REPORT DIGEST

PERFORMANCE AUDIT

MASS TRANSIT AGENCIES OF NORTHEASTERN ILLINOIS

RTA, CTA, Metra, and Pace

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Office of the Auditor General

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SYNOPSIS

This Report Digest is an abbreviated version of the Executive Summary. A complete Executive Summary is contained in Volume 1 of the report.

The RTA, CTA, Metra, and Pace are facing a serious financial shortfall. Revenues are not sufficient to pay for current operations, capital renewal programs, and new services.

1. The three Service Boards (CTA, Metra, and Pace) operate independently. Given the financial and operational challenges facing mass transit in northeastern Illinois, the role of the RTA needs to be clarified and strengthened.
2. The General Assembly may wish to consider several statutory changes to address mass transit in northeastern Illinois:
   - *Change the governance structure.* Such changes could range from enhancing the RTA (e.g., planning, reviewing budgets, finance, coordination of fares, performance measurement, and oversight of operations) to centralizing governance.
   - *Review the funding formula.* Service Boards are funded by sales taxes that are distributed by statutory formula, which has remained unchanged since its inception in 1983.
   - *Review the RTA Board membership.* The current allocation of RTA Board members is not consistent with the population distribution of the 2000 federal census. Also, only one of the three Service Boards is represented on the RTA Board.
3. The Service Boards operate a fleet of buses and rail cars that are aging and facing significant replacement costs.
4. Passenger trips on CTA, Metra, and Pace decreased from 743 million in 1985 to 543 million in 1997 (fewer passengers using CTA buses), but have since increased to 598 million in 2005.
5. The Service Boards' operating expenses have increased slightly in constant dollars since 1985 ($1.88 billion in 2005 vs. $1.76 billion in 1985), even though ridership fell by 20 percent.
6. In the past five years, the operating cost of Service Boards has increased 6.5 percent annually while the operating revenues have increased only 2.2 percent annually.
7. RTA sales tax collections have increased slowly from $623 million in 1985 to $700 million in 2005 (in 2005 dollars).
8. The percent of operating expenses covered by fare revenues fell from 43 percent in 1985 to 35 percent in 2005.
9. Some opportunities exist to improve efficiency and effectiveness through increased coordination, decreased redundancy, and improved operations.
10. CTA's retirement plan is severely underfunded and its condition is worsening: actuarial liabilities increased from $2.2 billion in 2000 to $3.5 billion in 2006, while assets declined $500 million.
    - The CTA Plan faces a shortfall for post-retirement healthcare benefits and funds may be depleted in 2007, per its actuary.
    - The General Assembly may wish to consider revising the governance structure for the CTA Retirement Plan by adding public members to the governing committee.

INTRODUCTION

The Illinois House of Representatives adopted Resolutions Number 479 and 650 in 2005 which directed the Office of the Auditor General (OAG) to conduct financial, compliance, and performance audits of the four mass transit agencies in northeastern Illinois (see Appendix A of the performance audit for the Resolutions): the Regional Transportation Authority (RTA), the Chicago Transit Authority (CTA), Metra, and Pace.

- The financial audits have already been released and separate compliance audits are being released with this audit. The compliance examinations do not contain any material findings.
- The OAG contracted with Infrastructure Management Group of Bethesda, Maryland to provide assistance with this performance audit.

REPORT CONCLUSIONS

The transit agencies of northeastern Illinois are facing a serious financial shortfall. Revenues for mass transit are not sufficient to pay the cost of current operations and capital renewal programs, nor provide new services. The Service Boards operate a fleet of buses and rail cars that are aging and facing significant replacement costs.

Revenues for mass transit are not sufficient to pay the cost of current operations and capital renewal programs, nor provide new services.

In 2005, CTA carried 492 million passengers and had expenses of $1.21 billion. Metra was the second largest of the Service Boards and carried 69 million passengers; its total expenses were $504 million. Pace was the smallest and served 37 million passengers with total expenses of $160 million.

This report presents the results of our audit of the RTA, CTA, Metra, and Pace, which are summarized below.

1. **PLANNING.** The RTA needs to take a stronger role in planning and reviewing the budgets of the Service Boards.
   - The three Service Boards undertake their own separate planning activities.
   - The RTA has responsibilities for regional transit planning and recently commenced the Strategic Regional Transportation Plan with input from the Service Boards. This Plan is an important first step but more centralized planning and control is needed given the financial crisis facing mass transit in northeastern Illinois.
   - The lack of strong, centralized planning, and the absence of a long-term plan that encompasses financial, programmatic, and

More centralized planning and control is needed given the financial crisis facing mass transit in northeastern Illinois.

operational aspects of the Service Boards and the RTA contributes to the problems that face mass transit in northeastern Illinois.

The General Assembly may wish to review the governance structure over the Service Boards.

2. **STATUTORY CHANGES.** The General Assembly may wish to consider several statutory changes to address mass transit in northeastern Illinois:
   - ***Change the governance structure.*** Changes by the General Assembly could range from clarifying or increasing the RTA's operational and oversight role (e.g., in planning, finance, coordination of fares, technology, performance measurement, and oversight of operations) to restructuring and centralizing the governance system.
   - ***Review the funding formula.*** The RTA funding formula has not been adjusted since its inception in 1983.
   - ***Review the RTA Board membership.*** The current allocation of RTA Board members is not consistent with the population distribution, as reported in the 2000 federal census. Also, only one Service Board (CTA) is represented on the RTA Board while the other two Service Boards (Metra and Pace) are not.

3. **PASSENGER TRIPS.** Passenger trips decreased from 743 million in 1985 to 543 million in 1997; since then they have increased to 598 million in 2005.
   - Total ridership for the three Service Boards has decreased because fewer passengers are using CTA buses. In 1985, CTA buses accounted for nearly two-thirds of the Service Boards' trips and carried 487 million passengers, while in 2005 CTA buses carried 303 million passengers (51% of Service Boards' trips).
   - As the population has grown in the suburbs, an increased number of residents are using commuter rail. Metra's commuter rail passengers have increased from 62 million in 1985 to 69 million in 2005.
   - Ridership on Pace buses has decreased slightly from 1985 to 2005.

4. **FINANCIAL MANAGEMENT.** RTA revenues are insufficient to pay the continuing cost of programs or funding new services.
   - Operating costs for the Service Boards have increased over the past five years at 6.5 percent annually while operating revenues have increased only 2.2 percent annually.
   - Other undesirable effects, such as inadequate investment in plant, fleet, and equipment, and the erosion of liquidity, have little public visibility because the budget approval process neglects re-investment in capital assets.

5. **REVENUES.** Service Boards have primary operating responsibility, including setting fares.

- Operating costs have grown faster than operating revenues over the past five years.
- CTA generated about 59 percent of the total operating revenues of Service Boards in 2005, followed by Metra (34%) and then Pace.

The farebox recovery ratio fell from 43% in 1985 to 35% in 2005.

6. **FAREBOX RECOVERY RATIO.** The Service Boards' operating budget looks nearly the same in 2005 as it did in 1985, when measured in 2005 dollars. Combined expenses increased from $1.76 billion in 1985 to $1.88 billion in 2005. However, average farebox recovery ratio fell from 43 percent in 1985 to 35 percent in 2005 as costs per passenger climbed faster than fare revenues. This farebox recovery ratio is different than the one used by the RTA, which excludes certain expenses, such as some pension and security costs.

Definition **FAREBOX RECOVERY RATIO**
As used in this audit report, farebox recovery ratio equals the ratio of passenger revenues to operating costs, excluding depreciation. • This report used the Service Board's National Transit Database (NTD) submittals for farebox recovery ratios. • This definition differs from a similar ratio calculated by RTA, which is referred to as the "recovery ratio." • The RTA's recovery ratio includes all operating revenues and excludes certain costs (such as certain pension, security, etc.).

7. **SALES TAXES.** Sales taxes provided to the RTA have increased slowly from $623 million in 1985 (measured in 2005 dollars) to $700 million in 2005.
   - RTA receives 1 percent of the sales tax revenue in Cook County and 0.25 percent in the collar counties.
   - Eighty-five percent of the sales tax proceeds are distributed by formula to the Service Boards, with CTA receiving the largest share (47%), followed by Metra (41%) and then Pace.
   - The RTA used the remaining 15 percent of sales tax revenues for RTA costs and for discretionary uses. Of the discretionary funds allocated to the Service Boards, CTA received 95 percent.

8. **STAFFING.** The audit benchmarked Service Boards' performance against peer transit agencies throughout the United States.
   - CTA pays its "top" bus operators and top vehicle maintenance employees the second-highest wage rates when compared to its peers. CTA has the highest employee benefits rate per salary/wage dollar of its peers, driven primarily by CTA's very high pension costs. Absenteeism at CTA costs approximately $46 million per year for bus and rail operators.
   - Metra's top wage rate is lower than its peers. Metra was near the peer average for total productivity. Its labor costs per unit of service are low. Metra's employee benefits ratio is well below

average. Metra was lower than peers on operator productivity because it is more of a peak-time operator than its peers.

- Pace's "top" hourly operator wage rate is about the same as the average of the peer group. Pace is above the peers in its "top" vehicle maintenance rate. It rates highly in its peer group for all aspects of cost-efficiency and productivity of its labor resources.

9. **COORDINATION AND REDUNDANCY.** Opportunities exist to improve the efficiency and effectiveness of transit operations through increased coordination and reduced redundancy.

CTA, Metra, and Pace function independently with little coordination of operations.

- CTA, Metra, and Pace function independently with little coordination of operations; they also do not coordinate their fares even though CTA and Pace compete for bus markets.
- The Service Boards are experiencing financial difficulties due to aging fleets, deferred maintenance, and service expansion.
- These Service Boards are planning for costly capital expansion (i.e., new federal projects called "New Starts") that may compete with each other for limited State funds.

10. **PENSIONS.** The CTA Retirement Plan (Plan) is in extremely poor financial condition and is deteriorating at a rapid rate. As of January 1, 2006, the Plan was 34 percent funded; it was 80 percent funded on January 1, 2000 (in 2003, the 2000 funded percentage was restated to 67 percent). The actuarial liabilities have grown from $2.2 billion on January 1, 2000 to $3.5 billion on January 1, 2006 and are projected to grow to $4.0 billion by January 1, 2009. At the same time, the actuarial value of assets has decreased from $1.7 billion to $1.2 billion and is projected to decline to $0.8 billion at the beginning of 2009 (when the Plan is expected to be 20% funded).

CTA's pension plan was funded at only 34% as of January 1, 2006.

- CTA took pension "holidays" in 1994, 1995, and 1997, raised pension benefits by 16 percent in 2000, and had negative investment returns in 2001-2002.
- Since at least 2003, reports from the Plan actuary have warned of danger to the funding status of the CTA Plan.
- CTA and its employees currently contribute 9 percent of payroll to the CTA Plan although the actuarially recommended contribution is over 50 percent for 2006.
- The process of setting contribution rates through the collective bargaining process is not common among transit agencies.
- In 2006, Public Act 94-0839 was enacted which requires the CTA to fund its pension Plan at the actuarially recommended amount in 2009; this will result in an increase in funding from $50 million in 2006 to approximately $240 million in 2009 ($150 million for pension and $90 million for healthcare).
- The CTA Plan actuary projected a 50 percent chance that the healthcare funds will be depleted by July of 2007.

RECOMMENDATIONS

The audit contains three matters for consideration by the General Assembly. In addition, the audit also identified deficiencies in 47 areas and recommended more than 130 specific actions by the RTA, CTA, Metra, and Pace.

The matters for consideration by the General Assembly were as follows:

- **PLANNING AND GOVERNANCE.** The General Assembly may wish to consider examining the current organization structure and governance of transit operations in northeastern Illinois. Specifically, the General Assembly may wish to consider strengthening the Regional Transportation Authority Act to provide the RTA with a greater role over financial and programmatic planning in the RTA service area. Such responsibilities could include revising the Regional Transportation Authority Act to incorporate a comprehensive strategic planning process as a statutory requirement.

  The RTA could be given the direct responsibility to review and approve major service expansion programs, including a comprehensive analysis of alternatives, before significant project development funds are expended on these projects.

  More detailed system performance measures could be added to the Regional Transportation Authority Act with the requirement that they be reported annually to the General Assembly and the public.

  The anticipated goal of such legislative action would be to bring about a more coordinated and efficient system of mass transit delivery in northeastern Illinois. Finally, an examination should include consideration of legislation to strengthen the RTA's role in the budget process, coordination of fares and technology, and oversight of operations.

- **COMPOSITION OF THE RTA BOARD OF DIRECTORS.** The General Assembly may wish to consider reviewing the current composition of the Regional Transportation Authority Board to determine whether a change is needed to comply with the representation provisions of the Regional Transportation Authority Act.

- **CTA RETIREMENT PLAN.** The General Assembly may wish to consider requiring the CTA to revise the governance structure for the CTA

Retirement Plan by adding one or more public members to the governing committee.

The audit recommendations were as follows:

1. The RTA should develop and oversee a process that ensures that adequate planning and coordination of service routes occurs.
    - Standards should be developed which set forth guidelines for establishing new routes, with an important factor being that adequate consideration will be given to assigning new routes to the least cost carrier when service routes overlap.
    - Sub-regional route studies should be organized as a part of a single regional transit planning activity, with the overall work program agreed to on a regional level, and the rules for participating in the studies set at the regional level.
    - Included should be an examination of the feasibility and cost savings that could be realized by transferring non-overlapping routes to the low-cost carrier.

2. The RTA should establish a fare system for all Service Boards that fosters intersystem transfers.
    - The fare system should charge customers the same amounts for the same types and travel distances of service among all modes.
    - Furthermore, RTA should work toward establishing more uniform fare media among all Service Boards.
    - Should the RTA require additional legislative authority to deal with regional fare issues, the RTA should seek such authority.

3. The RTA should work in conjunction with CTA, Metra, and Pace to:
    - Define the critical 15-25 measures that best measure the achievement of each agency’s mission, including aspects of financial, customer service and productivity performance, and publicly report them on a regular basis;
    - Establish its own set of performance measures;
    - Develop key indicators that link performance for all of the agencies, such as on-time performance, ridership, mean distance between failures (mechanical reliability), safety metrics (employee, passenger and vehicle accidents), financial measures, customer service metrics, and fostering of intermodal and inter-Service Board trips;
    - Convene a working group, as part of the strategic plan, to share “best practices” in performance evaluations and performance measurement; and
    - Additionally, the RTA, CTA, Metra, and Pace should use these performance measures to evaluate the performance of all managers.

4. The RTA should conduct a long-term, comprehensive strategic planning process that sets a structure and broad guidelines encompassing financial, programmatic, and operational functions of the Service Boards and the RTA. The RTA should perform this strategic planning process on an ongoing basis.

   In addition, regarding major new Service Board initiatives, such as New Starts projects, the RTA should establish a set of criteria for funding and prioritizing such initiatives across all agencies. Such criteria could include:
   - How does the proposed project fit within the regional long-range strategic planning process;
   - What is its priority;
   - What is the desired schedule;
   - What resources are available; and
   - Which transportation mode is preferred.

5. The RTA should take the steps necessary to reduce the backlog in the processing of applicants for ADA certification.

6. RTA should revise the incentive system in the contract with the call center contractor to enable them to increase their call capture rate without violating RTA's current budgetary constraints.

7. Regarding maintenance operations, the CTA should:
   - Ensure that reporting of performance indicators is consistent across various performance reporting documents;
   - Review customer perceptions of cleanliness in upcoming customer satisfaction surveys; and
   - Complete the process of revising the data reported to FTA with respect to major and other failures.

8. Regarding bus maintenance and management operations, the CTA should undertake the following activities:
   - Conduct regular evaluation of the MMIS system rollout to ensure it is on schedule;
   - Develop MMIS measures and reports that will maximize productivity;
   - Develop a detailed recruiting and employee retention strategy;
   - Prioritize labor rule changes CTA will seek in the next round of collective bargaining; and
   - Continue with innovative efforts to develop human capital, including training current employees.

9. CTA should take the following actions to improve the safety of its operations:
   - Become a participant in the APTA Bus Audit Program and request an APTA Peer Review for the Bus System;
   - Integrate operating/represented personnel into the agency's safety programs;
   - Formalize procedures that delineate clear accountability for implementation of follow-up action for personnel related to specific safety concerns;
   - Improve communication of safety objectives to employees;
   - Review options for revising employee incentive programs. This may be an opportunity to involve unionized workforce to identify effective incentive programs;
   - Review the application of discipline as a disincentive for improving safety performance;
   - Finalize and implement the Bus System Safety Plan;
   - Clarify the leadership role of the Safety Department for facilitating the resolution of outstanding safety issues internally (completion of Bus System Safety Plan) and externally (response to APTA Safety Audit); and
   - Consider modifying the Injury-On-Duty rate calculation methodology to one that is not dependent on the period of time being reviewed.

10. Regarding customer service operations, the CTA should:
    - Continue to proactively evaluate and implement new technology options to enhance the customer experience;
    - Add detail to the monthly customer complaint/commendation report to understand and target priority areas for management attention to ensure better customer service; and
    - Research the high abandonment rate and ascertain whether it is based on the website referral or the long waiting time.

11. Regarding the AECOM recommendations, CTA should undertake the following actions:
    - Prioritize implementing recommended changes based on financial benefit and likelihood of implementation;
    - Work with labor representatives to find common ground where changes in labor rules can be beneficial to both CTA and its employees;
    - When the next round of collective bargaining takes place, seek key labor changes to enact the recommendations; and
    - If arbitration is required, be prepared to provide detailed analysis of the benefits of requested changes and the effect on bargained-for workers.

12. Metra should implement MMIS to better facilitate the tracking and monitoring of maintenance trend data.

13. Metra should implement programs to formalize the collection and review of safety trend data.

    In addition, Metra should continue its efforts to improve the safety of grade crossings.

14. Metra should continue to focus on NTSB recommendations from the 2003 derailments including re-establishing and broadening the simulator training program and continuing steps towards the installation of a positive train control system.

    Metra should implement a Violation Tracking System that will store and analyze information about rules violations that occur on the system.

15. Metra should begin compiling a customer complaint/recommendation report to target priority areas for management attention and to provide systematic tracking and service trends for reporting to the Board and general public.

16. In the absence of any other funding sources, Pace should consider increasing the cost of vanpool service to improve farebox recovery and decrease vanpool operating subsidies. A study of the elasticity of demand for vanpool service would help assess the effect of this decision.

17. Pace should roll out the new risk management, customer service, and ERP systems as timely as feasible.

    Pace should focus on more efficiently producing regular monthly and quarterly reports and altering business processes to reduce redundant data entry, even before the new systems come online.

18. Regarding safety, Pace should:
    - Consider rolling out an Onboard Video Safety System on all routes;
    - Implement performance goals and track success regarding the Zero Accident Program;
    - Update the system safety program plan to include a description of emergency procedures and how Pace would work with public safety and other agencies in an emergency; and
    - Conduct a formal study of implementing a transitional return to work program to reduce lost workdays.

19. Pace should adjust IBS on-time data to reflect reasonable (departing early or arriving at a time point less than five minutes) deviation from the schedule, identify reasons for deviation, and adjust routes or schedules as needed. Pace should also track routes that repeatedly appear on the action/review or watch list in the quarterly performance review.

20. The Service Boards should follow-up on areas where the staffing benchmarking data indicated that performance could be improved and determine whether changes can be made.

    The CTA Attendance Improvement Program, now underway, should be treated as one of the CTA's highest priorities, with implementation and accountability delegated to middle and first-line managers, with frequent reporting and monitoring of performance. Improving CTA's systems for tracking non-work time and providing accurate, timely, and relevant information to all levels of management on a daily basis is an important part of this effort.

    The CTA should explore ways to expedite the arbitration process to significantly reduce the time it takes to finalize labor agreements.

21. The CTA should:
    - Develop a plan to fund the CTA employee pension plan, as required by Public Act 94-0839;
    - Pursue alternatives to setting contribution rates through the collective bargaining process, given that such a process has resulted in drastic underfunding of the pension plan;
    - Examine the 9 percent investment return assumption;
    - Develop and implement a plan to fund the post-retirement healthcare plan;
    - Pursue all possible cost reduction strategies of the post-retirement healthcare plan that have not already been implemented;
    - Monitor the Plan's compliance with the retiree healthcare subordination test, under Internal Revenue Code Section 401(h) and develop plans to help assure continued compliance;
    - Examine the feasibility of the CTA making all contributions to employee pension plans (along with a commensurate decrease in employee compensation) and the potential costs savings that could accrue;
    - Review the feasibility of changing the defined benefit plan to a defined contribution plan, such as for new employees starting employment with the CTA; and
    - Identify any matters or changes in State law that require legislative action regarding pension and post employment healthcare benefits,

and present these matters to the General Assembly for its consideration.

22. The CTA should take the action necessary to ensure that its various supplemental pension plans are adequately funded and trusted to protect the interests of the beneficiaries of these plans.

23. RTA, Metra, and Pace should:
    - Continue to take the actions necessary to ensure the pension plan is adequately funded;
    - The parties should periodically review the 8.5 percent investment return assumption; and
    - The parties should consider phase-out of the lump sum option.

24. Pace should take the action necessary to ensure that pension plans are adequately funded. Such action could include ensuring that contribution rates included in collective bargaining agreements are actuarially sufficient; pursuing alternatives to setting contribution rates through the collective bargaining process; or setting up defined contribution plans to replace the defined benefit plans, as has been done for other Pace bargaining unit employees.

25. In the absence of any other funding sources, the CTA should consider adjusting its rail fares and its monthly pass rates to reduce its projected operating subsidy requirements and to improve its rate of cost recovery.

26. In the absence of any other funding sources, Metra should consider increasing its fares and exploiting under-utilized sources of non-fare revenues, such as from concessions and advertising, in order to reduce its operating subsidy requirements.

27. In the absence of any other funding sources, Pace should consider implementing a distance-based fare structure in order to offset growth in its operating subsidy requirements.

28. RTA should prepare and adopt annually a ten-year financial plan, reflecting:
    - The agency’s current cash position and all then-known obligations;
    - The amounts of discretionary sales tax and PTF revenues, and planned distributions of these funds to RTA uses, debt service, and to Service Boards as a group;
    - Anticipated amounts of State and federal capital grants, and State appropriations for servicing existing and planned debt issued by RTA on behalf of the State;

- The Service Boards' capital replacement and rehabilitation plans, based on asset replacement standards and fleet plans; and
- Positive working capital (i.e., current assets less current liabilities).

In addition, the RTA should adopt a financial planning standard that requires a Service Board to demonstrate the financial capability to achieve a state of good repair for existing plant and equipment and to sustain existing services, prior to designing or constructing expanded services or facilities.

29. The CTA should:
    - Modify the presentation of its budget to include all operating costs per GAAP, and require Board approval of any deferral of operating costs to subsequent years;
    - Prepare and adopt annually a ten-year financial plan, reflecting:
      – The agency's current cash position and all then-known obligations, including pension contributions;
      – A capital replacement and rehabilitation plan that reflects CTA asset replacement standards; and
      – Positive working capital (i.e., current assets less current liabilities); and
    - Demonstrate the financial capability to achieve a state of good repair for existing plant and equipment and to sustain existing services, prior to designing or constructing expanded services or facilities.

30. Metra should:
    - Continue to present its budget to include all operating costs per GAAP, and require Board approval of any deferral of operating costs to subsequent years;
    - Prepare and adopt annually a ten-year financial plan, reflecting:
      – The agency's current cash position and all then-known obligations, including pension contributions;
      – A capital replacement and rehabilitation plan that reflects Metra asset replacement standards and fleet plans; and
      – Positive working capital (i.e., current assets less current liabilities); and
    - Demonstrate the financial capability to achieve a state of good repair for existing plant and equipment and to sustain existing services, prior to designing or constructing expanded services or facilities.

31. Pace should:
    - Continue to present its budget to include all operating costs per GAAP, and require Board approval of any deferral of operating costs to subsequent years;

- Prepare and adopt annually a ten-year financial plan, reflecting:
  - The agency's current cash position and all then-known obligations, including pension contributions;
  - A capital replacement and rehabilitation plan that reflects Pace asset replacement standards and fleet plans; and
  - Positive working capital (i.e., current assets less current liabilities); and
- Demonstrate the financial capability to achieve a state of good repair for existing plant and equipment and to sustain existing services, prior to designing or constructing expanded services or facilities.

32. RTA should investigate whether pay-as-you-go financing for a portion of the capital program would be a more efficient use of State funds than the current strategy that relies totally on bond financing.

    In addition, in the capital program it adopts, the RTA should include a provision for the disclosure of unfunded capital needs so that decision-makers and the public are aware of the cost of attaining a state of good repair, even if the funds do not exist to attain it.

33. Regarding its capital program, the CTA should:
    - Reexamine system expansion decisions given that the significant estimated five-year unfunded needs to reach a state of good repair are significantly higher than planned CIP expenditures;
    - Investigate why the "percent unobligated" balance for current years' CIP has been increasing in recent years and address the issue accordingly;
    - Investigate the problem of increasing "percent unexpended" balances in recent years and address the issue accordingly, possibly by expediting its capital procurement process;
    - Identify whether its proposed capital projects are primarily for: (i) safety; (ii) infrastructure renewal; (iii) capacity expansion for the existing system; (iv) extensions to the existing system; or (v) other supporting assets;
    - Increase the Brown Line project contingency to ensure its adequacy; and
    - Review its engineer's estimates during the course of major projects to ensure that the cost-to-complete estimate is current and reliable.

34. Metra should review its past grant awards and determine if projects that are contributing to the growth in the unobligated balances are still necessary, and, if so, why they are not being expended in a more timely manner.

35. Pace should review its past grant awards and determine if projects that are contributing to the growth in the unexpended balances are still necessary, and, if so, why they are not being expended in a more timely manner.

36. Regarding contracts and procurements:
    - The RTA should assist the Service Boards in identifying and facilitating opportunities for joint procurements that would result in cost savings and/or coordinated service delivery; and
    - The CTA and Pace should work together to bring about the joint bus farebox procurement.

37. The CTA should:
    - Review and update its Capital Improvement Program to ensure it accurately captures the total estimated cost of replacing bus and rail fleets;
    - Seek to even-out the fleet age profile to ensure more even maintenance needs; and
    - Continue to implement the non-revenue fleet recommendations contained in the AECOM report.

38. Metra should examine whether it is more cost-effective to maintain and rehabilitate its electric fleet, which is far beyond the FTA-eligible retirement age, or replace it with new electric cars.

39. Pace should review its Capital Improvement Program to determine if it needs to be updated given that it would need to replace about 29 percent of its bus fleet in the next five years, at an estimated cost of $65 million, or about 38 percent higher than presented in the current financially constrained CIP.

40. The CTA should continue its efforts to find a tenant for the top floor of its headquarters building.

41. Metra should continue its efforts to find tenants for the unoccupied space in its headquarters building.

42. Regarding surplus real property:
    - CTA and Metra should develop and implement a formal process to guide senior operational managers in a regular assessment of property utilization. In this process, property would be declared surplus unless a decision is made to retain the property for operational or administrative needs; and
    - CTA and Metra should actively dispose of real property that was determined to be surplus, which may include non-traditional

(i.e., non-sale) methods in the case of properties for which there is no competitive market.

43. Real estate management personnel within each Service Board should continue to pursue initiatives and opportunities to introduce or expand commercial services and annually update their goals for revenue generated from self-managed and third party commercial services.

44. Regarding private investment, CTA should:
   - Examine the potential to outsource development opportunities at major installations and identify the risk/reward profile of any identified options; and
   - Develop a methodology to systematically address opportunities to introduce or increase commercial services on its property in conjunction with the private sector on a routine basis, such as every two years.

45. The CTA should develop a codified list of building condition requirements for administrative, operational and transit facilities that represent minimum acceptable standards of cleanliness or repair, as appropriate to their real estate assets, staff and customer service requirements.

46. CTA and Metra should develop a formal process based on current practices that considers the opportunity cost of owning and managing their own real estate portfolio, which can be employed on a systematic basis when considering the manner in which property should be acquired, managed, and disposed.

47. The CTA should continue to implement the AECOM recommendations related to the management of real property.

The agencies generally accepted these recommendations (see full report and Appendix E for the agencies' responses).

WILLIAM G. HOLLAND
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WGH:AD
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INFRASTRUCTURE MANAGEMENT GROUP

The Office of the Auditor General contracted with Infrastructure Management Group, Inc. (IMG) of Bethesda, Maryland to provide assistance in conducting this performance audit. IMG is an international firm providing management and financial expertise to the transportation, aviation and utility industries. IMG's work includes conducting performance audits, advising management, and conducting financial analyses for public and private organizations.