



# Surviving the Third Rail: Making Pension Reform Work

Civic Federation

Government Research Association Conference

July 25, 2011

# Test Case for Pension Reform

- 1st major IL public pension reformer
- Increased Plan's funded ratio from 37% to 74.8%
- Funding plan relied on debt and new revenues
- New revenues highly elastic
  - Negative recessionary impact
- CTA bears risk of revenue shortfall
- Net result: healthier Plan, significant budget pressure

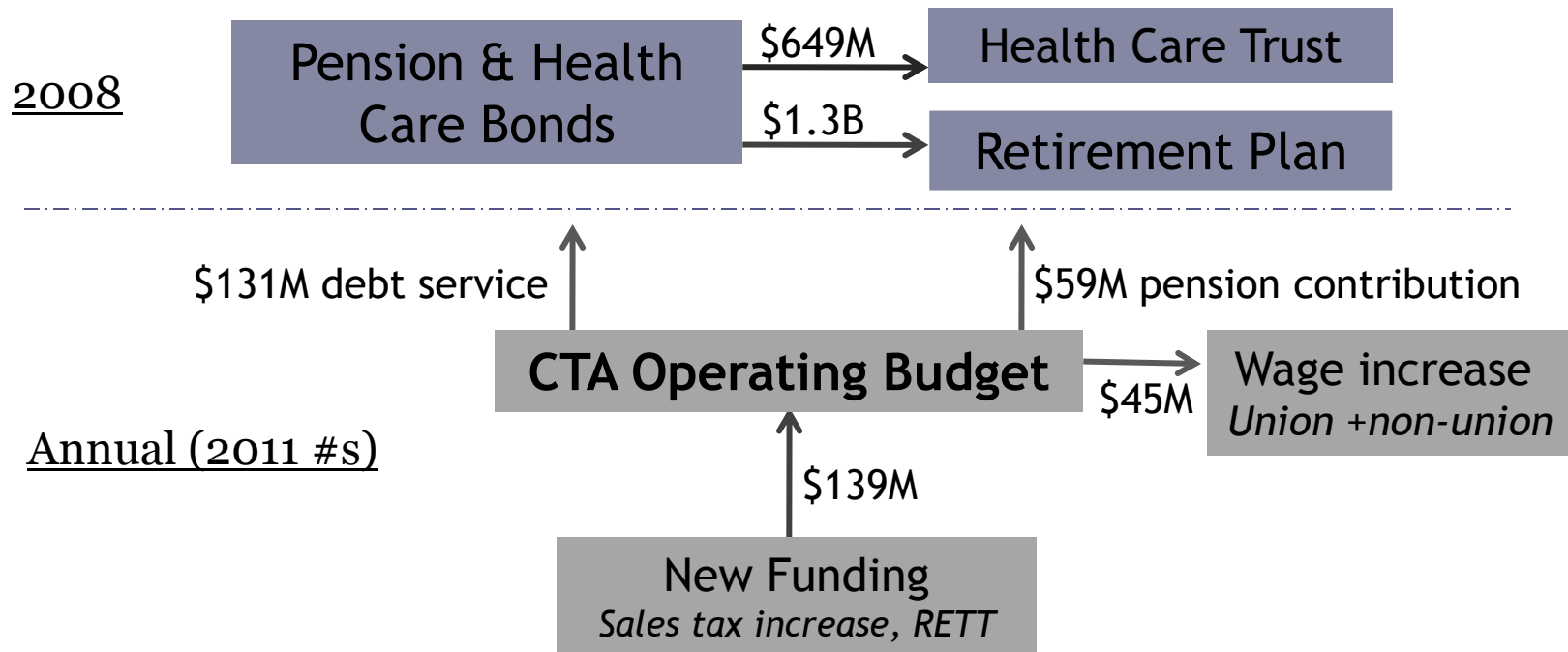
# Historical Budget Challenges

- Structural operating deficits
  - No taxing power
  - No control over subsidy; shared public funding
    - Less than 50% of regional public funding vs. 80% of rides
    - Overreliance on state funding and RTA discretion
  - Elastic funding sources - sales, real estate transfer taxes
- Short-term budget measures employed
  - Federal capital used to balance operating budget
  - Pension funding reduced to balance budget
    - \$24M contributed in 2006 and \$25M in 2007
- \$1.5B unfunded pension liability, 37% ratio

# CTA Pension Legislation Provisions

- New Public Funding
  - 0.25% sales tax increase with 25% state match
  - \$1.50 per \$500 increase in Chicago RETT (CTA only)
  - Additional 5% match on combined taxes
- New Retirement Board
- New Health Care Trust - retiree health benefits
- \$1.9B bond financing
- Mandatory pension funding - RTA intercept
  - Annual valuation
  - 60% funded ratio by 2039
  - 90% funded ratio by 2059; 90% maintained after 2060
- \* *Union wage increases tied to legislation*

# Pension Legislation Funding and Costs



# Budget vs. Plan Impact

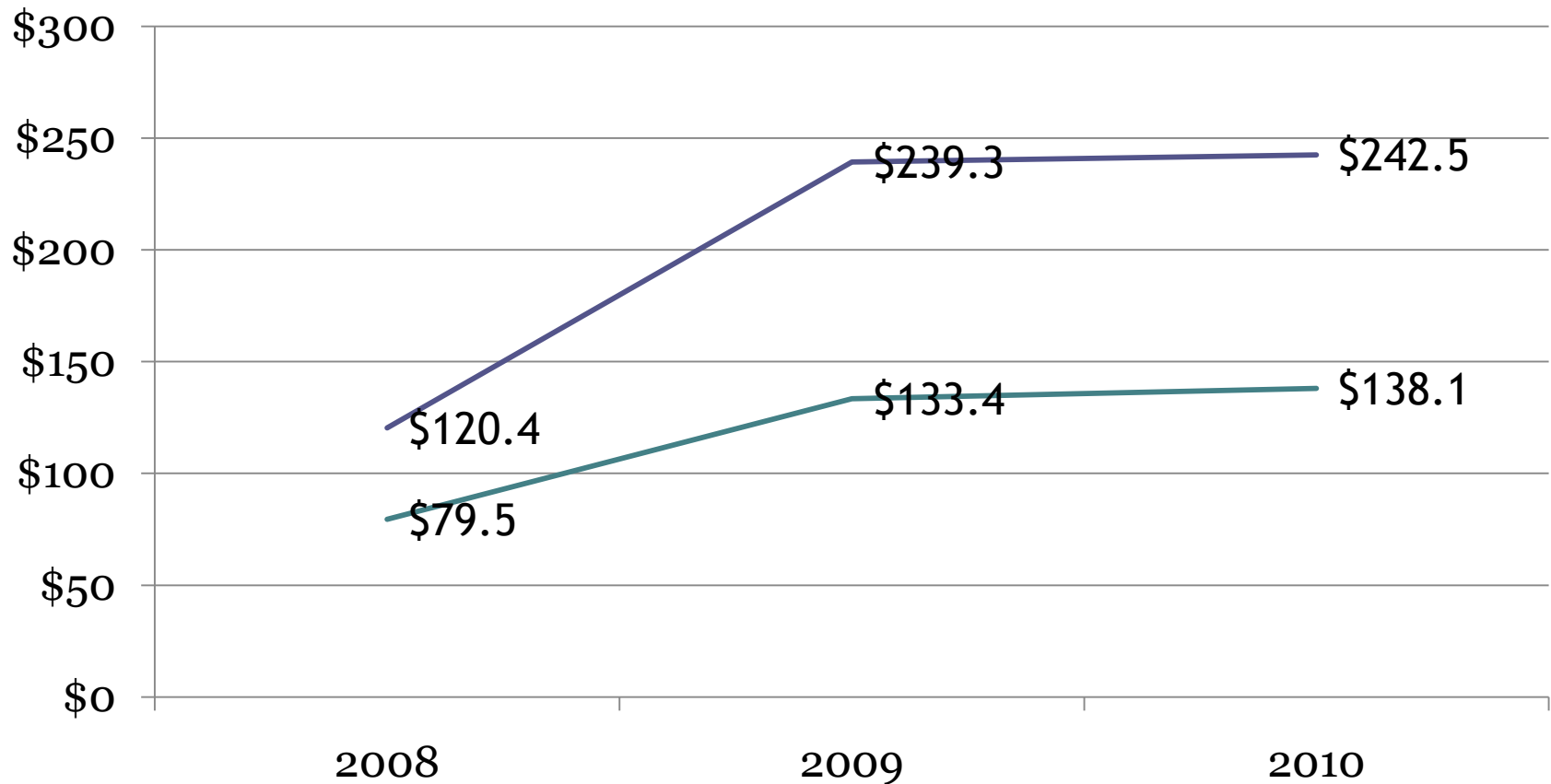
## Operating Budget

- New funding: \$139M
- New funding shortfall: \$105+M
- Increased costs: \$235M
  - Debt service: \$131M
  - Mandatory funding: \$59M
  - Wage increase: \$45M
- Shortfall: \$96M

## Retirement Plan

- New funding: \$1.3B
- 74% funded status
- Mandatory funding
  - Annual valuation
  - RTA funding intercept

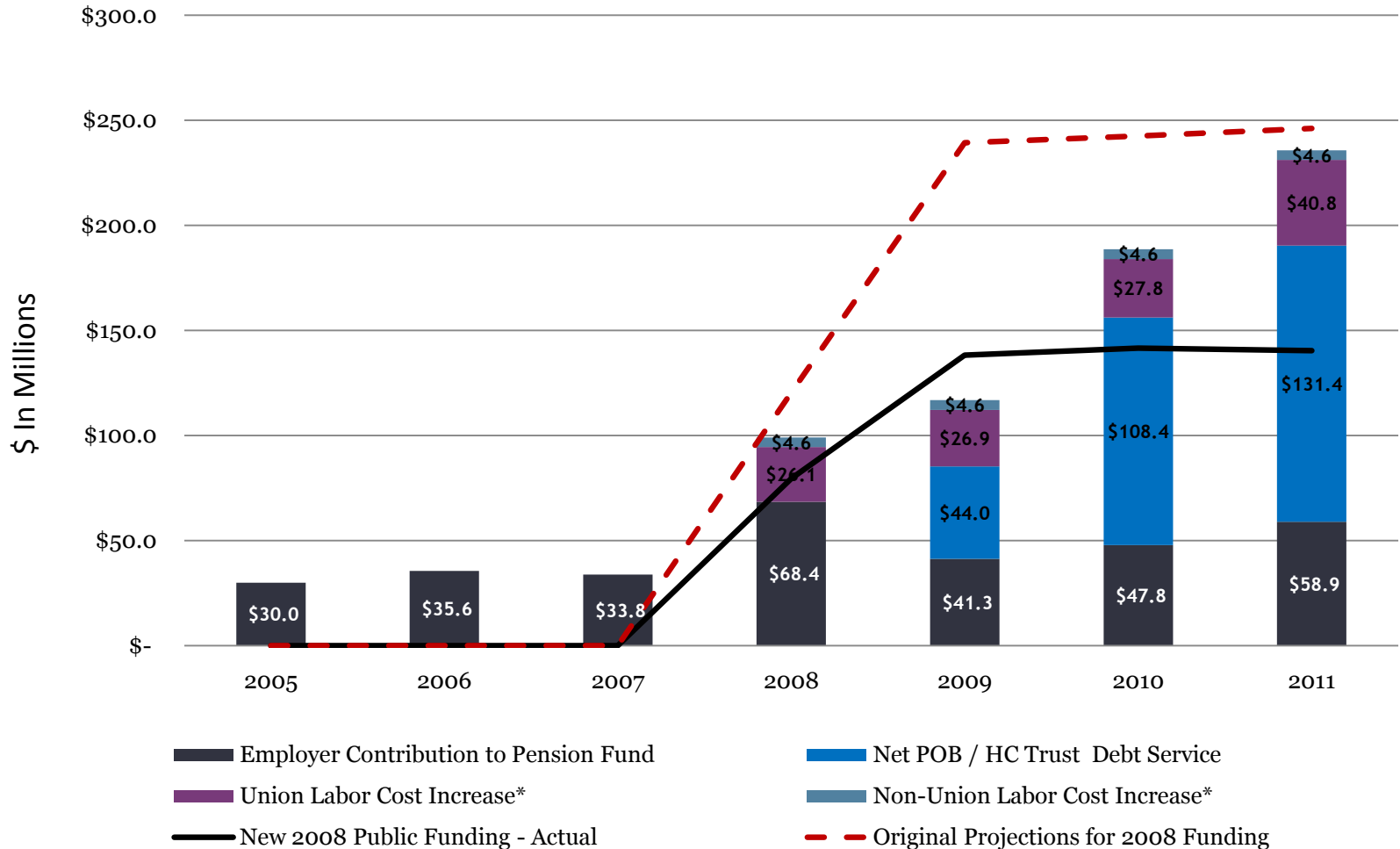
# New Funding - Projected vs. Actual



New Funding:  
2008 Sales tax with state match  
Real Estate Transfer Tax with state match

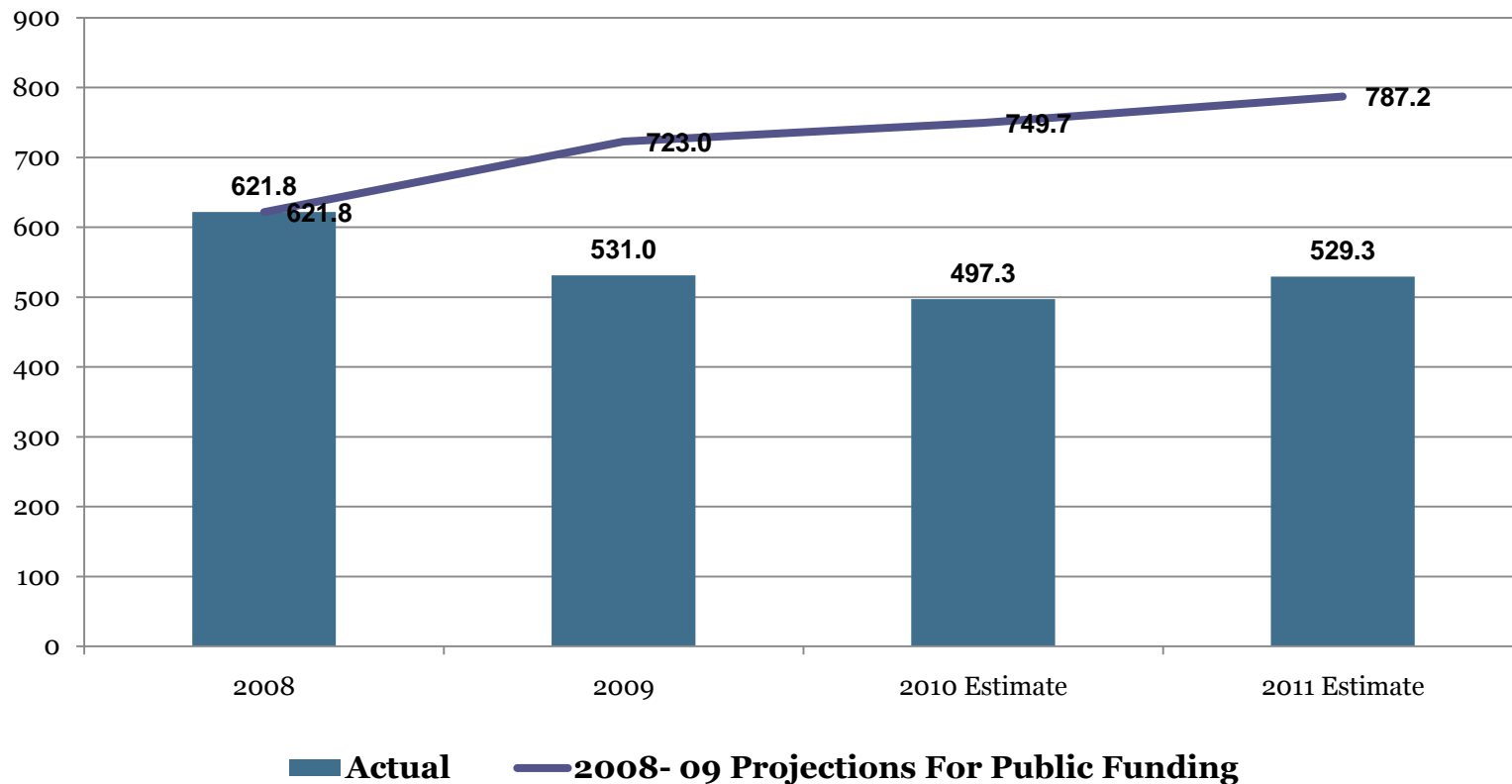
— Projected at Legislation — Actual

# New Funding vs. Pension Related Costs





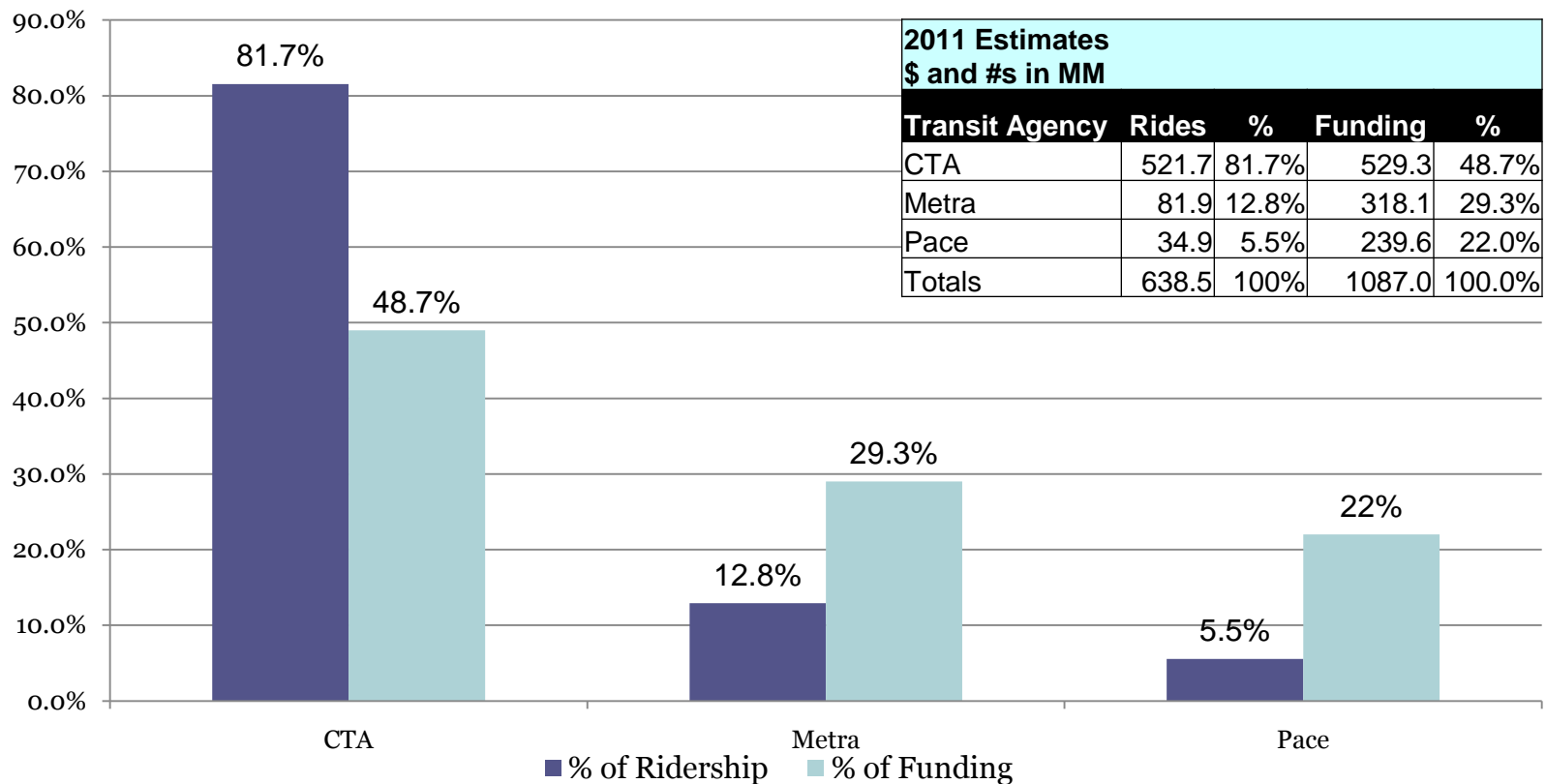
# Total Funding - Projected vs. Actual



2011 public funding is \$92.5 million less than in 2008 and \$257.9 million less than projected in 2008-09.

# Public Funding vs. Regional Ridership

- In 2011, CTA will provide 82% of the region's rides, but receive 49% of public funding.

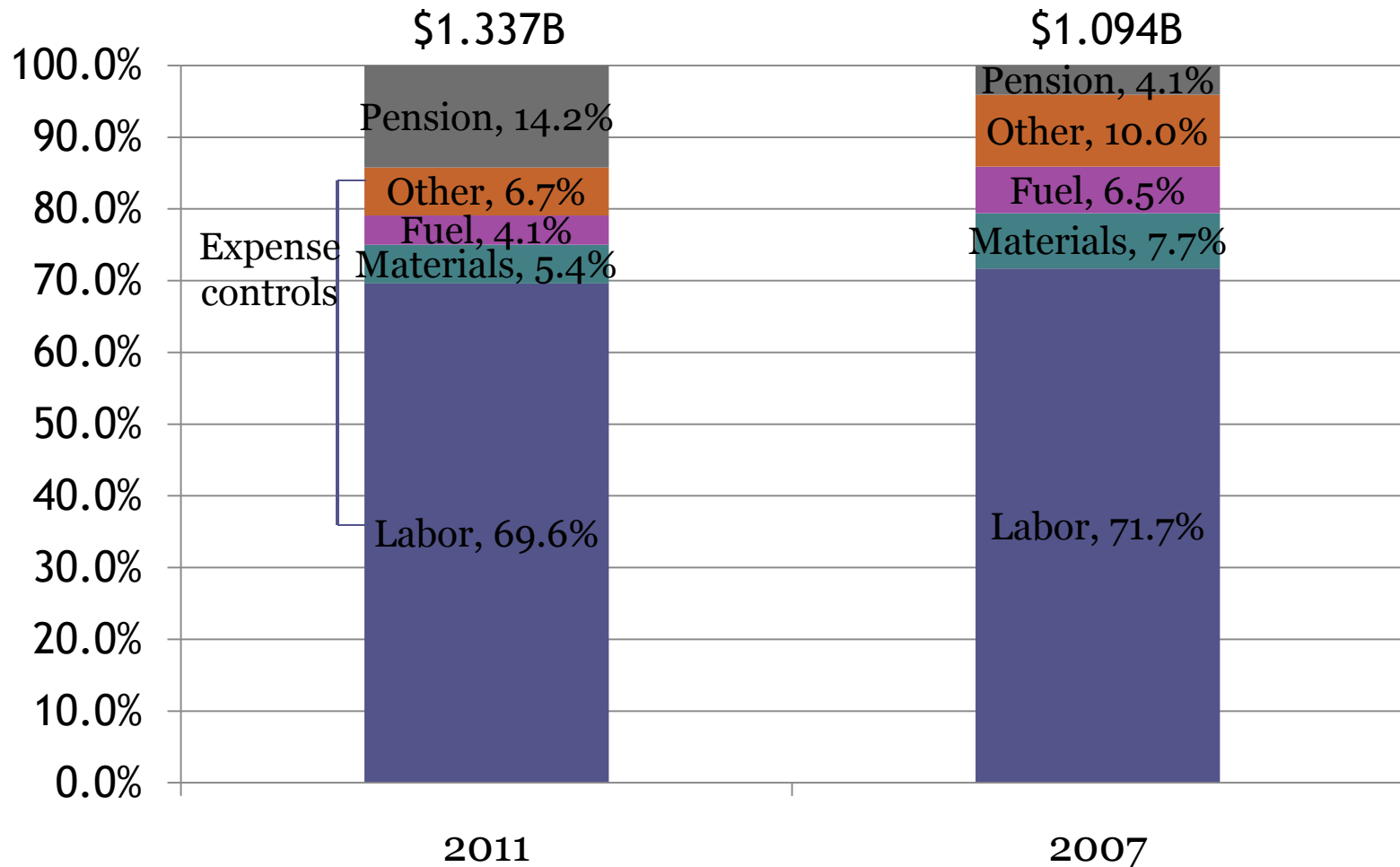


\*2009 and 2010 actual ridership %s are comparable to 2011.

# Other Budgetary Impacts

- Scheduled increases in Pension and Health Care bond debt service
- Free Rides for seniors and disabled
  - 2008 unfunded mandate
  - \$30M in lost revenue
- \$56.1M RTA loan
- Change in RTA “fund to mark” policy

# Pre and Post-Legislation Budgets



Pension costs includes CTA contribution and bond debt service

# Making Pension Reform Work

- Strong local support for optimal plan
  - Legislature, unions, oversight board
- Need reliable funding source
  - Realistic projections
    - \$100+M shortfall fueling large CTA budget deficits
- Cost-effective use of debt
  - Debt yield lower than Fund investment yield
- Prudent Fund investment strategy
- Risk mitigants and contingency plan