on the CTA’s FY2018 year-end forecast, revenue from fares and passes is projected to generate $584.0 million, which is a $24.5 million increase over actual FY2017 fare and pass revenue.[131]

The most recent base fare increase before the 2018 increase occurred in 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.[132] The most recent previous fare pass increase occurred in FY2013 when the CTA increased the cost of a 30-day pass from $86 to $100. That year the CTA also increased fares for trips departing from O’Hare Airport and equalized mandated reduced fares for qualified riders to the statutory 50% of base fares.[133] 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.[134]

The table below shows a comparison of CTA’s current fares to its peer cities. The CTA’s fares are slightly above the average bus fare and rail fare among six other transit systems. The average

[129] CTA FY2019 Budget Briefing, October 17, 2018.
[130] CTA President’s FY2018 Budget Recommendations, p. 34.
[131] CTA President’s FY2019 Budget Recommendations, pp. 24-25.
[132] CTA President’s FY2016 Budget Recommendations, p. 42.
[133] CTA President’s FY2013 Budget Recommendations, p. 38.
[134] 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.

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

A Comparison of Fares Across Transit Agencies
As of September 20, 2018
(in $ dollars)

City	Bus Fare	Express Bus Fare	Rail Fare	30-Day/Monthly Pass Cost	Reduced Fare (Senior/Disabled)
Chicago	**$2.25**	**-**	**$2.50**	**$105.00**	**$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	$84.50	$0.85 - Bus $1.10 - Rail
Washington D.C.	$2.00	$4.25 Regular $2.00 Senior/Disabled	$2.00-$6.00 [2]	$135.00 [3]	$1.00
Los Angeles	$1.75	$2.50 Regular $1.35 Senior/Disabled	$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 FY2019 Recommended Budget, p. 191.