Rider's Reader

Vol. 5, No. 2 83 July, 1952

A LETTER TO THE DAILY NEWS

(REPRINTED FOR THE INFORMATION OF OUR RIDERS)

(Published in Chicago Daily News May 23, 1952)

May 19, 1952

Mr. A. T. Burch, Associate Editor
Chicago Daily News
400 W. Madison Street
Chicago 6, Illinois

Dear Mr. Burch:

As Chairman of Chicago Transit Board, I feel that it is incumbent upon me to comment on your editorial of Thursday, May 15, regarding CTA operations.

Chicago's local transit problem is no longer a question of private ownership vs. public ownership. The circumstances that led to the creation of CTA resolved that question. Private capital absolutely refused to participate in financing a reorganization of either of Chicago's major local transit companies.

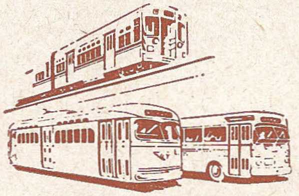
This is evidenced by the fact that there were six separate, prolonged and futile efforts to reorganize the surface and rapid transit systems as private operations. These efforts had the vigorous support of public officials, and civic, business, industrial and financial leaders. Nevertheless, private capital simply could not be induced to rescue the two companies from receivership and bankruptcy, either separately as new companies, or as a single new company.

Two courses were open in the public ownership approach—one, a service-at-cost self-supporting operation; two, an operation subsidized by regular yearly levies upon the owners of real estate and personal property. The Chicago Transit Authority type, specifically deprived of the power to tax, was conceived and jointly sponsored and recommended by civic and business leaders, passed by the legislature, and approved by an overwhelming vote of electors participating in a referendum.

The Authority type of operation is based upon the principle of good, modern transit service at the lowest possible cost, with the fares of the riders paying operating and all other charges.

The new fare structure, which became effective Sunday, June 1, established in Chicago, for the first time on a city-wide basis, the principle that the occasional rider, who uses the CTA as a standby service, shall pay more than the person who rides regularly. This is an old established principle in industry, and in transit operations in other cities.

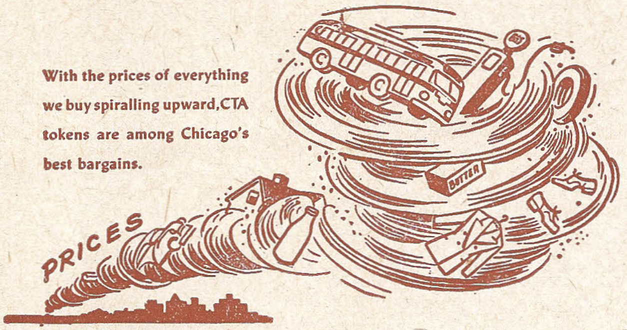
There is widespread misunderstanding of CTA "deficits." The fact is that since its inception, Chicago Transit Authority has earned all of its operating expenses, debt service needs, and all of its depreciation requirements, excepting approximately $800,000. It began 1952 by having earned all depreciation requirements since October 1, 1947, totalling $27,200,000, excepting $61,778.



All of the depreciation fund, together with other funds, have been invested in modern equipment of the latest design, to give Chicago good, convenient local transit service. The CTA's total investment in modern cars and buses approximates $60,000,000 — $14,000,000 in excess of the amount spent by the two predecessor companies in the 38 years preceding the start of the CTA's modernization program. CTA has purchased 2,815 modern cars and buses — thereby establishing a record in transit modernization in Chicago — and has vastly improved other transit facilities, such as shops and garages. Our modernization investment totals approximately $70,000,000.

Unquestionably wages do have a direct bearing upon rates of fare, but one cannot ignore or overlook the fact that wages and all other operating costs are presently and have for some time been subjected to tremendous inflationary pressures. Also, as a practical proposition, wage rates are not established locally. Recent wage adjustments can be traced directly to rounds of wage increases starting from upward wage adjustments in the automotive and steel industries. With each round of wage increases, operating costs of all business have spiraled upward. It is an odd phenomenon that the local transit industry should be expected to be immune to these inflationary pressures.

It has often been said that the CTA lacks a powerful incentive for management to strive to the utmost for efficient and economical operation. This viewpoint completely ignores the fact that CTA operates in a "goldfish bowl," and that



With the prices of everything we buy spiralling upward, CTA tokens are among Chicago's best bargains.

the Board and the management are constantly subjected to the scrutiny and pressure of public opinion. This viewpoint also ignores the fact that the CTA, through efficiencies and economies, has absorbed since its inception increased operating costs amounting to $30,000,000, and yet has been able to reduce overall operating expenses from $103,033,793 in 1948, to $99,995,224 in 1951.

It is a fact that interest and principal payments on CTA bonds are second only to operating costs in their claim on CTA revenues, but the Board and the management feel that there is a moral as well as a legal obligation to pay for the use of and to repay money that has been borrowed. One of the major causes of the financial difficulties and eventual bankruptcy of the predecessor companies was that this legal and moral obligation was ignored by the regulatory body charged with the responsibility of establishing rates of fare sufficient to pay all operating costs and still service the bonds and other securities, and also provide a profit for investors.

Instead of adequate fares being fixed by the regulatory body, owners' money was used for many years to subsidize local transit fares in Chicago. In other words, a substantial part of the fares that should have been paid by the car riders, was actually paid by the security holders of the two predecessor companies. That is why private capital could not be induced to reorganize them.

Undoubtedly stockholders do have a voice in compelling thrifty management of private business enterprises, but they do not have any voice in establishing rates for public utilities. Thrift alone will not keep a public utility financially sound. It must have adequate rates.

Reference is made in your editorial to the CTA's use of the two city-owned subways, which were constructed at a total cost of approximately $75,000,000, not $100,000,000. Public funds alone did not pay for the construction of these two transit facilities. More than half of the money—55% to be exact—came from the car riders themselves, part of whose fares over the years had been placed in a special fund controlled by the City of Chicago to be used for purchasing local transit companies, or building local transit facilities. As an operating charge, the CTA is repaying the cost of the fixed transportation equipment in these two subways, which approximates $9,500,000. In addition, it has paid into the transit fund of the city a total of $1,900,000 for the use of the subways and other city-owned facilities. Real estate and personal property taxpayers of Chicago paid no part of the cost of the two subways.

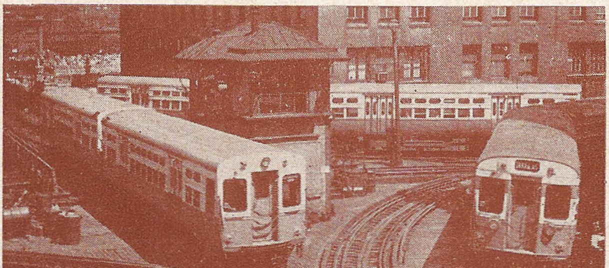
The Authority is indirectly subsidized to the extent of $4,000,000 to $6,000,000 annually by being relieved of the necessity of paying personal property, real estate and income taxes, but this subsidy falls far short of $100,000,000. Throughout the transit industry generally privately-owned companies are urgently requesting relief from taxation and other charges made upon them by the communities that they serve. They are contending that they must have this relief if they are to continue to provide adequate service at reasonable rates.

The CTA is specifically exempt from regulation by any other public agency, because the record of local transit in Chicago demonstrated that control and regulation of transit fares by a commission not charged with operating responsibilities had ended with the city's two major companies in financial distress, and private capital alienated. In taking over the Rapid Transit lines the CTA assumed responsibility for an operation that for many years was carried on at a loss and has been a drain on CTA to the extent of about $3,500,000 a year.

CTA's vastly improved properties should be more attractive to private investors than they were ten years ago, but there has not been the faintest expression of desire or intent by private capital to purchase them. It is conceivable that private investors might be willing to buy some of the heavily patronized routes, but that would not solve anything. It would merely intensify the burden for the users of the remaining routes, by establishing another local system of limited coverage and restricted service where operation is profitable.

Very truly yours,

Ralph Budd



TRANSIT HOT-SPOT . . . one of the world's busiest railroad crossings is CTA's Lake-Wells intersection at the northwest corner of Chicago's Loop "L" structure. During a typical hour in the peak of the rush period approximately 148 rapid transit trains, made up of nearly 830 cars, pass by this interlocking tower.