Capital Metropolitan Transportation Authority

Project Manager: Christian Ninaud

Capital Metro at a Glance

Created in 1985, the mission of the Capital Metropolitan Transportation Authority (Capital Metro) is to provide quality public transportation choices that meet the needs of its growing region. To carry out its mission, Capital Metro provides the following key services:

- bus services on regular routes, express bus services, park and ride services, and shuttle services for the University of Texas-Austin;
- door-to-door paratransit service for people with disabilities who cannot use regular bus service;
- commuter rail, including the construction and operation of the first line running from Austin to Leander that started service in March 2010; and
- freight rail operations, including the maintenance of 162 miles of rail that Capital Metro owns, running from Giddings to Llano.

Unlike state agencies, Capital Metro is not subject to abolishment under the Sunset Act. The legislation that placed Capital Metro under Sunset review, Senate Bill 1263 by Senator Kirk Watson, 81st Legislative Session, also provides for a second Sunset review of Capital Metro in 2017.

Summary

Capital Metro faces a financial crisis that could threaten its ability to maintain current services. In anticipation of building commuter rail, Capital Metro accumulated more than $200 million in reserves, but did not responsibly manage these funds. The Board took on financial liabilities without setting aside money to pay these ongoing commitments. The Board also did little to rein in the high cost of its services, maintaining a costly labor structure rooted in decades-old labor law, and greatly underestimating the cost of developing and maintaining a safe commuter rail system.

The Board must embrace fiscal constraint and open accountability.

The Sunset Commission found that Capital Metro's overspending cannot be sustained. The Board must embrace fiscal constraint and open accountability for its expenditure of public funds. Capital Metro needs to improve its budgeting processes and provide the public with greater transparency regarding its financial decisions. The Board must make many difficult decisions to lower costs and increase revenues that will require effective engagement with all stakeholders including the local transit union and the disability community. While the Board and its newly-hired General Manager have voiced a clear intent to follow through on the Sunset Commission's recommendations, the Commission concluded that placing many of these changes in law would ensure compliance into the future. The following material summarizes the Sunset Commission's recommendations on Capital Metro.

Issue 1

Capital Metro Has Failed to Responsibly Manage Its Finances.

Spending decisions over the last several years have led Capital Metro on a risky financial path. First, Capital Metro has obligated itself to significant future financial liabilities without setting aside funds to pay for its commitments. Second, it has failed to maintain an operating reserve to ensure the Authority could weather economic downturns and other variables such as high fuel costs or unanticipated health claims. In addition, Capital Metro pays significantly higher costs than its peers for most transit services and has done little to control these costs. The Authority also has a long history of subsidizing fares at levels far in excess of its transit peers.

The Sunset Commission concluded that Capital Metro's lack of adequate financial planning, combined with its high cost of services, places its long-term financial viability at risk. Turning the Authority's finances around will mean taking ownership of previous mistakes and implementing new basic budgeting procedures, including a more robust capital planning process.

Recommendations

Change in Statute

1.1 Require the Board to maintain a reserve equal to at least two months of operating expenses, and define criteria for its use.

This recommendation would require the Board to maintain a minimum reserve equal to at least two months of operating expenses, or currently about $27.5 million. Under this recommendation, the Board would have three years to initially establish this reserve. While a two-month operating reserve is the minimum, the Board should strive to establish a three-month reserve if possible. In re-building the reserves, the Board should also:

- establish criteria for spending any amount in the core balance of the reserve fund, limited to emergency circumstances that could not have been planned for or anticipated;
- plan to replenish reserve amounts as quickly as possible should any of the core balance be spent;
- maintain reserves in a segregated account; and
- account for, and post on its website, annual year-end reserve balances, deposits, expenditures, and interest income.

1.2 Require the Board to adopt, and annually re-evaluate, a five-year strategic plan that clearly links to, and drives, the budget.

This recommendation would require Capital Metro to develop a new strategic plan that establishes its mission and goals, and the business activities that support achieving this mission. The strategic plan would set policy and service priorities that drive development of the operating and capital budgets, and allocate resources based on strategic priorities. The strategic plan should align with, and support, the regional metropolitan planning organization's long-range transportation plan where appropriate. Capital Metro departments should develop business plans, with performance measures, that support the strategic plan.

1.3 Require the Board to annually adopt a balanced budget that includes operating and capital spending.

The current statutory requirement to adopt an annual balanced operating budget would be modified to include capital spending planned for that year. The budget should clearly account for amounts budgeted for each of Capital Metro's major departments, including sources of funding. Each department, in addition to detailed information on budget needs, should provide information on any proposed capital project for the year, including purpose, benefits, funding sources, implementation costs, and any resulting operational costs.

As part of this recommendation, staff would provide the Board with quarterly status reports on actual operations and capital expenditures, in comparison to amounts budgeted. These reports should include updates on all key capital projects, including information on project completion, work completed compared to budget spent, and any contract management concerns. To assist with reporting on capital projects, Capital Metro should also develop a consistent method for tracking capital project costs, to include, at a minimum, tracking the baseline budget, contract awards, contract changes, and expenditures to date.

1.4 Require the Board to adopt an ongoing five-year capital improvement plan.

This recommendation would require the Board to develop and annually approve a five-year capital improvement plan that links to Capital Metro's strategic goals. The Board should base the plan on transit industry best practices, and consider recommendations included in the Authority's recent capital planning audit. Capital Metro should give the public the opportunity to review and comment on the capital plan before the Board adopts it. The plan should align with, and support, the regional metropolitan planning organization's long-range transportation plan where appropriate. The capital plan should include, at a minimum, the following elements:

- prioritization of capital projects anticipated over a five-year period;
- description of planned capital projects, including project category and scope;
- financing of capital projects, including implications for ongoing operational costs;
- sources of funding for projects including local and federal funds; and
- policies for capital planning, estimating costs, tracking spending, approving capital projects, and reporting on projects.

1.5 Require the Board to adopt a clear and open policy for evaluating and compensating its General Manager.

This recommendation would require the Board to conduct regular performance evaluations of the General Manager, holding this top official accountable for the overall efficiency and effectiveness of the Authority and its staff. While the Board could discuss the details of the General Manager's performance in executive session, under this recommendation any raises, bonuses, or other compensation would need to be granted in public by Board vote.

Management Action

1.6 The Board should evaluate, and take action on, measures to reduce costs and increase revenues.

To help attain a baseline operating reserve, the Sunset Commission identified a number of areas the Board should review to reduce costs and increase revenues. The chart, *Recommendations for Savings, Revenue Increases, and Cost Avoidance*, shows areas the Board could act on to help Capital Metro rebuild its reserves.

Recommendations for Savings, Revenue Increases, and Cost Avoidance

Recommendation	Fiscal Estimate
1. Adopt a 5-percent across-the-board reduction in costs, based on the fiscal year 2010 operating and capital budget of $206.2 million.	$10.3 million in annual savings
2. Require Capital Metro and StarTran administrative employees to contribute 4 percent of wages to their pension plan.	$770,000 in annual savings
3. Increase paratransit productivity to achieve a 10-percent reduction in costs by revising policies that exceed Americans with Disabilities Act requirements, including taxi vouchers, open returns, door-to-door services, and reservations.	$3 million in annual savings
4. Charge a bus fare of 50 cents for groups currently riding free ($1.7 million in revenues) and charge $2 for paratransit rides ($155,600 in revenues).	$1.8 million in annual revenue gains
5. Renegotiate the UT-Austin contract to cover 65 percent of Capital Metro's fully allocated costs of providing shuttle services.	$3.3 million in annual revenue gains
6. Freeze capital spending on expansions of commuter rail that use tax revenues as a source of funding, including extra sidings ($5 million) or double-tracking ($48 million), as long as safety is not compromised.	$53 million in one-time avoided costs
7. Review all capital spending projects and put on hold any not immediately needed to ensure public safety or that would not jeopardize federal funding if not completed. For example, discontinue bus stop upgrades not required by the Americans with Disabilities Act.	$1.5 million in one-time avoided costs

1.7 Capital Metro should post detailed financial information on its website to help ensure accountability and transparency when spending public funds.

Capital Metro should post on its website financial information, to be updated annually, and to include at a minimum:

- departmental financial statements including budgeted and actual expenditures;
- information on all contracts, including amounts and expenditures;
- a five-year archive of past budgets;
- long term financial plans; and
- executive management salaries.

Issue 2

Costs for Capital Metro's In-house Transit Services Are Excessive and Not Sustainable.

Housed within Capital Metro, a private nonprofit corporation known as StarTran provides the vast majority of the Authority's transit services, but at a high cost that Capital Metro cannot effectively control nor sustain. Essentially, Capital Metro pays the bills for StarTran, but with no performance-based contract in place. Thus, StarTran exists as a perpetual sole-source provider that offers no better performance for its higher costs than Capital Metro's two other contracted transit providers.

Originally created to resolve a conflict between federal and state labor laws, the Sunset Commission concluded that maintaining StarTran as a transit provider is increasingly untenable for Capital Metro in these financial times. Competitively contracting out for these services would require major changes to the Authority's organization and would not come without some disruption and dissention. However, competitively procuring these transit services would provide taxpayers and transit users with the best value for their dollars, and provide Capital Metro with the tools needed to hold all providers equally accountable for performance.

Recommendations

Change in Statute

2.1 Require Capital Metro to competitively bid all transit services not directly provided by its own employees.

Capital Metro would be required to use a competitive bidding process to contract out for any transit services not provided directly by Capital Metro employees, including bus and paratransit services currently provided by StarTran. Under this recommendation, StarTran would be dissolved as part of any plan to competitively contract out for these services. Capital Metro should ensure these contracts include performance and cost control measures, incentives for performance, penalties for non-compliance, contract end dates, and consideration for hiring current StarTran employees.

This recommendation would allow for Capital Metro to directly provide transit services should it work out an agreement with union employees that does not include collective bargaining or the right to strike.

Because this recommendation involves significant changes to Capital Metro's business operations, this requirement would not go into effect until September 1, 2012.

Management Action

2.2 Capital Metro should develop a competitive procurement plan for transit services.

Under this recommendation, Capital Metro should identify organizational efficiencies and cost savings resulting from competitively procuring these services, as well as any potential costs. In particular, the plan should address how to effectively resolve any issues tied to the unfunded liability of the pension plan for StarTran's bargaining workers.

The plan should include a target date for having competitive contracts in place, and procedures for overseeing these contracts, including clear expectations for monitoring activities, procedures for holding contractors accountable for performance and contract terms, and a division of monitoring responsibilities between Capital Metro's contract administration and program management staff. Capital Metro should develop and begin to implement this plan by June 30, 2011, the date that StarTran's current labor agreement with the union expires.

Issue 3

Capital Metro Must Enhance Commuter Rail Safety Before Expanding Its Rail System.

While the Federal Railroad Administration approved Capital Metro's commuter line for service in March 2010, many of the Authority's railroad bridges, including some on the corridor shared by commuter and freight operations, need major repair or replacement to remain safe. However, in its push to start commuter rail service, Capital Metro has yet to budget for, or complete a cost estimate and prioritization of, all necessary bridge work.

Capital Metro encountered numerous stumbling blocks in developing its commuter rail line. These problems stemmed from unreliable tracking of commuter rail expenses, insufficient planning, persistent technical problems, poor contract oversight, fragmented project management, and a lack of accountability for results across departments. As a result, the Authority launched the rail line significantly over budget and two years later than planned. The Sunset Commission concluded that Capital Metro should take steps to ensure that these problems do not occur again on any future rail project, but more importantly, that these problems do not impact the ongoing safe operation of its current rail service.

Recommendations

Change in Statute

3.1 Require Capital Metro to maintain a comprehensive rail safety plan and to regularly report on the ongoing safety of the system.

This recommendation would require a comprehensive rail safety plan, in accordance with federal and industry standards, that covers all aspects of the Authority's rail activities, including both commuter and freight. The plan should address specifics, such as hazard analyses, risk assessments, and audits to ensure rail contractors are fulfilling their safety obligations. Capital Metro should also place particular focus on ensuring the ongoing safety and maintenance of its railroad bridges. As part of this recommendation, Capital Metro would report on the safety of its system to the Board and to the Texas Department of Transportation's Rail Division on a quarterly basis or upon request.

3.2 Require Capital Metro to employ a Rail Director to oversee and be accountable for all rail system development, operations, maintenance, and safety.

This recommendation would create a single top-level position dedicated exclusively to and accountable for overseeing rail development, operations, maintenance, and safety. The Rail Director would be authorized to halt rail operations at any time based on the need to protect public safety. The Rail Director would be responsible for, at a minimum, the following activities.

- Overseeing all personnel and contractors responsible for operating and maintaining the commuter and freight rail systems and equipment.
- Overseeing rail safety activities, including testing needed to ensure a safe signal system and effective operations control center.
- Developing a plan specifying a division of responsibilities between maintenance and capital projects activities, including ensuring the safety of railroad bridges.
- Acting as the key point of contact for ensuring compliance with any applicable federal, state, and local regulations or requirements.
- Coordinating with Capital Metro's engineering and construction department on the design and construction of any new rail projects.
- Reporting to the General Manager and Board on the safety, performance, and financial status of the rail system.

Management Action

3.3 Capital Metro's Board should take immediate action to prioritize needed replacement, repair, and maintenance of its railroad bridges.

Capital Metro's Board should prioritize needed bridge replacements and repairs, with a focus on those with the most potential for risks to public safety, such as those on the commuter rail corridor. Any critical repairs should take clear precedence over other projects to expand the system, such as improvements or upgrades for the rail line currently in operation. Capital Metro should include bridge-related capital projects in its five-year capital improvement plan and accurately identify costs, timelines, and divisions of responsibilities for needed replacement and rehabilitation of bridges. The plan should also take into consideration any federal railroad bridge guidelines and regulations.

3.4 Capital Metro should develop a contract monitoring plan for major rail projects to ensure accountability for the cost-effective delivery of services.

Capital Metro should develop plans for overseeing and monitoring major rail contracts to ensure the Authority receives what it pays for, and that contractors comply with their contracts. The plans should cover contracts for operations and maintenance, and engineering and construction. For each of its major rail contracts, Capital Metro should tailor a plan to include items such as the following.

- Establish a clear division of monitoring responsibilities and tasks for contract administration and program management staff, including how program staff will report monitoring activities and coordinate with contract administration for any needed remedies.
- Set clear expectations for monitoring activities, including items such as developing a risk assessment, conducting desk audits and site visits, reviewing expenditures, tracking deliverables, and reviewing status reports from the contractor.
- Monitor contract changes, including full documentation, analysis, and written approval of changes. Capital Metro staff should evaluate contract changes to determine their impact on deliverables, costs, and the overall progress of the project.

3.5 Capital Metro should develop a clear approach for planning, developing, and implementing any future rail-related projects.

To ensure against a recurrence of problems encountered with its first commuter rail line, for any rail-related capital project development and implementation, Capital Metro should formulate a clear approach that addresses the following components.

- Develop more accurate and conservative timelines, including appropriate time for front-end planning.
- Acquire experts with knowledge of, and experience with, all aspects of the project, including federal rail standards and processes, to ensure safety.
- Determine any applicable regulatory structure in the preliminary phases of project development and properly engage with regulators early on and throughout the process.
- Ensure frequent communication among Board members, staff, contractors, and the public throughout all phases of the capital project, from initial design to final construction.
- Use established project management techniques, such as those FTA recommends, and controls for tracking the project's completion costs and timeliness.
- Develop more accurate and conservative capital and operating budgets that adequately account for all costs, including any cost allocations between commuter and freight operations.

Issue 4

The Board Has Not Effectively Engaged Stakeholders, Eroding Public Trust in Its Decisions.

Capital Metro's Board faces a significant challenge in overcoming the Authority's long legacy of appearing "tone deaf" to public concerns. While Capital Metro invests significant time in efforts to interact with stakeholders and collect public input, this overall perception persists. The Board also obtains advisory committee input, but key stakeholders continue to feel disenfranchised. In particular, Capital Metro's working relationship with the disability community is in serious disarray, which has left critical decisions on paratransit services unresolved for years.

Recommendations

Change in Statute

4.1 Require Capital Metro to develop and implement a policy that guides and encourages more meaningful public involvement efforts.

This recommendation would require Capital Metro to develop a public involvement policy that ensures the public has the full opportunity to help shape decisions on Capital Metro's plans and transportation projects. The policy would include, at a minimum, the following elements:

- assurance that the public has the opportunity to comment on issues in advance of Board decisions, and that the consent agenda is used for routine, non-controversial items only;
- time frames and an approach for obtaining input throughout the year, particularly in regards to strategic planning, budgeting, capital planning, transit initiatives, and service changes; and
- information on how the public can be involved, including attending Board meetings and neighborhood meetings, participating in surveys, submitting comments by Internet, and joining an email contact list to receive information on upcoming meetings and discussion topics.

Management Action

4.2 Capital Metro should provide sufficiently developed materials to Board members well in advance of meetings.

Capital Metro staff should work with the Board to ensure that materials meet the needs of Board members and support informed decision making. These materials should include, at a minimum, the proposed motion, short- and long-range budgetary impacts, summary of the issue, summary of any public or advisory committee input, and any alternative proposals for consideration.

4.3 The Board should develop a policy for advisory committee reporting to ensure consideration of committee input in advance of Board decisions.

This policy should address, at a minimum, the following:

- providing advisory committees specific charges;
- seeking advisory committee comments and recommendations in advance of Board decisions; and
- tracking Board adoption, rejection, or modification of advisory committee recommendations.

4.4 The Board should assess its overall process for receiving input on paratransit issues, including evaluating the size and composition of the Access Advisory Committee.

The Board should evaluate all of its procedures for taking public input on paratransit issues to determine how these could be restructured to most effectively receive, and consider, input on paratransit service and policy issues. The Board should take this opportunity to be actively involved and assess if the current size and composition of the Access Advisory Committee is adequate or if another approach is warranted.

Fiscal Implication Summary

These recommendations would not have fiscal implications for the State, because Capital Metro does not receive state appropriations. However, these changes overall, if adopted, could result in significant savings to Capital Metro, as summarized below.

- ***Issue 1*** – Based on a series of Sunset management recommendations, Capital Metro could realize annual savings of up to $14 million, annual revenue gains of up to $5.1 million, and one-time avoided costs of about $54.5 million. However, these amounts are not in the chart below as the actual fiscal impact will depend on specific actions of the Capital Metro Board.
- ***Issue 2*** – Requiring Capital Metro to competitively contract out transit services would result in a net estimated savings of $11.8 million initially and up to $22.2 million once some initial costs have been covered. While Capital Metro may take action sooner, this estimate conservatively provides a year to implement these changes. In addition, the exact amount of these savings would depend on contract negotiations. These savings take into account costs to Capital Metro related to converting StarTran's pension plan into a private plan, and paying out vacation and sick leave for StarTran employees.
- ***Issue 3*** – Requiring Capital Metro to create a new Rail Director position would have a cost of about $195,000 annually; however, Capital Metro can cover these costs using currently budgeted and unfilled executive positions.

Fiscal Year	Savings to Capital Metro	Costs to Capital Metro	Net Savings to Capital Metro
2012	$0	$0	$0
2013	$22,200,000	$10,400,000	$11,800,000
2014	$22,200,000	$6,000,000	$16,200,000
2015	$22,200,000	$6,000,000	$16,200,000
2016	$22,200,000	$0	$22,200,000