



President's Board Report October 6, 2010

Good morning Chairman Peterson and members of the Board.

I will be giving you an overview of my 2011 budget recommendations today, but first I have some good news to report on the grant front.

Last week the FTA notified us that funding for two infrastructure projects will be awarded to the agency. As part of the FTA's State of Good Repair program, the CTA was selected to receive \$5.4 million dollars for a bus asset management system and \$32 million dollars for a bus garage rehabilitation program. In September, we were awarded \$1.2 million dollars for Congestion Mitigation and Air Quality projects including our U-Pass program.

Although the CTA has become quite skilled at doing a great deal with limited resources, we have not been able to invest in our fleet or facilities to the degree desired so this funding will be of significant assistance.

In 2010 alone, we have submitted 43 applications for competitive grant programs. With these most recent grants, the CTA has now been awarded nearly \$53 million, including \$13.5 million for BRT and various energy efficiency and planning projects. That is money to invest in the CTA that we would not otherwise have received.

We will continue to aggressively pursue additional funding under these competitive grant programs.

Repairing and improving the system we have is not always glamorous work, but it is vital, just as an efficient, reliable CTA is vital to the economy of this region.

The importance of investing in our infrastructure is the message conveyed whenever CTA travel to Washington or Springfield. Last week, I personally traveled to Washington D.C. to meet with the House and Senate committees that create the funding programs for the reauthorization of the federal transportation funding bill. I also met with members of the Illinois delegation.

We continue to discuss the critical funding needs of the agency and outline projects that focus on repair and maintenance of the system, as well as strategic investments for growing the system.

We are committed to securing funding in any capacity available and will continue to meet with Senate Banking Committee and House Transportation Infrastructure personnel who are key to supporting public transit and the CTA's mission.

As you may have noticed when coming into the building today, there is a new tenant in the space next to 7-11. Saigon Sisters Restaurant recently opened and I would like to take this opportunity to welcome our new tenant.

Revenue from the lease agreement contributes to the CTA's operating budget.

The lease agreement with Saigon Sisters was developed through Transwestern Commercial Services which also manages our headquarters building and acts as the broker for the CTA to lease retail space within the building.

And now an update on ridership.

The CTA provided 133.7 million rides for the third quarter 2010.

From July through September, overall ridership on the system decreased – down 0.8% (point eight percent), which represents approximately 1.1 million rides.

Bus ridership decreased by 3.9% - the equivalent of 3.1 million rides, while rail ridership increased by 3.8%, the equivalent of 2 million rides.

As you know, in February, bus service was reduced by 18% and rail was reduced by 9%.

Riders who have the option to switch from rail to bus appear to have made that choice as a way to compensate for reduced bus service.

Part of the increase in rail ridership can also be attributed to the completion of the Brown Line capacity expansion project and the end of three-track operation, as well as work on the Blue Line that allowed trains to resume normal speeds.

Compared to 2009, year-to-date ridership is down 0.6% (point six percent), which represents 2.2 million rides.

We will continue to closely monitor ridership.

And now I would like to give you an overview of my budget recommendations.

In spite of significant fixed costs and steep declines in anticipated public funding, our objective has been to meet the challenges of the struggling economy without adversely impacting the current level and quality of service provided to customers. Effective and disciplined management will be as essential in 2011 as it was in 2010.

The budget I am proposing is \$1.337 billion dollars. Although we are operating in a very tough economic environment, through cost-conscious management we have developed a budget that

allows us to maintain current fares and service levels. Despite limited resources, we also want to continue to focus attention on areas where strategic investments will lay the foundation for future improvements and customer benefits.

The proposed budget is \$66.7 million, or 5.2 percent, more than the 2010 budget due in part to contractually required union wage increases, along with pension and healthcare obligations.

The fixed increases in expenditures were partially offset by management efficiencies. Yet again, we looked internally to economize and find ways to maintain productivity with fewer resources.

Through a careful review of department budgets, we identified \$53.6 million in savings. These include cutbacks in our personnel costs by eliminating positions, delaying hiring, continuing to manage and control overtime, once more forgoing wage increases for non-union personnel and requiring them to take unpaid days. Savings will also come from departments continuing to aggressively streamline operations and reduce expenditures such as fuel, power, materials and contracts.

We also faced challenges in terms of our projected revenues. The public funding mark set by the Regional Transportation Authority (RTA) is \$529.3 million. This public funding level is \$92.5 million lower than in 2008 and \$257.9 million lower than anticipated following the passage of the state's mass transit funding and reform bill (PA 95-0708) in 2008.

To make up the difference between what we have and what we need, we will again have to transfer \$113 million dollars in eligible capital funds to help balance the budget and allow us to maintain service levels while the economy recovers. It was a very difficult decision because our system requires ongoing maintenance and reinvestment.

However, since the State of Illinois has committed \$1.3 billion in capital funding to the CTA over the next five years we believe the use of some capital funds to avoid further service reductions is the right choice for our riders at this time.

In addition, due to a borrowing agreement between the RTA and the State, the CTA received \$83 million in bond proceeds in return for not raising fares.

Although the State is experiencing its own financial struggles, we are relying on it to meet its commitments to the CTA, both for the public funds that make up a large share of operating revenue and the promised capital program.

Balancing the budget was very challenging this year. Resources, which have always been limited, have become even tighter. Nevertheless, the CTA expects to accomplish a great deal in 2011 and it will do so by being resourceful and innovative, while still carefully managing costs.

In the coming year, we will be moving ahead with the first order of new rail cars in more than 15 years. Also underway is a new initiative that will transform the way customers pay for transit and allow the CTA to avoid an upfront capital cost to upgrade our fare equipment. We are

implementing a biometric time and attendance system that will increase accountability and allow for better analysis due to more centralized data.

We are also investing in multiple technology projects that will add value, ease customer use of the system, offer more and better information, and establish a safe environment. They include introducing some enhanced features to our popular BusTracker, developing a similar train tracker system, testing the best way to retrofit our rail cars with cameras, and completing plans to equip every rail station with multiple security cameras.

The 2011 budget proposal includes a Capital Improvement Plan of \$599.5 million, including \$285 million in new state funding announced in the recent state capital program. Once those funds are received, we stand ready with a list of projects that include overhauling buses; rehabilitating bus garages and rail stations; upgrading substations; and replacing track to eliminate and prevent slow zones.

And, as I indicated earlier, we are also continuing to pursue funding through grants. I have the good fortune to work with a very supportive Chairman and Board who recognize that access to affordable public transportation is more important than ever. The CTA is integral to the lives of so many people in this region. They rely on our system to get to work on time, to get home to their families, and to get to school to earn the education that will land them a better job.

My charge is to make sure it is operating as reliably and efficiently as possible, to evolve and improve and to deliver on-time, clean, safe, courteous and efficient service each and every day. This budget that I am recommending today will help us achieve those goals.

Thank you and that concludes my report.