

President's Report
Chicago Transit Board – October 21, 2009

Thank you Chairman Peterson, members of the Board.

On behalf of the staff I would like to extend a warm welcome to Terry Peterson. I have had the privilege of knowing Terry for a long time. When he was Chief Executive Officer at the Chicago Housing Authority, I worked with him in a variety of capacities. I am delighted that our paths have crossed again.

He has always been the type of leader that values both fiscal responsibility and needs, and also understands the human side of the decisions we make and the impact these decisions have on the people we serve.

In the short time since he was appointed to the CTA board, he has rolled up his sleeves and immersed himself in getting to know this agency, its employees, and its customers.

His business savvy, common sense, and compassion will serve the board and the CTA well as we navigate through these difficult economic times.

With that, I would like to give the board an overview of my budget recommendations for 2010.

With the onset of the recession, government agencies, private businesses, and individual households all faced financial challenges, and the CTA was no exception.

Faced with significant fixed costs and declining revenues, our challenge is to manage responsibly and make strategic decisions designed to weather the recession, operate within our means, and still provide the critical services that so many working men and women rely on.

We estimate our shortfall for 2010 to be \$300 million dollars.

The effects of the recession are evident nationwide. For the CTA, the impact is most obvious in terms of public funding. The revenue sources we rely on – sales and real estate taxes – are very sensitive to the economy. When people aren't spending, sales taxes are down. With the slow housing market, real estate taxes are down.

There are three areas that have contributed to the shortfall: declining public funding, union contracts and pension obligations.

In 2010, total public funding will be 30% below RTA projections. This is equivalent to \$213 million dollars and accounts for more than 2/3rds of CTA's anticipated shortfall.

In addition, contracts call for our union employees to receive 3 ½ % wage increases this year.

Finally, state legislation required the CTA to increase its pension funding.

The CTA first looked internally to reduce costs and operate more efficiently. There have been substantial administrative cuts made over the last few years, but we went back and cut deeper.

These initiatives include:

- aggressive overtime management
- hiring freezes on non-essential personnel
- reduction of departmental budgets
- reducing contracts
- strategic capital investments to produce operating savings

We are also asking our non-union employees to take up to 12 furlough days. Their holidays will be unpaid. Once again non-union employees won't get raises. We are also eliminating up to 100 non-union jobs.

We have a hard-working, dedicated team and I know these measures will be very unpopular. But furlough days are the new reality for both the public and private sectors.

In this economy, where taxpayers, our riders and the general public are all suffering, the responsible thing is for CTA to do all it can internally before considering steps that would impact riders.

With the proposed job reductions, CTA will have reduced its non-union workforce by 19% since 2007.

By contrast, the union employees have fared much better. They've been relatively untouched by layoffs. They have not experienced furlough days or unpaid holidays and they've continued to get raises. Union employees received 3% raises in 2009 and are due to receive 3.5% increases in 2010.

We're asking the unions to be part of the solution, and we have met with leadership to ask their cooperation in reducing costs for 2010. With nearly 90% of the CTA's workforce unionized, we need their participation to reduce our labor costs.

Whether you are talking about the City, the Sun-Times, or any number of corporations, unions have stepped up to the plate to help organizations survive this economy. From my perspective, it is far better for employees to make salary concessions than for us to have to eliminate service and all the positions that support it.

Through internal cuts, we were able to reduce our shortfall by \$32 million dollars. Next, we made the difficult decision to transfer \$90 million dollars in eligible capital funds to the operating budget to help cover the shortfall. The transfer of capital funds to operating will slow continued progress toward a state of good repair but is prudent given the current economy. We wanted to do all we could to lessen the impact on our customers.

For the remaining \$178 million dollar shortfall, we have looked at a menu of options that includes union action to help reduce costs; legislative action, such as allowing some flexibility with spending state capital funds; fare increases; and restructuring service to reduce costs and operate more efficiently.

By making those hard choices, we were able to reduce expense and generate enough new revenue to propose a balanced budget of \$1.28 billion dollars.

Knowing that our riders are struggling through this economy as much as we are, the CTA was reluctant to consider actions that could hurt customers. Our main objective was to manage

responsibly and develop a plan that will allow us to reduce operating costs and weather this recession without decimating the system.

Our plan was designed to retain as much service as we can, while reducing costs. It was also designed to provide additional management and maintenance efficiencies.

Although we couldn't avoid a fare increase, we designed a proposal that still provides a range of options for customers. We are limiting the fare increase for regular bus service and establishing a surcharge for faster, premium services. Customers can choose if they want to pay an extra fee for a faster mode of travel.

The proposed bus fare is \$2.50, which is a 25 cent increase from the previous cash fare and a 50 cent increase for those who pay with fare media.

For all rail service and 19 express bus routes we are recommending an increase to \$3. Rail service and express routes provide faster service, with fewer stops.

Reduced fares will not change.

Although fares will rise, we will still offer multiple pass options that provide better value than single-ride fares.

When developing the service plan, our guiding principles were:

- Maintain as much service as possible for those who can least afford to go without.
- Minimize the impact during peak hours.
- Maintain key regional connections to maintain the system's integrity.
- Maximize the efficiency of all bus routes and rail lines. In doing this we wanted to provide the most service within our budget and also better manage our resources during off-peak hours.
- Finally, we wanted to spread the burden in an equitable manner and adhere to all appropriate federal guidelines.

Under our proposed plan, we will maintain all rail routes and all bus routes except for nine express routes that have a corresponding local route.

It was also important to preserve service for those third-shift workers who have few options other than public transit. As a result, our overnight OWL service will not change.

We've tried to preserve as much rush hour service as possible since one of our primary functions is to get people to and from work. We're following a model similar to that used by the airline industry. To maximize capacity, we will schedule service so that vehicles are used more effectively. We will tightly manage our resources.

The CTA currently develops schedules based on carrying 60 passengers per bus in peak periods and 40 passengers per bus at other times. The new standard will be scheduled based on 60 passengers per bus at all times. The impact will be more noticeable in off-peak hours than at peak periods.

What this means for customers is that they may have a longer wait and that they will be less likely to get a seat. Both buses and trains will be at capacity at all hours. Our Bus Tracker system will be an

even more valuable tool to help riders avoid long waits so we definitely recommend that riders try it if they haven't already.

Additionally, we are also reducing span of service on 41 bus routes. This means that the hours of operation will be shortened. The average span reduction will be about 1 ½ hours.

These service changes are complimented by the retirement of 287 buses that are 15 years old and costly to maintain. These reductions in service will also enable us to close Archer Garage, which is a 102-year-old facility that was not designed to support 2010 requirements.

And, of course, as I mentioned previously, with service reductions come layoffs of more than 1000 operating employees. Neither the CTA nor the unions want this outcome, but short of any other savings that the unions can provide, it is the outcome we face.

This is a difficult budget. I would like to announce exciting new initiatives and investments that will enhance service for our customers. But this economy is taking its toll on everyone and every organization. We've tried to manage responsibly and develop a budget that makes the necessary cuts but still maintains the core of the CTA system.

The CTA is committed to serving its customers. In the coming months and year, we will continue to look for the most efficient operating methods and call upon the resourcefulness of staff to help reduce costs and increase revenue.

I am confident that we will get through these tough times and emerge a better, healthier, more efficient agency.

As always, we remain committed to providing service for our customers that is on time, clean, safe, and friendly.

Thank you. This concludes my report.