



Policy Brief

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### **CTA LOOKING IN ALL THE WRONG PLACES: SUSTAINABLE SOLUTION REQUIRES NEW THINKING AND REAL REFORMS**

**(Chicago, IL)** In its latest budget “Letter from the President,” the Chicago Transit Authority claims that it has no hope without yet another bailout. *“While the CTA will continue to look for every opportunity to become more efficient and to apply private sector best-practices to our daily operations,”* the letter reads, *“there is simply no way we can manage our way out of a \$158.0 million deficit.”*

It appears that CTA management did not look at its own operations over time to identify the root problems that have caused its massive deficit. Instead, in a tale that is all too familiar, the only place the CTA looked for the solution was the public subsidy revenue side of the equation—and thus the taxpayer’s wallet.

Fortunately, there is another way to solve the current problem as well as the long-term problem. Real solutions reside in two places: on the spending side of the equation (the very area that CTA president Ron Huberman says they “cannot manage our way out of”) and on the pricing (revenue) side of the equation. This policy brief is intended to provide assistance.

None of the CTA’s proposed solutions will fix the troubled transit agency for the long term. Each of the proposed solutions will result in future doomsday scenarios—yet another in a long series of doomsdays, with each one previously “fixed” by a supposedly permanent solution. To permanently fix the CTA’s financial challenges will require different thinking than what has occurred since 1969. The solutions are clear. The real question is this: Can the political will be found?

#### **Current Proposals Fall Short of Solving Problem**

Legislative proposals, including the one offered by state Representative Julie Hamos (D-Evanston) or suggestions made by House Minority Leader Tom Cross (R-Oswego) and embraced by Governor Blagojevich, will do little but provide stopgap fixes. While these proposals ostensibly fill the current funding gap, they do not address the core issues facing the CTA. As a result, future funding gaps will reappear—just as the current one has reappeared now in spite of previous “fixes” in past years.

A primary weakness in the current proposals to be discussed during yet another special session in Springfield is that they only address the public subsidy (revenue) side of the equation substantively. While proposed reforms and cost-cutting appear to address the spending side, they will have little material effect.

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The real solutions lie on the spending side and with pricing on the revenue side. This is where those sincerely interested in sustainable CTA problem solving should be looking. Unfortunately, all present proposals in Springfield look for more taxpayer-funded bailouts. Another bailout will allow the CTA to once again put off the difficult—but achievable—reforms needed.

### **1969 till 2007 – Back to the Future**

An analysis of data from 1969 through the present (using the CTA's own budget documents) provides key insight into CTA leadership and management decisions over time.<sup>1</sup> The 1979 budget document provides a top line performance history of the CTA dating to 1969. The data is stunning—and encouraging. This analysis points the way to solving the CTA's problems permanently, but it will take new thinking on the part of political decision makers and the public.<sup>2</sup>

### **Spending and Productivity Management**

During the past several months, much has been made about the transit crisis and the “funding gap.” The CTA itself has made a number of claims and many in the media have used information and facts that take those seeking solutions down the wrong tracks.

The right tracks to examine are those laid from 1969 through 1979, high volume years for CTA ridership relative to today.<sup>3</sup> 1979 provides a clear demarcation between the peak and the falloff in ridership that began shortly thereafter. It was primarily an inability of CTA leadership to recognize and address the emerging problems from the 1970s through the 1990s that brings us to the current crisis.

What the data tell us is that the CTA was a much more productive operation in 1969 and 1970. Beginning in 1971 performance began to decline. Most stunning of all, the CTA operated on a break-even basis in 1969 and 1970—there was no public subsidy. Ironically, the advent and ongoing provision for the public subsidy since 1971 has “crowded out” the necessary management decisions that would otherwise have been needed and could have kept the CTA operating on a break-even basis.

This assertion may come as a shock to the reader, but an open-minded reader will see that that is, in fact, what the data indicates is still possible even today.

Productivity can be measured in any number of ways to determine if the CTA is meeting achievable benchmarks. One method the CTA has used for decades is passenger per revenue mile (see Table 1). The data indicates that the CTA has become less productive over time—for every mile driven by rail or bus, the CTA carries fewer passengers. This indicates that the CTA has not adapted its route and logistics operations adequately to the changing demands of the population. Of course, any change in routes becomes a political decision as community leaders and citizens on affected routes object to proposed changes. But it remains necessary for the CTA to make the tough calls that serve the overall CTA community as efficiently as possible.

**Table 1**  
**Productivity of the CTA**

	2007	1979	1978	1977	1976	1975	1974	1973	1972	1971	'69/'70	
Riders (millions)	494.0	703.7	660.7	643.0	632.4	612.6	625.4	595.6	606.0	612.1	640.0	-23%
Passengers Per Mile – Total	3.56	5.30										
Bus Passengers Per Mile	4.23	6.61										
Rail Passengers Per Mile	2.84	3.09										
Spending Per Rider	\$2.19	\$1.67	\$1.77	\$1.80	\$1.75	\$1.78	\$1.75	\$1.75	\$1.78	\$1.65	\$1.55	41%
Fare/Pass Revenue Per Rider	\$0.96	\$0.77	\$0.90	\$0.98	\$0.99	\$1.05	\$1.16	\$1.36	\$1.47	\$1.53	\$1.50	-36%
Total Revenue Per Rider	\$1.13	\$0.88	\$1.05	\$1.13	\$1.15	\$1.20	\$1.32	\$1.47	\$1.54	\$1.61	\$1.58	-29%
Public Subsidy Per Rider	\$1.07	\$0.79	\$0.73	\$0.68	\$0.63	\$0.59	\$0.44	\$0.31	\$0.14	\$0.11	zero	
Subsidy Increases %	35%	8%	7%	9%	5%	36%	41%	119%	26%			

Financial figures in 2007 dollars.

The system revenue (non-subsidy) productivity measures indicate that the CTA has failed to even maintain pricing to inflation. A CTA customer in 1969/1970 paid 36% more in real purchasing power for his or her ride than does a 2007 rider—and there were 23% more riders then even with the higher cost per ride.

This comparison belies that claim by the CTA and others that fare increases will reduce ridership. Table 1 clearly indicates that ridership has declined even in an era of declining fare pricing. The CTA can and should increase its fares to a par level with the last time the CTA operated breakeven, 1969 and 1970 (these two years are averaged for purposes of this analysis).

A review of Spending Per Passenger from 1969 until 2007 indicates that the CTA has failed in its management of cost and labor productivity. Spending per rider has increased by 41% even as riders have declined. Implementing management strategies to return to the 1969/70 productivity benchmark would save the CTA \$316 million.<sup>4</sup> While these strategies cannot be implemented overnight, they can be achieved as has been demonstrated by numerous private sector companies who have become far more productive since 1969/70 rather than less productive. Of course, private sector companies do not have the luxury of a public subsidy to mitigate the need to make the tough management decisions required.

### **Pricing Management, Public Subsidies and Spending**

After two straight years of breakeven operations in 1969 and 1970 (at present we do not have data pre-1969), the CTA began to receive public subsidies to increase revenues and meet a balanced budget requirement. However, it appears that revenue shortfalls could have been offset by more proactive market pricing (i.e., increasing fares at the rate of inflation) and by making different decisions regarding operations, labor agreements and overall spending.

Further, the data indicates, as have other studies<sup>5</sup>, that ridership declines are driven primarily by factors other than price sensitivity. According to the CTA's own documents, since 1969 the average fare box revenue has fallen 36% while ridership has simultaneously fallen by 23% (see Table 1).

What the data indicate is that the very existence of the public subsidy, and its per rider increase over time from \$.11 per rider in 1971 to \$1.07 per rider in 2007 (2007 dollars), has absolved CTA management from making the tough decisions that it would otherwise have been forced to make.

This data and this history indicate that the real solution to the CTA "crisis" is to first cap, and then eliminate over time the CTA subsidy altogether. The CTA can and should operate on a breakeven basis.

Critics will state that highways and other modes of transit also receive public subsidies, but on a per passenger mile basis mass transit receives far more in public subsidies than does highway transportation. Further, we are referring to those subsidies directed to operations, not capital improvements.<sup>6</sup>

### **Failure & Opportunity**

The CTA has failed in three fundamental areas of management since 1969, and examining these areas for improvement is the proper place for the legislature, governor and CTA management to look for sustainable solutions:

1. Operational Productivity and Spending Efficiency
2. Revenue management and proper fare pricing to maintain prices with inflation
3. Adapting operations and routes to changing customer needs and changing traffic patterns

This comparison between 2007, 1979 and the last breakeven years of 1969 and 1970 reveal that:

- Rail ridership is up 25%, from 152 million to 190 million since 1979.
- Bus ridership has plummeted by 45%, from 552 million to 304 million since 1979 and overall ridership is down 23% since 1969/70. Bus operations are a key area ripe for improvement.
- The average CTA employee today is less productive than the average CTA employee in 1969 or even 1979. This is illustrated in a number of ways. Spending (cost) per rider is up 41% from \$1.55 to \$2.19 since 1969/70 and up 31% (from \$1.67) since 1979. Correspondingly, riders per employee are down, from 56,299 per employee to 45,292 since 1979. The bottom line is that today's CTA spends more to deliver a rider and each employee delivers fewer per year on average. This is a root cause of the CTA financial crisis and most of it rests within the bus operations.
- By achieving the 1979 spending benchmark alone (\$1.67 per rider), the CTA would save \$257 million and more than close the funding gap without having to ask the taxpayers for more.
- By achieving the 1969/70 spending benchmark (\$1.55 per rider), the CTA would save \$316 million per year.

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- The CTA is earning more system (non-subsidized) revenue per rider today than it was in 1979, \$1.13 versus \$.88, an increase of 28% and certainly a step in the right direction.
- Advertising and concession revenue are up 478%, from \$4.3 million to \$25 million.
- The public subsidy per rider is up 35% since 1979, from \$.79 to \$1.07. The taxpayers are more than doing their part in subsidizing the CTA's operation.
- This 35% increase in the public subsidy on a per rider basis illustrates the fallacy of the CTA public relations and budget document claims that the CTA's public subsidy has not kept pace with inflation.<sup>7</sup> While that fact is true in total dollars, it is a misleading fact since the key data point is the subsidy per rider. In fact, one could make the case that the subsidy is excessive by \$138 million  $(\$1.07 - \$.79) \times 494$  million riders for 2007).
- Bus operations are a key area for improvement. While ridership is down 45% since 1979, total miles driven per year is only down 14%, from 83.5 million to 71.9 million. Further, the total route miles covered (the aggregate miles of the route map) has more than doubled, from 1,042 route miles to 2,529 route miles in 2007. This is unsustainable and the underlying reasons for this must be addressed.
- Today the CTA runs 154 bus routes versus 134 in 1979, an increase in routes and corresponding expense of 15% while ridership fell 45%.
- The bus operations data indicate that in 1979 the CTA operated a tightly focused, more market sensitive route map with more traffic per bus per route operated and bus run made. Today, with the route miles up 143%, it appears the CTA is running too many route miles for too few riders, making the bus system inefficient.

### **Permanent Solutions for the CTA, Its Riders and the Taxpayers**

For over 28 years the CTA (and the larger RTA system) has been asking for taxpayer-funded bailouts while it puts off necessary reforms that would reduce or eliminate the need for such bailouts. While the CTA has been adopting a number of meaningful reforms, they do not sufficiently fix the root causes of the CTA financial crisis that have been repeated year after year.

The solutions to the CTA challenges include:

- Set a clear mission focus: Mandate operational spending to the benchmark of \$1.67 per rider within three years and \$1.55 within five years. Every legislative and management decision should be based upon this overriding imperative: does this help us get closer to \$1.67 within three years (and \$1.55 within five years)? It may take time—after all, the CTA has dug itself into quite a financial hole—but it can be done.
- Adjust fares to inflation to an average of \$1.50 per rider from the current \$.96 per rider. This will yield \$267 million in increased revenues immediately. This assumes no fall off in ridership since we know that pricing is not the primary reason for ridership declines. Unlike tax increases, which do change taxpayer behavior, fare increases will do little to change rider behavior. However, operational and productivity improvements will convince former riders to return and new riders to give the CTA a trial.

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- Create a customer-centric focus. Productivity improvement can be achieved while improving service—it is done in the private sector routinely. An independent entity outside of the CTA and government needs to measure customer satisfaction as part of any bailout package and hold the CTA to account for happy customers.
- Cease all expansion projects. The CTA has been spending money on expansion and other unneeded projects while basic maintenance is being ignored. This poor judgment must stop.
- Implement real competitive contracting. The CTA only tenders a fraction of its spending via competitive contracting (2.8%) while the average transit agency tenders 40%. Further, the average agency saves 40% in spending when it does competitive contracting while the CTA is saving only 20% (thus the need for transparency). Just getting to the average would save the CTA \$173 million annually.<sup>8</sup>
- Be transparent by opening the books. The legislature should demand full transparency for all CTA spending. Every check written, every contractor paid, every consultant hired and all the other details of spending should be open in an online, easily searchable database. This will create real accountability. The bill offered by Julie Hamos has transparency window dressing, but we need real sunshine to fix the problems.
- Bus Logistics Initiative. The CTA needs to recruit a top flight logistics expert from private transportation companies such as FedEx, UPS, Southwest, etc. or a military logistics expert. The bus route system is a core problem and is costing the CTA its ability to adapt to the changes in the market.
- The procurement and management of the Material function and maintenance operations should be explored. The cost of Material has risen 30% on a fleet roughly the same size while maintenance has declined as a proportion of spending by 47%.
- Administration and Security are two spending categories that did not exist in 1979 and now account for significant resources. An audit and comparison of how these functions were managed then and now is required.
- Independent Audit & Audit Commission. An independent (citizen based and selected rather than government or politician selected) Audit Commission should be formed to select and manage an audit by a private sector firm of all aspects of CTA spending, currently and historically, to seek out solutions as outlined in this policy brief. Included within this authority would be the responsibility for selecting an independent agency to monitor customer satisfaction mentioned above.

### **The Bottom Line**

Today, as has been the case since 1971, the CTA is looking in all the wrong places for meaningful solutions. The data demonstrate that if CTA president Huberman and his team are willing to take a fresh look, there is a management solution to the CTA financial crisis. The problem the CTA is facing today is the same one it has faced for decades: fundamental internal leadership and management decisions that do not address the root problems. For over 36 years the CTA has avoided looking sufficiently inward to fix these root problems and has, instead, secured bailout after bailout authorized by political decision-makers at the expense of the taxpayer. The CTA can and should reform its business by adopting these and other recommendations. In so doing the CTA will set the standard as the world's best mass transit system in both customer experience and financial performance.

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TABLE 2: CTA OPERATIONAL COMPARISON: 1979 TO 2007

<u>Ridership (millions)</u>	<u>2007</u>	<u>1979</u>	
Bus	304.0	551.7	-45%
Rail	190.0	152.0	25%
Ridership	494.0	703.7	-30%
<u>Operating Expenses (millions)</u>	<u>2007</u>	<u>1979</u>	
Labor	805.1	966.5	-17%
Material	75.8	58.1	30%
Fuel - Revenue Equipment	59.8	38.2	56%
Electric Power - Revenue Equip.	28.1	24.8	13%
Provision for Injuries & Damage	25.0	39.8	-37%
Purchase of Security Services	35.3	-	-
All Other Operating Expenses	54.7	49.8	10%
<b>Operating Spending Total</b>	<b>\$1,083.8</b>	<b>\$1,177.3</b>	<b>-8%</b>
Transit Operations	65.1%	64.5%	
Maintenance	15.6%	29.3%	
Support Services	10.6%	6.2%	
Administrative (to Operations)	8.7%	Na	
<u>Revenues (millions)</u>	<u>2007</u>	<u>1979</u>	
Fares & Passes	472.2	541.4	-13%
Reduced Fare Subsidy	32.0	65.7	-51%
Advertising & Concessions	25.0	4.3	478%
Investment Income	12.1	2.0	501%
Suburban Purchase of Service/Local Govt.	5.0	4.0	24%
Charter Service		3.9	-100%
All Other Revenues	10.3	-	
<b>System Revenues</b>	<b>\$556.6</b>	<b>\$621.4</b>	<b>-10%</b>
<b>Public Funding Required for Operations (millions)</b>	<b>\$527.3</b>	<b>\$556.0</b>	
Interest on Revenue Bonds		2.3	
Capital - Preventive Maintenance	56.9	.9	
<u>Public Funding Available through RTA</u>	<u>470.5</u>	<u>552.8</u>	
<b>Total Public Funding</b>	<b>\$527.3</b>	<b>\$556.0</b>	
Recovery Ratio <sup>9</sup>	54.8%	Na	
Recovery Ratio Unadjusted <sup>10</sup>	51.4%	52.8%	
Required Recovery Ratio	52%		

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TABLE 3: CTA PRODUCTIVITY COMPARISON: 1979 TO 2007

<b><u>Productivity Analysis</u></b>	<b>2007</b>	<b>1979</b>	
Riders (millions)	494	704	
System Revenues Per Rider	\$1.13	\$0.88	28%
Public Funding Per Rider	\$1.07	\$0.79	35%
Employees	10,907	12,500	-13%
Riders Per Employee	45,292	56,299	-20%
Projected Employees to 1979 Benchmark <sup>11</sup>	8,775		
Total Spending Per Rider	\$2.19	\$1.67	31%
Change In Spending Per Rider	\$0.52		
Savings with 1979 benchmark (millions)	\$270.0		
Fuel Cost for Revenue Equipment (millions)	\$68.6	\$38.2	79%
Price Per Gallon (PPG) <sup>12</sup>	\$2.69	\$1.29	108%
Projected Gallons (millions)	25.5	29.6	-14%
Miles Driven by Buses (millions)	71.9	83.5	-14%
MPG <sup>13</sup>	2.82	2.82	
Buses	2,175	2,400	
Bus Routes	154	134	
Bus Stops (1979 est.)	11,846	12,000	
<b>Bus Route Miles</b>	<b>2,529</b>	<b>1,042</b>	143%
<b>Bus Route Miles - Annually (millions)</b>	<b>71.9</b>	<b>83.5</b>	-14%
Rail Cars	1,190	1,100	
Train Departures Daily	2,400	2,450	
Rail Route Miles	242	231	
Rail Route Miles – Annually (millions)	67.0	49.2	36%

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Table 3

**“What If” The CTA Operated Like a Business?**

<b>Current</b>	<b>2007</b>
Riders	494.0
Operating Expenses	\$1,083.9
Revenues	\$ 556.6
Revenue Per Rider	\$1.13
Operating Expenses Per Rider	\$2.19
Public Subsidy	\$527.2
Public Subsidy Per Rider	\$1.07
Fare/Monthly Revenues	\$472.2
Fare Box Revenue Per Rider	\$0.96
Current Total Revenue Per Rider	\$1.13
Suggested Price Increase by Data	\$0.54
<b>2012 “What if” Budget</b>	
2007 Base Revenues	\$556.6
<u>Price Increase w/ zero rider reduction</u>	<u>269.0</u>
Total Revenues	\$825.6
Operating Expenses	\$1,083.9
Competitive Contracting Savings	(173.4)
<u>Logistics &amp; Productivity Improvements<sup>14</sup></u>	<u>(144.7)</u>
<u>Right Sized Expenses</u>	<u>\$ 765.7</u>
Surplus	\$ 59.9
	=====
Public Subsidy Required (Operations)	Zero

<sup>1</sup> 2007 information referenced throughout this policy brief was obtained from 2008 CTA budget available at [www.transitchicago.com](http://www.transitchicago.com). 1979 information referenced throughout this policy brief was obtained from the 1979 CTA budget obtained through a Freedom of Information request made to the CTA as well as other sources, including the National Transit Database.

<sup>2</sup> All 2007 data taken from 2008 CTA budget available at [www.transitchicago.com](http://www.transitchicago.com).

<sup>3</sup> For purposes of this analysis the ridership data available from the 1979 budget provided by the CTA was used reflecting total riders of 703.7 million riders. Other sources show 721 million riders for the same year but the lower number was used to reflect a more modest productivity comparison between on 1979 and 2007.

<sup>4</sup> Calculation: (\$2.19 2007 cost per rider - \$1.55 1969/70 cost per rider) x 494 million riders = \$316 million in savings.

<sup>5</sup> Ten Transit Myths, by Randal O’Toole, September 1998, is but one of many studies to illustrate that transit rider declines are due more to changing living and employment patterns than other factors such as inflation adjusted price increases.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Calculated from the FTA National Transit Database and obtained at [www.publicpurpose.com](http://www.publicpurpose.com).

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<sup>9</sup> Recovery ratio calculated by dividing System Generated Revenues over Operating Expenses. 2007 figure includes in kind revenues and includes some grant revenues.

<sup>10</sup> Calculated without the adjustments noted in the preceding endnote.

<sup>11</sup> 2008 CTA budget projected an employee count of 8,631 if all “doomsday” layoffs took place.

<sup>12</sup> The 1979 Price Per Gallon appears to have a problem that requires further research; it could be that during the period in question diesel fuel sold for considerably less than gasoline while today the two fuels similarly priced. This anomaly does not change any material element of the data.

<sup>13</sup> Estimate based upon commonly available references but likely low.

<sup>14</sup> Calculation: Subtracts difference between 1969/70 spending per rider benchmark of \$1.55 from 2007 spending per rider of \$2.19 less the \$173.4 million in savings from competitive contracting.