The Civic Federation

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CHICAGO TRANSIT AUTHORITY PRESIDENT'S FY2017 BUDGET RECOMMENDATIONS

Analysis and Recommendations

November 14, 2016

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EXECUTIVE SUMMARY

The Civic Federation **supports** the Chicago Transit Authority's FY2017 proposed operating budget of $1.52 billion because it holds base fares flat and continues to make strategic capital investments despite ongoing state funding uncertainty. The CTA proposes to increase spending by approximately $47.4 million, or 3.3%, above last year's budget due primarily to a $24 million increase in pension contributions and $14 million in new debt service payments.[1]

Because the CTA has been able to better manage expenses while increasing its non-fare box revenues, it has been able to offset the decline in revenue caused by fewer transit riders. The proposed budget is structurally balanced and does not rely on one-time revenue sources or service cuts to balance its budget. In fact, it continues to improve the transit experience by modernizing its fleet of bus and rail cars, improving service levels, accessibility and security. Also, legislation approved in August 2016 authorizes the creation of transit TIF districts in the City of Chicago. Revenue generated from these districts will allow the CTA to leverage local funding sources to access additional federal funding in order to move forward with significant infrastructure improvement projects.

However, the Federation is concerned that the CTA may again be overly optimistic in its State funding projections. The State of Illinois has been operating without a comprehensive balanced budget for over 16 months. This has resulted in the CTA receiving only half of the reimbursement for free and reduced rides from the State in FY2015 and FY2016 and the loss of approximately $221 million in state capital funding promised in FY2015. If the CTA does not receive the historical level of funding for free and reduced fares and the historical level of capital funding, it may need to further reduce expenses and delay critical infrastructure projects. Additionally, the CTA estimates that it needs approximately $950 million annually to keep its capital stock in good repair. However, due in large part to state funding cuts, the CTA's five-year capital plan only provides for an average of $689.3 million in funding annually, which is a substantial funding gap that continues to grow.[2] Furthermore, should the CTA Retirement Board decide to reduce its current expected rate of return on investment from an unusually high rate of 8.25%, the CTA will need to substantially increase its contributions to the pension fund.

In order for the CTA to maintain financial stability in the long-term, the Federation believes the Transit Authority should take a number of steps to improve its operations and meet the transit demands of the region. These steps include: working with the Illinois General Assembly and Governor to re-evaluate the state mandated free and reduced fare program and implement pension reforms, improve the transparency of its operations, update its financial policies and explore alternative fare options.

The Civic Federation offers the following **key findings** on the FY2017 Recommended Budget:

- The total proposed FY2017 operating budget will total $1.52 billion, a 3.3%, or $47.4 million, increase from the FY2016 approved budget;
- Labor expenses will be approximately $1.05 billion, which is an increase of $24.8 million, or 2.4%, above the FY2016 approved budget;
- System-generated revenue in FY2017 is expected to be $686.3 million, while public funding through the Regional Transportation Authority will be $837.9 million;
- Between FY2013 and FY2017 system-generated revenues will have increased by $17.4 million, or 2.6%, and public funding provided through the Regional Transportation Authority will have increased by $140.7 million or 20.2%;

[1] CTA President's FY2017 Budget Recommendations, p. 7.
[2] CTA President's FY2017 Budget Recommendations, p. 82.

- The CTA expects ridership to decrease from the FY2016 forecast by 3.7 million rides, or 0.7%, and a decline of 22.6 million rides, or 4.4% from the FY2016 adopted budget to 496.3 million rides in FY2017; and
- The unfunded actuarial accrued liability of the CTA Pension Fund increased by nearly 15% to $1.5 billion in FY2015 and the funded ration fell to 53.4% from 58.2%, triggering higher CTA and employee contributions to fund.

The Civic Federation **supports** the following elements of the CTA's FY2017 proposed budget:

- The implementation of the new transit TIF district that will better leverage local funding sources to access additional federal transit funding;
- Producing a budget that does not include one-time revenue sources; and
- Keeping base fares flat for the fourth consecutive year while improving service levels.

The Civic Federation has the following **concerns** about the FY2017 proposed budget:

- The FY2017 proposed budget anticipates receiving the full $28.3 million from the State of Illinois as a partial reimbursement for providing state mandated free and reduced fare rides despite the fact that the State has been operating without a comprehensive budget for over 16 months. Additionally, the CTA has still not received $221 million of promised State funds that it was promised in FY2015;
- While the CTA has made improvements to its budget book in recent years, the FY2017 budget book does not include sufficient details on operating expenses or deficit-reduction measures implemented in previous years to account for the reduction in the State of Illinois' reduced fare subsidy;
- 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
- The CTA will face increased financial stress on other revenue sources if ridership continues to decline and operating costs continue to rise.

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

- Work with the RTA, Illinois General Assembly and Governor to re-evaluate the state mandated free and reduced fare programs;
- Improve the budget document by providing more detail about full-time equivalent positions by department and other personnel information;
- Establish a policy for new bond issuances that would prohibit excessively back-loaded repayment schedules in order to avoid extraordinarily expensive borrowings and protect long-term debt capacity;
- Update the debt policy to prohibit refinancing of debt that extends the life of outstanding principal to reap near-term operating savings without reducing the actual total debt service owed;
- Work with the CTA Pension Fund, its members and the Illinois General Assembly to re-evaluate the expected rate of return assumptions, contributions and funding schedule for the CTA Pension Fund;
- Undertake a study of the benefits and drawbacks of transitioning from a flat fare structure to a peak-hour-based fare structure or zone-based fare structure and make the results publicly available; and
- Publicly release and incorporated public input into the Transit Authority's internal ten-year financial plan to maintain the budgetary balance projected through FY2019 that takes into account ongoing capital needs and back-loaded debt with models that present different options for aligning expenditures, revenues and service targets for future years.

CIVIC FEDERATION POSITION

The Civic Federation **supports** the Chicago Transit Authority's FY2017 proposed operating budget of $1.52 billion because it holds base fares flat and continues to make strategic capital investments despite ongoing state funding uncertainty. The CTA proposes to increase spending by approximately $47.4 million, or 3.3%, above last year's budget due primarily to a $24 million increase in pension contributions and $14 million in new debt service payments.[3]

Because the CTA has been able to better manage expenses while increasing its non-fare box revenues, it has been able to offset the decline in revenue caused by fewer transit riders. The proposed budget is structurally balanced and does not rely on one-time revenue sources or service cuts to balance its budget. In fact, it continues to improve the transit experience by modernizing its fleet of bus and rail cars, improving service levels, accessibility and security. Also, legislation approved in August 2016 authorizes the creation of transit TIF districts in the City of Chicago. Revenue generated from these districts will allow the CTA to leverage local funding sources to access additional federal funding in order to move forward with significant infrastructure improvement projects.

However, the Federation is concerned that the CTA may again be overly optimistic in its State funding projections. The State of Illinois has been operating without a comprehensive balanced budget for over 16 months. This has resulted in the CTA receiving only half of the reimbursement for free and reduced rides from the State in FY2015 and FY2016 and the loss of approximately $221 million in state capital funding promised in FY2015. If the CTA does not receive the historical level of funding for free and reduced fares and the historical level of capital funding, it may need to further reduce expenses and delay critical infrastructure projects. Additionally, the CTA estimates that it needs approximately $950 million annually to keep its capital stock in good repair. However, due in large part to state funding cuts, the CTA's five-year capital plan only provides for an average of $689.3 million in funding annually, which is a substantial funding gap that continues to grow.[4] Furthermore, should the CTA Retirement Board decide to reduce its current expected rate of return on investment from an unusually high rate of 8.25%, the CTA will need to substantially increase its contributions to the pension fund.

In order for the CTA to maintain financial stability in the long-term, the Federation believes the Transit Authority should take a number of steps to improve its operations and meet the transit demands of the region. These steps include: working with the Illinois General Assembly and Governor to re-evaluate the state mandated free and reduced fare program and implement pension reforms, improve the transparency of its operations, update its financial policies and explore alternative fare options.

Issues the Civic Federation Supports

The Civic Federation supports the following elements of the CTA President's FY2017 Budget Recommendations.

[3] CTA President's FY2017 Budget Recommendations, p. 7.
[4] CTA President's FY2017 Budget Recommendations, p. 82.

Working With the City of Chicago on the New Transit TIF District

On August 12, 2016 Public Act 99-0792 was signed into law by Illinois Governor Bruce Rauner, which amended the Tax Increment Allocation Redevelopment Act to authorize the City of Chicago to designate Tax Increment Financing (TIF) districts for transit related projects.[5] The proposed transit TIF redevelopment area would help repay a $622 million loan to fund improvements for the Red and Purple Modernization project, which is projected to cost over $2.1 billion.[6] This form of financing will allow the CTA to better leverage local funding sources to access an additional $956.6 million in federal transit funding. However, the Chicago Plan Commission, City Council Finance Committee and full City Council must still approve the creation of the new transit TIF district before an intergovernmental agreement can be established and the CTA will gain access to the TIF funds.

The Civic Federation supports value capture through this new form of TIF because the revenues generated from the incremental growth in property value within the district will be specifically dedicated to fund much-needed transit improvements.

Producing a Structurally Balanced Budget

The FY2017 proposed budget does not include one-time revenue sources and is structurally balanced. Prior to FY2013, the CTA had for many years relied on at least one non-recurring revenue source to meet its operating obligations. These one-time revenue sources included transfers from capital funds, transfers from State funds in exchange for forestalling fare increases, transfers from prior years' positive balance and most recently, savings generated from replacing a pension obligation bond debt service reserve with a surety bond. Relying on one-time revenue sources to close budget deficits may cause future budget strain when those revenues are not available. The National Advisory Council on State and Local Budgeting Practice advises that one-time, or non-recurring, revenues cannot be "relied on in future budget periods."[7] The CTA's ongoing commitment to match recurring revenue and expenditures follows good budget practices.

Keeping Fares Flat While Improving Service Levels

Because of the reforms made in recent years and the continued effort in this budget to better manage expenses, the CTA is able to hold fares flat for the fourth straight year. The last increase in base fares was in FY2009, when cash fares for the bus system increased from $2.00 to $2.25 and transit card fares increased from $1.75 to $2.00 for buses and from $2.00 to $2.25 for trains. Pass fares also increased by 20% that year. In FY2013 the CTA increased pass fares for daily, weekly and monthly passes and increased fares for trips departing O'Hare Airport, but held base fares flat. However, faced with declining ridership and reduced funding from the State, the CTA has been successful at offsetting the loss in fare-box revenue by maximizing its non-farebox revenues. In recent years the CTA has worked to diversify and increase its revenue base by

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[5] File 2016-44, Communication placed on file for Red and Purple Phase One Project Redevelopment Area, Chicago City Council Meeting, October 4, 2016.
[6] CTA President's FY2017 Budget Recommendations, p. 76.
[7] National Advisory Council on State and Local Budgeting Practice, A Framework for Improved State and Local Government Budgeting and Recommended Budget Practices, 1998. http://www.co.larimer.co.us/budget/budget_practices.pdf.

expanding advertising, charters, concessions and non-capital grant funds.[8] Together these efforts have allowed the Transit Authority to keep base fares flat.

The Civic Federation commends the CTA for proposing a budget that continues to make strategic improvements to its bus and rail operations to improve the customer experience without relying on increased fares from its customers.

Civic Federation Concerns

The Civic Federation has the following concerns regarding the CTA President's FY2017 Budget Recommendations.

Ongoing State Funding Uncertainty

The State of Illinois has been operating without a comprehensive budget for over 16 months. As a result of the ongoing state budget impasse, the CTA has yet to receive $220 million in capital funding from the State that was promised in FY2015. In addition, the State of Illinois provides a reduced-fare subsidy to the CTA as a partial reimbursement for the number of discounted and free rides given to students, low-income seniors, veterans and people with disabilities. In 2013 the State reduced its reimbursement, which caused the CTA to lose approximately $6.9 million and would have caused the loss of over $8.0 million in the first half of FY2014. The Regional Transportation Authority (RTA) provided nearly $8.2 million to replace the reduced fare subsidy for the first half of FY2014.[9] The State eventually restored the funding in May 2014. It cut the subsidy again by 50% in FY2015, where it has remained based on FY2015 actual data and FY2016 forecasted data even though the RTA projected State funding levels would be restored for FY2016.[10] Despite the lack of a comprehensive State budget, the CTA is again budgeting in FY2017 for the full $28.3 million reimbursement from the State based on information provided by the RTA.[11]

The Civic Federation once again cautions the CTA that it is overly optimistic to expect State funding levels to return to normal levels at a time when the State has been operating without a comprehensive state budget for over 16 months and its current backlog of unpaid bills has grown to over $9.0 billion.[12]

Lack of Detail in Budget Book

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

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[8] CTA President's FY2017 Budget Recommendations, p. 31.
[9] CTA President's FY2014 Budget Recommendations, pp. 40 and 96.
[10] CTA President's FY2016 Budget Recommendations, p. 46.
[11] CTA President's FY2017 Budget Recommendation, p. 36.
[12] Illinois Comptroller's Website, https://illinoiscomptroller.gov/ (last accessed November 8, 2016).

However, the CTA does not explain how it has dealt with the reduction in the state reimbursement for free and reduced-fare rides in FY2015 and FY2016 or how it will deal with reduced funding in FY2017 should the historical level of funding from the State not be restored. Such information, including measures the agency implemented and dollar estimates associated with each measure, should be included in the Executive Summary or budget forecast. Without these details, it can be difficult to evaluate the CTA's projection that the budget will be balanced by year-end.

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.[13] The legislated reforms specifically addressed each of these issues.

While acknowledging and supporting the progress the Fund has made since it was close to insolvency, the Civic Federation retains some concerns about the fund's overly optimistic expected rate of return of 8.25%, which remains well above other local and State of Illinois funds, whose expected rates of return on investment range from 6.75% to 7.75%. According to the National Association of State Retirement Administrators (NASRA) Public Fund Survey of large public pension funds, the CTA's expected rate of return was also high compared to other plans nationally, as only four of the 127 funds surveyed had expected rates of return above 8.0%.[14] The assumed rate of return, also called the discount rate, is an important assumption because it is used to calculate the present value of future pension obligations. A higher rate decreases the present value of future commitments to employees and retirees and results in lower current statutorily required pension contributions. Too high of a rate artificially decreases current contributions at the expense of future taxpayers.

Additionally, the Fund's 50-year plan to get to 90% funded is less than ideal from an actuarial perspective. In the January 1, 2016 actuarial valuation report, the CTA Fund's actuary recommended the fund's Board of Trustees consider, "moving towards a contribution of the

[13] 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.
[14] NASRA, "Issue Brief: Public Pension Plan Investment Return Assumptions," Updated February 2016. Available at http://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf

Actuarial Math Contribution over the next several years."[15] Their suggested "Actuarial Math Contribution" would have a goal of 100% funding, rather than the 90% goal included in Illinois state law; use an actuarial value of assets to control contribution volatility, rather than the market value currently required under state law; and pay off the unfunded liability over 20 years, rather than the 50-year amortization laid out in state law. In the FY2015 actuarial report, the actuary estimated that the total contribution under these funding rules would be 34.04% of payroll, compared to the total contribution starting in FY2017 of 29.887%.

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.

Declining Ridership

The CTA projects that ridership will be 496.3 million rides in FY2017. The FY2017 ridership is projected to be a decrease of 3.7 million rides, or 0.7%, from the FY2016 forecast and a decrease of 22.6 million rides, or 4.4% from the FY2016 original budget. Over the ten-year period, ridership will decrease 5.7%, or 30.0 million rides, from 526.3 million actual rides in FY2008 to 496.3 million rides projected in FY2017.

Revenue from fares and passes represents 84.7% of system-generated revenue and while system-generated revenue in FY2017 is projected to increase by $1.6 million, or 0.2%, above the FY2016 adopted budget levels, fare box revenue is projected to decline by 1.6%, or $9.3 million to $581.3 million in FY2017. This $10.4 million drop is due to lower ridership levels that the CTA attributes to low gas prices, increased car use and competition from ride share and bike share options.[16]

The CTA highlights that many transit agencies nationwide have also experienced declines in ridership and that it is working to better understand these trends. The Civic Federation is concerned that the District will face increased financial stress on other revenue sources if ridership continues to decline and operating costs continue to rise. The Federation looks forward to the release of CTA's ridership study once it is completed.

Civic Federation Recommendations

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

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

The CTA estimates that it provided over $100 million in state mandated free rides and federally mandated reduced-fare rides in FY2016, but is projected to only receive $14.2 million in

[15] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2016*, cover letter from Buck Consultants.
[16] CTA President's FY2017 Budget Recommendations, p. 7 & 27.

reimbursements through the State subsidy.[17] This is the second year the CTA has not received the full subsidy from the State.

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

Given the State's cuts to its reimbursements to the CTA for the state-mandated free fares program, the Civic Federation recommends the CTA work with the Regional Transportation Authority, Illinois General Assembly and Governor Rauner to re-evaluate this state mandate and decide whether it would be more sustainable to provide only the federally required reduced-fare benefit to seniors and individuals with disabilities.

Improve Budget Detail

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

The Federation 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 staffing structure of the CTA.

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

Institute a Policy Prohibiting Back-Loaded Debt Issuances

The CTA should set forth a reasonable level-principal policy for new bond issuances in order to avoid extraordinarily expensive back-loaded debt issuances and protect its long-term debt capacity.

In FY2014 the CTA issued $555.0 million in long-term capital bonds with no principal payments until after FY2041.[18] Delaying principal payments until the out-years of the bonds creates moderate near-term savings for the CTA's annual debt service payments. However, holding the principal for 25 years and longer greatly increases the total interest cost for the capital projects financed with this borrowing. In all, the CTA will pay interest totaling $868.9 million through

[17] CTA President's FY2017 Budget Recommendations, p. 35
[18] Chicago Transit Authority, Sales Tax Receipts Revenue Bonds, Series 2014, *Official Statement*, June 18, 2014, p. 19.

FY2049 for this borrowing. The annual debt service payment for these bonds will increase by $50.2 million in 2041. This is an increase between $28.6 million in FY2040 to an annual payment of $78.8 million in FY2041 through FY2049.[19] The spike in debt service will limit future borrowing capacity and lead to potential budget stress in these final years of repayment.

The CTA also issued capital improvement bonds on October 26, 2011 with principal payments delayed for 10 years. The 2011 Sales Tax Receipts Revenue bonds totaled $476.9 million in new funds for capital projects but will cost $429.5 million in total interest payments through FY2040.[20]

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

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 FY2017 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.[21] Of the major local pension funds in the Chicago area, the CTA Fund has by far the highest expected rate of return. The rest of the funds are in the 7.5%-7.75% range after several reduced their rates in the last few fiscal years. At the State of Illinois, all five funds' expected rates of return now range from 6.75% to 7.25%.

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[19] CTA President's FY2017 Budget Recommendations, p. 113.
[20] CTA President's FY2017 Budget Recommendations, p. 112.
[21] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2014,* p. 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 2015 review, the Auditor General noted that the then 8.25% rate of return used by the Plan, "remains at the upper end of the investment return assumptions used by other plans" and was much higher than the 10-year historical rate of return on Retirement Plan investments of 6.8%. 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 8.34%. 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.[22]

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 and given other funds' stated expectations of low investment returns over the next several years, 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, 2016 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."[23] The current CTA Pension Fund statutory funding schedule is a 50-year plan ending in 2058 and is calculated on a different actuarial basis, projected unit credit. Current employer and employee contribution rates are higher than the minimum amount required under state law and are projected to result in a 91.28% funded ratio in 2035.[24] 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 should work with the Pension Fund Board of Trustees and Illinois General Assembly to explore a more actuarially sound funding plan that would more equitably divide the cost of current and retired workers' pensions between current and future taxpayers and employees.

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[22] State of Illinois Office of the Auditor General, *2015 Annual Review Information Submitted by the Retirement Plan for CTA Employees*, November 2015, synopsis; and Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter.
[23] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2016*, p. 5.
[24] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2016*, p. 15.

Study Peak Hour Options or Zone Fares

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

The Civic Federation recommends that the CTA go further and study the options to transition from a flat fare structure to a peak hour option, which would charge users higher rates during rush hour or a zone-based fare structure, which would base the cost of a transit ride on the length traveled. The results of the study should be made publicly available. The Federation believes exploring non-base fare increases to revenue is crucial because of CTA's continued decline in ridership, particularly during off-peak hours.

Make CTA's Long-Term Financial Plan Publicly Available and Seek Public Input

The CTA has faced significant gaps between ongoing revenues and expenses in past years, leading to a variety of actions including fare increases, service cuts, borrowing from the State of Illinois and using capital funds for operating purposes. While the CTA has made great strides in recent years to improve its financial condition, it will continue to face ongoing financial challenges in the future as its capital backlog continues to grow and it confronts increased debt service payments. The CTA continues to implement best practices by incorporating a two-year financial plan into its budget and undertaking internal long-range planning efforts that assess various budgetary, demographic and transit demand assumptions over a ten-year period. The Federation commends the Transit Authority for this long-range planning effort. However, the ten-year plan is not publicly available and the CTA does not incorporate public input into its long-range planning process.

Furthermore, while the CTA projects balanced budgets through FY2019, those budgets assume funding from the State reimbursement for free and reduced fare rides will be restored and labor expenses will only increase slightly.[25] The Civic Federation recommends that the CTA undertake a publicly available long-term financial planning process that involves public input in order to consider and model future options for the CTA under different scenarios, as well as performance targets to better cope with contingencies.

Explore Establishing a Partnership with Metra to Improve Transit Service in the Region in Addition to the Red Line Expansion

While the CTA has worked to improve transit operations by making significant capital investments in its infrastructure and assets to improve the customer experience, its capital reinvestment needs over a 10-year period are estimated at approximately $22.2 billion, or 58.3% of the total capital needs of $36.14 billion for all three major transit agencies in the region.

The CTA is moving forward with its long held commitment to enhance transit service on the south side of Chicago by extending the Red Line south to 130th Street. This project alone is

[25] CTA President's FY2017 Budget Recommendation, p. 45.

estimated to cost approximately $2.3 billion to build and does not yet have a dedicated funding source, though the transit TIF could be a source of funding for the project.[26]

A number of transit advocacy groups as well as Mayor Emanuel have also expressed interest in converting the Metra Electric commuter line into a rapid-transit line with more frequent service.[27] The Federation believes that there are efficiencies and savings to be had from through the collaboration of both agencies to further study this alternative to not only improve public transit access for the south side of Chicago, but for the region as a whole.

[26] Public Act 99-0792.

[27] Mary Wisniewski, "Idea to convert Metra Electric to rapid-transit line draws mayor's interest," *Chicago Tribune,* June 23, 2016.

ACKNOWLEDGEMENTS

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 Budget Director Yvonne Towers 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 FY2017 budget compared to previous years. This year, the CTA's operating budget will total $1.52 billion, a 3.3%, or $49.0 million, increase from the FY2016 adopted appropriation of approximately $1.47 billion.

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

The following charts and corresponding narratives review the CTA's operating budget by object, or category, of expenditure and by non-labor and labor expenses. Figures used in the analysis include actual expenditures for FY2013 through FY2015; FY2016 adopted appropriations and FY2017 proposed appropriations.[28]

Labor expenses are the largest category of expenses and will increase between FY2016 and FY2017 by 2.4%, or $24.8 million, rising from $1.02 billion to $1.05 billion. The increase in labor expenses in FY2017 is primarily due to a $24 million increase in pension contributions.[29]

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 increase by 6.9%, or $18.9 million, between the FY2016 adopted budget and FY2017 proposed budget. The increase in other expenses is primarily attributable to increased debt service payments of $14.3 million on the 2014 sales tax bonds and normal escalations in contractual services expenses.[30] However, these increases are offset by a decline in pension obligation bond expenses of $6.1 million or 5.2%.

The CTA budget for provisions for injuries and damages will remain flat over the FY2016 adopted budget at $9.5 million. The amount budgeted is determined by the CTA's actuaries based on claims history and future projections.[31] It changes considerably from year to year.

Appropriations for fuel and power will decrease by 8.9%, or $3.3 million and 0.3%, or 93,000, respectively in FY2017. The reduction in fuel expenses is due to the CTA using its fixed price purchasing policy that will reduce fuel costs per gallon by approximately $0.12 in FY2017.[32] Electricity for powering the rail lines will be purchased in FY2017 through a new "load flowing" strategy, where the price of a percentage of consumption is fixed, regardless of the consumption.[33] Security costs will increase by $2.1 million, or 14.6%, over the two-year period. The increase in security costs is due to increased patrols to prevent continuous riders and reduce

[28] 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 FY2016 Budget, FY2016 Forecast and FY2017 Proposed figures, see Appendix A on page 55 of this report.
[29] CTA President's FY2017 Budget Recommendations, p. 31.
[30] CTA President's FY2017 Budget Recommendations, p. 33.
[31] CTA President's FY2017 Budget Recommendations, p. 34.
[32] CTA President's FY2017 Budget Recommendations, p. 33.
[33] CTA President's FY2017 Budget Recommendations, p. 34.

loss in fare revenues from fraudulent use.[34] Material expenses are also expected to increase in FY2017 by 8.0%, or $6.6 million, primarily due to increased service levels and repairs and maintenance to its fleet that will no longer be covered by warranty.[35]

In a five-year comparison, the CTA's operating budget will increase by 11.6%, or $158.1 million, between the actual expenditures in FY2013 and proposed appropriations for FY2017.

Labor expenses have increased each year since FY2013. Following layoffs and service reductions in FY2010, labor expenses began to rise in FY2011 due to collectively bargained wage increases of 3.5% effective January 1, 2011 for members of the Amalgamated Transit Union (ATU) and prevailing wage increases for members of the Craft Coalition unions.[36] Labor expenses will constitute 68.9% of the proposed FY2017 operating budget, which is a slight decrease from 69.5% in the FY2016 budget. Labor expenses as a percentage of the total operating budget have averaged 69.3% over the past five years.

Over the five-year period between FY2013 and FY2017 spending for material and power are projected to increase by 47.8% and 19.8%, or $28.8 million and $5.2 million, respectively. In contrast, spending for fuel is projected to decrease by $27.9 million, or 45.1%, declining from $61.8 million in FY2013 to $33.9 million proposed in FY2017. This is primarily due to the CTA strategically purchasing its fuel in advance and historically low fuel prices.[37] Security expenses are also projected to decline over the five-year period by $7.3 million or 30.3%.

CTA Operating Budget by Object of Expenditure: FY2013-FY2017
(in $ thousands)

Object	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Proposed	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Labor	$ 948,272	$ 965,868	$ 1,002,486	$ 1,025,634	$ 1,050,436	$ 24,802	2.4%	$ 102,164	10.8%
Other Expenses									
Utilities	$ 19,657	$ 23,059	$ 24,562	$ 24,058	$ 24,152	$ 94	0.4%	$ 4,495	22.9%
Advertising/Promotion	$ 732	$ 738	$ 691	$ 1,198	$ 1,212	$ 14	1.2%	$ 480	65.6%
Travel & Meetings	$ 538	$ 639	$ 556	$ 1,331	$ 1,667	$ 336	25.2%	$ 1,129	209.9%
Contractual Services	$ 81,063	$ 94,334	$ 104,278	$ 101,981	$ 109,349	$ 7,368	7.2%	$ 28,286	34.9%
Leases & Rentals	$ 2,734	$ 2,401	$ 2,586	$ 2,896	$ 3,062	$ 166	5.7%	$ 328	12.0%
General Expenses	$ 8,072	$ (4,574)	$ (6,858)	$ 4,640	$ 4,248	$ (392)	-8.4%	$ (3,824)	-47.4%
Pension Obligation Bond	$ 114,832	$ 115,746	$ 112,281	$ 118,043	$ 111,943	$ (6,100)	-5.2%	$ (2,889)	-2.5%
Non-Capital Grant Expense	$ 17,707	$ 10,567	$ 13,957	$ 5,678	$ 8,749	$ 3,071	54.1%	$ (8,958)	-50.6%
Debt Service	$ -	$ -	$ -	$ 14,298	$ 28,597	$ 14,299	100.0%	$ 28,597	-
Subtotal Other Expenses	**$ 245,335**	**$ 242,910**	**$ 252,053**	**$ 274,123**	**$ 292,979**	**$ 18,856**	**6.9%**	**$ 47,644**	**19.4%**
Material	$ 60,353	$ 80,963	$ 83,507	$ 82,534	$ 89,176	$ 6,642	8.0%	$ 28,823	47.8%
Fuel	$ 61,836	$ 59,476	$ 19,830	$ 37,259	$ 33,946	$ (3,313)	-8.9%	$ (27,890)	-45.1%
Security	$ 24,160	$ 13,628	$ 14,431	$ 14,698	$ 16,838	$ 2,140	14.6%	$ (7,322)	-30.3%
Power	$ 26,174	$ 33,568	$ 28,818	$ 31,458	$ 31,365	$ (93)	-0.3%	$ 5,191	19.8%
Provision for Injuries & Damages	$ -	$ 3,500	$ 13,000	$ 9,500	$ 9,500	$ -	0.0%	$ 9,500	-
Total	**$ 1,366,130**	**$ 1,399,913**	**$ 1,414,125**	**$ 1,475,206**	**$ 1,524,240**	**$ 49,034**	**3.3%**	**$ 158,110**	**11.6%**

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

Source: CTA President's Budget Recommendations: FY2014, p. 42; FY2015, p. 48; FY2016, p. 48; FY2017, p. 38; and information provided by CTA, November 14, 2016.

Labor Expenses

The chart below displays a detailed breakdown for labor expenses over the five-year period from FY2013 to FY2017. This information is not provided in the CTA's budget document and was provided by the CTA to the Civic Federation upon request.

[34] CTA President's FY2017 Budget Recommendations, p. 34.
[35] CTA President's FY2017 Budget Recommendations, p. 33.
[36] CTA President's FY2012 Budget Recommendations, pp. 18-19.
[37] CTA President's FY2017 Budget Recommendations, p. 33.

Base wages and salaries will increase by 1.0%, or $6.2 million, between the FY2016 adopted budget and the FY2017 proposed budget. The increase in wages and salaries over the two-year period is attributable to increases in the cost of healthcare benefits.[38] Benefit costs will also increase by 4.5%, or $18.6 million, over the two-year period.

Base wages will increase over the five-year period by 10.5%, or $58.5 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 $23.2 million, or 5.7%. Although the majority of the benefits have remained flat or decreased over the five-year period, pension contributions have increased by $25.1 million, rising from $108.5 million in FY2013 to $133.6 million in FY2017.

CTA Labor Expenses: FY2013-FY2017
(in $ thousands)

Object	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted*	FY2017 Proposed*	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Base Wages & Salaries	$ 558,387	$ 565,139	$ 604,241	$ 610,703	$ 616,871	$ 6,168	1.0%	$ 58,484	10.5%
Benefits									
Vacation	$ 38,446	$ 40,489	$ 40,041	$ 41,719	$ 43,593	$ 1,874	4.5%	$ 5,147	13.4%
Holiday	$ 23,969	$ 23,051	$ 23,796	$ 24,793	$ 25,039	$ 246	1.0%	$ 1,070	4.5%
Sick	$ 4,667	$ 4,461	$ 4,784	$ 4,985	$ 5,208	$ 223	4.5%	$ 541	11.6%
Jury Duty	$ 901	$ 1,181	$ 1,183	$ 1,233	$ 1,288	$ 55	4.5%	$ 387	43.0%
Workers' Compensation	$ 50,059	$ 50,941	$ 53,902	$ 56,161	$ 50,011	$ (6,150)	-11.0%	$ (48)	-0.1%
Tuition Aid	$ 159	$ -	$ -	$ -	$ -	$ -	-	$ (159)	-100.0%
FICA	$ 46,506	$ 44,519	$ 46,393	$ 48,337	$ 48,320	$ (17)	0.0%	$ 1,814	3.9%
Unemployment Insurance	$ 2,492	$ 1,316	$ 381	$ 397	$ 415	$ 18	4.5%	$ (2,077)	-83.3%
Group Insurance	$ 127,057	$ 112,347	$ 109,939	$ 114,545	$ 119,689	$ 5,144	4.5%	$ (7,368)	-5.8%
Uniform Allowance	$ 1,485	$ 1,673	$ 1,688	$ 1,759	$ 1,838	$ 79	4.5%	$ 353	23.8%
Supplemental Retirement	$ 4,613	$ 8,367	$ 1,782	$ 1,857	$ 1,940	$ 83	4.5%	$ (2,673)	-57.9%
Incentive Retirement	$ 1,485	$ 2,676	$ (411)	$ 2,905	$ 2,601	$ (304)	-10.5%	$ 1,116	75.2%
Pension	$ 108,497	$ 109,708	$ 114,766	$ 116,242	$ 133,602	$ 17,360	14.9%	$ 25,105	23.1%
Subtotal Benefits	**$ 410,336**	**$ 400,729**	**$ 398,244**	**$ 414,933**	**$ 433,544**	**$ 18,611**	**4.5%**	**$ 23,208**	**5.7%**
Fringe Benefit Offset	$ -	$ -	$ -	$ -	$ -	$ -	-	$ -	-
Other Labor Credits	$ (20,451)	$ -	$ -	$ -	$ -	$ -	-	$ 20,451	-
Total	**$ 948,272**	**$ 965,868**	**$ 1,002,485**	**$ 1,025,636**	**$ 1,050,415**	**$ 24,779**	**2.4%**	**$ 102,143**	**10.8%**

Note: Totals may differ due to rounding.
Note 2: FY2016 Adopted and FY2017 Proposed budget figures are estimated fringe benefits.
Source: Information provided by CTA, November 5, 2013; November 4, 2014; October 28, 2015; and November 11, 2016.

REVENUES

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

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

This section examines revenue trends from FY2013 to FY2017, as shown in the next table. We use actual data when available for FY2013 through FY2015, adopted FY2016 budget figures as approved by the CTA's Board of Trustees and FY2017 proposed budget figures.

The President's FY2017 Budget Recommendations include $1.52 billion in operating revenues, which is a 3.3%, or $49.0 million, increase from the adopted FY2016 revenue level of $1.48

[38] CTA President's FY2017 Budget Recommendations, p. 41.

billion. The CTA projects FY2016 year-end revenue to be $1.49 billion, which is slightly above the adopted level.[39]

The FY2017 revenue total includes $686.3 million from system-generated revenue and $837.9 million in public funding through the Regional Transportation Authority (RTA). System-generated revenue will compose approximately 45% of total operating resources and public funding through the RTA will compose approximately 55% of the CTA's resources in FY2017.

System-generated revenue in FY2017 will increase by $1.6 million, or 0.2%, above the FY2016 adopted budget levels. Revenue from fares and passes represents 84.7% of system-generated revenue. Farebox revenue will total $581.3 million in FY2017, which represents a 1.6%, or $9.3 million, decrease from the FY2016 budget. The CTA attributes the $9.3 million drop to lower ridership levels as a result of low gas prices, increased car use and competition from ride share and bike share options.[40] Forecasted FY2016 year-end revenue from fares and passes is also expected to come in lower than budgeted at $580.1 million compared to $590.5 million adopted in the FY2016 budget. There are no changes to fares proposed in the FY2017 budget.

Base fares for bus and rail travel have not increased since FY2009, when bus fares increased by $0.25 to $2.00 (transit card) and $2.25 (cash) and train fares increased to $2.25.[41] In FY2013 the CTA increased a number of non-base fare rates including fare passes and fares for trips departing from O'Hare Airport; the CTA also equalized mandated reduced fares for qualified riders to the statutory 50% of base fares.[42] Those fares have not changed. 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.[43]

The CTA receives 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.[44] 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. In 2013 the State reduced its reimbursement, which caused the CTA to lose approximately $6.9 million in FY2013 and would have caused the loss of over $8.0 million in the first half of FY2014. However, the Regional Transportation Authority (RTA) provided nearly $8.2 million to replace the reduced fare subsidy for the first half of FY2014.[45] The State eventually restored the funding in May 2014, but then cut the subsidy in half in FY2015 to $14.6 million. The CTA assumed in its FY2016 budget that the subsidy would be restored to $28.3 million, but now projects that it will be $14.6 million in FY2016 due to the State budget impasse. The CTA's FY2017 budget proposal is depending on the restored level of $28.3 million, and the CTA notes that it will

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[39] For a comparison of revenues from the FY2016 adopted budget, FY2016 year-end forecast and FY2017 proposed figures, see Appendix B on page 55 of this report.
[40] CTA President's FY2017 Budget Recommendations, p. 7 & 27.
[41] CTA President's FY2016 Budget Recommendations, p. 42.
[42] CTA President's FY2013 Budget Recommendations, p. 38.
[43] The CTA must provide half fare rides to all people aged 65 or older per a federal requirement tied to funding.
[44] 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 aged 65 or older per a federal requirement tied to funding.
[45] CTA President's FY2014 Proposed Budget, pp. 40 and 96.

continue to work with the RTA and other service boards to restore the subsidy to historic levels.[46]

Advertising, charter and concession revenue will increase by approximately $3.1 million or 9.8%, from the FY2016 adopted budget to $35.2 million in FY2017. The increase reflects continued growth in platform and vehicle advertisements as well as growing demand for digital advertising.[47] Over the past five years, revenue from advertising, charter and concessions has increased by $9.5 million, or 37.0%.

Investment income in FY2017 is budgeted at $1.1 million, which is an increase of $200,000 above FY2016. Low interest rates and late payments from the State continue to yield minimal interest income.[48]

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.[49] The amounts contributed to the CTA by the City of Chicago and Cook County have remained unchanged since 1985. However, the City of Chicago also makes in-kind law enforcement contributions of $22.0 million to the CTA for police services.[50] 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.[51]

Other revenue includes non-capital grants, parking fees, property sales and rentals, merchandise sales, third-party reimbursements and filming fees.[52] Other revenue decreased to $27.9 million in FY2016 from $36.4 million the prior year due to a decrease in revenue from non-capital grants. Other revenue is expected to increase by approximately $7.5 million, or 27.0%, from FY2016 adopted figures to $35.5 million in FY2017. The increase is partially due to increases in parking rates at selected Park-n-Ride lots and the timing of non-capital revenue grants.[53]

Public funding for the CTA is established by the Regional Transportation Authority (RTA) based on sales tax and real estate transfer tax projections.[54] Public funding from the RTA will increase in FY2017 by $47.4 million, or 6.0%, above the FY2016 budget according to RTA projections, from $790.5 million to $837.9 million. The projected increase is due to increased sales tax revenues and larger number of real estate transactions.[55] Public funding from the RTA is discussed in the next section.

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[46] CTA President's FY2017 Budget Recommendations, p. 28.
[47] CTA President's FY2017 Budget Recommendations, p. 28.
[48] CTA President's FY2017 Budget Recommendations, p. 28.
[49] CTA President's FY2017 Budget Recommendations, p. 28.
[50] CTA President's FY2017 Budget Recommendations, p. 36.
[51] CTA President's FY2017 Budget Recommendations, p. 36.
[52] CTA President's FY2017 Budget Recommendations, p. 29 & 99.
[53] CTA President's FY2017 Budget Recommendations, p. 99, and information provided by CTA budget staff on October 20, 2016.
[54] CTA President's FY2017 Budget Recommendations, p. 37.
[55] CTA President's FY2017 Budget Recommendations, p. 29.

Over the five-year period from FY2013 to FY2017, the most significant dollar increase is in public funding through the RTA, which represents an increase of $140.7 million or 20.2%. System-generated revenue is projected to increase by $17.4 million or 2.6%. Income from fares and passes will increase slightly by $7.2 million or 1.3%. Investment income will see the largest percentage increase of 203.0% or approximately $800,000. Advertising, charter and concessions revenue is also projected to increase significantly, by 37.0% or $9.5 million.

CTA Operating Budget Revenue: FY2013-FY2017
(in $ millions)

Source	FY2013 Actual	FY2014 Actual	FY2015 Actual	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
System-Generated Revenue									
Fares and Passes	$ 574.0	$ 583.3	$ 587.1	$ 590.5	$ 581.3	$ (9.3)	-1.6%	$ 7.2	1.3%
Reduced Fare Reimbursement	$ 21.9	$ 28.3	$ 14.6	$ 28.3	$ 28.3	$ -	0.0%	$ 6.4	29.0%
Advertising, Charter & Concessions	$ 25.7	$ 27.6	$ 31.2	$ 32.0	$ 35.2	$ 3.1	9.8%	$ 9.5	37.0%
Investment Income	$ 0.4	$ 0.4	$ 1.1	$ 0.9	$ 1.1	$ 0.2	27.0%	$ 0.8	203.0%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%
Other Revenue	$ 41.9	$ 36.1	$ 36.4	$ 27.9	$ 35.5	$ 7.5	27.0%	$ (6.5)	-15.4%
Total System-Generated Revenue	**$ 669.0**	**$ 680.7**	**$ 675.5**	**$ 684.7**	**$ 686.3**	**$ 1.6**	**0.2%**	**$ 17.4**	**2.6%**
Public Funding through RTA	**$ 697.2**	**$ 739.2**	**$ 793.0**	**$ 790.5**	**$ 837.9**	**$ 47.4**	**6.0%**	**$ 140.7**	**20.2%**
Total	**$ 1,366.1**	**$ 1,419.9**	**$ 1,468.5**	**$ 1,475.2**	**$ 1,524.2**	**$ 49.0**	**3.3%**	**$ 158.1**	**11.6%**

Source: CTA President's FY2015 Budget Recommendations, p. 48, FY2016, p. 48, and FY2017 p. 38.

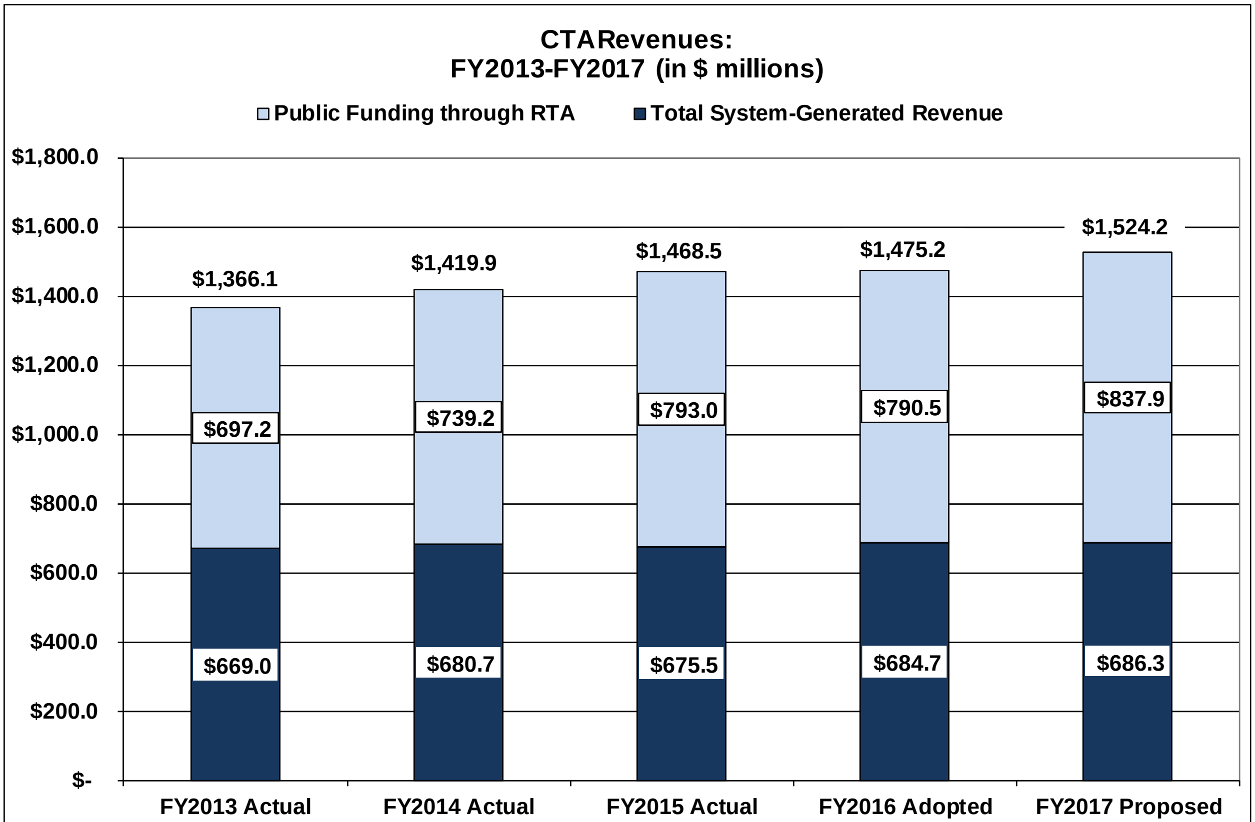
The CTA is required to meet an annual recovery ratio of at least 50.0% based on the RTA Act. The recovery ratio measures the proportion of operating expenses recovered from operating revenues by dividing system-generated revenues by operating expenses. It serves as an indicator of the CTA's financial performance. The ratio excludes depreciation, security expenses and pension obligation bond debt service, and includes some grant revenues. For FY2017 the CTA is estimated to recover 54.9% of its operating expenses through system-generated revenues.[56]

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.[57] The

[56] CTA President's FY2017 Budget Recommendations, p. 38.
[57] CTA President's FY2017 Budget Recommendations, p. 29.

chart below provides a comparison of public funding and system-generated revenue from FY2013 through FY2017.



Source: CTA President's FY2014 Budget Recommendations, p. 42; FY2016, p. 48; and FY2017 p. 38.

Pursuant to the Regional Transportation Authority Act of 1983,[58] the RTA has the statutory authority to collect sales taxes in the six-county region of northeastern Illinois at the following rates:

- 1.00% sales tax on general merchandise in Cook County;
- 1.25% sales tax on qualifying food, drugs and medical appliances in Cook County; and
- 0.75% sales tax on general merchandise and qualifying food, drugs and medical appliances in DuPage, Kane, Lake, McHenry and Will Counties.[59]

[58] 70 ILCS 3615/4.03.

[59] An additional 0.25% sales tax is imposed on general merchandise and qualifying food, drugs and medical appliances in these counties that is to be used for public safety expenses and transportation projects.

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

RTA Sales Tax Distribution: FY2017			
	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 FY2017 Budget Recommendations, p. 100.

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.[60] 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.[61] The RTA also has authority to levy taxes on automobile rentals, motor fuel and off-street parking facilities, but has not exercised this authority.

The next table details public funding for the CTA provided through the RTA from FY2013-FY2017 using proposed revenue figures from each year's adopted budget based on RTA projections.

Total public RTA funding is projected to be $837.9 million in FY2017, which is an increase of $184.8 million, or 28.3%, over five years since FY2013. Compared to the FY2016 proposed funding level, total RTA funding is projected to increase by $42.6 million, or 5.4%, in FY2017.

As a result of the RTA sales tax formula and the distribution of RTA discretionary funds, the CTA expects to receive $614.5 million in total sales tax revenue from the RTA in FY2017. This is a $32.9 million, or 5.7%, increase over sales tax revenue projected in the FY2016 proposed budget, and a $118.8, or 25.3% increase over FY2013 levels. Of the $614.5 million sales tax revenue, $386.9 million is expected to come directly from the sales tax distribution formula and $227.6 million will be RTA discretionary funds, allocated from the 15% of total tax revenue retained by the RTA.

The CTA expects to receive $64.7 million from real estate transfer taxes collected in Chicago in FY2017, which is a slight increase of 1.8%, or $1.1 million, from the FY2016 proposed budget.

[60] Public Act 095-0708.
[61] CTA President's FY2017 Budget Recommendations, p. 101.

The CTA will also receive $135.8 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 $9.0 million, or 7.1%, over the proposed FY2016 level.

In FY2017, the CTA will also utilize $6.1 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.[62] In FY2016, the CTA received $5.8 million ICE funding,[63] of which it used $1.0 million for operating expenses and $4.8 million for capital improvements.

CTA Sources of Public Funding Through the RTA: FY2013-FY2017
(in $ millions)

	FY2013 Adopted	FY2014 Adopted	FY2015 Adopted	FY2016 Adopted	FY2017 Proposed	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
RTA Formula Sales Tax Revenues	$ 314.6	$ 335.6	$ 349.6	$ 365.1	$ 386.9	$ 21.8	6.0%	$ 72.3	24.0%
RTA Discretionary Sales Tax	$ 181.0	$ 188.1	$ 207.1	$ 216.4	$ 227.6	$ 11.1	5.1%	$ 46.6	27.6%
Sub-Total RTA Sales Tax	**$ 495.7**	**$ 523.6**	**$ 556.7**	**$ 581.6**	**$ 614.5**	**$ 32.9**	**5.7%**	**$ 118.8**	**25.3%**
Real Estate Transfer Tax (Chicago)	$ 36.2	$ 47.9	$ 63.6	$ 63.6	$ 64.7	$ 1.14	1.8%	$ 28.5	78.7%
Real Estate Transfer Tax (25% Public Transportation Fund)	$ 9.1	$ 12.0	$ 15.9	$ 15.9	$ 16.2	$ 0.28	1.8%	$ 7.1	78.7%
Sales Tax and PTF per PA 95-0708	$ 112.1	$ 117.3	$ 119.1	$ 126.8	$ 135.8	$ 9.03	7.1%	$ 23.6	21.1%
RTA Non-Statutory (Other)			$ 0.9	$ 1.7	$ 0.6				
ICE Funding*	$ -	$ -	$ -	$ 5.8	$ 6.1	$ 0.29		$ 6.1	
Reduced Fare Reimbursement Replacement	$ -	$ 8.2		$ -	$ -	$ -	N/A	$ -	N/A
Total	**$ 653.0**	**$ 708.9**	**$ 756.2**	**$ 795.3**	**$ 837.9**	**$ 42.6**	**5.4%**	**$ 184.8**	**28.3%**

Note: Totals may differ due to rounding. Figures presented for FY2013-FY2016 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 FY2013 Budget Recommendations, p. 94; FY2014, p. 96; FY2015 p. 110; FY2016, p. 114; and FY2017, p. 102.

PERSONNEL

The CTA plans to fund 9,939 positions in FY2017, compared to 9,869 positions budgeted for the prior year. This is an increase from the FY2016 adopted budget of 0.7%, or 70 positions. The 70 new positions are for scheduled transit operation (STO) positions (bus operators, motormen and conductors) and include 21 bus operation positions and 49 rail operation positions.[64] The CTA also plans a decrease of 8 administrative positions and an increase of 8 non-STO operating positions.[65]

Over the past ten years, the budgeted CTA workforce has declined by 8.5% or 928 positions, while labor cost has increased by 120.2%, or $176.8 million.

The ten-year decline includes personnel reductions of:

- 197 administrative positions, or 20.8%;

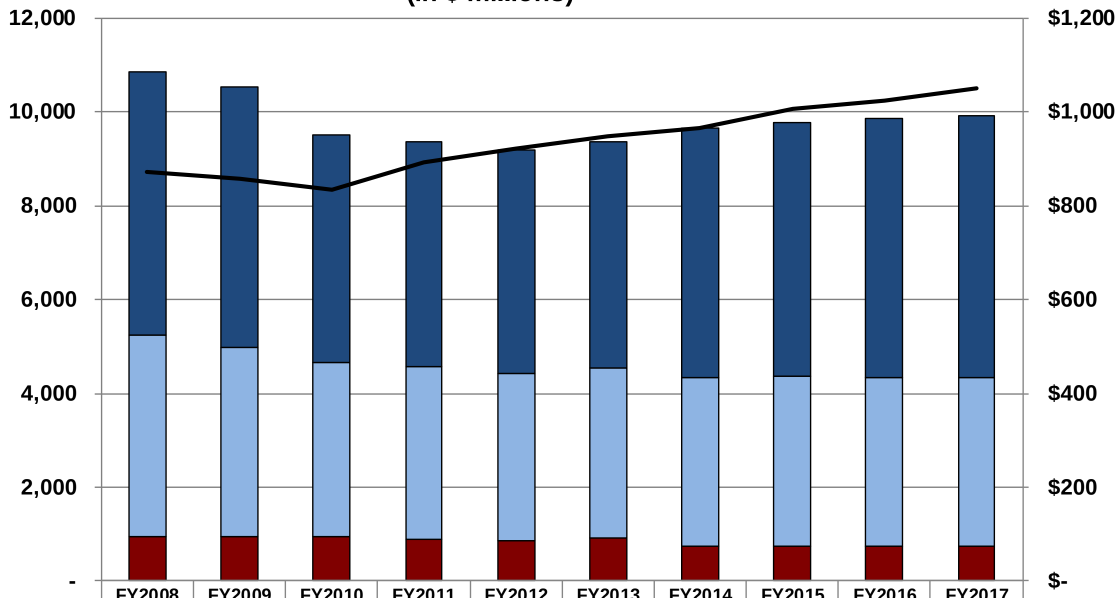
[62] The ICE program is an RTA competitive funding program, established as part of the 2008 Mass Transit Reform Legislation. The program is intended to enhance the coordination, innovation, and quality of public transportation.
[63] CTA President’s FY2016 Budget Recommendations, p. 114.
[64] CTA President’s FY2017 Budget Recommendations, p. 39. Calculation made based on difference between FY2016 and FY2017 figures.
[65] CTA President’s FY2017 Budget Recommendations, p. 39; and communication between CTA Office of Finance & Budget and the Civic Federation, N.

- 40 scheduled transit operation (STO) positions, or 0.7%; and
- 691 non-STO operating positions, or 16.1%.

Labor costs will increase to $1.05 billion in FY2017 over the FY2016 adopted budget level of $1.03 billion. This $24.8 million, or 2.4%, increase is the result of low pension fund investment returns, which will require the CTA to make a higher employer pension contribution.[66] Over the five-year period from FY2013 to FY2017, labor costs are expected to increase by $102.1 million, or 10.8%. Over the ten-year period from FY2008 through FY2017, labor costs are expected to increase by 20.2%, or $176.8 million, despite a decrease of 928 employees.

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

CTA Labor Appropriations and Budgeted Positions by Type: FY2008 - FY2017
(in $ millions)



	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
TOTAL	10,867	10,540	9,520	9,377	9,206	9,381	9,661	9,781	9,869	9,939
STO	5,634	5,552	4,868	4,796	4,778	4,836	5,322	5,412	5,524	5,594
Non-STO Operations	4,287	4,045	3,709	3,684	3,569	3,638	3,612	3,612	3,604	3,596
Administration	946	943	943	897	859	907	727	742	741	749
Labor ($)	$873.6	$856.5	$835.1	$893.8	$921.9	$948.3	$965.9	$1,005.9	$1,025.6	$1,050.4

Note: STO represents Scheduled Transit Operations and includes staffing for bus and rail operations.
Source: Information provided by CTA, November 11, 2016; and CTA President's Budget Recommendations FY2008 - FY2017.

RIDERSHIP

The CTA projects that ridership will be 496.3 million rides in FY2017. The FY2017 ridership is projected to decrease by 3.7 million rides, or 0.7%, from the FY2016 year-end forecast and to decrease by 22.6 million rides, or 4.4% from the FY2016 adopted budget. The terms "ridership"

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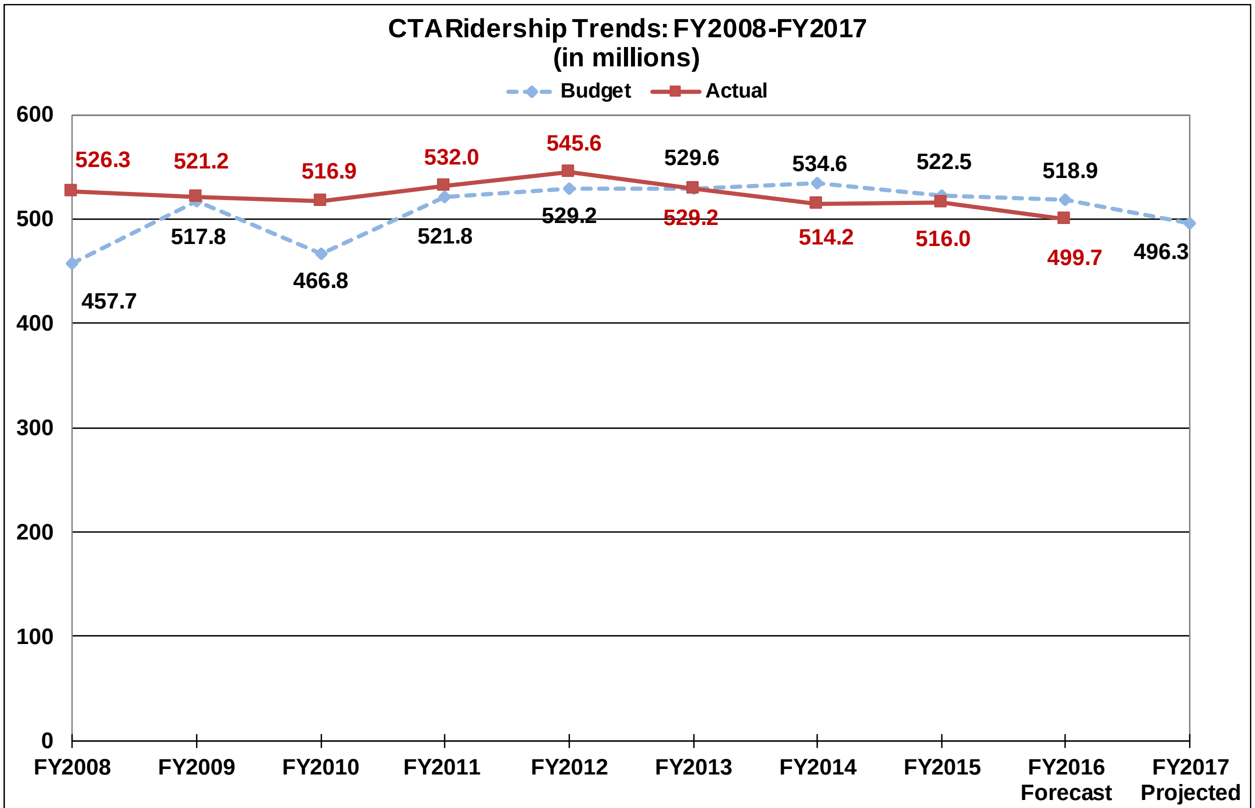
[66] CTA President's FY2017 Budget Recommendations, p. 33.

and "unlinked passenger trips" refer to total number of rides. Each passenger is counted each time that passenger boards a vehicle (bus or rail).[67]

Over the ten-year period beginning in FY2008, ridership will decrease by 5.7%, or 30.0 million rides, from 526.3 million actual rides in FY2008 to 496.3 million rides projected in FY2017. Ridership is projected to fall by 9.0%, or 49.3 million rides since its peak in FY2012 of 545.6 million rides. The CTA attributes the high number of rides in FY2012 to increasing parking rates and particularly favorable weather that year. The drop in ridership in FY2013 was due to extensive track work on the Red Line and the implementation of increased rates for fare passes.[68] The further decline in ridership in FY2014 and FY2015 was attributed to extreme weather during the first quarter of both fiscal years. [69] The forecasted decline in FY2016 and projected decline in FY2017 is conjectured to be the result of increased competition from bike and ride share companies such as, Uber and Divvy, low fuel prices and improved walkability in the CTA's

[67] CTA President's FY2017 Budget Recommendations, p. 201.
[68] Communication with the CTA budget staff, October 18, 2013.
[69] CTA President's FY2015 Budget Recommendations, p. 42; and FY2016 Budget Recommendations, p. 37.

service region. The CTA has indicated that it is working to better understand the drivers behind the decline through various ridership studies.[70]



Note: FY2016 Actual is Forecasted and FY2017 Budgeted is Proposed.
Source: CTA President's FY2017 Budget Recommendations, p. 145; and FY2012-FY2016 Budget Recommendations.

PRODUCTIVITY MEASURES

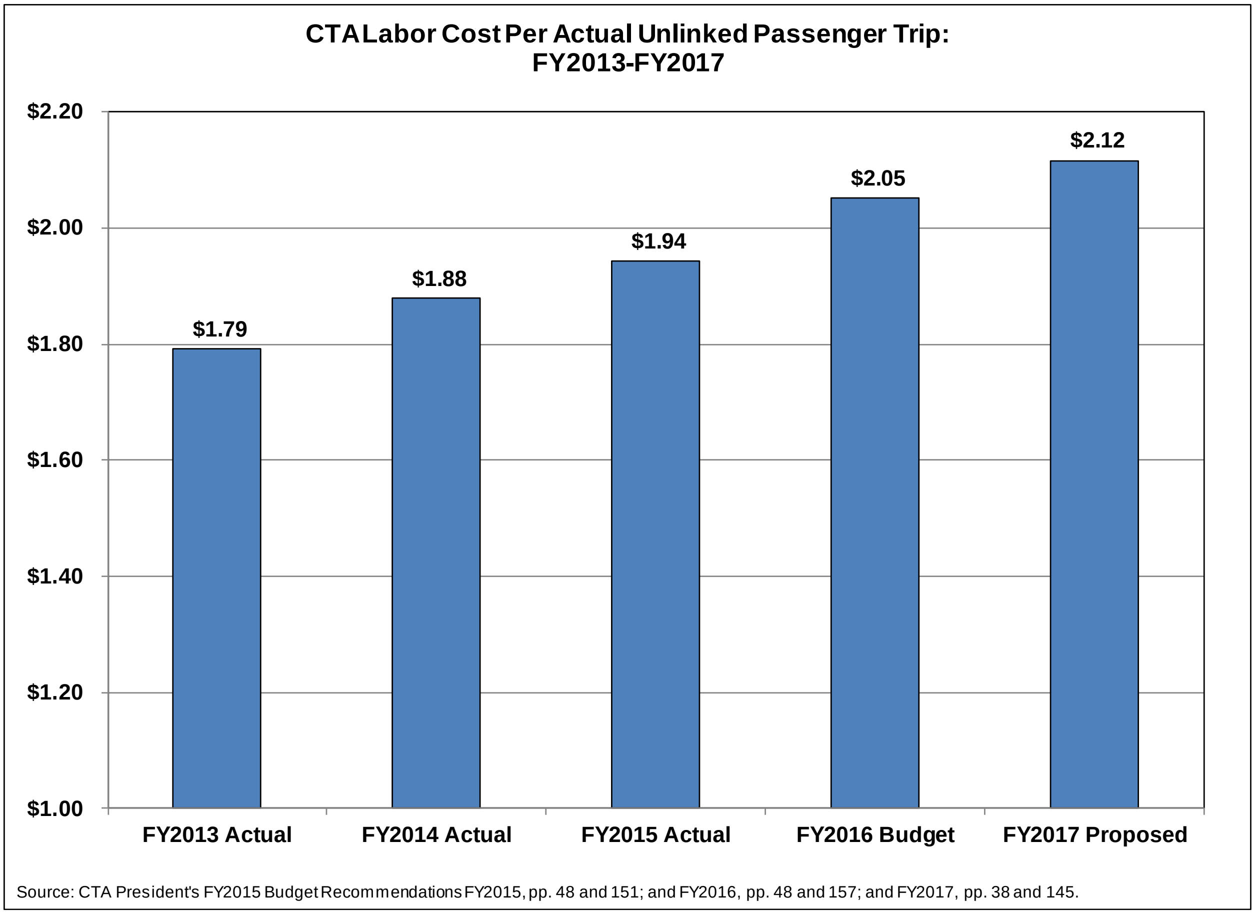
In this analysis, the Civic Federation uses two measures to assess CTA's productivity over time: labor cost per actual unlinked passenger trip and operating expense per passenger mile.[71] The data used to calculate the productivity measures is obtained from the annual budget documents.

Productivity can be measured in terms of labor cost per unlinked passenger trip. A lower dollar amount indicates higher productivity. The labor cost per unlinked passenger trip indicator increased steadily from $1.79 in FY2013 to $2.12 in FY2017.

Between FY2013 and FY2017, productivity has declined because ridership, which fell by 1.9% on average each year, has not kept pace with labor costs, which grew by 2.6% on average each year. As a result, the ratio has steadily increased over the five-year period, rising from $1.79 in FY2013 to $2.12 projected in FY2017. The decrease in ridership was reportedly the result of track construction and increased rates in fare passes in FY2013, extreme winter weather in FY2014 and FY2015, and increased competition from alternative transit operations such as, Uber

[70] CTA President's FY2017 Budget Recommendations, p. 7.
[71] "Ridership" and "unlinked passenger trips" refer to total number of rides. Each passenger is counted each time that passenger boards a vehicle (bus or rail). CTA President's FY2016 Budget Recommendations, p. 206.

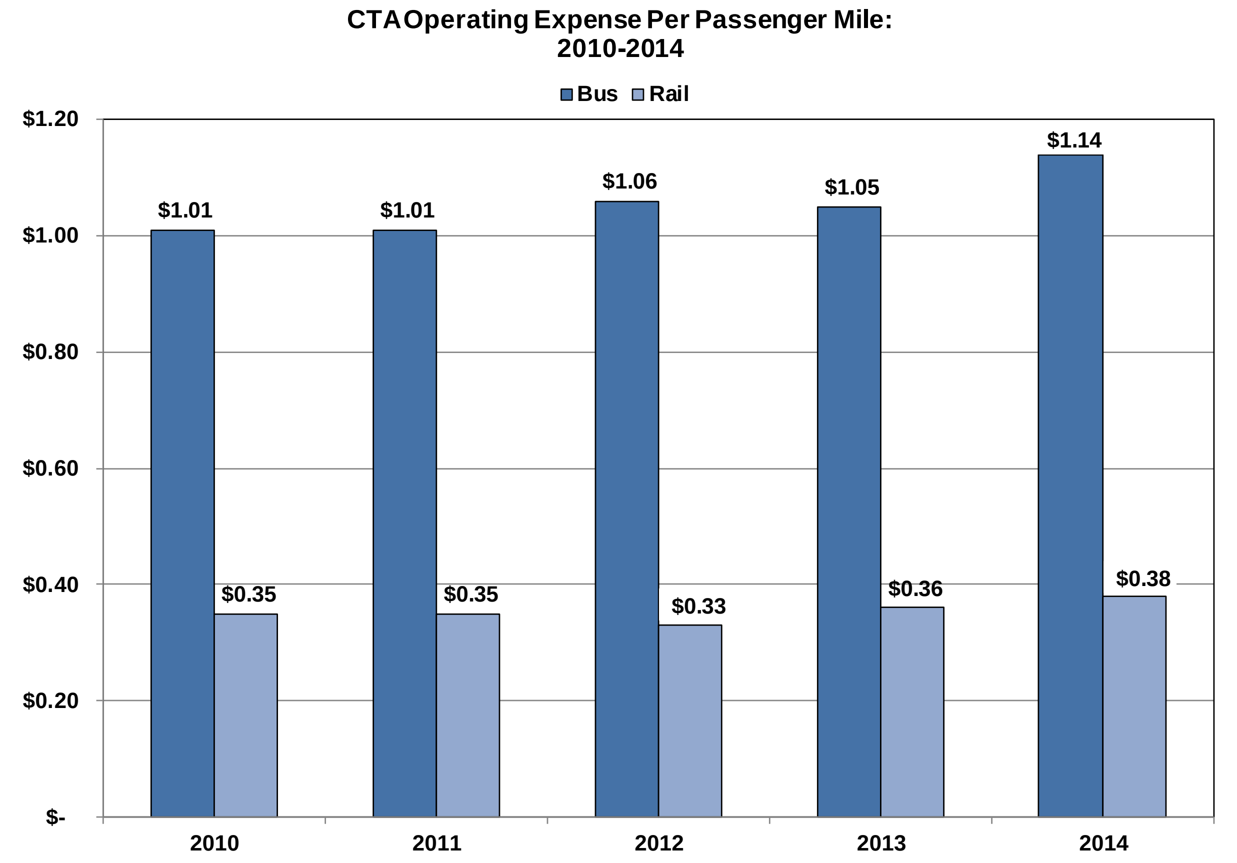
and Divvy and low fuel prices in FY2016 and FY2017.[72] The labor cost per unlinked passenger trip is expected to increase between FY2016 and FY2017 by $0.07 from $2.05 to $2.12. This is due to a 2.5% increase in labor costs compared to a 0.7% decrease in ridership over the previous year.



The chart below illustrates operating expense per passenger mile for bus and rail service between 2010 and 2014, the most recent years for which data is available. As with all transit systems, rail service is more cost effective than bus service because there is higher ridership on rail service. The operating expense per passenger mile for rail service has fluctuated only slightly over the past five years, declining from $0.35 in 2010 to $0.33 in 2012 before increasing to its highest point in 2014 at $0.38 per passenger mile.

[72] CTA FY2017 Executive Budget Recommendation, p. 7.

The operating expense per passenger mile for bus service has increased by $0.13 over the last five years. It increased from a low of $1.01 in 2010 and 2011 to $1.14 per passenger mile in 2014.



Source: CTA President's Budget Recommendations, FY2013-FY2016; and FY2017, pp. 172 and 174.

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 FY2015, 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.[73]

In FY2015 the Fund had 8,204 active employees and 10,028 beneficiaries for a ratio of 0.82 active members for every beneficiary.[74] This ratio has fallen by 23.2% from 1.07 in FY2006 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 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.[75]

Chicago Transit Authority Pension Fund Membership: FY2006-FY2015			
Fiscal Year	Active Employees	Beneficiaries	Ratio of Active to Beneficiary
FY2006	9,710	9,116	1.07
FY2007	9,635	9,215	1.05
FY2008	9,689	9,356	1.04
FY2009	9,865	9,275	1.06
FY2010	8,932	9,310	0.96
FY2011	8,751	9,418	0.93
FY2012	8,317	9,591	0.87
FY2013	8,186	9,693	0.84
FY2014	8,251	9,890	0.83
FY2015	8,204	10,028	0.82
Ten-Year Change	**-1,506**	**912**	**-0.25**
Ten-Year % Change	**-15.5%**	**10.0%**	**-23.2%**

Source: Retirement Plan for CTA Employees Financial Statements, FY2006-FY2015.

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.[76] The legislated reforms specifically addressed each of these issues.

[73] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2015*, p. 15.
[74] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2015*, p. 15.
[75] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2015*, p. 5.
[76] 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.

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.[77]

The second piece of CTA pension reform legislation, Public Act 95-0708, was passed on January 18, 2008 and made changes to the pension and retiree healthcare benefits and contributions. More specifically, employee and employer contributions were increased to 6% and 12% of payroll, respectively, which doubled their previous contribution rates of 3% and 6%. The employer, however, will receive a "credit" for pension obligation bond (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.[78] 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.[79]

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[77] See the Civic Federation, "The State of Illinois Retirement Systems: Funding History and Reform Proposals," (October 26, 2006). http://www.civicfed.org/articles/civicfed_220.pdf.
[78] Retirement Plan for Chicago Transit Authority Employees, *Financial Statements for the Year Ended December 31, 2013*, p. 17.
[79] Retirement Plan for Chicago Transit Authority Employees, *Actuarial Valuation Report as of January 1, 2016*, cover letter.

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

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.[81] 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.[82]

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%.[83] In FY2013 the actuaries changed several actuarial assumptions, including reducing the expected rate of return on investments to 8.25% from 8.50% and a reduction in assumed inflation rate to 3.25%, among other economic and demographic assumption changes. These changes increased the liability by $148,841,651.

For the first time, in the FY2014 actuarial valuation report, the CTA Fund's actuary recommended the fund's Board of Trustees consider, "moving towards a contribution of the Actuarial Math Contribution over the next several years."[84] 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 FY2015 actuarial report, the actuary estimated that the total contribution under these funding rules would be 34.04% of payroll, compared to the total contribution starting in FY2017 of 29.887%.

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

[80] 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%.
[81] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[82] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2009*, p. 4.
[83] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.
[84] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2015*, cover letter from Buck Consultants.

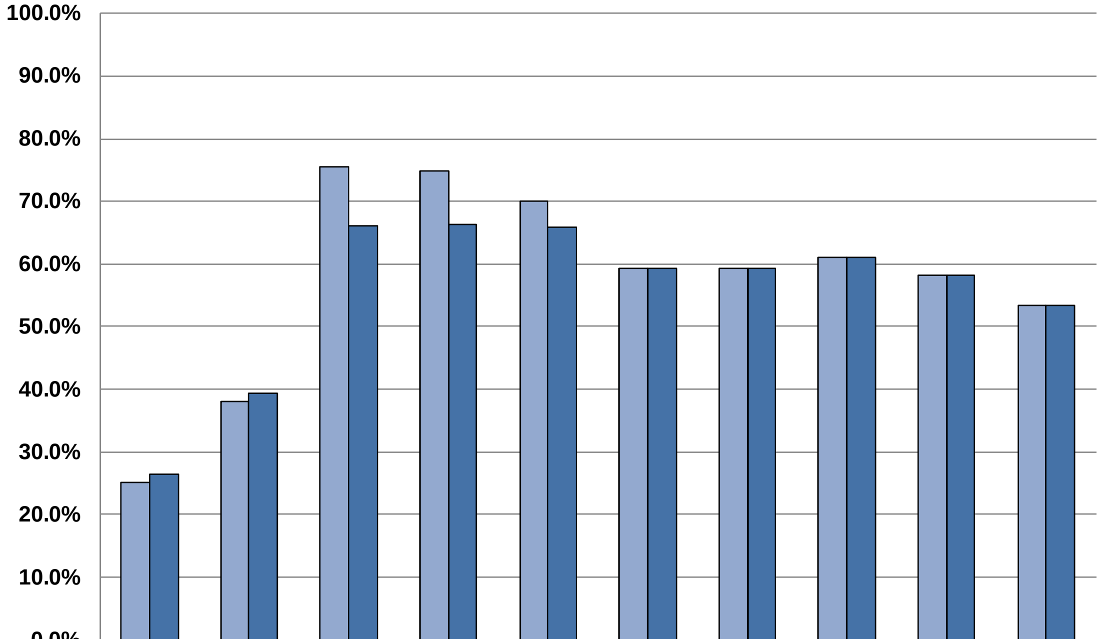
the more difficulty a government may have in meeting future obligations. The funded ratio for the CTA pension fund was 25.2% in FY2006 on an actuarial value basis before climbing to 75.6% in FY2008. The increase in the funded ratio is largely attributed to a one-time extraordinary employer contribution of $1.1 billion from the issue of debt, which nearly doubled the fund's total actuarial assets.[85]

A trust fund was also created in May 2008 to assume full responsibility for healthcare funding, payment and administration on July 1, 2009. The FY2009 actuarial value funded ratio dropped slightly to 74.8% due to changes in population, actuarial assumptions, payroll and investment return.[86] The FY2010 ratio declined to 70.1% primarily due to a reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50% and because the effects of the FY2008 market decline were still being recognized.[87] 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.[88] The funded ratio remained level for FY2012 at 59.4% before climbing slightly to 60.9% in FY2013 due to strong investment returns and despite actuarial changes including a reduction to the assumed long-run rate of return to

[85] See *Chicago Transit Authority Retirement Plan of Employees Actuarial Valuation as of January 1, 2009*, p. 2.
[86] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2010*, p. 1.
[87] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 2, 2011*, p. 1. The discount rate assumption was reduced in order to better reflect the expected long-term investment return on plan assets.
[88] Retirement Plan for CTA Employees, *Financial Statements as of December 31, 2011*, p. 4.

8.25% from 8.5%.[89] The funded ratio fell during the next two years straight, reaching 53.4% in FY2015, due mostly due to investment returns less than assumptions for both years.[90]

CTA Employees' Pension Fund Funded Ratios: Actuarial Value of Assets and Market Value of Assets: FY2006-FY2015



	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Actuarial Value	25.2%	38.0%	75.6%	74.8%	70.1%	59.2%	59.4%	60.9%	58.2%	53.4%
Market Value	26.5%	39.3%	66.0%	66.3%	65.9%	59.2%	59.4%	60.9%	58.2%	53.4%

Note: Due to a change in the accounting for pension fund assets effective in FY2011, the market value and actuarial value are equal for that year and all subsequent years.
Source: Retirement Plan for CTA Employees Financial Statements, FY2006-FY2015.

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 nearly $3.2 billion in FY2006 before falling to $0.6 billion in FY2008. This $2.5 billion decline resulted from the one-time employer contribution of $1.1 billion in pension obligation bond proceeds. Unfunded liabilities rose to $0.8 billion in FY2010 due to a reduction in the assumed investment rate of return (discount rate) from 8.75% to 8.50% and because the effects of the FY2008 market decline were still being recognized. Unfunded liabilities rose again in FY2011 to $1.1 billion due to unfavorable market conditions and a change in the valuation of assets from a smoothed valuation to market valuation, which recognized 2011 losses immediately. Unfunded liabilities increased slightly in FY2012 as a result of insufficient employer contributions not completely offset by greater than expected investment returns. Unfunded liabilities increased slightly again in FY2013 due to increases in liabilities not completely offset by high investment returns and more significantly in FY2014 due to investment returns less than the assumed rate of return. In

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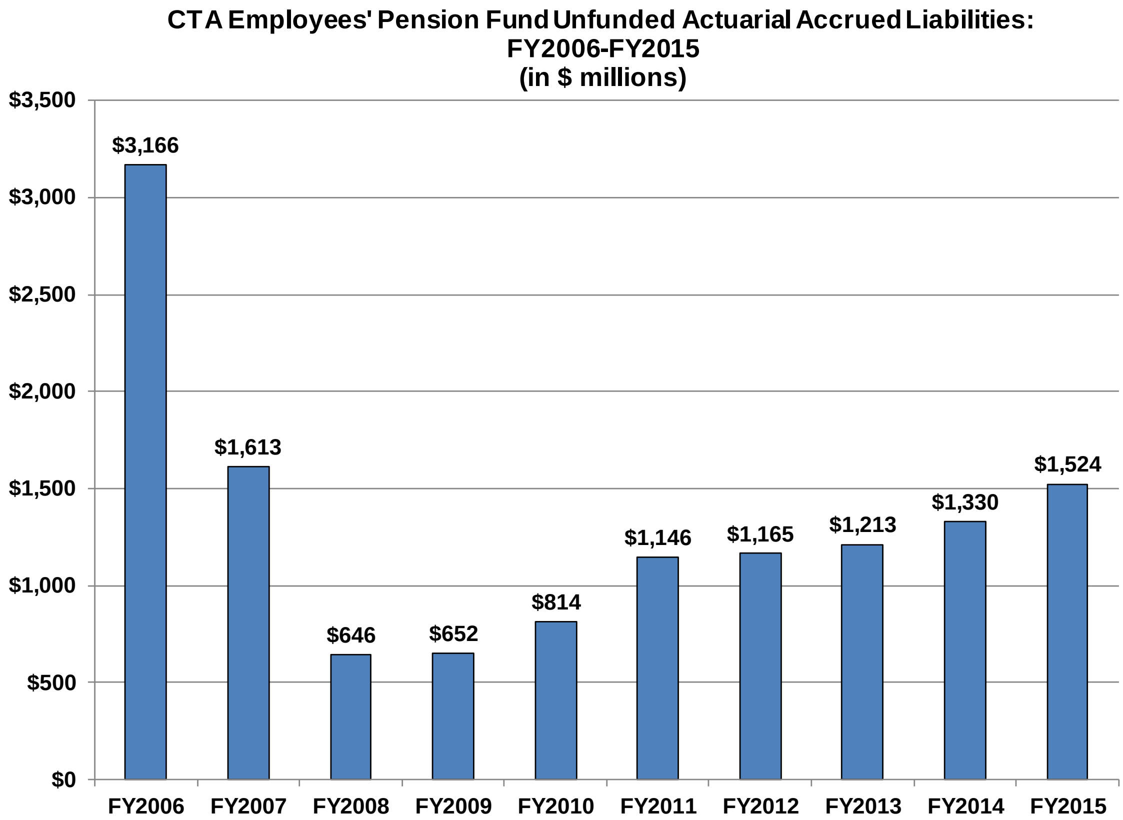
[89] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2014*, p. 3-4.
[90] Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2016*, p. 4.

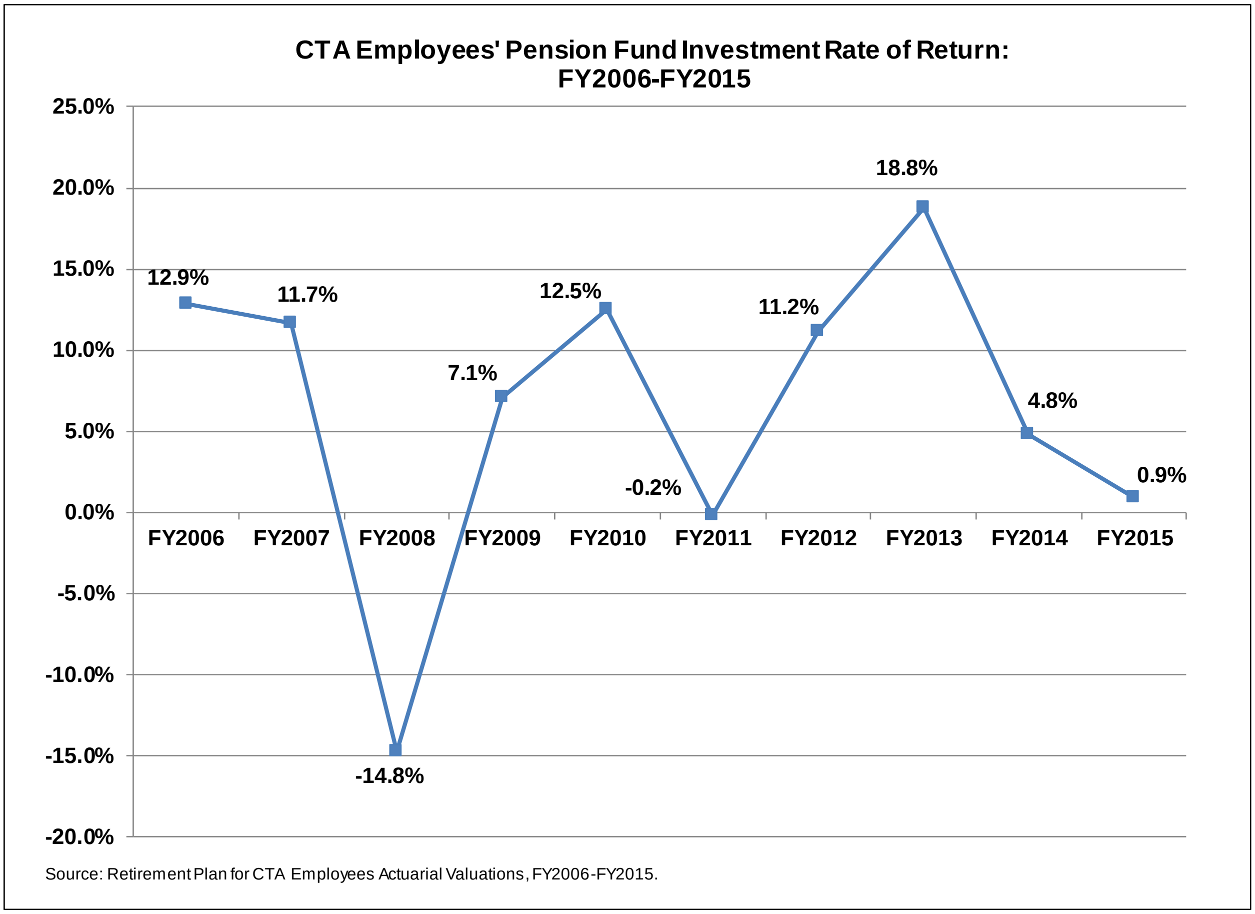
FY2015 unfunded liabilities increased significantly by nearly 15% to $1.5 billion from $1.3 billion the previous year, again due to extremely low investment returns.



Source: Retirement Plan for CTA Employees Financial Statements, FY2006-FY2015.

Investment Rates of Return

Between FY2006 and FY2015, 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.[91] The average return between FY2006 and FY2015 was 6.5%, less than the current assumed rate of return of 8.25%.[92]



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."[93] Among other disclosures, pension funds and governments are now required to report total pension liability, fiduciary net position, net pension liability, pension expense and actuarially determined contribution (ADC), which are calculated on a different basis from previous GASB 25 and 27 pension disclosure requirements. Both pension funds and governments must also disclose additional information

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[91] Chicago Transit Authority FY2008 Pension Financial Statements, p. 20.
[92] 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.
[93] Governmental Accounting Standards Board, Pension Standards for State and Local Governments. Available at: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472.

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

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

The total pension liability, fiduciary net position, net pension liability and ADC[94] 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.

[94] 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%

Source: CTA Pension Fund FY2015 and FY2014 Actuarial Valuations.

The following table compares the ADC/ARC to the actual CTA contribution over the last ten years. In FY2006 and FY2007 the employer contribution was significantly below the ARC, growing to $173.4 million in FY2007. The difference between the ARC and the employer contribution was negative in FY2008 because of an extraordinary infusion of pension obligation bond funds into the fund. After the passage of P.A. 95-0708, the new funding requirements raised the employer contribution as a percentage of the ARC to between 34.9% and 51.8%. The CTA is on a 50-year payment plan to get the pension fund to 90% funded, while the 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 $72.3 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.

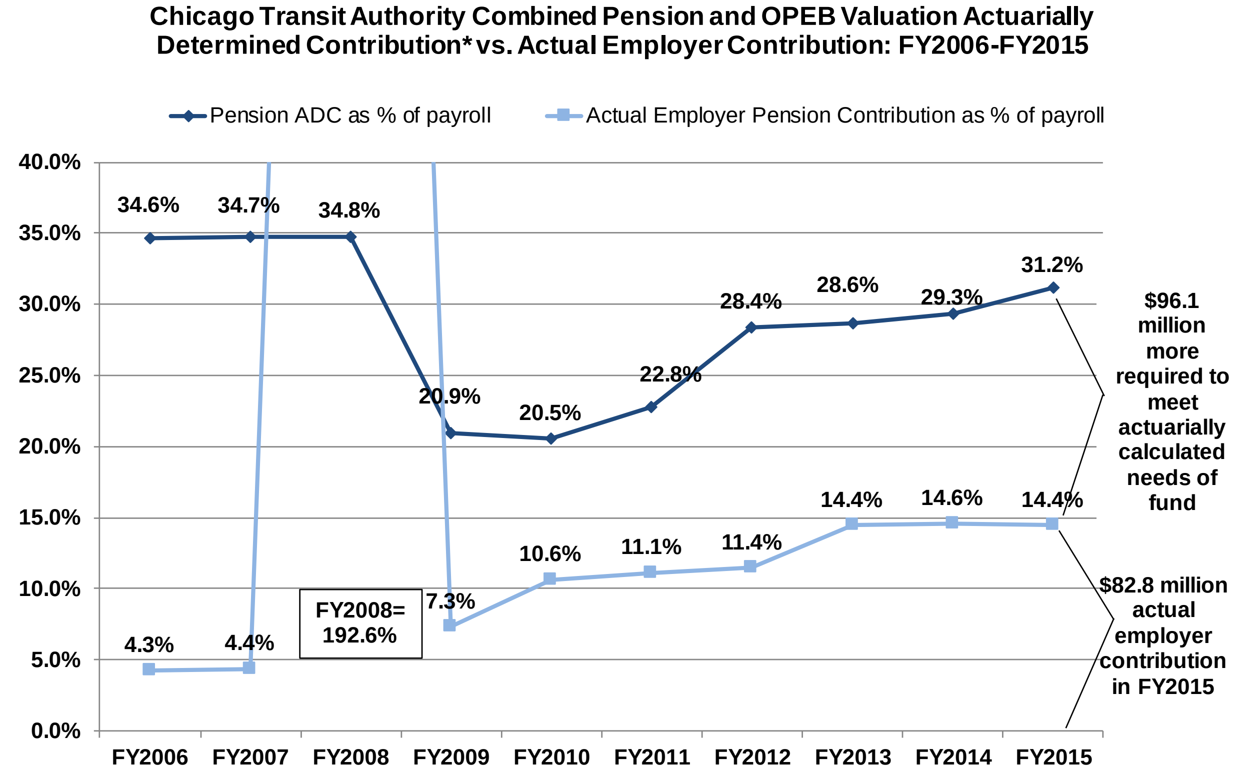
Expressing ADC/ARC as a percent of payroll provides a sense of scale and affordability. In FY2006 the ARC was 34.6% of payroll while the actual employer contribution was 4.3% of payroll. In FY2015 the pension ADC was 31.2% of payroll while the actual employer contribution was 14.4% of payroll, net of contributions to pension obligation bond debt service. Employees contributed 10.125% of salary to the pension fund in FY2015.

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

Fiscal Year	Employer Actuarially Determined Contribution (1)*	Actual Employer Contribution (2)	Shortfall (1-2)	% of ADC* Contributed	Payroll	ADC* as % of Payroll	Actual Employer Contribution as % of Payroll	Actuarial Funded Ratio
2006	$ 194,926,000	$ 23,931,000	$ 170,995,000	12.3%	$ 562,567,000	34.6%	4.3%	25.2%
2007	$ 198,457,000	$ 25,038,000	$ 173,419,000	12.6%	$ 571,314,000	34.7%	4.4%	38.0%
2008	$ 206,670,000	$ 1,165,947,000	$ (959,277,000)	564.2%	$ 594,139,000	34.8%	196.2%	75.6%
2009	$ 118,717,000	$ 41,448,000	$ 77,269,000	34.9%	$ 567,173,247	20.9%	7.3%	74.8%
2010	$ 108,478,000	$ 56,216,000	$ 52,262,000	51.8%	$ 528,287,879	20.5%	10.6%	70.1%
2011	$ 123,158,582	$ 60,318,000	$ 62,840,582	49.0%	$ 541,353,693	22.8%	11.1%	59.2%
2012	$ 155,600,474	$ 62,788,000	$ 92,812,474	40.4%	$ 548,515,157	28.4%	11.4%	59.4%
2013	$ 157,594,269	$ 79,518,000	$ 78,076,269	50.5%	$ 550,616,338	28.6%	14.4%	60.9%
2014	$ 165,499,808	$ 82,268,000	$ 83,231,808	49.7%	$ 564,827,965	29.3%	14.6%	58.2%
2015	$ 178,861,000	$ 82,800,000	$ 96,061,000	46.3%	$ 573,548,196	31.2%	14.4%	53.4%

Note: Data for all years shows pension obligations only, not including OPEB.
*Before 2014, this was the Annual Required Contribution or ARC.
Source: CTA Actuarial Valuation Reports.

The graph below illustrates the gap between the ARC as a percent of payroll and the actual employer contribution as a percent of payroll. The spread between the two amounts shrank from a 30.4 percentage point shortfall in FY2006 to a 16.7 percentage point shortfall in FY2015. 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 16.7% of payroll, or $96.1 million, in FY2015.



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 Report as of January 1, 2016, p. 30.

<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.[95]

Chicago Transit Authority Pension Fund GASB 67 Reporting FY2013-FY2015					
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Fiduciary Net Position as a Percentage of Total Pension Liability	Actuarially Determined Contribution*
FY2013	$ 3,220,532,359	$ 1,892,714,102	$ 1,327,818,257	58.77%	$ 157,594,269
FY2014	$ 3,283,153,697	$ 1,855,912,051	$ 1,427,241,646	56.53%	$ 165,499,808
FY2015	$ 3,352,031,110	$ 1,743,216,432	$ 1,608,814,678	52.00%	$ 178,861,000
Three-Year Change	$ 131,498,751	$ (149,497,670)	$ 280,996,421		$ 21,266,731
Three-Year % Change	4.08%	-7.90%	21.16%		13.49%

* Annual Required Contribution (ARC) in FY2013.

Source: FY2014 and FY2015 Chicago Teachers' Pension 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.[96] The healthcare trust is administered by the CTA pension fund Executive Director. As of January 1, 2016 the Chicago Transit Authority Retiree Health Care Trust reported total present value of projected benefits of $ 811.1 million and total income and assets of $ 853.9 million, for a 105.3% coverage ratio.[97] 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.[98] 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."[99]

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[95] 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.
[96] P.A. 95-0708; Retirement Plan for CTA Employees, *Actuarial Valuation as of January 1, 2008*, p. 16.
[97] Chicago Transit Authority Retiree Healthcare Trust, *Actuarial Valuation as of January 1, 2016*, p. 4.
[98] *Matthews v. Chicago Transit Authority*, 2016 IL 117638. Available at http://www.illinoiscourts.gov/opinions/SupremeCourt/2016/117638.pdf.
[99] CTA Pension Fund website, "Update: Matthews v. The CTA, et al," available at http://www.ctaretirement.org/reader.asp?type=2&GUID={CE840A5A-F6D4-43FD-A628-DD78E5B2A81C}

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.[100]

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

- *Accounts Payable & Accrued Expenses*: Monies owed to vendors for goods and services;
- *Accrued Payroll*: Employee pay and benefits carried over from the previous year;
- *Accrued Interest Payable:* Interest that is owed on deposits or bonds payable in the next fiscal year;
- *Advances and Deposits:* Security deposits on rents and concessions, various grant deposits and other deposits required from vendors that do business with the CTA; and
- *Advances from the RTA:* Funds provided by the RTA for future capital projects.

In FY2015 the CTA reported that total short-term liabilities increased by $58.5 million, or 26.6%, from the previous year. Since FY2011 all short-term liabilities have increased by $155.9 million or 70.8%.

The single largest short-term liability reported in FY2015 was accounts payable and accrued expenses at $183.5 million. In the two-year period between FY2014 and FY2015, it rose by 31.9% or $28.9 million. The primary driver of this increase was the timing of capital related invoices. Spending on capital projects fluctuates from year to year and from month to month. At each fiscal year end, work that was performed but not yet paid for is accrued in this line item of the financial statements.[101] Accrued payroll also increased, rising by 16.1% , from $122.4 million to $138.3 million.

In the five-year period between FY2011 and FY2015, accounts payable and accrued expenses rose by 102.2% or $92.7 million between FY2011 and FY2015. The large increase between FY2011 and FY2012, from $90.7 million to $144.3 million, was related to increased capital project activity.[102] From FY 2011 to FY 2015, the majority of the increase relates to:

1. Timing of capital related invoices. Spending on capital projects fluctuates from year to year and from month to month. At each fiscal year end, work that was performed but not yet paid for was accrued in this line item of the financial statements.

[100] CTA FY2014-FY2015 Financial Statements, Note 2: Summary of Significant Accounting Policies, p. 22

[101] Information provided by CTA Budget Office, November 11, 2016.

[102] CTA FY2011-FY2012 Audited Financial Statements, p. 5.

2. Ventra related costs that were accrued but not paid. Ventra was implemented in late 2013. Based on the terms of the contract CTA is responsible for monthly fixed and variable fees as well as the cost of fare media. CTA delayed payment of these contractual obligations pending resolution of operational issues. [103]

Accrued payroll increased by 40.4% or nearly $40.0 million in the same time period.

CTA Short-Term Liabilities for Business-Type Activities by Category: FY2011-FY2015
(in $ thousands)

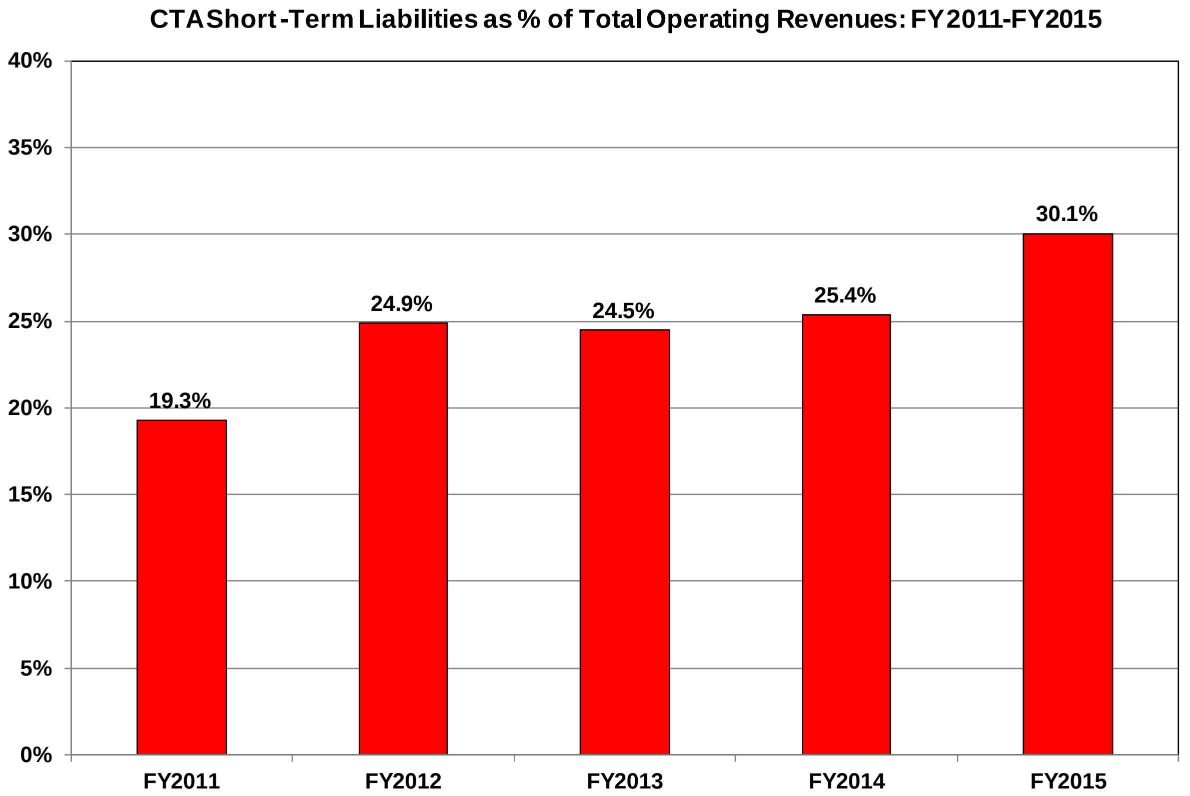
Liability	FY2011	FY2012	FY2013	FY2014	FY2015	Two Year $ Change	Two Year % Change	Five Year $ Change	Five Year % Change
Accounts Payable & Accrued Expenses	$ 90,746	$ 144,256	$ 168,274	$ 154,563	$ 183,494	$ 28,931	31.9%	$ 92,748	102.2%
Accrued Payroll	$ 98,489	$ 102,081	$ 107,051	$ 122,383	$ 138,262	$ 15,879	16.1%	$ 39,773	40.4%
Accrued Interest Payable	$ 21,451	$ 21,107	$ 20,370	$ 22,335	$ 22,407	$ 72	0.3%	$ 956	4.5%
Advances and Deposits	$ 9,392	$ 8,440	$ 10,997	$ 18,173	$ 31,765	$ 13,592	144.7%	$ 22,373	238.2%
Total	**$ 220,078**	**$ 275,884**	**$ 306,692**	**$ 317,454**	**$ 375,928**	**$ 58,474**	**26.6%**	**$155,850**	**70.8%**

Source: CTA FY2011-FY2015 Audited Financial Statements.

The short-term liabilities to net operating revenues ratio, developed by the International City/County Management Association (ICMA), is a measure of budgetary solvency or a government's ability to generate enough revenue over the course of a fiscal year to meet its expenditures and avoid deficit spending. Increases in this ratio may be a warning sign of a

[103] Information provided by CTA Budget Office, November 11, 2016.

government's future financial difficulties.[104] Between FY2011 and FY2015, short-term liabilities averaged 24.8%, rising from 19.3% in FY2010 to 30.1% in FY2015.



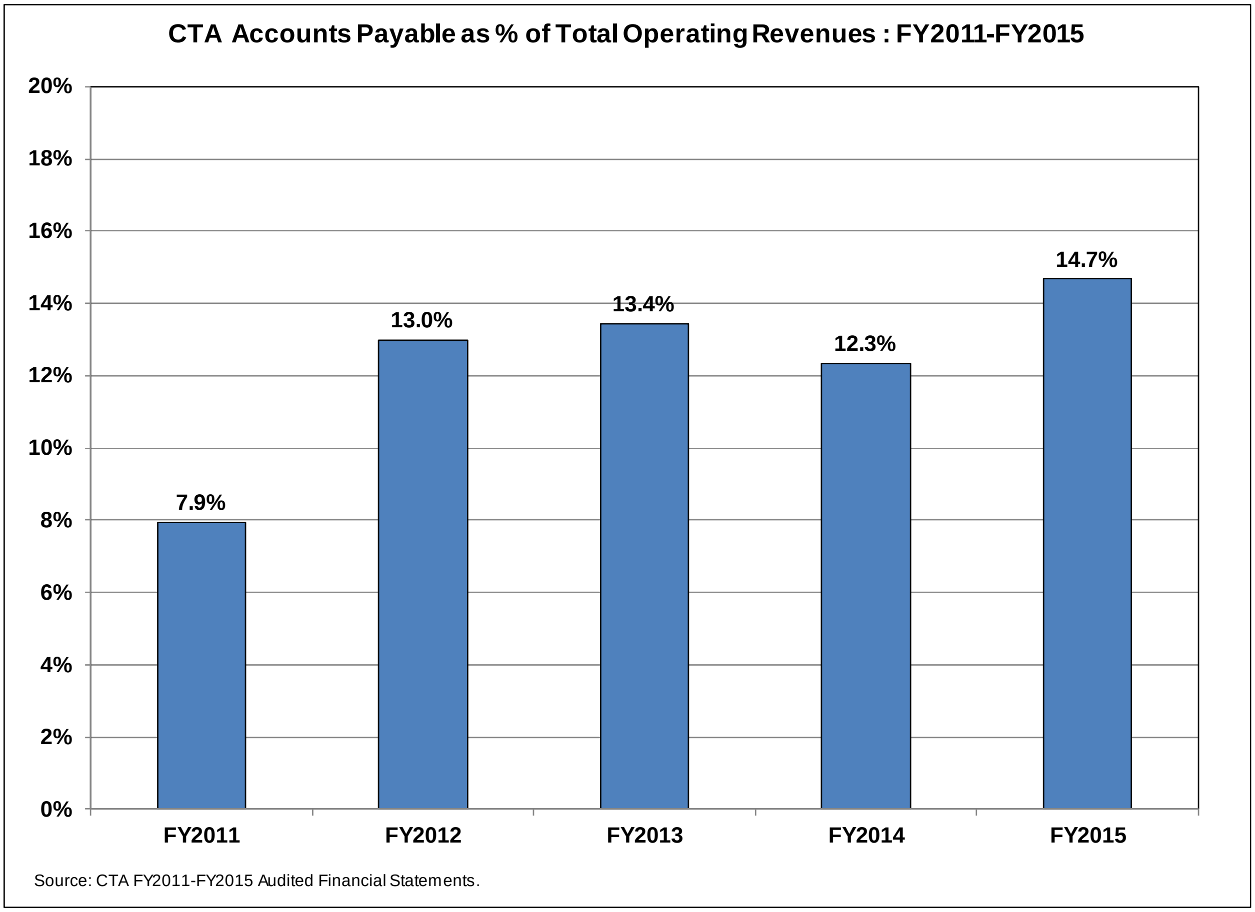
Source: CTA FY2011-FY2015 Audited Financial Statements.

Accounts Payable and Accrued Expenses Ratio

Over time, rising amounts of accounts payable and accrued expenses compared to operating funds may indicate a government's difficulty in controlling expenses or keeping up with spending pressures. The CTA's ratio of accounts payable to operating revenues increased from 7.9% to 14.7% over the five-year period analyzed. The large increase between FY2011 and

[104] 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.

FY2012, from 7.9% to 13.0%, was related to increased capital project activity.[105] Over the five-year period reviewed, the accounts payable ratio averaged 12.3%.



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.[106]

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

[105] CTA FY2011-FY2012 Audited Financial Statements, p. 5.
[106] 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;[107]

- *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;[108] and
- *Prepaid Expenses*: Asset on a balance sheet arising as a result of an entity making payments for goods and services to be received in the near future, such as for an insurance policy;[109] and

- *Derivative Instrument:* Gains in the fair value of hedging derivative instruments for diesel fuel are deferred until the derivative is settled.[110]

The CTA's current ratio was 2.1 in FY2015, the most recent year for which data are available. In the past five years, the Transit Authority's current ratio averaged 2.3, which is above the benchmark of 2.0. From FY2011 to FY2015, the current ratio fell from 2.8 to 2.1.

CTA Current Ratio for Business-Type Activities: FY2011-FY2015
(in $ thousands)

	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Current Asset									
Cash and cash equivalents	$ 119,467	$ 124,090	$ 95,621	$ 16,505	$ 85,438	$ 68,933	417.6%	$ (34,029)	-28.5%
Cash and cash equivalents reserved for damage reserve	$ 107,920	$ 121,395	$ 114,622	$ 105,994	$ 97,010	$ (8,984)	-8.5%	$ (10,910)	-10.1%
Investments	$ 3,020	$ 1,000	$ 20	$ 86,032	$ 107,192	$ 21,160	24.6%	$ 104,172	3449.4%
Grants receivable due from the RTA	$ 228,966	$ 246,638	$ 276,970	$ 273,431	$ 310,502	$ 37,071	13.6%	$ 81,536	35.6%
Grants receivable: Capital Projects from federal & state sources	$ 5,098	$ 33	$ 33	$ -	$ -	$ -	---	$ (5,098)	-100.0%
Grants receivable: unbilled work in progress	$ 64,107	$ 92,536	$ 88,703	$ 109,401	$ 110,810	$ 1,409	1.3%	$ 46,703	72.9%
Grants receivable: Other	$ 1,131	$ 809	$ 70	$ -	$ 28	$ 28	---	$ (1,103)	-97.5%
Accounts receivable, net	$ 26,881	$ 40,772	$ 48,881	$ 42,834	$ 36,072	$ (6,762)	-15.8%	$ 9,191	34.2%
Materials and supplies, net	$ 58,501	$ 46,056	$ 44,387	$ 33,975	$ 34,174	$ 199	0.6%	$ (24,327)	-41.6%
Prepaid expenses and other assets	$ 5,502	$ 5,399	$ 7,080	$ 5,245	$ 5,085	$ (160)	-3.1%	$ (417)	-7.6%
Derivative instrument	$ -	$ 172	$ 1,023	$ -	---	---	--	---	---
Total Current Assets	**$ 620,593**	**$ 678,900**	**$ 677,410**	**$ 673,417**	**$ 786,311**	**$ 112,894**	**16.8%**	**$ 165,718**	**26.7%**
Current Liability									
Accounts Payable & Accrued Expenses	$ 90,746	$ 144,256	$ 168,274	$ 154,563	$ 183,494	$ 28,931	31.9%	$ 92,748	102.2%
Accrued Payroll	$ 98,489	$ 102,081	$ 107,051	$ 122,383	$ 138,262	$ 15,879	16.1%	$ 39,773	40.4%
Accrued Interest Payable	$ 21,451	$ 21,107	$ 20,370	$ 22,335	$ 22,407	$ 72	0.3%	$ 956	4.5%
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Total Current Liabilities	**$ 220,078**	**$ 275,884**	**$ 306,692**	**$ 317,454**	**$ 375,928**	**$ 58,474**	**18.4%**	**$ 155,850**	**70.8%**
Current Ratio	**2.8**	**2.5**	**2.2**	**2.1**	**2.1**				

Source: CTA FY2011-FY2015 Audited Financial Statements.

LONG-TERM LIABILITIES

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

[107] CTA FY2014-FY2015 Audited Financial Statements, p. 23.
[108] CTA FY2014-FY2015 Audited Financial Statements, p. 23.
[109] Investopedia.com at http://www.investopedia.com/terms/p/prepaidexpense.asp#ixzz1bEsrAQ9P (last accessed November 10, 2015).
[110] CTA FY2014-FY2015 Audited Financial Statements, p. 81.

Total Long-Term Liabilities

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

- *Self-Insurance Claims:* The CTA is self-insured against future liabilities arising from personnel, property and casualty claims. The annual CAFR reports amounts needed to finance these future liabilities;
    - *Bonds Payable, Capital Lease Obligations and Certificates of Participation:* These are amounts reported for different types of tax supported long-term debt, including general obligation debt, lease obligations and certificates of participation;
    - *Net pension obligations (NPO):* The cumulative difference (as of the effective date of GASB Statement 27) between the annual pension cost and the employer's contributions to the plan. This includes the pension liability at transition (beginning pension liability) and excludes short term differences and unpaid contributions that have been converted to pension-related debt;
- *Net Pension Liabilities*: Beginning in FY2015, the CTA will report 100% of the net pension liabilities of its four municipal pension funds in the Statement of Net Position to comply with GASB Statement Number 68 requirements. Previously, this liability was reported in the Statement of Net Position as a Net Pension Obligation or NPO (see description above). As a result of the reporting change for pensions involved in implementing GASB 68, the amount of CTA long-term liabilities **reported** will increase substantially. This is because it 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.[111]
- *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 FY2011 and FY2015 total CTA long-term liabilities decreased by 0.1%, or nearly $3.7 million. In the two-year period between FY2013 and FY2014 they decreased by 6.0%, or $388.0 million. Much of these decreases is due to reduced capital lease obligations; between FY2013 and FY2014, capital lease obligations fell by $210.0 million, while over the five-year period of this analysis they were reduced by roughly $1.6 billion. These reductions are associated with acceleration of the purchase option date for certain capital lease agreements.[112]

Most long-term liabilities are bonds payable and capital lease obligations. In FY2015 these two categories combined accounted for 70.8%, or $4.3 billion, of all long-term liabilities. During the five years reviewed, these categories averaged 84.3% of all long-term obligations.

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[111] CTA FY2014-FY2015 Audited Financial Statements, p. 7.

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

The single largest increase in long-term liabilities between FY2011 and FY2015 was for net pension obligations and liabilities. This obligation was reported to rise by 9,229.4% or nearly $1.5 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.[113] 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.[114] The liabilities shown below for the net OPEB obligation represent debt service on the retiree healthcare bonds.

CTA Long-Term Liabilities by Category: FY2011-FY2015
(in $ thousands)

	FY2011	FY2012	FY2013	FY2014	FY2015	Two-Year $ Change	Two-Year % Change	Five-Year $ Change	Five-Year % Change
Self insurance claims	$ 253,001	$ 257,071	$ 262,138	$ 280,254	$ 190,045	$ (90,209)	-32.2%	$ (62,956)	-24.9%
Capital lease obligations	$ 1,788,039	$ 1,799,099	$ 1,625,474	$ 400,887	$ 190,867	$ (210,020)	-52.4%	$ (1,597,172)	-89.3%
Bonds payable	$ 3,884,997	$ 3,828,854	$ 3,747,750	$ 4,262,394	$ 4,106,567	$ (155,827)	-3.7%	$ 221,570	5.7%
Certificates of Participation	$ 61,514	$ 55,886	$ 49,907	$ 43,486	$ 29,775	$ (13,711)	-31.5%	$ (31,739)	---
Net Pension Obligation/Liability*	$ 15,757	$ 38,277	$ 59,455	$ 1,371,034	$ 1,470,041	$ 99,007	7.2%	$ 1,454,284	9229.4%
Net OPEB Obligation	$ 3,687	$ 3,934	$ 4,120	$ 4,213	$ 4,637	$ 424	10.1%	$ 950	25.8%
Other Long-term liabilities	$ 65,180	$ 61,210	$ 105,495	$ 94,250	$ 76,545	$ (17,705)	-18.8%	$ 11,365	17.4%
Total	**$ 6,072,175**	**$ 6,044,331**	**$ 5,854,339**	**$ 6,456,518**	**$ 6,068,477**	**$ (388,041)**	**-6.0%**	**$ (3,698)**	**-0.1%**

Source: CTA FY2011-FY2015 Audited Financial Statements, Note 7: Long-Term Obligations.

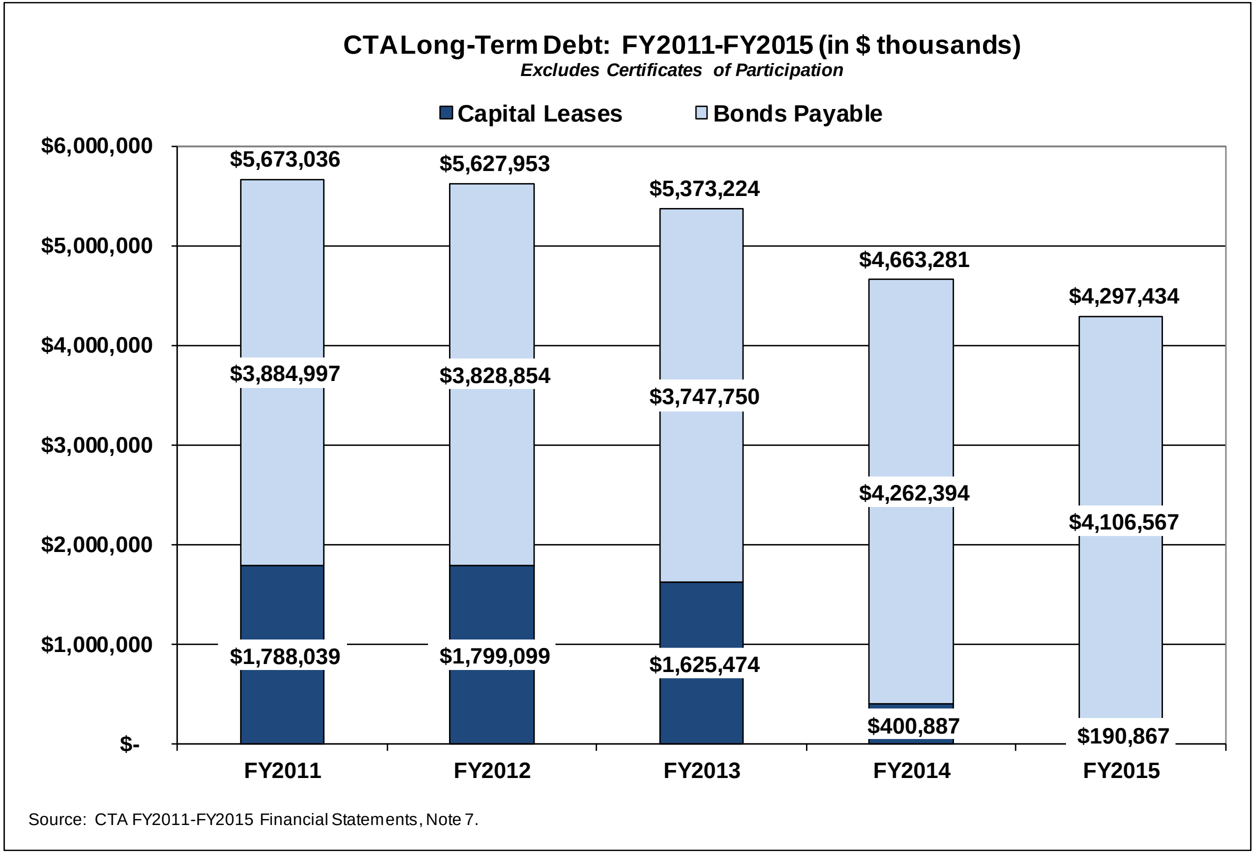
* Beginning in FY2015, Governments will report 100% of their net pension liabilities rather than the net pension obligations. Net pension liabilities for FY2014 were restated in the FY2015 CTA audited financial statements.

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 FY2011 and FY2015. It excludes the relatively small amount spent on certificates of participation. The CTA's long-term debt decreased by 24.2%, or nearly $1.4 billion, between FY2011 and FY2015. This is a decrease from roughly $5.7 billion to $4.3 billion. In the two-year period between FY2014 and FY2015, long-term debt fell by $365.8 million, or 7.8%. Much of the decreases over time are due to a five-year reduction of $1.6 billion

[113] CTA FY2013-FY2014 Audited Financial Statements, p. 46.
[114] CTA FY2013-FY2014 Audited Financial Statements, p. 46.

in capital lease obligations associated with acceleration of the purchase option date for certain capital lease agreements.[115]



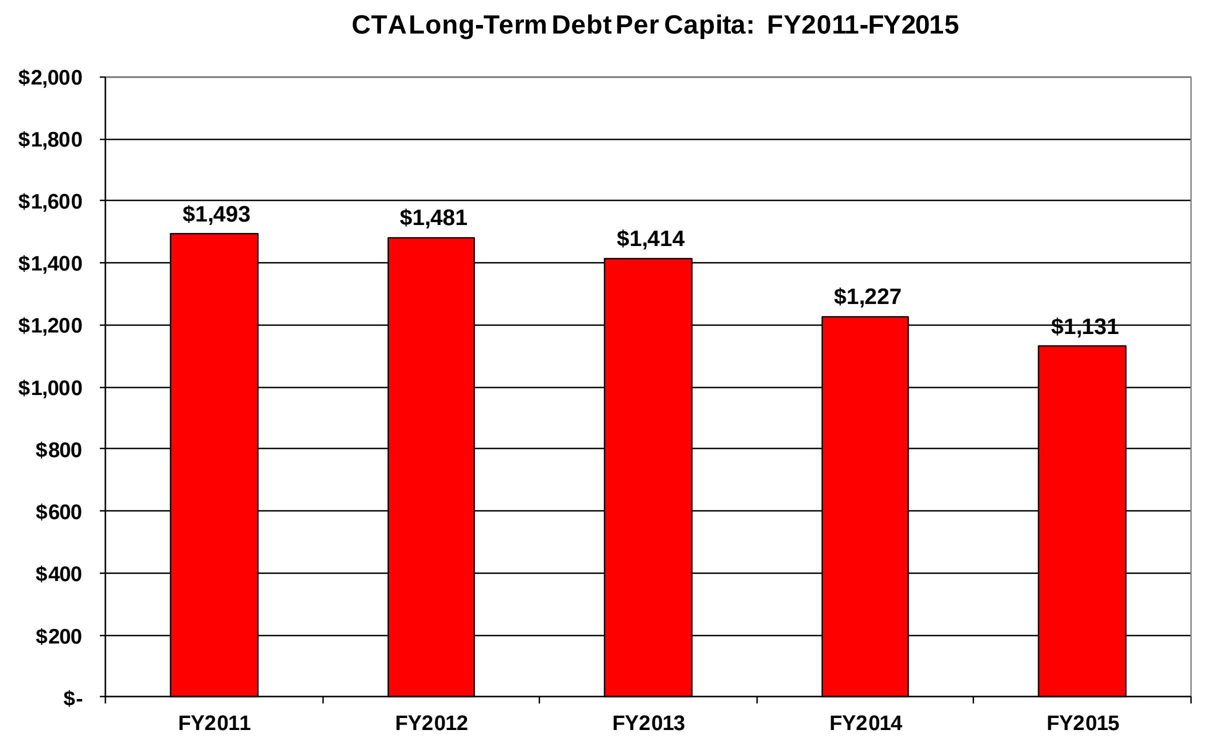
Long-Term Debt Per Capita

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[116] 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 FY2011 long-term debt per capita was $1,493. By FY2015, long-term debt per capita had decreased to $1,131, a 24.2% decrease. Long-term debt per capita fell by 7.8% between FY2014 and FY2015. Much of that decrease is due to

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

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

$1.6 billion in reduced capital lease obligations associated with acceleration of the purchase option date for certain capital lease agreements.[117] This reduction is a positive trend.



Source: CTA FY2011-FY2015 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.[118] Between FY2013 and FY2017, pension obligation bond debt service as a percentage of operating appropriations is

[117] This means that the CTA retired the lease debt at an early date. CTA FY2014-FY2015 Audited Financial Statements, p. 7.
[118] Information provided by CTA Budget Office, November 4, 2011.

expected to average 10.9%, which is below the range of 15% to 20% considered high by the ratings agencies.[119]

CTA Debt Service as a Percentage of Appropriations: FY2013-FY2017			
	Debt Service	Total Appropriation	Ratio
FY2013	$ 156,574,008	$ 1,358,831,000	11.5%
FY2014	$ 156,577,659	$ 1,401,247,000	11.2%
FY2015	$ 156,574,139	$ 1,443,703,000	10.8%
FY2016	$ 156,573,519	$ 1,475,207,000	10.6%
FY2017	$ 156,573,869	$ 1,524,239,000	10.3%

Source: CTA President's FY2017 Budget Recommendations, p. 110.

Current CTA Bond Ratings

The CTA's outstanding debt is assigned the following ratings as of October 24, 2016:

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

Sources: CTA President's FY2017 Budget Recommendations, p. 106.

CTA CAPITAL PLAN FY2017-FY2021

The CTA five-year capital plan proposes a total of $3.5 billion in funding. Federal funds will account for 66.5% of all funding. At this time there is no state funding available. Approximately 17.6% of all funding, or $622.0 million, will be derived from new Chicago Transit TIF district proceeds. The remaining 15.9% of all capital funding, or just over $562.5 million, will be funded from the RTA bond program, RTA Innovation, Coordination and Enhancement (ICE) Fund of the RTA, CTA funds, CTA bonds for Red and Purple Line Modernization (RPM), the CTA's share of competitive grants and RPM operating funds. The capital plan does not include

[119] 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.

funds from the proposed Chicago transit tax increment financing district as that has not yet been implemented.

CTA Capital Funding by Source: FY2017FY2021 (in $ thousands)							
Source	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**$ Total**	**% of Total**
New Funding Available							
Federal Funding	$ 583,628	$ 425,102	$ 414,603	$ 511,430	$ 417,202	$ 2,351,965	66.5%
State Funding	$ -	$ -	$ -	$ -	$ -	$ -	0.0%
RTA Bond	$ 75,000	$ -	$ -	$ 79,000	$ -	$ 154,000	4.4%
RTA ICE	$ -	$ 6,350	$ 6,572	$ -	$ -	$ 12,922	0.4%
Transit TIF	$ 622,000	$ -	$ -	$ -	$ -	$ 622,000	17.6%
CTA Funds	$ 1,875	$ 1,875	$ 15,000	$ -	$ -	$ 18,750	0.5%
CTA Bond for RPM	$ -	$ 287,249	$ -	$ -	$ -	$ 287,249	8.1%
Subtotal State and Local Funding	**$ 698,875**	**$ 295,474**	**$ 21,572**	**$ 79,000**	**$ -**	**$ 1,094,921**	**31.0%**
CTA Share for Competitive Grants	$ 27,780	$ -	$ -	$ -	$ -	$ 27,780	0.8%
RPM Operating Funds	$ 61,749	$ -	$ -	$ -	$ -	$ 61,749	1.7%
Total	**$ 1,372,032**	**$ 720,576**	**$ 436,175**	**$ 590,430**	**$ 417,202**	**$ 3,536,415**	**100.0%**

Source: CTA President's FY2017 Budget Recommendations p. 50.

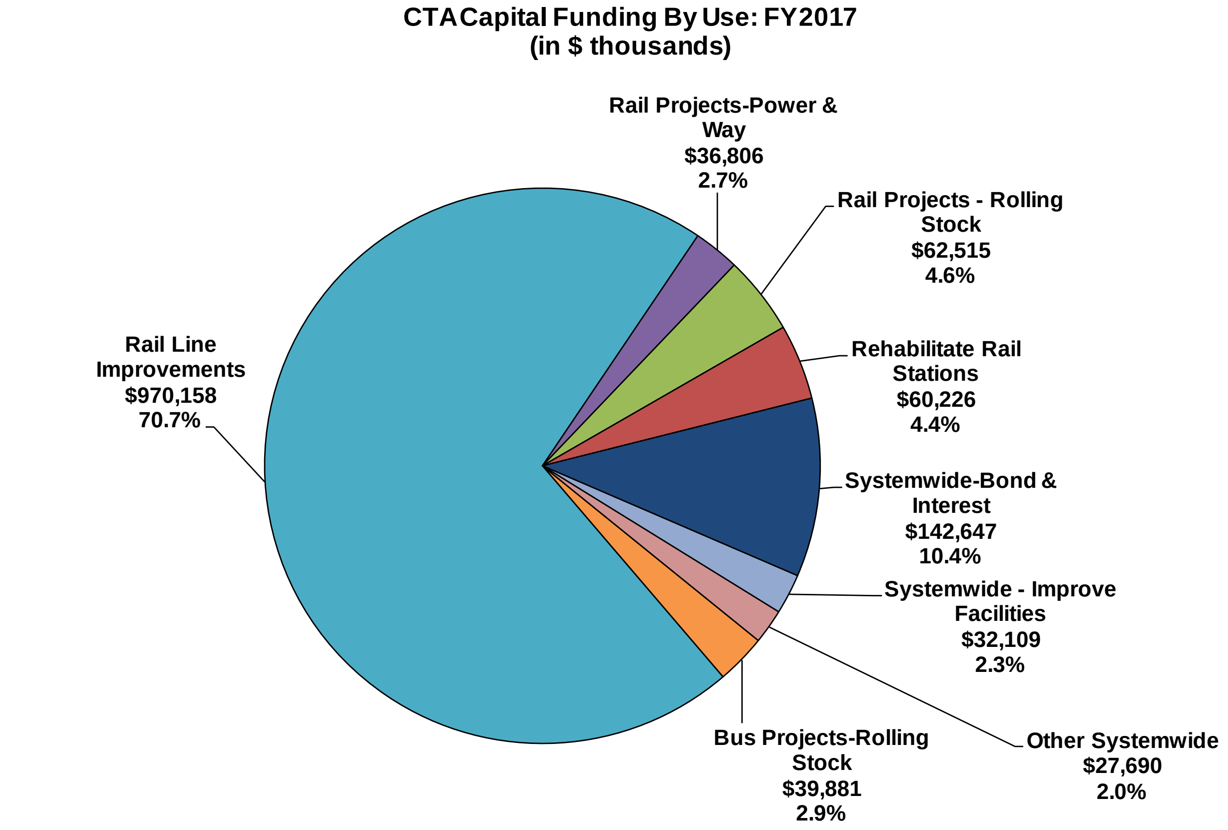
CTA capital funding by use in FY2017 is shown in the next exhibit.

- Rail line improvements will use $970.2 million, or 70.7%, of all spending;
- Bond financing costs will total $142.6 million, or 10.4%, of total spending;
- Rail rolling stock[120] projects will spend $62.5 million, or 4.6%, of FY2017 funding while

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

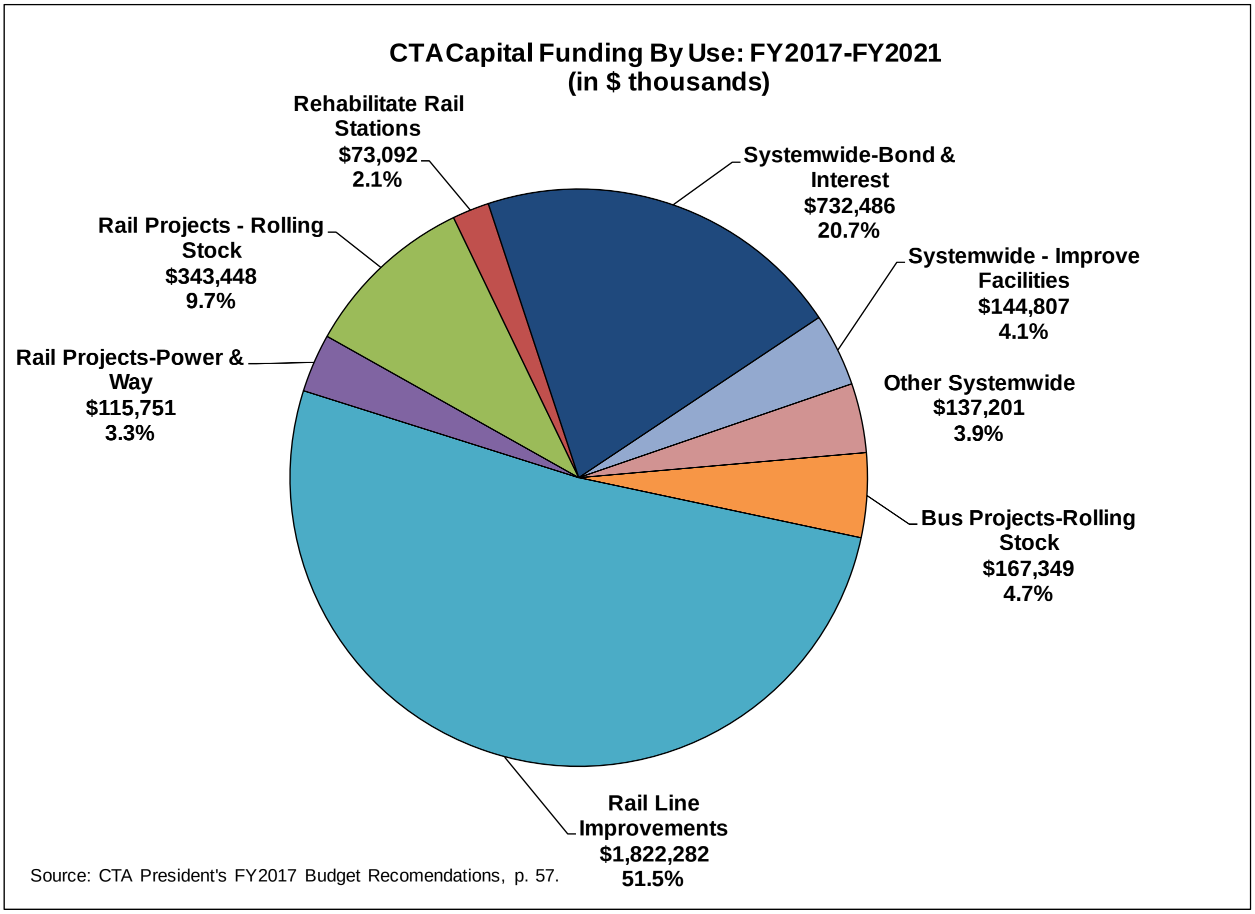
bus rolling stock projects will use $39.9 million, or 2.9%;

- Approximately $60.2 million will be spent rehabilitating rail stations; and
- Other funding uses include $32.1 million for systemwide facilities improvements, $36.8 million for rail power and way projects.



Source: CTA President's FY2017 Budget Recomendations, p.57.

A five-year breakdown of CTA capital funding is shown next. Rail line improvements will be the biggest use of funds, at $1.8 billion, or 51.5%, of the total. This will be followed by systemwide bond financing costs at $732.5 million or 20.7% of the total. Rolling stock for rail projects will use $343.4 million, while bus rolling stock projects will use $167.3 million.



CTA Capital Improvement Plan

According to best practices for capital budgeting, a complete capital improvement plan (CIP) includes the following elements:[121]

- 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;

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

- Information about the impact of capital spending on the annual operating budget for each project;
- Annual updates on actual costs and changes in scope as projects progress;
- Brief narrative descriptions of individual projects, including the purpose, need, history and current status of each project; and
- An expected timeframe for completing each project and a plan for fulfilling overall capital priorities.

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

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

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

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

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

APPENDIX A

Object	FY2016 Adopted	FY2016 Forecast	FY2017 Proposed	Forecast to Proposed $ Change	Forecast to Proposed % Change	Adopted to Proposed $ Change	Adopted to Proposed % Change
CTA Operating Budget by Object of Expenditure: FY2016 Adopted, FY2016 Forecast & FY2017 Proposed (in $ thousands)							
Labor	$ 1,025,634	$ 1,025,988	$ 1,050,436	$ 24,448	2.4%	$ 24,802	2.4%
Material	$ 82,534	$ 83,250	$ 89,176	$ 5,926	7.1%	$ 6,642	8.0%
Fuel	$ 37,259	$ 34,729	$ 33,946	$ (783)	-2.3%	$ (3,313)	-8.9%
Power	$ 31,458	$ 29,398	$ 31,365	$ 1,967	6.7%	$ (93)	-0.3%
Provision for Injuries & Damages	$ 9,500	$ 9,500	$ 9,500	$ -	0.0%	$ -	0.0%
Security	$ 14,698	$ 15,584	$ 16,838	$ 1,254	8.0%	$ 2,140	14.6%
Pension Obligation Bonds	$ 118,043	$ 118,050	$ 111,943	$ (6,107)	-5.2%	$ (6,100)	-5.2%
Contractual Services	$ 101,981	$ 102,970	$ 109,349	$ 6,379	6.2%	$ 7,368	7.2%
Utilities	$ 24,058	$ 23,677	$ 24,152	$ 475	2.0%	$ 94	0.4%
Non-Capital Grant Expense	$ 5,678	$ 15,011	$ 8,749	$ (6,262)	-41.7%	$ 3,071	54.1%
Advertising & Promotions	$ 1,198	$ 1,200	$ 1,212	$ 12	1.0%	$ 14	1.2%
Travel & Meetings	$ 1,331	$ 1,350	$ 1,667	$ 317	23.5%	$ 336	25.2%
Leases & Rentals	$ 2,896	$ 3,039	$ 3,062	$ 23	0.8%	$ 166	5.7%
Other General Expenses	$ 4,640	$ 1,918	$ 4,248	$ 2,330	121.5%	$ (392)	-8.4%
Debt Service	$ 14,298	$ 16,666	$ 28,597	$ 11,931	71.6%	$ 14,299	100.0%
Total	**$ 1,475,206**	**$ 1,482,330**	**$ 1,524,240**	**$ 41,910**	**2.8%**	**$ 49,034**	**3.3%**

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

Source: CTA FY2017 President's Budget Recommendations, p. 38; and information provided by CTA on November 14, 2016.

APPENDIX B

Source	FY2016 Adopted	FY2016 Year-End Forecast	FY2017 Proposed	Forecast to Proposed $ Change	Forecast to Proposed % Change	Adopted to Proposed $ Change	Adopted to Proposed % Change
CTA Operating Budget Revenue: FY2016 Adopted, FY2016 Forecast & FY2017 Proposed (in $ millions)							
System-Generated Revenue							
Fares and Passes	$ 590.5	$ 580.1	$ 581.3	$ 1.1	0.2%	$ (9.3)	-1.6%
Reduced Fare Reimbursement	$ 28.3	$ 14.6	$ 28.3	$ 13.7	93.9%	$ -	0.0%
Advertising, Charter & Concessions	$ 32.0	$ 33.7	$ 35.2	$ 1.5	4.4%	$ 3.1	9.8%
Investment Income	$ 0.9	$ 1.5	$ 1.1	$ (0.4)	-26.0%	$ 0.2	27.0%
Required Contributions from Cook County & Chicago	$ 5.0	$ 5.0	$ 5.0	$ -	0.0%	$ -	0.0%
Other Revenue	$ 27.9	$ 41.6	$ 35.5	$ (6.1)	-14.7%	$ 7.5	27.0%
Total System-Generated Revenue	**$ 684.7**	**$ 676.5**	**$ 686.3**	**$ 9.8**	**1.5%**	**$ 1.6**	**0.2%**
Public Funding through RTA	**$ 790.5**	**$ 810.8**	**$ 837.9**	**$ 27.1**	**3.3%**	**$ 47.4**	**6.0%**
Total	**$1,475.2**	**$1,487.3**	**$ 1,524.2**	**$ 36.9**	**2.5%**	**$ 49.0**	**3.3%**

Source: CTA President's FY2017 Budget Recommendations, p. 38.