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**STATE OF ILLINOIS**

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**OFFICE OF THE AUDITOR GENERAL**

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**EXECUTIVE SUMMARY  
PERFORMANCE AUDIT**

**MASS TRANSIT AGENCIES OF  
NORTHEASTERN ILLINOIS:**

**RTA,  
CTA, METRA, AND PACE**

**MARCH 2007**

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**VOLUME I**

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**AUDITOR GENERAL**

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**Infrastructure Management Group, Inc.**

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.

# EXECUTIVE SUMMARY

## PERFORMANCE AUDIT

### MASS TRANSIT AGENCIES OF NORTHEASTERN ILLINOIS

#### *RTA, CTA, Metra, and Pace*

Released: March 2007



State of Illinois  
Office of the Auditor General

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AUDITOR GENERAL

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## EXECUTIVE SUMMARY

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.

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## REPORT CONCLUSIONS

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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.

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

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

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

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

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

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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.

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
<b>FAREBOX RECOVERY RATIO</b>
<p>As used in this audit report, farebox recovery ratio equals the ratio of passenger revenues to operating costs, excluding depreciation.</p> <ul style="list-style-type: none"> <li>• This report used the Service Board's National Transit Database (NTD) submittals for farebox recovery ratios.</li> <li>• This definition differs from a similar ratio calculated by RTA, which is referred to as the “recovery ratio.”</li> <li>• The RTA’s recovery ratio includes all operating revenues and excludes certain costs (such as certain pension, security, etc.).</li> </ul>

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

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; 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.

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

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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 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.

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

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## GOVERNANCE STRUCTURE

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The RTA was established in 1974 by the Illinois General Assembly with the approval of a referendum in the six county northeastern Illinois region. A 1983 amendment to the RTA Act (Act) changed the responsibilities of the RTA, giving “Service Boards” operating responsibilities, and giving the RTA certain responsibilities for planning, funding, and oversight of regional transit.

- **Regional Transportation Authority (RTA)** is required to adopt three documents: (1) an annual budget, (2) a two-year financial plan, and (3) a five-year capital program. The RTA must approve the budget and financial plan for each Service Board. RTA is headquartered in Chicago and is governed by a 13-member board of directors: 4 directors are appointed by the Mayor of Chicago, 4 by the suburban members of the Cook County Board, 2 by the chairmen of the Kane, Lake, McHenry, and Will County Boards, and 1 by the chairman of the DuPage County Board. The CTA chairman is also a board member. A 13<sup>th</sup> member is elected by a vote of at least nine members.
- **Chicago Transit Authority (CTA)** was created in 1945 and is the second largest public transportation system in the United States. It provides bus and heavy rail service to Chicago and 40 adjacent suburbs (on July 1, 2006, paratransit service was moved from CTA to Pace). The CTA is governed by a Board consisting of seven members appointed by the Mayor of Chicago and Governor of Illinois.
- **The Northeast Illinois Regional Commuter Railroad Corporation** is the separate operating corporation (by statute) of the Commuter Rail Division. **Commuter Rail Division (Metra)** is headquartered in Chicago. A 7-member Board governs Metra and is appointed by the Chairmen of the region’s county boards for DuPage, Kane, Lake, Will and McHenry Counties, the suburban Commissioners of the Cook County Board, and for the member representing the city of Chicago, by its Mayor.
- **Suburban Bus Division (Pace)** was created in 1983 and is headquartered in Arlington Heights. Pace combined what were independent service providers and now provides bus, vanpool, and demand-responsive service in the six-county region (Cook, DuPage, Kane, Lake, McHenry, and Will Counties), as well as the city of Chicago. A Board of 12 directors governs Pace, each required to be a current or former municipal mayor.

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**REGIONAL DEMOGRAPHICS**


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**In 1985, the collar counties had 1.96 million residents, but in 2005 they had 3.06 million residents, meaning that more people now live in the collar counties than in Chicago.**

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The population of the six-county region served by CTA, Metra, and Pace was 8.36 million in 2005, with a compound annual growth rate of about 0.78 percent per year. In 1985, the collar counties had 1.96 million residents, but in 2005 they had 3.06 million residents, meaning there are now more people living in the collar counties than in Chicago.

- DuPage, Kane, Lake, McHenry, and Will counties' population (combined) has grown over 50 percent (see Exhibit 1).
- Cook County's population is about the same at 5.3 million residents.
- Suburban Cook County has grown 0.56 percent per year.
- Chicago's population has decreased five percent: from approximately 3.00 million residents in 1985 to 2.84 million in 2005.

Exhibit 1 RTA REGION POPULATION (Thousands)				
	1985 Population	2005 Population	% Change	Annual Growth Rate
Chicago	3,001	2,843	-5.3%	-0.27%
Cook County Suburbs	2,201	2,461	11.8%	0.56%
<b>Total Cook County</b>	<b>5,202</b>	<b>5,304</b>	<b>2.0%</b>	<b>0.10%</b>
DuPage	714	929	30.0%	1.32%
Kane	289	482	66.7%	2.59%
Lake	466	703	50.8%	2.08%
McHenry	158	304	92.8%	3.34%
Will	331	643	94.3%	3.38%
<b>Total Collar Counties</b>	<b>1,958</b>	<b>3,061</b>	<b>56.3%</b>	<b>2.26%</b>
<b>Total</b>	<b>7,160</b>	<b>8,364</b>	<b>16.8%</b>	<b>0.78%</b>

Notes: Totals may not add due to rounding. 1985 Chicago and Cook County Suburbs population was estimated by averaging 1984 and 1986 census data.  
Source: Analysis of United States Census Bureau data

Passenger trips decreased from 743 million in 1985 to 543 million in 1997, before increasing to 598 million in 2005 (see Exhibit 2).

Exhibit 2 UNLINKED PASSENGER TRIPS 1985-2005 (Millions of Passengers)						
	1985	1997	2005	% Change 1985-2005	Annualized 1985-1997	Annualized 1997-2005
CTA Total	642.2	439.2	492.3	-23.34%	-3.12%	1.44%
• CTA Bus	486.5	287.6	303.2	-37.68%	-4.29%	0.66%
• CTA Rail	155.5	151.0	186.8	20.13%	-0.24%	2.70%
• CTA DR <sup>1</sup>	.2	.6	2.3	1050.00%	9.59%	18.29%
Metra	62.1	66.2	68.6	10.47%	0.53%	0.45%
Pace	38.4	37.8	36.9	-3.91%	-0.13%	-0.30%
<b>Service Boards</b>	<b>742.7</b>	<b>543.2</b>	<b>597.8</b>	<b>-19.51%</b>	<b>-2.57%</b>	<b>1.20%</b>

Notes: <sup>1</sup> DR = Demand Responsive. Totals may not add due to rounding.  
Source: NTD reports for CTA, Metra, and Pace

In 1985, bus trips comprised 71 percent of total Service Board trips. In 2005, buses comprised 57 percent of the trips and rail 43 percent. This is largely due to the decline in CTA bus ridership, coupled with an increase in passengers using CTA rail and Metra (see Exhibit 3).

- In 2005, CTA rail carried 31 million more passengers than in 1985, an increase of 20 percent.
- Metra’s passenger trips increased over 10 percent from 62 million passengers in 1985 to 69 million in 2005.
- Ridership on Pace buses fell four percent during the period.

Exhibit 3 <b>RIDERSHIP</b> Percent of Total Trips			
	1985	1997	2005
CTA – Total	86.47%	80.85%	82.35%
• CTA Bus	65.50%	52.95%	50.72%
• CTA Rail	20.94%	27.80%	31.25%
• CTA DR	0.03%	0.11%	0.38%
Metra	8.36%	12.19%	11.48%
Pace	5.17%	6.96%	6.17%
<b>Service Boards</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
PASSENGER TRIPS (Percent of Total)			
All Bus <sup>1</sup>	70.7%	60.0%	57.3%
All Rail	29.3%	40.0%	42.7%
<b>Service Boards</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Notes: <sup>1</sup> Includes demand-responsive (DR). Totals may not add due to rounding. Source: NTD reports for CTA, Metra, and Pace			

**FINANCIAL OVERVIEW**

The Service Boards’ operating expenses have changed little in constant dollars since 1985 (\$1.88 billion in 2005 vs. \$1.76 billion in 1985), even though ridership fell by 20 percent (see Exhibit 4).

Exhibit 4 <b>TOTAL EXPENSES</b> 2005 Dollars (in millions)				
	1985 (adjusted)	2005	% Change 1985-2005	Annualized 1985-2005
CTA	\$1,112	\$1,215	9.2%	0.44%
Metra	\$537	\$504	-6.3%	-0.32%
Pace	\$112	\$160	42.9%	1.80%
<b>Service Boards</b>	<b>\$1,762</b>	<b>\$1,878</b>	<b>6.6%</b>	<b>0.32%</b>
Notes: Totals may not add due to rounding. \$1.00 in 1985 equals \$1.82 in 2005. Source: IMG analysis of NTD and Bureau of Labor Statistics data				

CTA, Metra, and Pace combined had passenger revenues of \$749 million in 1985 (in 2005 dollars), but just \$663 million in 2005 (Exhibit 5).

Exhibit 5 PASSENGER REVENUES 2005 Dollars (In millions)				
	1985 (adjusted)	2005	% Change 1985-2005	Annualized 1985-2005
CTA	\$498	\$419	-15.9%	-0.86%
Metra	\$219	\$199	-9.3%	-0.48%
Pace	\$33	\$46	41.8%	1.76%
<b>Service Boards</b>	<b>\$749</b>	<b>\$663</b>	<b>-11.5%</b>	<b>-0.61%</b>
Notes: Totals may not add due to rounding. \$1.00 in 1985 equals \$1.82 in 2005.				
Source: IMG analysis of NTD and Bureau of Labor Statistics data				

**From 1985 to 2005, Service Boards' passenger revenue per trip increased from \$1.01 to \$1.11 while passenger cost per trip increased from \$2.37 to \$3.14.**

Due to declining ridership, passenger revenues at CTA have fallen at a rate of 0.9 percent per year. Metra's passenger revenues have fallen 0.48 percent per year. Pace's passenger revenues increased 41.8 percent from 1985 to 2005, although passenger trips remained nearly constant, in 2005 dollars.

From 1985 to 2005, the Service Boards' passenger revenue per trip increased from \$1.01 to \$1.11 while passenger cost per trip increased faster, from \$2.37 to \$3.14 (in constant dollars).

- CTA passenger revenues per trip **increased** \$0.07 from \$0.78 to \$0.85, while passenger cost per trip **increased** \$0.74 from \$1.73 to \$2.47.
- Metra passenger revenues per trip **decreased** \$0.63 from \$3.52 to \$2.89, while passenger cost per trip **decreased** \$1.31 from \$8.65 to \$7.34.
- Pace passenger revenues per trip **increased** \$0.40 from \$0.85 to \$1.25, while passenger cost per trip **increased** \$1.42 from \$2.91 to \$4.33.

With passenger cost increasing faster than revenues, the average farebox recovery ratio (percentage of operating expenses covered by fares) for the Service Boards fell from 43 percent in 1985 to 35 percent in 2005. [See Chapter One of the report.]

## RTA OPERATIONS

The RTA’s administrative functions include planning, budgeting, and allocating discretionary portions of the sales tax and grants related to mass transit in northeastern Illinois. RTA also has some operational functions that include managing a call center and certifying paratransit users. This audit identified coordination conflicts and redundancies among the Service Boards:

- There is no comprehensive policy or agency responsible for overseeing all fares. The RTA could establish a fare system for all Service Boards that fosters intersystem transfers.
- There are some CTA and Pace bus routes that overlap. The RTA lacks a process to ensure that adequate planning and coordination of service routes occurs.

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**The RTA could establish a fare system for all Service Boards that fosters intersystem transfers.**

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Service Boards carry out numerous planning initiatives, such as seeking approval for new federal projects (called “New Starts”). There are nine New Starts projects for which CTA and Metra will compete with each other for scarce State funds.

Given the acute financial condition of all the Service Boards, it is prudent to consider whether the current organizational and governance structure is the best public and financial policy. Strengthening the RTA’s role in finance, planning, coordination of fares and technology, performance measurement, and oversight of operations would likely require legislation.

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## PERFORMANCE MEASURES

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The Service Boards have a wide variety of performance measures for operations and maintenance, but they lacked one set of written performance measures to guide their executive management. Their stakeholders should agree upon the performance measures for the whole organization and be given understandable and frequent updates on the agencies’ performance.

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**The Service Boards lack one set of written performance measures.**

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## GOVERNANCE

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The current approach of the Service Boards and the RTA has resulted in strong independent transit providers with their own boards, political constituents, agendas, and customers. While independence is an important characteristic of high performance organizations, the Service Boards are experiencing financial difficulties: aging fleets, deferred maintenance, growing deficits, and perceived needs to expand services.

External factors have also exacerbated the problems, such as the recent reductions in funding from the State transit bond program and the substitution of toll credits for actual cash as a source of State matching funds. However, there may be cost savings if the Service Boards and RTA were to work closer together. This audit indicates a need to better coordinate services and operations, reduce areas of redundancy, and improve the organization of specific functions of the Service Boards.

**RTA officials said the RTA Act gives them limited authority to carry out or enforce planning activities.**

RTA officials noted that the Regional Transportation Authority Act gives them strong financial oversight authority over setting statutory recovery ratio requirements and providing public funding of Service Boards, but provides limited enforcement tools – essentially the ability to withhold discretionary funds it provides to the Service Boards. They noted that while the Act directs them to coordinate planning in the region, it gives them limited authority to carry out or enforce planning activities.

The RTA needs to take more of a leadership role in all aspects of transit, much as it has done in the area of strategic planning. Whether the RTA lacks statutory authority, or whether such powers are not clearly delineated, specific additional statutory powers would give the RTA the tools to more effectively manage and oversee transit operations.

There is a range of alternatives from increasing RTA oversight and coordination (see Schematic) to complete centralization of all operations under one entity.

Schematic OPTIONS FOR AN ENHANCED RTA GOVERNANCE STRUCTURE	
CURRENT	ENHANCED RTA
<p><b>RTA Functions</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Budget – Fare Recovery Ratio</li> <li><input type="checkbox"/> Planning – Coordinate</li> <li><input type="checkbox"/> Independent Boards</li> <li><input type="checkbox"/> Legally Independent Agencies</li> </ul>	<p><b>RTA Functions</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Budget – Review, Revise, and Approve all Budgets</li> <li><input type="checkbox"/> Planning – Establish and Coordinate</li> <li><input type="checkbox"/> Regional Fares – Coordinate Fare Rates</li> <li><input type="checkbox"/> Technology – Oversee Development of Regional Technology, such as Fare Collections</li> <li><input type="checkbox"/> Develop, Review, and Publish Performance Measures for all Service Boards</li> <li><input type="checkbox"/> Update Board Structure – Based on Current Census</li> <li><input type="checkbox"/> Legally Independent Agencies</li> </ul>

In deciding what changes to make, the end goal should be to achieve a financially sound, efficient, effective, and well coordinated transit service for passengers in the northeastern Illinois region.

**Matter for Consideration by the General Assembly  
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 (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 RTA Act to incorporate a comprehensive strategic planning process as a statutory requirement.
- Giving the RTA 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.
- Adding more detailed performance measures for the system to the RTA 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.

The current allocation of RTA Board members is not consistent with the population distribution among the three geographic areas delineated in the RTA Act, as reported in the 2000 federal census. The population in the collar counties has increased. [See Chapter Two of the report.]

**Matter for Consideration by the General Assembly  
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 OPERATIONS**

The amount of heavy rail service provided by CTA increased at a faster rate than its peers between 1999 and 2004, as measured by vehicle hours and miles.

**CTA’s rail service scored high on service efficiency as compared to its peers, but lower on effectiveness.**

- CTA heavy rail scores high on measures of **service efficiency**. It does so by needing fewer work hours to produce an hour of service than its peer group.
- CTA heavy rail does not perform as well on measures of **service effectiveness**. CTA is not able to transport as many passengers per hour of service as its peers due to slower trains.
- CTA heavy rail **cost effectiveness** was also weaker than its peers, largely due to low service effectiveness. CTA’s costs are higher than average per passenger trip and per passenger mile.
- CTA exhibited lower **passenger revenue effectiveness** than its peers. Its farebox recovery ratio is significantly lower than its peers, meaning its farebox recovery shortfall per passenger is higher.

CTA buses experienced a slight loss of passengers during the period 1999 to 2004; its peer group passenger average was unchanged during this period.

- With respect to passenger **service efficiency** as measured by total operating expense per vehicle hour, CTA bus performed near the average of large bus system peers, although from 1999 to 2004, CTA’s cost per vehicle hour increased at more than twice the average rate for the peer group.
- CTA’s bus **service effectiveness** declined both in absolute terms and relative to the peer group average from 1999 to 2004, as measured by passengers per vehicle hour.
- CTA’s bus **cost effectiveness**, measured by cost per passenger, declined both in absolute terms and relative to the peer group from 1999 to 2004. In 2004, CTA’s cost effectiveness was slightly worse than that of its peers.
- CTA’s bus passenger **revenue effectiveness** in 2004 as measured by passenger revenue recovery was favorable as compared to its peers, although when measured by farebox recovery shortfall per passenger, it is equal to peers.

<i>Definition</i>	
<b>FAREBOX RECOVERY SHORTFALL</b>	
As used in this audit report, farebox recovery shortfall is calculated as the difference between farebox revenues to operating costs, excluding depreciation (same in the farebox recovery ratio).	
<ul style="list-style-type: none"> <li>• This report used a Service Board's National Transit Database submittals for system-wide and modal farebox revenues.</li> <li>• This definition differs from operating subsidy in that it <b>does not include non-fare revenues</b>.</li> </ul>	

The performance of the Service Boards is assessed using data reported annually to the National Transit Database (NTD) for fiscal years 1999 through 2004. This period was chosen because 2004 is the most recent year for which the Federal Transit Administration (FTA) has publicly released the reported data.

**CTA HEAVY RAIL**

CTA’s performance was compared to five transit systems that are similar to CTA in many respects, including that they all serve major metropolitan areas and all operate heavy rail service in a major city. CTA operates the second largest system of the peer group in terms of vehicle miles and hours; New York City Transit is larger.

<b>CTA RAIL PEERS</b>	
1.	Massachusetts Bay Transportation Authority (Boston) – MBTA
2.	MTA New York City Transit (New York City) – NYCT
3.	Southeastern Pennsylvania Transit Authority (Philadelphia) – SEPTA
4.	Metropolitan Atlanta Rapid Transit Authority (Atlanta) – MARTA
5.	San Francisco Bay Area Rapid Transit District (San Francisco & Oakland, CA) – BART

Due to the original design of the “L”, particularly its tight turns, the CTA heavy rail fleet is smaller – in number of seats, length, and width – than the heavy rail vehicles of peers. For example, CTA’s heavy rail cars average 44 seats, compared to 67 seats for MARTA in Atlanta.

<b>CTA PEER COMPARISON – SUMMARY (RAIL)</b>		
2004		
<b>SERVICE EFFICIENCY</b>	<b>CHAPTER EXHIBIT #<sup>1</sup></b>	<b>RELATIVE TO PEERS</b>
Operating cost per vehicle hour	3-3	<b>Better than peers</b>
Employee work hours per vehicle hour	3-5	<b>Better than peers</b>
Vehicle operations work hours per vehicle hour	3-6	<b>Better than peers</b>
Vehicle maintenance work hours per 100 vehicle miles	3-8	<b>Better than peers</b>
Vehicle maintenance expenses per vehicle mile	3-7	<b>Equal to peers</b>
Fringe benefit cost to labor cost	3-4	<b>Worse than peers</b>
<b>SERVICE EFFECTIVENESS</b>		
Average passenger load	3-10	<b>Equal to peers</b>
Passengers per vehicle hour	3-9	<b>Worse than peers</b>
Average speed	3-11	<b>Worse than peers</b>
<b>COST EFFECTIVENESS</b>		
Operating cost per passenger trip	3-12	<b>Worse than peers</b>
Operating cost per passenger mile	3-14	<b>Worse than peers</b>
<b>PASSENGER REVENUE EFFECTIVENESS</b>		
Farebox recovery	3-15	<b>Worse than peers</b>
Farebox recovery shortfall per passenger	3-16	<b>Worse than peers</b>
<b>Note: <sup>1</sup> See full report for the corresponding exhibits.</b>		

**CTA BUS**

CTA bus system’s performance was compared to five peer transit systems that are similar in many respects, including: they all serve major cities, all operate rapid rail service to the central downtown area in addition to bus service, and all operate from multiple garages.

Below is a summary of the results of the metrics we reviewed:

**CTA BUS PEERS**

1. Metropolitan Atlanta Rapid Transit Authority (Atlanta) – MARTA
2. Massachusetts Bay Transportation Authority (Boston) – MBTA
3. Los Angeles County Metropolitan Transportation Authority (Los Angeles) – LACMTA
4. New York City Transit Authority (New York) – NYCT
5. Southeastern Pennsylvania Transportation Authority (Philadelphia) – SEPTA

**CTA PEER COMPARISON – SUMMARY (BUS)**  
2004

SERVICE EFFICIENCY	CHAPTER EXHIBIT # <sup>1</sup>	RELATIVE TO PEERS
Revenue miles	3-19	Better than peers
Operators wages per vehicle hour	3-24	Better than peers
Platform time to total operating time	3-25	Better than peers
Platform time to total compensated time	3-26	Better than peers
Maintenance expense as a % of total operating cost	3-27	Better than peers
Vehicle maintenance expense per vehicle mile	3-28	Better than peers
Vehicle maintenance work hours per 1,000 miles	3-30	Better than peers
Miles between major service interruptions	3-31	Better than peers
Operating cost per vehicle hour	3-20	Equal to peers
Fringe benefit cost per vehicle hour	3-21	Worse than peers
Fringe benefits as a percent of salaries	3-22	Worse than peers
Fuel and lubricants per vehicle hour	3-23	Worse than peers
Parts per vehicle mile	3-29	Worse than peers
General administration work hours per 100 miles	3-32	Worse than peers
<b>SERVICE EFFECTIVENESS</b>		
Passengers per vehicle hour	3-33	Worse than peers
<b>COST EFFECTIVENESS</b>		
Operating cost per passenger	3-34	Worse than peers
Operating cost per passenger mile	3-35	Worse than peers
<b>PASSENGER REVENUE EFFECTIVENESS</b>		
Farebox recovery ratio	3-36	Better than peers
Farebox recovery shortfall per passenger	3-37	Equal to peers
<b>Note:</b> <sup>1</sup> See full report for the corresponding exhibits.		

**AECOM estimated that CTA could save approximately \$250 million. CTA estimates that \$111 million of these savings require changes in collective bargaining agreements.**

In 2005, CTA retained AECOM Consult to assess operations and recommend cost-reduction activities. AECOM estimated that CTA could save approximately \$250 million to \$300 million if it implemented all of the recommendations. However, CTA estimates that \$111 million of these savings require changes in the collective bargaining agreement or legislation. As of September 2006, CTA estimated that 93 recommendations had been implemented/closed, reducing annual costs by \$10 million and increasing revenue by \$37 million. [See Chapter Three of the report.]

**METRA OPERATIONS**

Metra has a long tradition of good labor-management relations and delivers a high standard of service with a strong safety record. However, service information is frequently recorded manually and little trend information is examined on a regular basis. Metra needs to institute additional electronic data management and establish procedures to review trend data on a periodic basis.

Metra exceeds peer averages in nearly all efficiency and effectiveness metrics analyzed. However, Metra has experienced some downward trends over the past five years in ridership and the passenger farebox recovery ratio. Despite this, Metra managed to overtake the peer group average on key measures such as administrative costs and maintenance expenses.

**Metra exceeded peer averages in nearly all efficiency and effectiveness metrics analyzed.**

- The amount of commuter rail **service provided** by Metra increased between 1999 and 2004, but at a slower rate than its peers, as measured by vehicle hours. As measured by vehicle miles, the increase was slightly faster than the peer average. Over the same period, Metra experienced a slight loss of passengers.
- Metra also exhibited stronger **service efficiency** than its peers as measured by 2004 total operating expense per vehicle hour.
- Metra was more **cost effective** than the average of its peers in 2004.
- Metra had lower **passenger revenue effectiveness** in 2004 as compared to its peers (measured by passenger fare recovery ratio). See summary below.

METRA PEERS	
1.	Massachusetts Bay Transportation Authority (Boston metropolitan area) – MBTA
2.	MTA Metro-North Railroad (New York City metropolitan area/Connecticut) – Metro North
3.	New Jersey Transit Corporation (New York City metropolitan area/New Jersey) – NJ Transit
4.	MTA-Long Island Rail Road (New York City metropolitan area/Long Island) – LIRR
5.	Southeastern Pennsylvania Transportation Authority (Greater Philadelphia) – SEPTA

<b>METRA PEER COMPARISON – SUMMARY</b>		
2004		
<b>EFFICIENCY</b>	<b>CHAPTER EXHIBIT #<sup>1</sup></b>	<b>RELATIVE TO PEERS</b>
Operating cost per vehicle hour	4-3	<b>Better than peers</b>
Fringe costs as a percent of salaries	4-4	<b>Better than peers</b>
Operators wages per vehicle hour	4-5	<b>Better than peers</b>
Vehicle maintenance expenses per vehicle mile	4-6	<b>Better than peers</b>
General and administrative hours per train hour	4-7	<b>Better than peers</b>
<b>EFFECTIVENESS</b>		
Passengers per vehicle hour	4-8	<b>Better than peers</b>
Cost per passenger	4-9	<b>Better than peers</b>
Operating cost per passenger mile	4-10	<b>Better than peers</b>
Farebox recovery shortfall per passenger	4-12	<b>Better than peers</b>
Farebox recovery	4-11	<b>Worse than peers</b>
<b>Note: <sup>1</sup> See full report for the corresponding exhibits.</b>		

The performance of Metra is generally comparable to key service statistics in this peer group. Metra commuter rail operations metrics are within 15 percent of average peer values for operating expenses and service provided in two of the three categories (vehicle hours and vehicle miles) and service consumed (passengers). The only exception is service provided as measured by peak vehicles – in this case, Metra’s peak vehicles are 151 percent of the peer group average. [See Chapter Four of the report.]

**PACE OPERATIONS**

Pace’s fixed route bus operations are cost efficient taking into consideration the distances traveled and the relatively sparse population density. One reason for this is Pace’s operating structure with nine separate garages and operating contracts.

- Pace’s demand-responsive service recovers a higher proportion of its costs than its peers through fares because it serves the general population, in addition to meeting needs of those passengers certified to receive paratransit services under the Americans with Disabilities Act.
- Pace’s vanpool program exhibits similar operating characteristics as its peer counterparts, although Pace may want to review whether fare increases to improve the farebox recovery ratio to its peers is feasible.
- Pace’s business systems are overdue for replacement; their replacement should assist in yielding more effective reporting of performance, safety, and liability data.

PACE PEERS – BUS	
1.	Southwest Ohio Regional Transit Authority (Cincinnati and immediate suburban areas) – SORTA
2.	Milwaukee County Transit System (Milwaukee and immediate suburban areas) – MCTS
3.	MTA Long Island Bus (suburban New York) – MTA LI Bus
4.	VIA Metropolitan Transit (San Antonio and immediate suburban areas) – VIA
5.	San Mateo County Transit District (suburban San Francisco) – SAMTRANS

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**Pace’s business systems are overdue for replacement; their replacement should assist in yielding more effective reporting of performance, safety, and liability data.**

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Pace’s performance trends were analyzed by mode: bus, demand-responsive, and vanpool. Different peer groups were assembled for Pace’s three modes (bus, demand-responsive, vanpool), as shown below. A different peer group was used for the vanpool services because many transit systems do not offer this service. Pace is the second largest vanpool program in the country. The peer group consists of the other four largest programs.

PACE PEER COMPARISON – SUMMARY (BUS) 2004		
EFFICIENCY	CHAPTER EXHIBIT # <sup>1</sup>	RELATIVE TO PEERS
Operating cost per vehicle hour	5-4	Better than peers
Operating cost per vehicle mile	5-5	Better than peers
Vehicle operations cost per vehicle hour	5-7	Better than peers
Operators' wages per vehicle hour	5-9	Better than peers
Fringe benefits per vehicle hour	5-10	Better than peers
Vehicle maintenance cost per vehicle hour	5-12	Better than peers
Vehicle maintenance work hours per vehicle mile	5-13	Better than peers
Parts per vehicle mile	5-15	Better than peers
Miles between major service interruptions	5-16	Better than peers
Fringe benefits as a percent of salaries	5-11	Equal to peers
Fuel and lubricants per vehicle hour	5-14	Equal to peers
Platform time to total compensated time	Text	Equal to peers
Platform time to total operating time	Text	Equal to peers
General administration work hours per 100 vehicle hours	5-17	Equal to peers
<b>EFFECTIVENESS</b>		
Operating cost per passenger mile	5-20	Better than peers
Farebox recovery	5-21	Equal to peers
Passengers per vehicle hour	5-18	Worse than peers
Operating cost per passenger	5-19	Worse than peers
Farebox recovery shortfall per passenger	5-22	Worse than peers
<b>Note: <sup>1</sup> See full report for the corresponding exhibits.</b>		

Pace operates an efficient **fixed-route** bus service. Pace's effectiveness (passengers per unit of service) runs below the average of its peers because it travels longer through relatively sparse population density. Pace's maintenance program includes contracting, although employees provide inspections, routine maintenance, and servicing. This produces a lower than average unit cost and a better than average maintenance failure. Pace's farebox recovery ratio is similar to its peers.

**The cost effectiveness of Pace demand-responsive service is better than the average system in the peer group.**

Pace's **demand-responsive** service has grown significantly in the last five years. Service efficiency (cost per vehicle hour) has also improved in the same time period. Pace has higher service effectiveness than its peers (passengers per hour). The cost effectiveness of Pace service is better than the average system in the peer group.

Pace's farebox recovery for demand-responsive is higher than the peers because Pace recoups more of its costs from municipal contracts. In turn, Pace's farebox recovery shortfall per passenger is lower than peers.

PACE PEER COMPARISON – SUMMARY (DEMAND-RESPONSIVE) 2004		
EFFICIENCY	CHAPTER EXHIBIT # <sup>1</sup>	RELATIVE TO PEERS
Operating cost per vehicle hour	5-25	Equal to peers
EFFECTIVENESS		
Passengers per vehicle hour	5-26	Better than peers
Cost per passenger	5-27	Better than peers
Farebox recovery	5-28	Better than peers
Farebox recovery shortfall per passenger	5-29	Better than peers
<b>Note: <sup>1</sup> See full report for the corresponding exhibits.</b>		

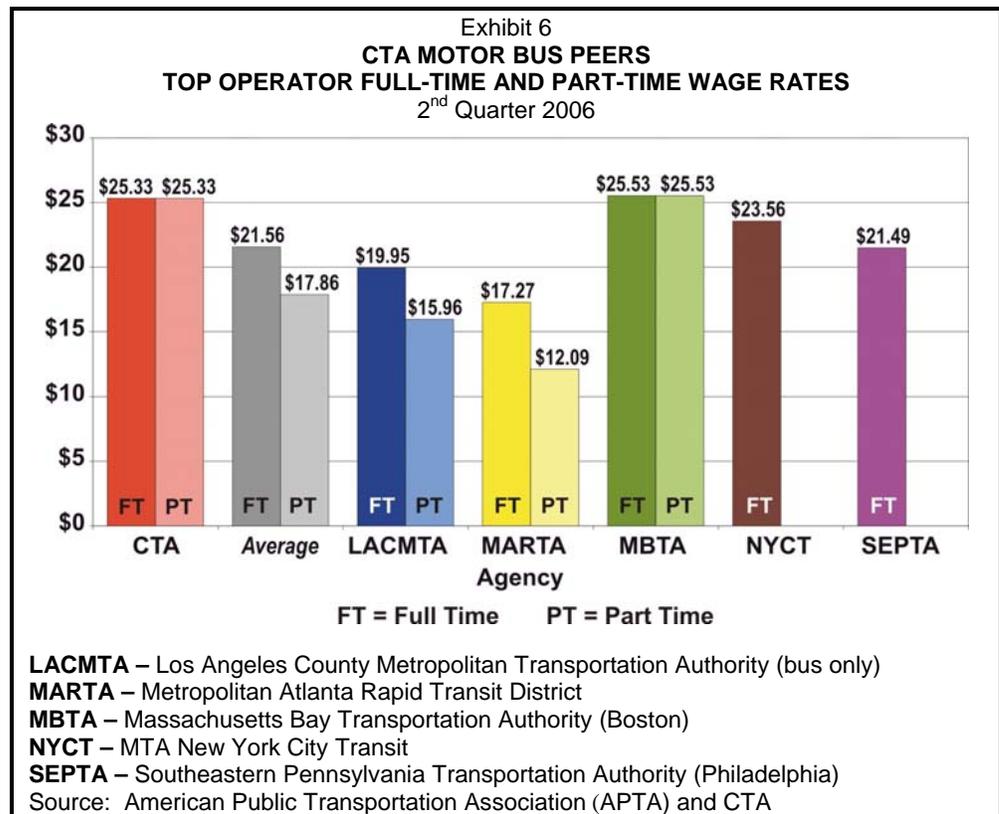
Pace’s **vanpool** service has grown in the last five years. Service efficiency (operating expense per vehicle mile) has also improved and is equal to peers. Service effectiveness (passengers per mile) tracks closely to its peers. Cost effectiveness (cost per passenger) is close to its peers. Passenger revenue effectiveness (farebox recovery) is lower than peers (higher subsidy per passenger). [See Chapter Five of the report.]

PACE PEER COMPARISON – SUMMARY (VANPOOL) 2004		
EFFICIENCY	CHAPTER EXHIBIT # <sup>1</sup>	RELATIVE TO PEERS
Operating cost per vehicle mile	5-32	Equal to peers
EFFECTIVENESS		
Cost per passenger	5-34	Better than peers
Passengers per vehicle mile	5-33	Better than peers
Farebox recovery	5-35	Worse than peers
Farebox recovery shortfall per passenger	5-36	Worse than peers
<b>Note: <sup>1</sup> See full report for the corresponding exhibits.</b>		

**STAFFING**

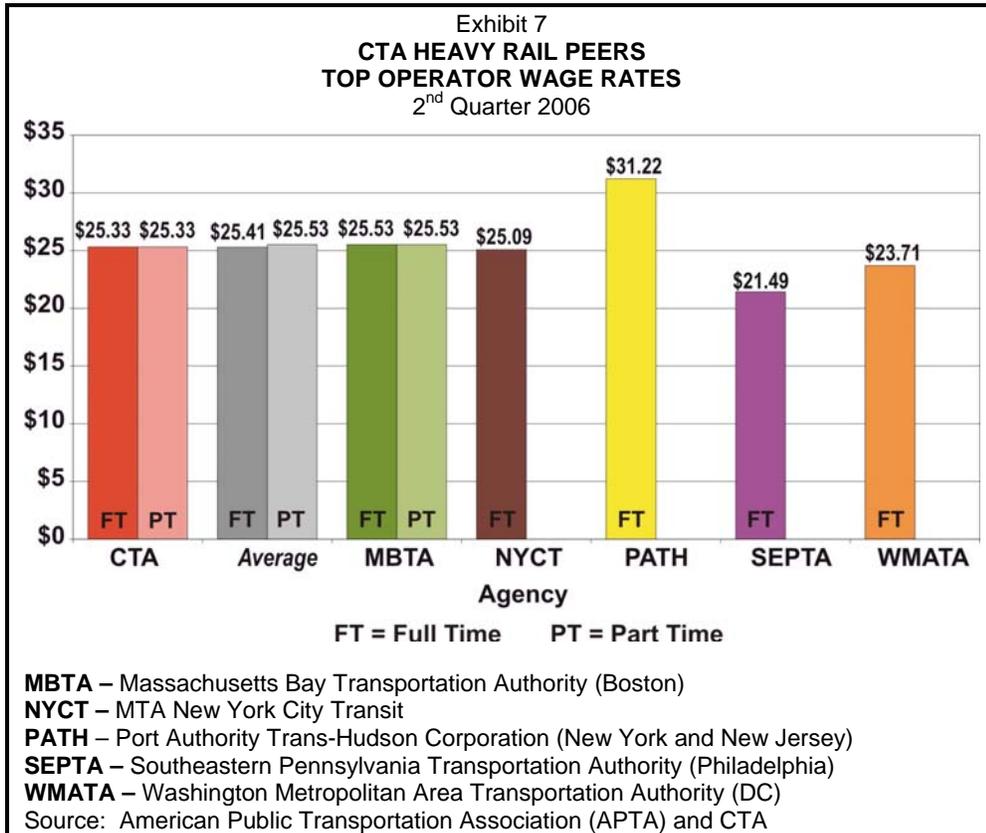
The audit benchmarked the performance of the three Service Boards against peer transit agencies throughout the United States to assess their staffing levels and costs. Peer comparisons were made of bus/rail operators, vehicle maintenance salaries and benefit costs, as well as various labor efficiency, cost-effectiveness, and productivity measures.

- CTA’s “top” bus operator and vehicle maintenance hourly pay rates are the second highest of the six agencies in the bus peer group (see Exhibit 6). CTA has higher than average employment costs per unit of service consumed (boardings and passenger miles). CTA’s motor bus employment cost is slightly above the peer average (as a percentage of total operating costs). During the draft review process, CTA provided wage comparisons based on a survey from a nationally recognized transit agency labor relations consulting firm. The survey produced different results. The differences between the audit’s results and the CTA wage survey included differences in peers, methodologies, and wage rates used.

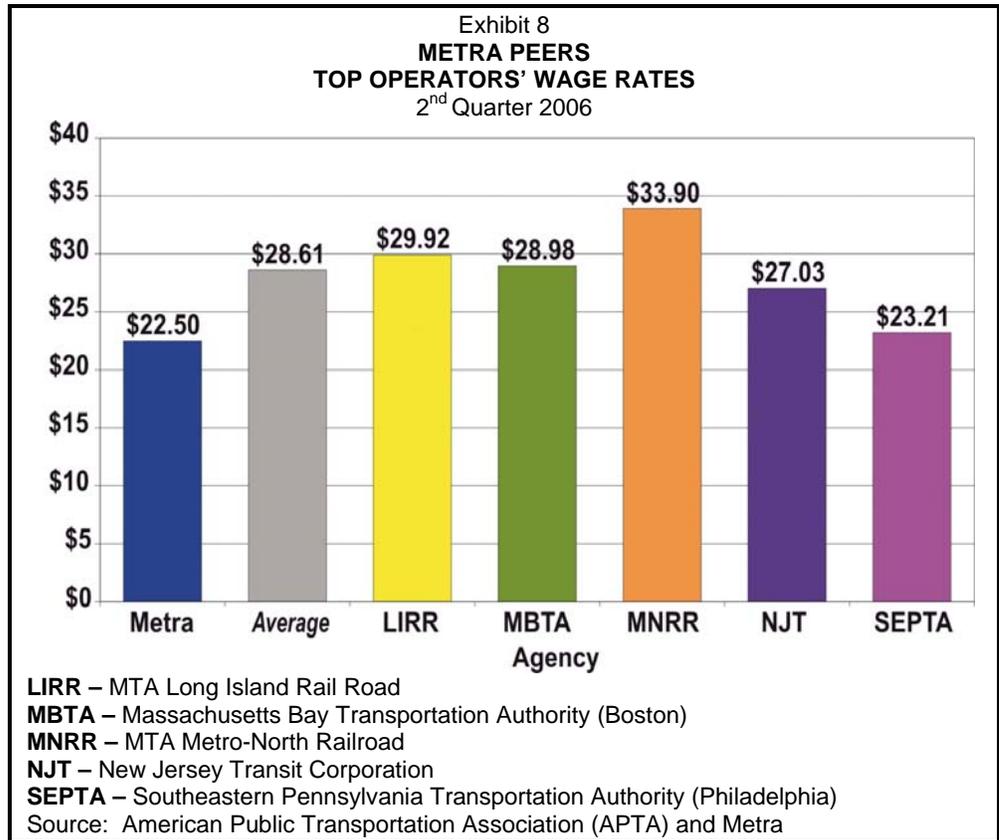


- CTA’s “top” heavy rail operators (see Exhibit 7) and vehicle maintenance employees’ hourly pay rates are just below the peer average.

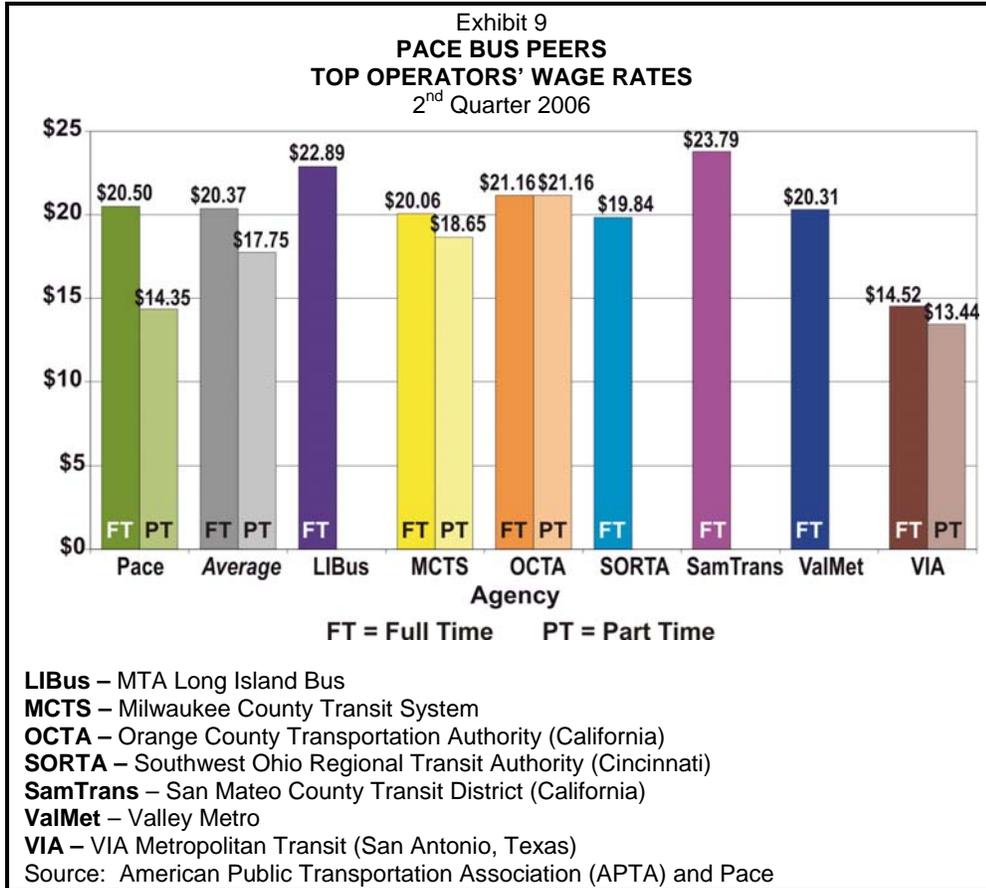
- CTA has the highest employee benefits rate per salary/wage dollar of its peers, driven primarily by very high pension costs.
- Absenteeism at CTA costs approximately \$46 million per year for bus and rail operators and maintenance employees.
- The labor negotiation and arbitration process at CTA took over two-and-one-half years of the three-year labor agreement to determine wage, pension contribution, and work rule matters.



Metra has the lowest commuter rail operator “top” hourly rate in the peer group, as shown in Exhibit 8 (but there are some concerns about the accuracy of the rate that we have not been able to resolve).



Pace’s full-time hourly rate for the top operators of buses is fourth highest of the eight members of the peer group and slightly above the group average (see Exhibit 9). Pace’s part-time hourly rate is lower than its peers, excluding VIA (San Antonio). Overall, Pace’s operators are paid about the same as the average of the peer group.



Metra and Pace both use contractor transit service operators for the non-Americans with Disability Act services; CTA does not. Many transit operators have had significant savings in operating costs through the use of such contract service providers and so might CTA. CTA may have significant labor bargaining and labor contract issues with contracting transit services. [See Chapter Six of the report.]

**PENSIONS**

The CTA Retirement Plan (Plan) is in extremely poor financial condition and is deteriorating at a rapid rate. Plan contributions are far below the actuarial recommendations to meet its long-term commitments and are far short of annual cash outflows, resulting in a rapid decline in pension assets.

**CTA PENSION PLANS**

**The CTA Retirement Plan is in extremely poor financial condition and deteriorating rapidly.**

As of January 1, 2006, the CTA Retirement Plan was 34 percent funded. According to the Plan’s 2000 actuarial report, the Plan 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).

- Over the past six years, the collectively bargained nine percent payroll contribution rate (3% employees and 6% CTA) has been significantly below the actuarially recommended contribution rate, which was 16.5 percent in 2000 and 50.3 percent by 2006 (see Exhibit 10).



- In addition to significantly underfunding the Plan, the Plan raised pension benefits by 16 percent in 2000, had negative investment

returns in 2001-2002, and took pension “holidays” in 1994, 1995, and 1997.

- The process of setting contribution rates through the collective bargaining process is not common among transit agencies.

**Matter for Consideration by the General Assembly  
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.**

In 2006, Public Act 94-0839 was enacted which requires CTA to start funding its pension plan at the actuarially recommended amount by 2009. This will result in an increase in funding from the current \$50 million funding level in 2006 to approximately \$240 million (\$150 million for pension and \$90 million for healthcare) in 2009.

The CTA Plan also faces a shortfall for post-retirement healthcare benefits; the Plan actuary projects a 50 percent chance that the funds in the Retiree Healthcare Account would be depleted by July 2007.

The CTA has four other (smaller) retirement plans for its management and Board members. In 2005, in conjunction with creating a new Supplemental-Qualified Plan, CTA transferred \$13 million from the Supplemental Plan to the general operations of CTA.

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**The CTA Plan also faces a shortfall for post-retirement healthcare benefits; the Plan actuary projects a 50 percent chance that the funds in the Retiree Healthcare Account would be depleted by July 2007.**

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**RTA, METRA, AND PACE PENSION PLANS**

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Metra and Pace management employees and all RTA employees are in the RTA pension plan, which is in fair financial condition (76% funded ratio as of January 1, 2006). Metra’s bargaining unit employees are in multi-employer, “union” pension plans, which require Metra to make specified per-hour contributions, with no further responsibilities for pension obligation. Over the years, seven of Pace’s nine bargaining units have shifted to defined contribution plans. The two remaining defined benefit plans have funding ratios of 76 percent and 86 percent.

The key metric for defined benefit pension plans and other non-defined-contribution post-retirement benefits, specifically healthcare, is the “funded percentage.” In simplified terms, this expresses plan assets as a percentage of plan liabilities. A plan that is “100% funded” has an actuarial value of assets equal to actuarial accrued liabilities and, if the plan were to be terminated **today**, there would be sufficient assets to pay the full benefits owed to plan members, assuming that future events were consistent with the plan’s assumptions. A plan that is funded at a lower percentage cannot offer this degree of security to its members and, as a

result, will normally be required to make up the shortfall by making larger annual contributions over a period of years until the plan is “fully funded.”

The CTA Retirement Plan includes both pension and post-retirement healthcare benefits, unlike the plans of RTA, Metra, Pace and the plans of the CTA peer agencies (see Exhibit 11). If post-retirement healthcare coverage is provided, it is separate. The 34 percent funded ratio and comparable past values include post-retirement healthcare liabilities. Under the terms of Public Act 94-0839, the post-retirement healthcare benefit must be separated from the pension benefits by January 1, 2009. [See Chapter Seven of the report.]

Exhibit 11 PENSION PLAN SUMMARY CTA, Metra, Pace, and RTA January 1, 2006 <sup>1</sup>							
Entity/Plan	# Of Active Members	Beneficiaries	Employer Contributions	Employee Contributions	Value of Year of Service <sup>2</sup>	Retirement Age	Post Retire-Health Care?
<b>CTA</b>							
CTA Employee Plan	10,644	8,998	6.0%	3.0%	2.15%	65 <sup>8</sup>	If hired prior to 9/6/01
Supplemental Qualified	141	5	See note <sup>3</sup>	N/A	0.167% <sup>6</sup>	65 <sup>8</sup>	Yes <sup>4</sup>
Supplemental Non-Qualified	0	262	See note <sup>5</sup>	N/A	0.167% <sup>6</sup>	65 <sup>8</sup>	Yes <sup>4</sup>
Early Retirement Incentive Plan	0	220	See note <sup>5</sup>	N/A	See note <sup>7</sup>	65	Yes <sup>4</sup>
Board Plan	6	22	135.0%	N/A	2.15%	65	Yes <sup>4</sup>
<b>Metra, Pace, RTA</b>							
RTA Pension Plan	978	715	11.55%	N/A	1.75%	65/Rule of 85	No
<b>Pace<sup>1</sup></b>							
ATU Local 241/ Pace West Div.	222	170	3.5%	5.4%	1.85%	65	Only employees as of original contract
ATU Local 900/ Pace North Div.	68	37	4.0%	4.0%	\$52.00/month	65	Age 62-65 retirees only
Notes: <sup>1</sup> Pace information is as of January 1, 2005. <sup>2</sup> As of the normal retirement age. <sup>3</sup> Not applicable since this Plan was created in 2005 and funds were transferred from the predecessor Plan. <sup>4</sup> Long-term CTA employees will receive post-retirement healthcare benefits through Retirement Plan for CTA employees; those who do not vest in that Plan will receive benefits through the other pension plan. <sup>5</sup> These are closed plans; the CTA does not make a set percentage contribution. <sup>6</sup> Value for year of service for employees vested in the “main” CTA Plan is at least .167% and 1% for those who do not vest. <sup>7</sup> Employees who elected early retirement in 1992 received an additional five years of service credit in the “main” and Supplemental Plans, no reduction in benefits, and \$200/month for two years. <sup>8</sup> If a member who was first employed prior to September 2001 has 25 years of covered service, there is no diminishment of benefits for retirement prior to age; after this date, there is no diminishment in service if the employee has 25 years of covered service and has reached the age of 55. Source: Agency retirement plan reports							

**REVENUES**

The CTA accounted for about 59 percent of the total operating revenues generated by the Service Boards in 2005, with Metra generating 34 percent and Pace generating 7 percent.

Non-fare revenues generated by CTA and Pace are small in relation to passenger revenues indicating any change in non-fare revenues is unlikely to make a material contribution to reducing the need for operating subsidies. Metra generates considerably more non-fare revenues than its peers, including trackage fees charged to freight rail operators.

Operating revenues (fare and non-fare revenues) grew slower than operating costs over the past five years, resulting in growth in operating subsidies (defined as operating expenses minus fare and non-fare revenues). Given the need to find additional funding for the Service Boards, there may be an opportunity to generate more operating revenues from passenger fares. Based on our review, an increase in fares for both CTA (rail) and Metra would be expected to have the least impact on ridership.

**Total Service Boards' operating revenues in 2005**

were:

- **CTA: 59 percent**
- **Metra: 34 percent**
- **Pace: 7 percent**

**CHICAGO TRANSIT AUTHORITY**

In 2005, Chicago Transit Authority generated about \$455 million in operating revenues, comprised of passenger fare revenue (92%) and non-fare revenue (8%), including advertising, concessions, and parking fees. CTA accounts for about 59 percent of the total operating revenues generated by the three Service Boards.

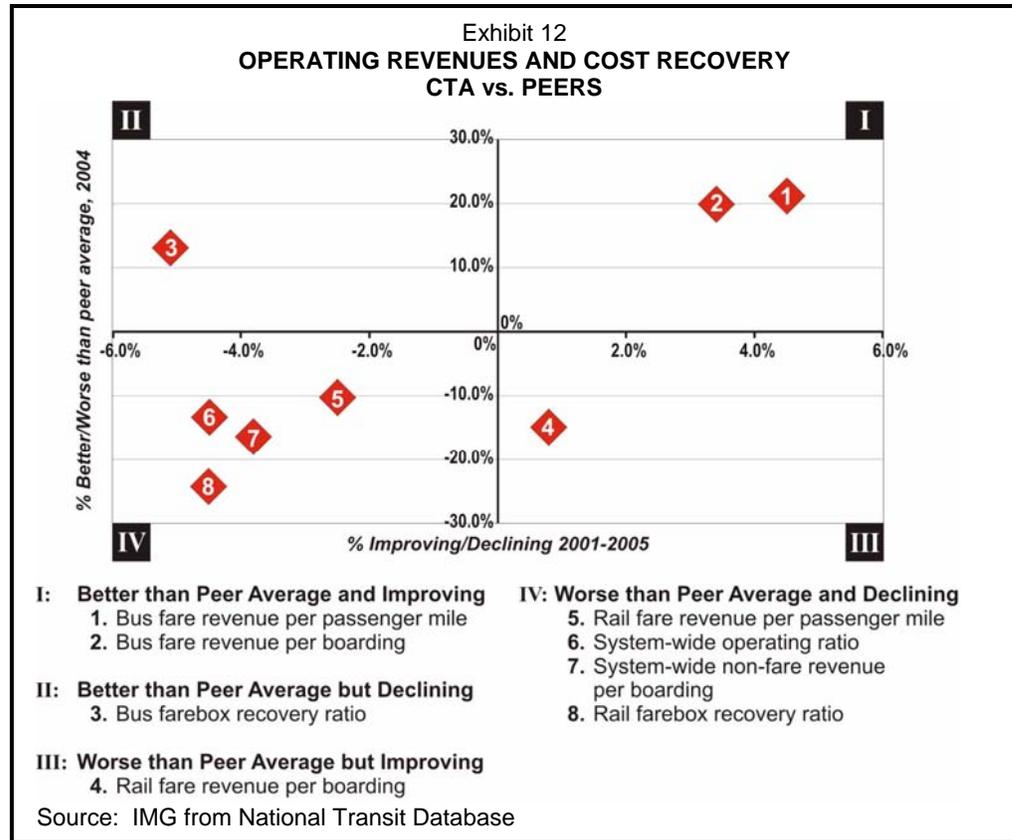
<b>CTA STATISTICS</b>	
2005 (millions)	
<b>Operating Revenues</b>	
• Fares .....	\$418.6
• Advertising.....	\$21.1
• Concessions.....	\$1.6
• Parking .....	\$1.6
• Others.....	\$12.0
<b>Total.....</b>	<b>\$454.9</b>
<b>Number of Passengers</b>	
• Bus .....	303.2
• Rail .....	186.6
• Demand Responsive .....	2.3
Source: CTA 2005 draft NTD submission	

Operating revenues have been growing at a slower rate (2.9% annually) than operating expenses (7.7% annually), thereby contributing to more rapid growth in the operating subsidy (11.2% annually). Cost recovery should be improved and higher rail fares would be one way to reduce some of the operating subsidy:

- System-wide cost recovery is below the peer average, and declining.
- Rail cost recovery is below the peer average, and declining.
- Rail revenue per passenger mile is below the peer average and is half that paid by CTA bus riders.
- Rail ridership is less affected by price increases than bus ridership.

**Operating revenues have grown at a slower rate (2.9% annually) than operating expenses (7.7% annually).**

CTA’s performance was evaluated for the period 2001-2005 and can be categorized according to the quadrant of the graph in which each metric falls (see Exhibit 12):



**METRA**

**Metra’s operating revenues have grown at a slower rate (1.2% annually) than operating expenses (4.0% annually).**

In 2005, Metra reported about \$261 million in operating revenues, comprised of passenger fare revenue (76%) and non-fare revenue (24%). One-half the non-fare operating revenues reported by Metra are reimbursements from capital grants for administrative and support costs – known as grant project credits – charged to the operating budget, that are associated with capital projects. Most of the remaining non-fare operating revenues derive from leases of rail facilities to rail freight operators. Metra accounts for about 34 percent of the total operating revenues reported by the three Service Boards.

Metra operating revenues have been growing at a slower rate (1.2% annually) than operating expenses (4.0% annually), contributing to a more rapid growth in the operating subsidy (7.5% annually).

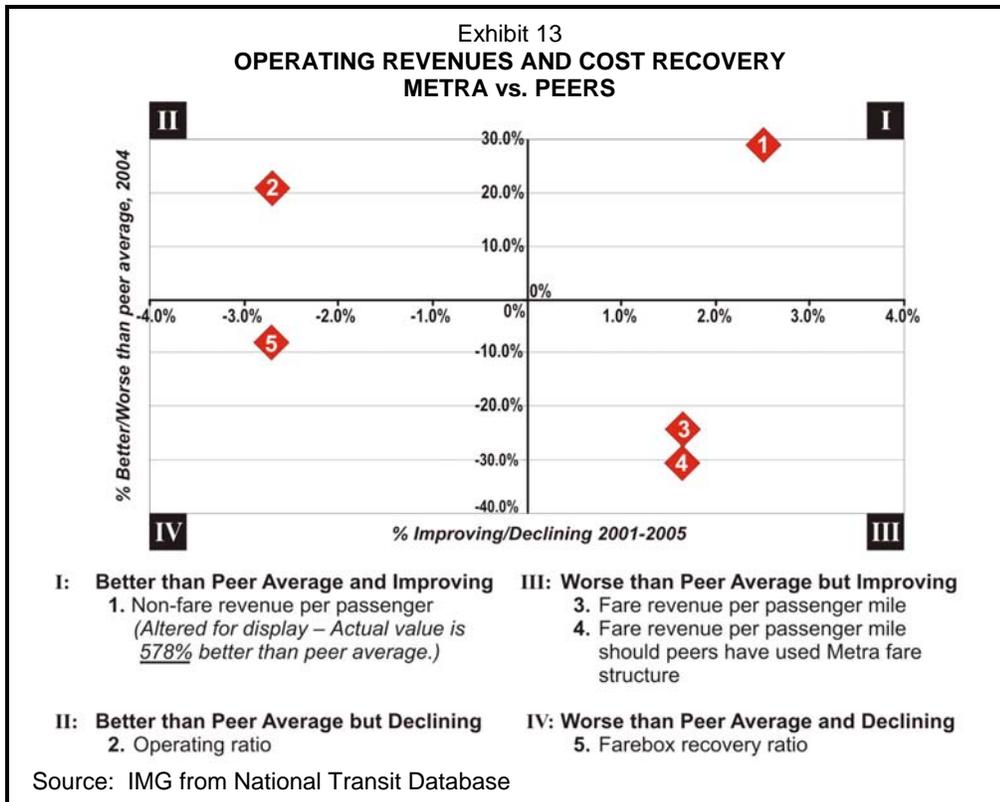
Metra could improve its system-wide cost recovery through higher passenger fares and increasing non-fare revenues:

- Metra’s farebox recovery ratio is below the peer average and has been declining.
- Passenger revenues are low relative to peer commuter rail systems; revenue per passenger mile is 24 percent below the peer average.
- Metra’s fare increases have lagged inflation by 16 percent over the past 15 years.
- After adjusting for various environmental factors affecting ridership, fare increases in June 2002 (5%) and February 2006 (5%) had little discernable impact on ridership.

<b>METRA STATISTICS</b> 2005 (millions)	
<b>Operating Revenues</b>	
• Fares .....	\$198.5
• Advertising.....	\$1.6
• Concessions.....	\$0.2
• Parking .....	\$1.0
• Grant project credits .....	\$34.0
• Lease revenues .....	\$13.3
• Others.....	\$12.5
<b>Total.....</b>	<b>\$261.1</b>
<b>Number of Passengers</b>	
• Commuter rail.....	68.6

Source: Metra 2005 audited financial statements and NTD submission

Metra’s performance was evaluated for the period 2001-2005 and can be categorized according to the quadrant of the graph in which each metric falls (see Exhibit 13).



**PACE**

In 2005, Pace generated about \$52 million in operating revenues, comprised of passenger fare revenue (88%) and non-fare revenue (12%), primarily advertising. Pace accounts for 7 percent of the total operating revenues generated by the three Service Boards. Pace’s operating revenues have been growing at a much slower rate (1.7% annually) than operating expenses (5.8% annually), thereby contributing to higher growth in the operating subsidy (8.4% annually).

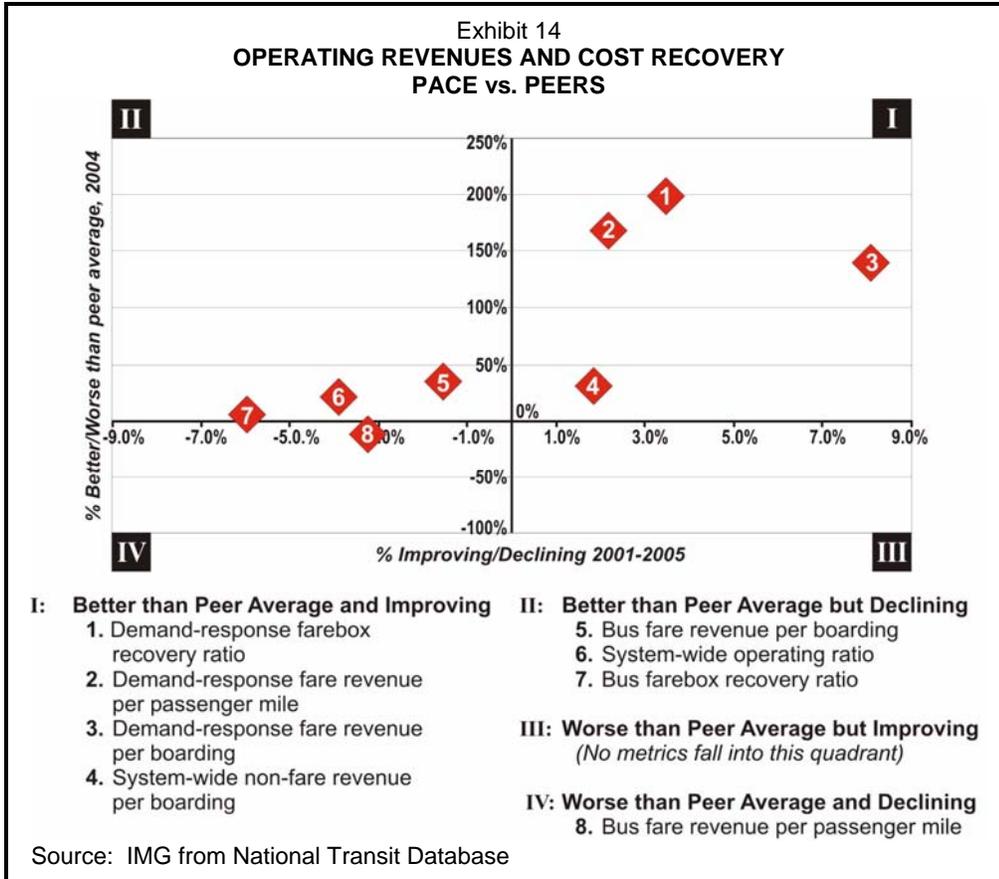
<b>PACE STATISTICS</b> 2005 (millions)	
<b>Operating Revenues</b>	
• Fares .....	\$46.2
• Advertising.....	\$4.1
• Concessions .....	\$0
• Parking .....	\$0
• Others.....	\$2.1
<b>Total .....</b>	<b>\$52.4</b>
<b>Number of Passengers</b>	
• Bus .....	33.8
• Demand Responsive .....	1.6
• Vanpool .....	1.5
Source: Pace NTD report 2005	

**Pace outperforms its peers for all revenue metrics except bus fare revenue per passenger mile.**

- Pace outperforms its peers for all revenue metrics except bus fare revenue per passenger mile.
- Bus revenue is the weakest aspect of Pace services; though better than peers in most respects, Pace’s performance is declining.
- Pace outperforms its peers regarding revenues and cost recovery for its demand-responsive services, and its performance is improving.
- Pace’s fare increases have closely tracked inflation since 1992.

Collectively, these findings infer that Pace is performing near the top of revenue generation and cost recovery. Pace could potentially realize greater income from a distance-based fare structure, since Pace serves relatively long trips.

Pace’s revenue performance was evaluated separately for bus and demand-responsive services, although the same peer group was used for each. Demand-responsive services are diverse among peers, comprised of varying amounts of curb-to-curb transport of disabled persons and dial-a-ride services for ambulatory persons. Pace performance was evaluated against the peer system average and against Pace trends for the period 2001-2005. These results indicate that Pace outperforms its peers but is facing some challenges in its bus ridership market (see Exhibit 14).



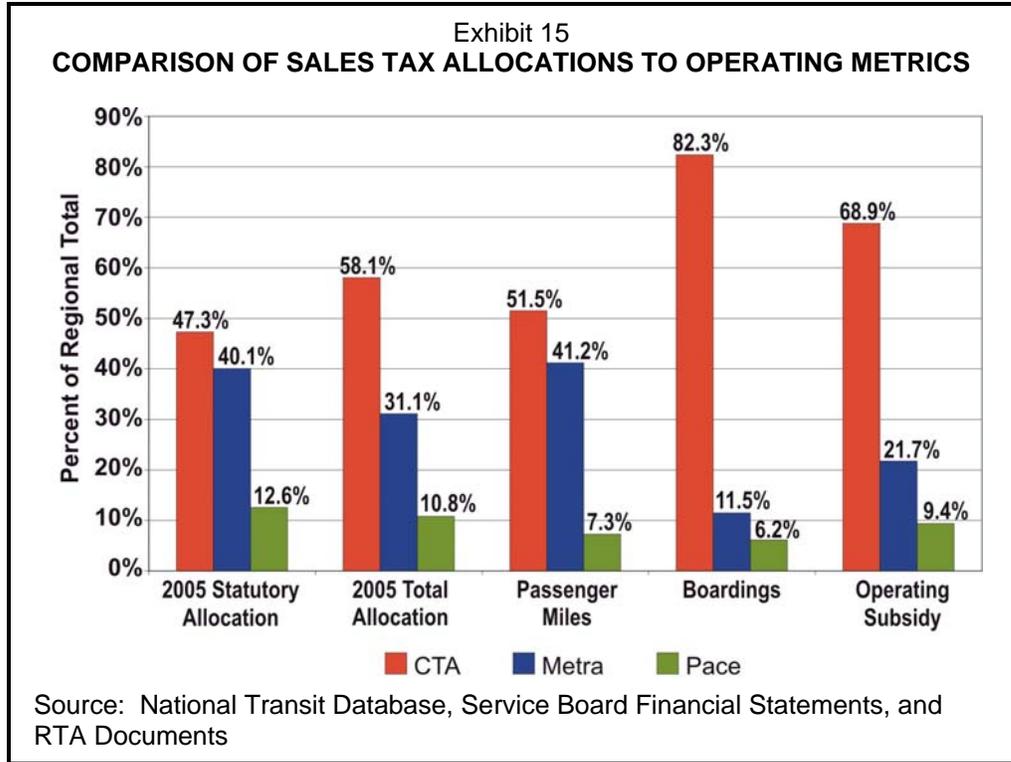
## REGIONAL SALES TAX ALLOCATION

The allocation of sales tax revenues to the Service Boards has been a point of contention. CTA believes the current allocation is inequitable. In 2005, for example, CTA carried approximately 82 percent of all transit boardings in the region.

However, an examination of the statutory sales tax allocation formula and discretionary sales tax allocation practices indicates a significant imbalance between revenues generated by and returned to the jurisdiction of origin. The RTA's **discretionary** revenue allocations heavily favor CTA. No single operating statistic can accurately measure tax allocation equity (see Exhibit 15). Other metropolitan areas that grapple with this issue focus on costs incurred and revenues generated by jurisdiction, taking into account multiple variables. The sales tax allocation formula should be revisited by the Legislature. [See Chapter Eight of the report.]

**The allocation of sales tax revenues to the Service Boards has been a point of contention.**

**No single operating statistic can accurately measure tax allocation equity.**



## FINANCIAL MANAGEMENT

Transit finance in the Chicago metropolitan area is in a serious situation. In addition to the financial assistance needed simply to sustain existing operations, there needs to be an overhaul of the financial oversight process so that policymakers receive appropriate information in a timely manner to take corrective action.

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**Transit finance in the Chicago metropolitan area is in a serious situation.**

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RTA revenues are insufficient to pay the continuing cost of programs or fund the operating subsidy of additional services.

- For all entities, growth in operating costs over the past five years (6.5% annually) substantially exceeded the growth in operating revenues (2.2% annually).
- The traditional sources of operating subsidies (i.e., RTA sales tax plus the Public Transportation Fund allocations) grew at 1.7 percent annually, reflecting slow growth in retail sales.
- The RTA Act includes only cash expenditures in the budget. Pensions are not current cash expenditures (but are a payment into a fund for future expenditures) and have been excluded from the RTA's budget review process.
- Other undesirable effects, such as inadequate investment in plant, fleet, and equipment, and the erosion of liquidity, have little public visibility because the budget process neglects re-investment in capital assets.

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## CHICAGO TRANSIT AUTHORITY

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This audit concluded that the CTA is in a precarious financial position:

- CTA operating costs have grown at a faster rate (7.7% annually) than its operating revenues (2.9% annually) and the operating assistance provided through the RTA (4.3% annually).
- Part of the cost growth (up to 40%) is for additional services that were undertaken during a period when there was virtually no growth in regional sales tax revenues.
- The net increase in operating subsidies (i.e., beyond that funded by or through the RTA) was accommodated by non-sustainable measures:
  - Deferring CTA's pension contributions (\$220 million in 2005 for a total of \$1.02 billion total deferred through 2005);
  - Obtaining a special State appropriation to fund demand-responsive services (\$54.3 million in 2005); and
  - Redirecting Federal Transit Administration (FTA) capital funds to pay for preventive maintenance and operating expense (\$26.8 million in 2005).

- CTA is minimally liquid; it has cash reserves only for two weeks of expenditures, and its current liabilities exceed its current assets.
- Capital investment for replacement of plant and equipment is not keeping pace with the aging of the capital asset base.

In short, CTA does not have the financial resources to sustain current operations. CTA expended more funds between 2001 and 2005 than were normally available to it and employed stop-gap measures to make up the difference.

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; 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.

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## METRA

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**Metra's operating costs have grown at a faster rate (4.0% annually) than its operating revenues (1.2% annually).**

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Metra operates commuter rail services that traverse the entire RTA district. A substantial portion of these services is operated by private railroads, under contract. Metra also leases trackage rights to these railroads for freight operations.

Metra is in a good financial position but growth in operating subsidies will soon be a problem if current trends continue:

- Metra's operating costs have grown at a faster rate (4.0% annually) than its operating revenues (1.2% annually) and the operating assistance provided through the RTA (1.7% annually).
- About 25 percent of the cost growth is for additional services that were undertaken during a period when there was virtually no growth in regional sales tax revenues.
- The net increase in operating subsidies (i.e., beyond that funded through the RTA) was accommodated by reducing capital projects and using cash reserves – neither of which is a sustainable practice. Some of the 2005 cash drawdown was due to higher fuel costs, according to Metra officials.
- Metra has adequate, but declining, liquidity. Its cash reserves are sufficient to fund only three weeks of expenditures, but its current assets exceed its current liabilities by a 30 percent margin.
- Capital investment for replacement of plant and equipment is keeping pace with the aging of the capital asset base, primarily from a financial accounting viewpoint. However, Metra officials say that their capital needs are greater than this level of investment.

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; 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.

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**PACE**

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Pace operates bus, demand-responsive, and vanpool services in the suburban areas of the RTA district. It has a large service area of about 3,500 square miles. Although Pace is predominately a suburban transit operator, it recently assumed control of the demand-responsive services that were formerly operated by the CTA.

Pace finances were well-managed during the 2001-2005 period, but its operating financial trends and capital funding are deteriorating and are cause for concern:

- The need for operating subsidies (8.4% annually) outpaced growth in traditional sources of operating assistance, including RTA sales tax revenues and reduced-fare subsidies (1.6% annually).
- Pace’s current level of service is not sustainable with current revenues. Pace has had to defer capital projects as a growing portion of grants are used for operations.
- Pace’s liquidity is adequate, but trended downward between 2001 and 2004 before recovering in 2005.
- Pace has maintained its plant and equipment in a steady-state condition.

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; 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. [See Chapter Nine of the report.]

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**Pace’s current level of service is not sustainable with current revenues. Pace has had to defer capital projects as a growing portion of grants are used for operations.**

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## **CAPITAL PROGRAM**

The Regional Transportation Authority (RTA) adopts five-year capital program “marks” as part of the annual budget process. These marks authorize funds for all capital projects to be implemented by the Service Boards. The marks adopted by RTA in 2006 totaled \$3.02 billion for the period 2006–2010. The marks included \$1.84 billion (61 percent) for CTA projects, \$0.94 billion (31 percent) for Metra projects, and \$0.24 billion (8 percent) for Pace projects. Seventy-five percent of these capital funds are provided by the Federal Transit Administration (FTA). The remaining funds derive mainly from the State of Illinois, either through grants from the Illinois Department of Transportation (IDOT), or through bonds issued by the RTA but paid with annual State appropriations.

Most aspects of capital program management are the responsibility of the Service Boards. The Service Boards define and propose the capital projects to be considered by the RTA, implement the approved capital projects, and receive capital grants from the FTA and IDOT. The RTA issues bonds, the principal source of non-federal funds for capital projects, and disburses bond funds as requested by the Service Boards for approved projects.

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## **CHICAGO TRANSIT AUTHORITY**

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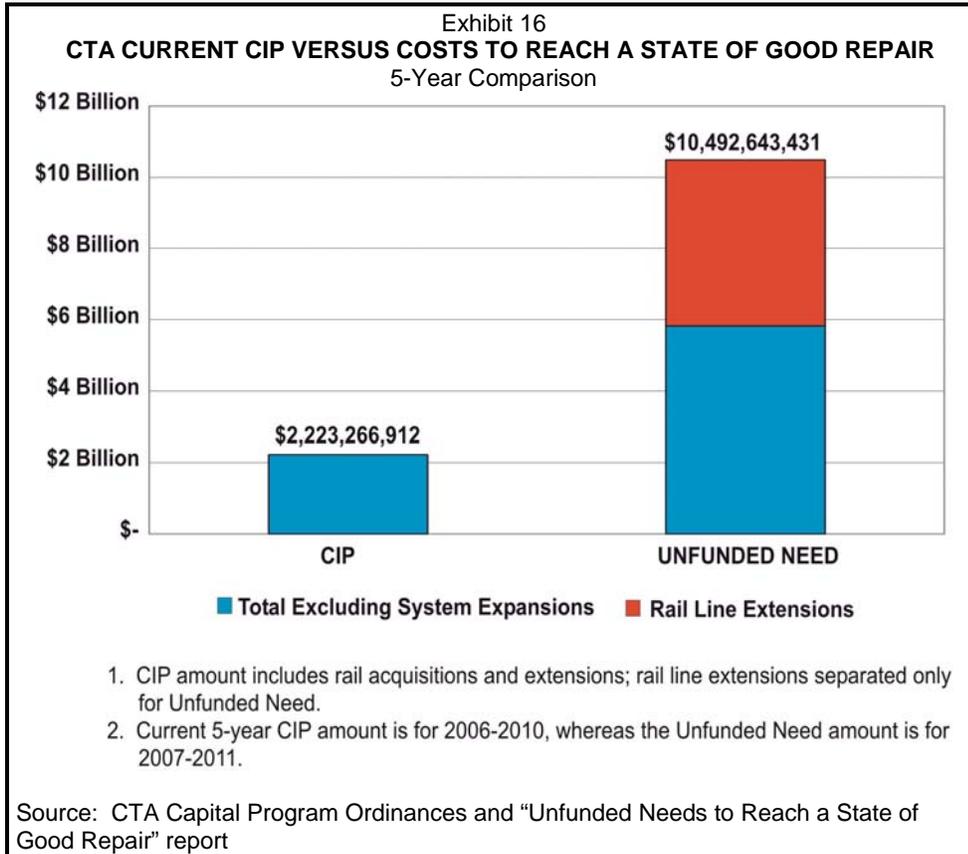
CTA’s capital program comprises approximately 61 percent of the region’s five-year capital improvement program (CIP) for 2006–2010. CTA’s capital program addresses rehabilitation and replacement of assets as well as rail system extensions.

In general, CTA has a process to identify capital projects and manage their implementation, but more emphasis should be placed on bringing the system into a state of good repair:

- CTA’s capital funding sources diminished significantly in 2005 from prior years due to the expiration of the *Illinois FIRST* program.
- CTA has improved its ability to move projects from award to procurement, but has increased unexpended project balances, which can diminish the buying power of grants and indicate schedule delays.
- CTA’s estimated unfunded needs exceed planned CIP expenditures over a five-year timeframe, calling into question CTA’s pursuit of system expansion projects.
- CTA has brought the Brown Line construction project costs in line with available funds through reorganization of the construction packages. However, the remaining project contingency appears to be inadequate relative to remaining project costs and should be increased, given a trend of construction bids that exceed the engineer’s estimate.

CTA’s unfunded needs to reach a state of good repair total \$5.82 billion. In addition, CTA identified another \$4.7 billion in rail line extensions that it says are necessary to meet growing demand. The unfunded program total, \$10.5 billion, significantly exceeds the planned CIP (2006-2010) expenditures of \$2.2 billion (see Exhibit 16).

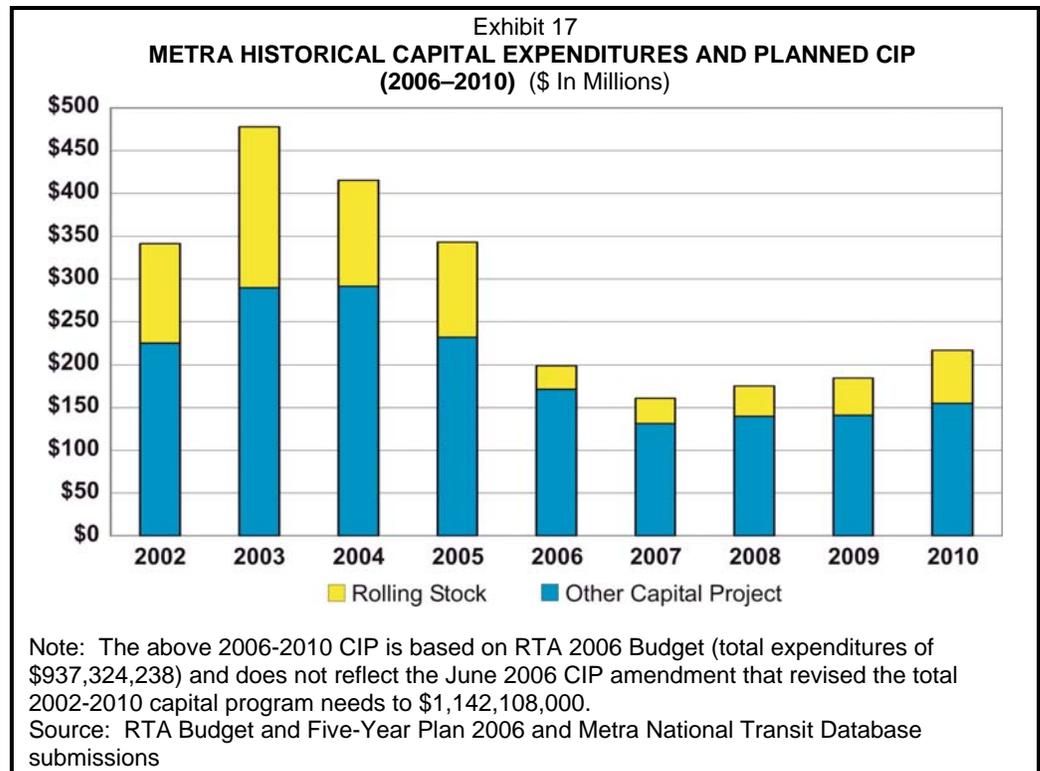
**CTA’s unfunded capital program totaled \$10.5 billion, and significantly exceeds the planned five-year capital of \$2.2 billion.**



It should be noted that the current CIP is for the years 2006–2010, whereas the unfunded needs estimate is for 2007–2011. The amount of unfunded needs is significant and brings into question why CTA would consider any expansion of its current system when the estimated state of good repair needs are overwhelming.

**METRA**

According to the RTA 2006 Annual Budget and Five-Year Program, Metra’s share of the total capital program was approximately 31 percent. Metra’s capital plans address renewal of its rail infrastructure and expansion of its system. Metra’s current five-year CIP for 2006–2010 includes \$937 million of rolling stock, facilities, equipment, and other capital expenditures. Capital expenditures for rolling stock comprise 21 percent of the total amount planned. It should be noted that the June 2006 CIP amendment revised the estimated capital uses for 2006–2010 from \$937 million to \$1.14 billion. However, since the year-by-year expenditures were not available, Exhibit 17 is based on the original RTA 2006 Budget estimates.

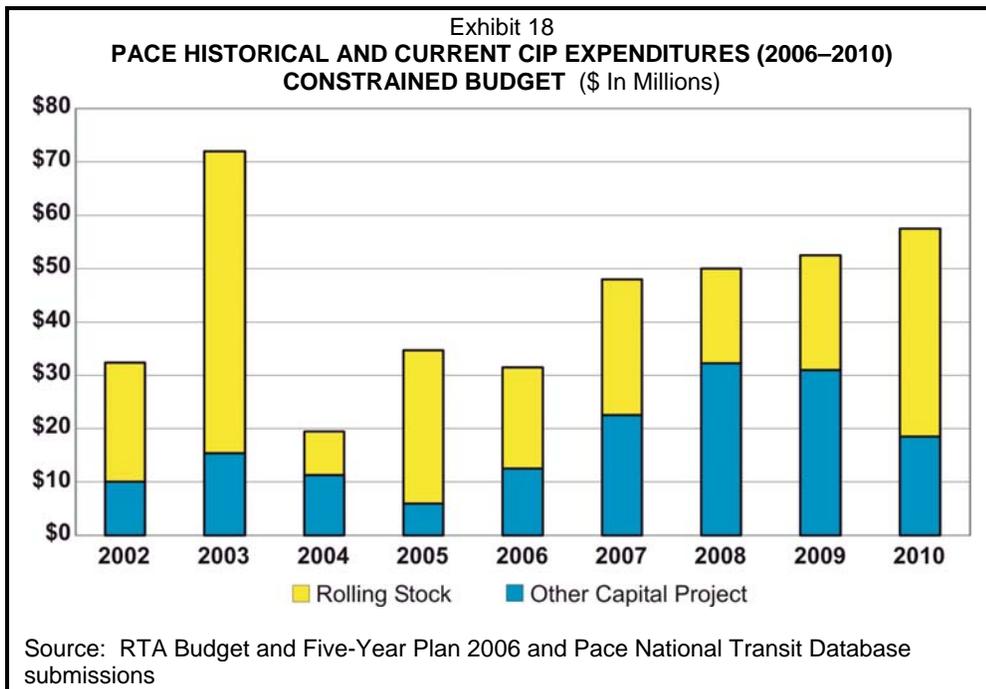


**PACE**

According to the RTA’s 2006 Annual Budget and Five-Year Program, Pace’s share of the total capital program was approximately eight percent. Pace’s capital plan primarily addresses the replacement and expansion of rolling stock as well as support facilities and equipment. The key findings from a review of Pace’s capital program can be summarized as follows:

- Pace’s unconstrained capital needs far exceed the constrained capital program uses presented in the 2006–2010 CIP.
- In particular, Pace would need to replace about 29 percent of its bus fleet in the next five years, at a cost of roughly \$65 million, or about 38 percent higher than presented in the current CIP.
- Pace has improved its ability to move from grant awards to procurement with respect to all active grants, but has experienced a declining trend with respect to current year programs, indicating some slow-moving projects.
- Pace has a high “percent unexpended” balance, especially with respect to current year programs, although for all active grants, there was an improvement in 2005.

According to the RTA 2006 Budget and Five-Year Plan, Pace’s current five-year CIP for 2006–2010 includes a total of \$239 million of rolling stock, facilities, equipment, and other capital expenditures. Capital expenditures for rolling stock comprise 51 percent of the total amount planned. It should be noted that these capital expenditures are based on a constrained budget. The constrained CIP expenditures assume that IDOT funding equal to federal match requirements will be available starting in 2007. [See Chapter Ten of the report.]



**FLEET**

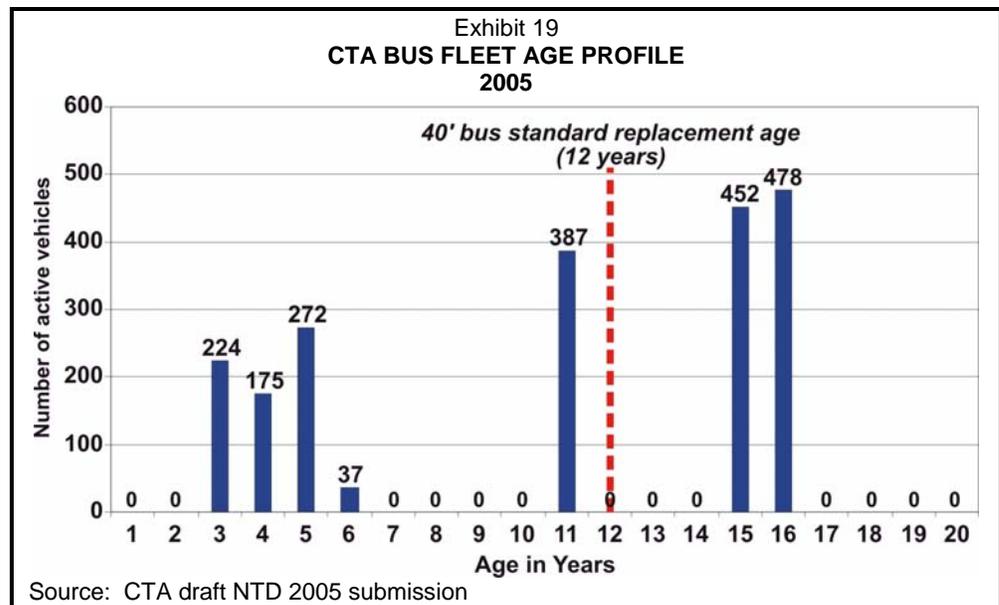
All three Service Boards operate fleets of buses and/or rail cars that are older than the average age of fleets of peer transit systems. Collectively, Service Boards are facing significant fleet replacement costs, which are understated in the financially constrained capital improvement program (2006-2010). Readily-identifiable fleet replacement needs exceeded the capital improvement program (CIP) budget by \$1.23 billion.

**CHICAGO TRANSIT AUTHORITY**

The CTA operates the largest vehicle fleet in the region, with a total replacement value of about \$2.3 billion. Although it operates a relatively old bus and rail fleet, CTA uses its vehicles efficiently relative to its peer group.

**The bus fleet was purchased sporadically and this bunching of vehicles makes maintenance planning more difficult than if the age distribution were more even.**

As shown in Exhibit 19, the bus fleet was purchased sporadically and this bunching of vehicles makes maintenance planning more difficult than if the age distribution were more even. For example, when maintenance is required to extend the useful life of vehicles, a large percentage of the fleet is affected. This restricts CTA's options for rotating vehicles to achieve more uniform annual mileage within the fleet.



Bus fleet replacement costs may be understated in the financially constrained capital improvement program for 2006-2010: \$448 million versus \$370 million that is included in the financially constrained CIP.

Rail car replacement cost for vehicles that are eligible for retirement is substantially understated in the financially constrained CIP:

\$1.23 billion versus \$501 million that is included in the financially constrained CIP.

At the end of 2005, approximately 29 percent (or 350 vehicles) were eligible for retirement. Another 49 percent of the fleet (585 vehicles) will reach retirement age within the next six years. In all, CTA will need to replace 78 percent of its fleet (935 vehicles) in six years.

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### **METRA**

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Metra operates the largest, single-agency commuter rail fleet in the U.S., totaling 1,408 vehicles. The total replacement value of this fleet is approximately \$3.6 billion. The fleet varies considerably in age and durability. For this reason, it is important to consider the characteristics of each subfleet to ascertain replacement practices.

- The electric fleet is far beyond the FTA-eligible retirement age and is a poor candidate for rehabilitation. The need to replace other passenger cars and locomotives is modest, assuming that Metra is able to maintain its rehabilitation program.
- Metra operates a relatively old fleet with an average age of 24.8 years, or about 22 percent older than the peer average of 20.3 years, as reported by the NTD. About 59 percent of Metra's passenger car fleet is past the minimum retirement age allowed by FTA. This is well above the peer average of 45 percent.

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### **PACE**

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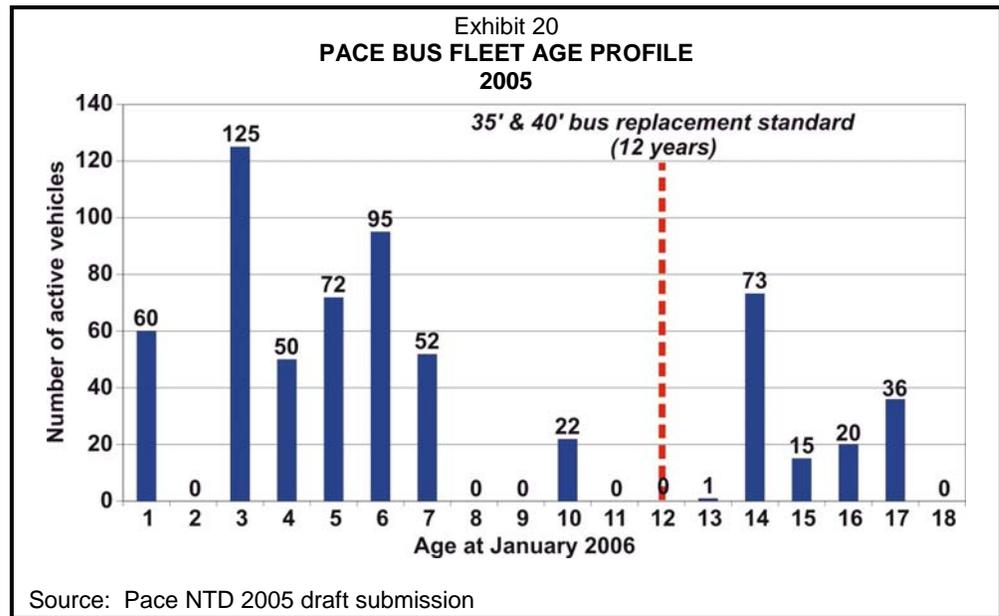
Pace operates a fixed-route fleet of 643 vehicles, having a replacement value of approximately \$225 million. Pace also operates a large demand-responsive fleet, mostly through contracts with private operators, totaling 470 vehicles. The demand-responsive fleet consists primarily of small vehicles (e.g., vans, taxicabs) that vary greatly in durability and longevity, as well as unit cost (e.g., \$25,000 to \$70,000). This audit focuses on the fixed-route fleet, since it accounts for about 90 percent of vehicle asset value.

Pace manages its bus fleet effectively, but has replacement needs that exceed those presented in the financially constrained CIP:

- The Pace fleet is slightly older in age to its peers, and Pace achieves about the same utilization rates as its peers.
- Pace has done a good job of creating an age-diverse fleet by staggering its vehicle replacements.
- Without funding constraints, Pace 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 \$18 million (38%) higher than presented in the financially constrained CIP.

The Pace fixed-route fleet includes buses with lengths of 27', 30', 35', and 40'. The shorter buses have a less durable standard than the larger buses. For this reason, FTA prescribes two minimum bus service lives: 12 years for 35' and 40' buses and 10 years for buses of 30' and less. Exhibit 20 shows the age distribution of Pace's large vehicle fleet. The larger 35' and 40' buses account for 621 of the 643 active buses. The smaller 30' and 27' buses number 22 vehicles. The overall fleet age is 7.1 years.



Although the larger vehicle fleet has a lower average age, this is due to a large number of newer vehicles. Almost a quarter of the fleet (145 vehicles) is well past retirement age and another 22 vehicles are approaching retirement. In the next five years, Pace could justify retiring all 167 vehicles that are past, or nearing, retirement age. Once these vehicles are retired, Pace can go five or more years without further vehicle replacements, given the significant investment in new vehicles made over the past seven years. The smaller vehicle fleet brackets the 10-year replacement standard, ranging in age between 9 and 11 years. [See Chapter Eleven of the report.]

**CONTRACTS AND PROCUREMENT**

Opportunities for joint procurement may be limited given the differing modes of service offered by the Service Boards, but some opportunities do exist. For example, the CTA-Pace farebox procurement has been underway for over three years without selecting a supplier.

Both CTA and Pace operate buses but generally use different types of buses. This reduces the opportunities to standardize the procurement and inventory of buses and their parts. Also, the procurement sizes of both CTA's and Pace's major bus purchases are large enough to attract major bus suppliers on their own.

As part of the regional move towards common fare media, it is important to have fareboxes that accept common fare media, such as various types of transit passes and stored value cards. CTA's fareboxes are approximately 18 years old, compared to a 10-year useful life.

CTA and Pace agreed that CTA would be the lead agency for this procurement. Pace assisted in the preparation of the procurement document, the evaluation of the proposal(s), and is involved in the vendor negotiation process. After agreement was reached on the technical specifications, a request for proposal was issued in 2003. However, the procurement is still open and both CTA and Pace officials were uncertain if this process would result in the award of a contract. [See Chapter Twelve of the report.]

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**As part of the regional move towards common fare media, it is important to have fareboxes that accept common fare media, such as various types of transit passes and stored value cards.**

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<b>REAL ESTATE</b>
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CTA, Metra, and Pace possess real estate to house their administrative operations, as well as to operate their respective transit systems. Our review of the Service Boards' real estate administrative operations identified the following:

- The top floor of the CTA Headquarters building (approximately 34,000 square feet) is unoccupied. The CTA has been attempting to rent it, but has been unsuccessful. The CTA's financial plan for acquiring the new headquarters was based on the assumption that rental income would be generated by this space.
- Metra occupies approximately 63 percent of its headquarters building, and leases approximately 18 percent to commercial tenants.
- Pace conducted a Capital Needs Assessment over 10 years ago that concluded that the cost to substantially rebuild its existing headquarters to meet current operational and technological requirements exceeded the cost to construct a new headquarters facility. However, a new facility has not been constructed, but is in the final state of design with construction scheduled to begin in mid-2007.

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**CHICAGO TRANSIT AUTHORITY**

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The top floor of the CTA headquarters (approximately 34,000 square feet) is unoccupied and marketed for rent to sub-tenants. CTA officials said that they intended to use less than the total gross floor area of the building in the initial years of occupancy to ensure adequate space for future expansion. The financial plan for acquisition of the property, including bond financing, was based on the assumption that rental income would be generated by the residual space. Accordingly, one full floor of the building was set aside for future use by CTA, but has been advertised to public agencies since August 2003, although no serious offers to lease have been received for either the full or partial floor.

When CTA consolidated its headquarters at West Lake, most of the administrative functions that were located at the North Racine control center were relocated to West Lake. The CTA control center occupies the top floor of a three-story building, which has a total gross floor area of approximately 100,000 square feet.

We question the rationale to sublease two floors of the North Racine building rather than vacating all of the space at North Racine in the hope of finding one or more tenants to acquire all of the space. CTA does not appear to have addressed the question of whether it would realize faster absorption and higher market rent by attempting to sublease the North Racine property in its entirety (approximately 100,000 square feet)

rather than creating two sublease scenarios (at West Lake and North Racine) of equivalent floor space that were each subject to use restrictions.

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### **METRA**

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Metra occupies a multi-story commercial building at 547 West Jackson Boulevard in Chicago. The building was constructed in approximately 1912 and based on its characteristics (location, quality and amenities) is considered to be a Class C building. This designation denotes an office property that is generally not suitable for occupancy by major commercial or institutional tenants and lacks all but the most basic health, safety and operational features.

Metra occupies approximately 63 percent of its headquarters building and an additional 18 percent is leased to tenants. The remaining 19 percent is vacant and Metra has engaged the services of a real estate broker to further increase the occupancy of the building.

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### **PACE**

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Pace is headquartered in a single story 43,000 square foot suburban office building. Pace officials said the facility has outlived its useful economic life and represents a constraint on the operational efficiency of headquarters personnel.

Senior management at Pace said that a 60,000 square foot replacement building is planned for an adjacent site that was acquired for this purpose. A Capital Needs Assessment conducted on behalf of Pace concluded over 10 years ago that the cost to substantially rebuild the existing structure to meet current operational and technological requirements exceeded the cost to construct a new facility. Once the new building is built and occupied, Pace officials intend to sell a portion of the existing site. [See Chapter Thirteen of the report.]

<b>RECOMMENDATIONS</b>
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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.

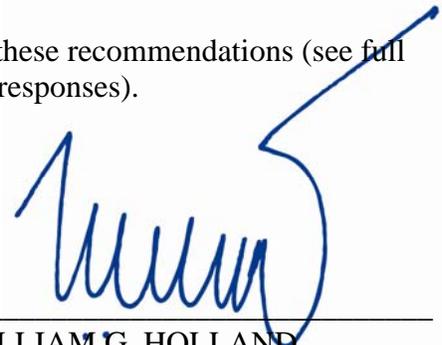
34. Metra should review its past grant awards and determine if projects that are contributing to the growth in the unobligated balances are still necessary, and, if so, why they are not being expended in a more timely manner.

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).



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WILLIAM G. HOLLAND  
Auditor General

WGH:AD  
March 2007

### **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.



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