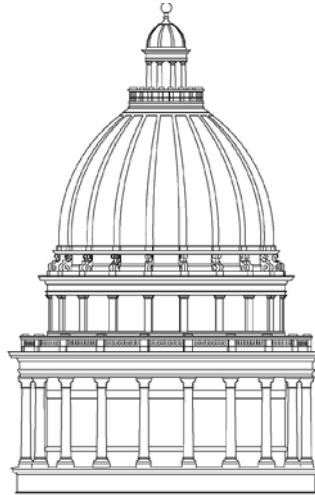


REPORT TO THE
UTAH LEGISLATURE

Number 2014-06



**A Performance Audit of the
Utah Transit Authority**

August 2014

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

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President Wayne L. Niederhauser, Co-Chair • Speaker Rebecca D. Lockhart, Co-Chair
Senator Gene Davis • Representative Jennifer M. Seelig

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

August 26, 2014

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of the Utah Transit Authority** (Report #2014-06). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff". The signature is stylized and includes a flourish at the end.

John M. Schaff, CIA
Auditor General

JMS/lm

Digest of a Performance Audit of the Utah Transit Authority

This report presents an in-depth follow-up to portions of our 2008 and 2012 performance audits of the Utah Transit Authority (UTA). We also reviewed UTA development projects, including transit-oriented developments (TODs) for the first time. UTA is a large multi-modal transit agency with a service area in six counties that includes almost 80 percent of the state's population. In 2013, about 65 percent of UTA's revenue (\$312 million) came from sales tax collections. Federal support and passenger revenues are also important sources of revenue.

UTA provides many valuable services to the community and was recently recognized as the best large transit system in the country by the American Public Transportation Association. Issues raised in this report focus on where UTA needs to further improve oversight, bolster controls, and refine processes. In response to this audit, the UTA board has already approved policy changes addressing all of the recommendations in Chapters II and III of this report. The board and UTA management are also in the process of reviewing the recommendations in the other chapters for implementation.

Chapter II Development Projects Need Better Control and Oversight

Questions Exist with the Draper FrontRunner Parking Structure. This is a complex project with many levels of legal documentation. We are concerned with the decision to prepay \$10 million to a developer to construct a future garage even though there were no design specifications or immediate plans for construction. Further, two-and-a-half years later, UTA hired another contractor to build the garage, but the developer no longer had all the funds immediately available to repay UTA. UTA is still owed \$1.7 million. Simply stated, the \$10 million prepayment was against UTA policy and practice and appears to us very unusual. Additional concerns include the lack of a cost-benefit analysis, the adequacy of legal documentation, the release of valuable collateral for questionable collateral, the difficulty UTA had supporting \$1.5 million in site preparation work, and the general lack of documentation and changing explanations we experienced throughout the audit. The lack of sufficient control and oversight can put taxpayer funds at risk.

The UTA board has already approved policy changes addressing all the recommendations in Chapters II and III of this report.

UTA prepaid for a future parking structure, which is against UTA internal policy and practice.

An independent law firm concluded that UTA’s agreements with the developer appear to favor the developer.

The UTA board has taken action to correct segregation of duty concerns and better control for risks at UTA.

The UTA board recently approved policy changes addressing every recommendation in Chapter III.

Questions Exist with Jordan Valley TOD Site. Some UTA employees question the procurement process used to select the developer on the Jordan Valley TOD project. We also believe some aspects of the procurement process are concerning. Further, the development agreement UTA signed with the developer appears to us and an independent law firm (Snell and Wilmer) to be overly favorable to the developer. Snell and Wilmer believe that some of the provisions of the contract are “far out of market.” Lastly, to date, \$26 million in federal and state funds have been spent on infrastructure and two parking structures at the Jordan Valley project site. The developer’s portion of these costs was set at \$3,896,000, but the developer has not yet paid this amount.

Better Procedures and Increased Controls Will Improve TOD Process. The number and severity of concerns identified in the two development projects we reviewed warrant increased procedures, better controls, and improved oversight. For example, the TOD function had been operating under the Office of the General Counsel at UTA. This placement created a significant segregation of duty concern. Also, UTA’s internal auditor must take on a more visible role with TOD oversight and provide better information to UTA’s board. During the audit some members of the board told us they were aware of the segregation of duty concern, and had been in the process of correcting it before the audit began. The board did take action by creating a new position for property development (TOD) that will be separate from the general counsel’s office, the position has not yet been filled. In addition, the board has also approved new policies that implement all the other recommendations in this chapter.

Chapter III

UTA Should Benchmark Total Compensation

UTA Executive Compensation Includes Large Bonuses and Special Benefits. Besides base salary and standard benefits, UTA provides additional compensation to executives. Top executives at UTA receive bonuses and special benefits not available to other UTA employees, including two types of deferred compensation plans and car allowances. The two highest-paid employees at UTA also have special life insurance benefits. UTA’s general counsel is also given a special retirement package that doubles his years of service credit for his first ten years of employment (thus increasing his lifetime benefit by about \$50,000 per year above the normal pension).

UTA Compensation Higher Than UDOT or SLC Department of Airports. The audit team was specifically asked to compare UTA executive compensation to the Utah DOT and the Salt Lake City Airport by the audit requestor and UTA’s board chair, respectively. UTA’s total compensation is high when compared to these two agencies. Some positions, such as general

counsel, are paid significantly higher than at these other entities. We also attempted to compare total compensation of UTA executives with comparable positions at other transit agencies. However, there was concern with the reliability of the data and since the audit recommendations do not depend on the transit comparison; and since UTA has committed to conducting their own total compensation survey, we decided against reporting the transit comparison.

UTA Did Not Report All Compensation Information to Transparency Website. Utah's transparency website, transparent.utah.gov, was created by the Legislature in 2008 to promote transparency and accountability in public agencies. UTA did not report portions of employee compensation information from this website, thus obstructing accountability to the public and circumventing the intent of the statute. We raised this issue with UTA management several months prior to their submission of 2013 compensation information, yet UTA did not correct the omissions prior to submitting 2013 information. The UTA board recently approved a policy change requiring UTA management to submit all compensation data to the transparency website.

Despite being made aware that not all compensation was being reported, UTA management still underreported compensation in 2013. The UTA board recently approved a new policy to correct this issue.

Chapter IV

Financial Constraints Affect Asset Upkeep, Bus Service, and New Projects

UTA Faces Financial Constraints. Our 2012 audit indicated that UTA's revenue and expense projections were optimistic. This follow-up review found that UTA has adjusted projections to make them more reasonable. Nonetheless, as previously reported, the rapid expansion of rail lines has sharply increased debt payments, thereby reducing the funds available for operations and maintenance (O&M) costs. Because debt service, O&M, and capital costs will exceed revenues for most years until 2020, UTA plans on drawing down its reserves to maintain services. The debt service to sales tax ratio steadily increases until 2018.

Rail Upkeep Costs Are Significant and Currently Underfunded. As we followed up on our prior audit work on UTA revenues and costs, an important concern arose that had not been addressed in our last audit, which is state-of-good-repair (SGR) costs. SGR refers to the maintenance, overhaul, and replacement of assets. UTA's board is aware of this issue and has made it a priority. Unfortunately, these future SGR costs are significant with a potential \$2.9 billion in expenses up to 2033. Because these cost have been recently identified, UTA has not yet worked much of these costs into its long-term planning documents. However, the UTA board is aware of future SGR costs and prioritized full funding in their 2020 strategic plan.

The UTA board is aware of future SGR costs and prioritized full funding in its 2020 strategic plan.

UTA has reduced bus service because of financial constraints, which has led proponents to seek tax increases.

Bus Service Has Suffered Due to Financial Constraints. Our 2012 audit report stated the following: “As UTA begins to integrate more rail lines within its current system, route adjustments and additional service cuts may be needed. Similarly, revenue shortfalls may require adjusting expansion plans.” As expected, bus service has suffered because of financial constraints. In fact, concern about inadequate bus service has led to proponents seeking a tax increase to improve service.

Future Capital Projects Depend on New Funding Sources. As requested, we reviewed projections for future transit projects and the capital costs necessary to build them. Many projects totaling billions of dollars have been proposed in planning documents, but construction plans are predicated on future tax increases.

Chapter V

Transit Is Highly Subsidized; Better Data Can Aid UTA Board’s Customer Focus

Questions with Farebox Policy Still Exist. Our 2008 and 2012 audits recommended that the UTA board more clearly articulate farebox policy in light of widely different subsidy levels among passenger types and transit modes. Our 2008 audit also identified a concern that UTA’s overall operating subsidy level was relatively high. Our current audit work shows that inconsistency in subsidy level among passenger types and modes remains. While the overall subsidy level has decreased in recent years, it is still high at 77 percent of operational costs (86 percent of total costs).

UTA Still Needs to Improve Passenger Data. Our prior audit reports have identified concerns with UTA’s passenger data. UTA previously reported to us, and we agree, that its electronic fare collection (EFC) system could provide good data. The system has cost UTA about \$19 million. While UTA has made improvements to its EFC system since the last audit, the system is still insufficient to analyze ridership. Also, inconsistencies and limitations in the data uncovered during our audit work prevent effective analysis. The board should use its internal auditor to help implement audit recommendations and improve data practices.

Additional Metrics Can Help UTA’s Board Realize a Customer Focus. The board recently adopted a new strategic plan that places the customer as its primary focus. More accurate and relevant performance measures are needed to provide the board with frequent and competent information to realize that focus. We recommend that the board of trustees supplement its dashboard with additional performance measures to enhance its customer focus.

UTA data practices inhibit high-level analysis and informed decision making.

REPORT TO THE UTAH LEGISLATURE

Report No. 2014-06

A Performance Audit of the Utah Transit Authority

August 2014

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Chapter I

Introduction

This report presents an in-depth follow-up to portions of our 2008¹ and 2012² performance audits of the Utah Transit Authority (UTA). We also reviewed UTA development projects, including transit-oriented developments (TODs) for the first time. UTA is a large multi-modal transit agency with a service area in six counties that includes almost 80 percent of the state's population. In 2013, about 65 percent of UTA's revenue (\$312 million) came from sales tax collections. Federal support and passenger revenues are also important sources of revenue.

UTA provides many valuable services to the community and was recently recognized as the best large transit system in the country by the American Public Transportation Association. Issues raised in this report focus on where UTA needs to further improve oversight, bolster controls, and refine processes. In response to this audit, the UTA board has already approved policy changes addressing all of the recommendations in Chapters II and III of this report. The board and UTA management are also in the process of reviewing the recommendations in the other chapters for implementation.

UTA Has a Broad Mission and Goals

UTA provides public transit services via light rail, commuter rail, and buses. It also provides vanpool and paratransit services to approved or eligible individuals. UTA was founded in 1970 to provide transit services along the Wasatch Front and is currently based in Salt Lake City. In 2013, UTA received almost \$312 million in revenues and had 2,153 full-time equivalent employees. UTA's service area includes Salt Lake, Utah, Davis, and Weber counties, as well as various cities in Tooele and Box Elder counties. In 2013, the Utah population within UTA's service area was estimated at almost 2.3 million people or 79 percent of the state's total population.

¹ 2008: A Performance Audit of the Utah Transit Authority (Report# 2008-03) — http://le.utah.gov/audit/08_03rpt.pdf

² 2012: A Performance Audit of the Utah Transit Authority (Report# 2012-01) — http://le.utah.gov/audit/12_01rpt.pdf

The UTA board has already approved policy changes addressing all the recommendations in Chapters II and III of this report.

Under its 2020 strategic plan, UTA centers its core mission on responding to customer needs.

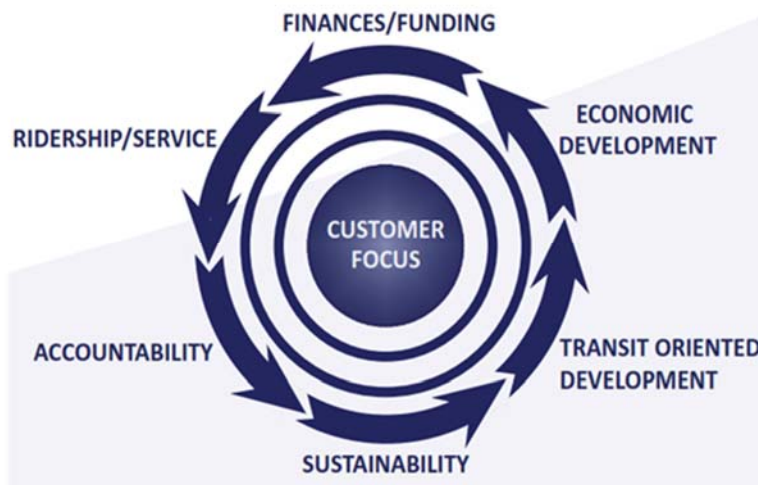
UTA is defined in *Utah Code* 17B-2a-801 as a public transit district. As required by statute, UTA is governed by a 15-member board of trustees whose members are appointed by local municipalities and state government representatives. The board's role is to establish agency policy and monitor performance. It is also responsible for appointing the agency's general manager, general counsel, and internal auditor.

Although the agency was originally incorporated for the purpose of providing mass transit services to the public, UTA now defines its mission and goals more broadly. Under the direction of its board of trustees, UTA has adopted the following mission statement:

Utah Transit Authority strengthens and connects communities, thereby enabling individuals to pursue a fuller life with greater ease and convenience by leading through partnering, planning, and wise investment of physical, economic, and human resources.

In 2013, UTA collected input from employees, municipalities, businesses, and customers to develop a 2020 strategic plan. Under this plan, UTA centers its core mission on responding to customer needs. UTA's customer focus is surrounded by rings of supporting activity. Figure 1.1 shows a graphic designed by UTA to illustrate its strategic goals.

Figure 1.1 UTA's 2020 Strategic Plan. The UTA board recently adopted its 2020 strategic plan, which is shown graphically in this figure.



Source: Utah Transit Authority 2020 Strategic Plan

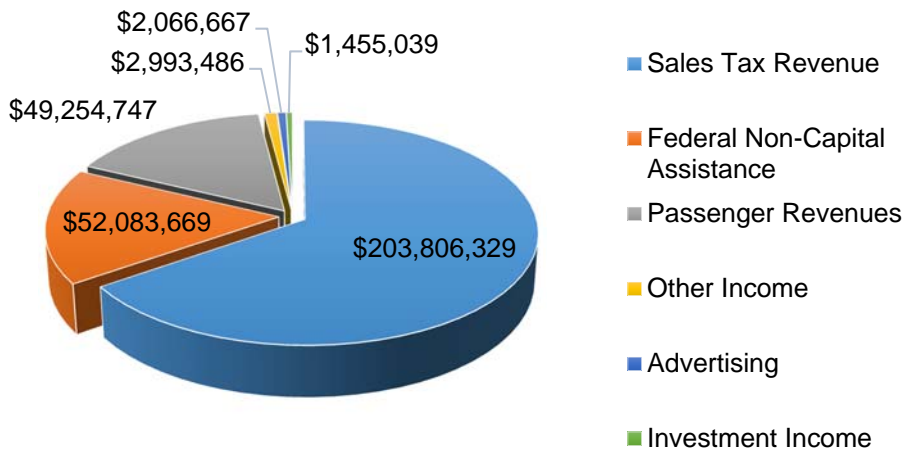
Chapter V of this report provides additional information and recommendations that will help UTA better achieve its goal of customer focus. Currently, the performance dashboard reviewed by the UTA board has no customer-focused metrics.

Sales Tax and Federal Assistance Are Largest Sources of Ongoing Revenues

Sale tax revenues are UTA’s largest operating revenue source. In 2013, sales tax collections represented 65.4 percent of UTA’s \$312 million total revenue. Federal non-capital assistance funds and passenger revenues were the next largest sources of revenue (16.7 and 15.8 percent, respectively). Figure 1.2 graphically displays the sources of revenues and amounts collected in 2013.

Sale tax revenues are UTA’s largest operating revenue source, representing 65.4 percent of total revenue.

Figure 1.2 UTA’s Revenue Sources in 2013. Sales tax collections represent the largest source of funding for UTA, followed by federal O&M assistance and passenger revenue.



Source: Utah Transit Authority 2013 Unaudited CAFR Data

Beyond UTA’s three main revenue sources of sales taxes, federal assistance, and passenger revenues, other revenue sources include other income (1.0 percent), advertising (0.7 percent), and investment income (0.5 percent).

UTA receives various sales tax revenues in the six counties where it provides transit service, including: a local mass transit tax, an additional local mass transit tax, a supplemental state sales and use tax (that is implemented only in certain counties), and an additional

county option transportation tax. The rates vary by county. Figure 1.3 shows, by county service area, the total sales tax rates designated for UTA.

Figure 1.3 2013 Sales Tax Rates for Transit Purposes Shown by County. Salt Lake County pays the highest sales tax rate designated for transit.

County	Local Mass Transit Tax	Additional Local Mass Transit Tax	Supplemental State Sales And Use Tax	Additional Transportation Tax	Total
Salt Lake	0.3000%	0.2000%	-	0.1875%	0.6875%
Box Elder	0.3000% ¹	0.2500% ¹	-	-	0.5500%
Davis	0.2500%	0.2500%	0.0500%	-	0.5500%
Utah	0.2500% ¹	0.2760%	-	-	0.5260%
Weber	0.2500%	0.2500%	0.0500%	-	0.5500%
Tooele	0.3000% ¹	-	-	-	0.3000%

*Sources: Utah State Tax Commission and county interlocal agreements.
¹Not all cities participate.*

Sales tax rates for transit purposes range from 0.30 percent in Tooele County to 0.6875 percent in Salt Lake County.

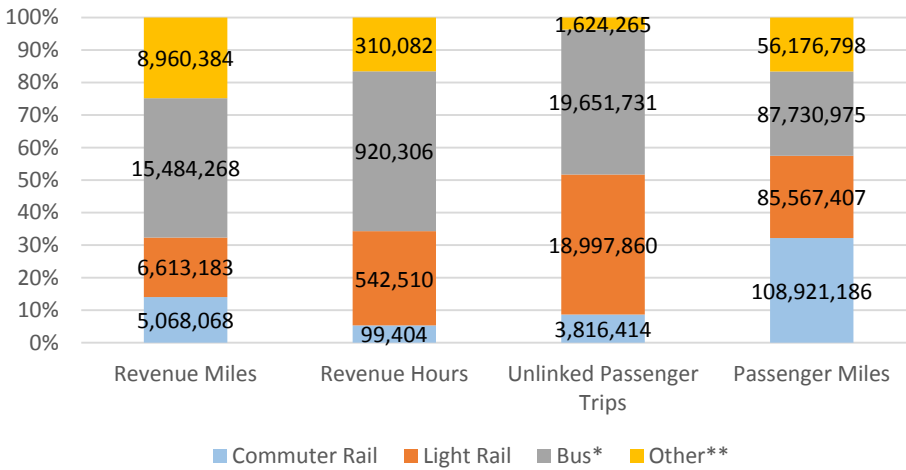
UTA Offers a Range of Transit Services

UTA has five main services, including local bus service to communities in each of the six counties it serves. In 1999, UTA opened its first TRAX light rail line, which now consists of three lines. UTA’s newest transit mode is commuter rail, called FrontRunner. FrontRunner opened in 2008, operating between Salt Lake and Weber counties, then expanded to include Utah County in December 2012. Other modes of transportation provided by UTA include a vanpool program, which allows groups of individuals to commute together, and a federally mandated bus service for people with disabilities called paratransit. The vanpool and paratransit are considered closed systems and, for the most part, are not included in this report. These systems require users to meet approval or eligibility requirements in order to participate.

Three UTA services, bus, TRAX, and FrontRunner, are considered open transit options available to the public. Information on these systems were included in this report. Figure 1.4 shows four indicators of the amount of service provided on an average weekday for each mode of UTA service.

Three UTA services, bus, TRAX, and FrontRunner, are considered open transit options available to the public. These systems were included in this report.

Figure 1.4 Annual Service Provided by UTA in 2013 by Transit Mode. UTA offered 1,872,302 hours of transit service while traveling 36,125,903 miles in 2013.



Source: UTA data reported to the National Transit Database (NTD)
 *Bus includes Motor Bus and Commuter Bus Services
 **Other includes Vanpool and Paratransit Services

UTA offered 1,872,302 hours of transit service in 2013.

Buses Provide the Most Widely Available Service. Since UTA’s creation, bus service has been the primary service offered to passengers. Beyond standard local bus services, UTA also provides some long-distance commuter routes, bus rapid transit (BRT) service, and specialty bus services to ski resorts and other special-event destinations.

TRAX Light Rail Provides an Additional Transit Choice in Salt Lake County. TRAX light rail cars are powered by an overhead electrical wire system. In recent years, UTA has expanded its TRAX lines, including an expansion to the Salt Lake City International Airport. UTA has also added a new streetcar line in Sugarhouse that connects to a TRAX line.

FrontRunner Offers Commuters an Alternative Mode of Transportation. FrontRunner, UTA’s commuter rail transit service, operates on an 89-mile corridor, which passengers can access by 1 of 16 train stations between Utah and Weber Counties. FrontRunner provides bi-level passenger cars in a diesel train system that can travel up to 79 miles per hour. FrontRunner operates on weekdays and Saturdays.

UTA’s Vanpool and Paratransit Modes Provide Specialty Transit Services. Vanpool and Paratransit services are UTA modes of

transit available to individuals approved or eligible to participate. Although these services are an important part of UTA's service offering, our audit focuses on the three modes of transportation (bus, TRAX, and FrontRunner) that are directly open to the public.

UTA Has Begun to Explore and Initiate Transit-Oriented Development Projects

In the past several years, UTA has begun to explore transit-oriented development³ (TOD) in connection with the construction of some new TRAX and FrontRunner stations. With the passing of Senate Bill 51 in the 2014 General Session, *Utah Code* now allows UTA to participate in eight (previously five) TOD joint venture projects. UTA currently has five TOD sites identified for future construction. UTA has joint development agreements on the Jordan Valley TRAX Station and recently signed an agreement on the Clearfield FrontRunner site. The Jordan Valley TOD site is discussed further in Chapter II. Chapter II also discusses UTA's lack of compliance with its internal policy and practices relating to development.

UTA currently has five transit-oriented development sites identified for future construction.

Audit Scope and Objectives

The audit request letter asked that we complete an in-depth follow-up of the issues and recommendations made in the Legislative Auditor General's January 2012 performance audit of the UTA. To accomplish that task, the following areas were reviewed and included in this audit report:

- UTA's adherence to internal policy and practice related to development projects, and associated revenues and expenses of transit-oriented developments (TOD) (Chapter II)

³**Transit-Oriented Development** is defined by UTA as any UTA property developed for the purpose of increasing ridership, enhancing the quality of life around UTA stations, and providing an income stream to UTA.

Transit Supportive Development as defined by UTA includes the lease or sale of UTA-owned property for private business development that enhances transit use.

Transit Adjacent Development as defined by UTA is development in close proximity to a transit station without a functional relationship to the transit station.

- UTA executive compensation, including an analysis of salary, benefits, and bonuses (Chapter III)
- UTA's long-term financial outlook, including an analysis of UTA's debt structure, revenues, and expenditures (Chapter IV)
- UTA's costs per passenger boarding and historical and current farebox recovery rates, plus a review of UTA's farebox policy, its data accuracy, and its goals and dashboard (Chapter V)

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Chapter II

Development Projects Need Better Control and Oversight

Our review of two Utah Transit Authority (UTA) development projects (Draper FrontRunner and Jordan Valley TRAX) identified questionable decisions and the need for improved processes. Development projects involve complex plans and contracts with private developers that are unlike UTA's normal transit functions. We understand that transit-oriented development (TOD) is a relatively new function at UTA and some process refinement is to be expected, however, much stronger controls and oversight are needed. The UTA board has already approved new policies addressing each recommendation in this chapter. The following bullet points summarize the concerns detailed in this chapter.

- With the Draper FrontRunner project, we are concerned with the decision to prepay \$10 million to a developer to construct a future garage even though there were no design specifications or immediate plans for construction. Further, two-and-a-half years later, UTA hired another contractor to build the garage, but the developer no longer had all the funds immediately available to repay UTA. UTA is still owed \$1.7 million. Simply stated, the \$10 million prepayment was against UTA policy and practice and appears to us very unusual. Additional concerns include the lack of a cost-benefit analysis, the adequacy of legal documentation, the release of valuable collateral for questionable collateral, the difficulty UTA had supporting \$1.5 million in site preparation work, and the general lack of documentation and changing explanations we experienced throughout the audit. The lack of sufficient control and oversight can put taxpayer funds at risk.
- With the Jordan Valley TOD project, some UTA employees question the procurement process used to select the developer on the Jordan Valley TOD project. We also believe some aspects of the procurement process are concerning. Further, the development agreement UTA signed with the developer appears to us and an independent law firm (Snell and Wilmer) to be overly favorable to the developer. Snell and Wilmer believe that some of the provisions of the contract are "far out of market." Lastly, to date,

The UTA board has approved new policies addressing each recommendation in the chapter.

UTA prepaid for a future parking structure which is against UTA internal policy and practice.

An independent law firm concluded that agreements with the developer appear to be overly favorable to the developer.

TOD projects can enhance transit effectiveness when implemented through a sound process with adequate controls that protect taxpayer funds.

We are not certain UTA provided us complete and accurate information during the course of our fieldwork.

\$26 million in federal and state funds have been spent on infrastructure and two parking structures at the Jordan Valley project site. The developer's portion of these costs was set at \$3,896,000, but the developer has not yet paid this amount.

- The number and severity of concerns identified in the two development projects we reviewed warrant increased procedures, better controls, and improved oversight at UTA. In particular, too much authority for UTA development projects was unduly centralized within the general counsel's office. UTA's board has recently addressed this serious segregation of duties concern as well as the other recommendations in this chapter.

Successful TOD Projects Can Be Good Transit Policy. This report does not evaluate the pros or cons of public/private joint-venture TOD developments. We generally found that TOD literature supports the concept that TODs boost ridership and maximize the value of transit. However, if UTA is going to use taxpayer subsidies (as was done at the Draper and Jordan Valley locations) to help generate development, then it is essential that adequate oversight, policies, and controls be followed to safeguard taxpayer funds and ensure the success of the projects.

Changing Explanations and Lack of Documentation Hindered Audit Work. We had difficulty accessing information and obtaining clear answers to many questions during the course of the audit. In fact, during the course of our fieldwork we notified UTA management that we believed we were not being provided all information and explanation. Still, it was not until after we completed our fieldwork and provided UTA with our initial conclusions based on available information and explanation, that UTA brought forth a great deal of additional information. To ensure accuracy of the audit, we reviewed the additional information and explanations provided, but the delayed production of information remains very concerning to us. It leaves us doubtful about whether we have obtained full and complete information. In some instances, we are uncertain what to believe. Some examples of changing explanations and lack of documentation are provided in the body of the chapter.

Timing of Events Increases Our Concerns. The timing of decisions made on the Draper and Jordan Valley sites raises some questions. The two projects involve the same developer and the time

frames are overlapping, beginning soon after the developer acquired the development rights in Draper from a former UTA board member. Appendix C provides a detailed timeline on key decisions made on both the Draper and Jordan Valley locations.

Questions Exist with the Draper FrontRunner Parking Structure

Our review of the agreements for construction of a parking structure at the Draper FrontRunner station produced several questions. This is a complex project with many levels of legal documentation. Our questions deal with irregularities, and in some cases, lack of policy compliance that we identified while reviewing this project. UTA management indicated to us that they believe they received value for this project, but they also recognize that, going forward, they need to amend their process. The UTA board has already implemented all recommendations in this chapter.

To obtain an expert opinion on questions we had with this project, we contracted with the law firm of Snell and Wilmer, a recognized real estate expert with offices throughout the western United States. Snell and Wilmer was recommended to us by the vice-chair of UTA's board. Snell and Wilmer's review of documents raised several questions, some of which are described in this section. See Appendix A for a full copy of Snell and Wilmer's review. This report section is separated into four parts, each describing a question or concern we have with the project.

- UTA prepaid the developer \$10 million for a parking structure that would be built in the future. We question the decision to prepay for a future project. This decision is against UTA practice and it raises questions of appropriateness.
- UTA did not conduct a cost-benefit analysis to determine why Draper was a superior site for a parking structure compared to other locations on the FrontRunner line. This is an important analysis that, had it been done, could have explained UTA's decisions and rationale.
- The independent law firm we engaged raised concern about the documentation behind UTA's decisions, questioning whether UTA's interests were adequately protected.

UTA prepaid for a future parking structure, which is against UTA practice.

- UTA indicated to us that they eventually received value for their investment. However, UTA has still not yet received repayment of about \$1.7 million in prepaid funds.

Lastly, please note that our review did not focus on the site selection process used by UTA to select the Draper FrontRunner station location. A prior legislative audit concluded that, because of problems with the other sites under consideration, the selection of the station site at 12800 South in Draper was reasonable.⁴ The current audit review is focused strictly on events that transpired after the Draper FrontRunner site was selected.

UTA Prepaid for a Future Parking Structure Against UTA Policy and Practice

About a month after UTA officially selected the site for the Draper FrontRunner station and shortly after the developer acquired the development rights, UTA paid \$10 million to the developer, Draper Holdings, for a 1,000-stall parking garage that would be built at a future date.

While the agreement with UTA mentions land as part of the deal, UTA officials have been clear that the prepaid funds were only for the parking structure. Therefore, while the agreement formalized the transfer of the land to UTA, none of the \$10 million payment was to acquire the land. This explanation is consistent with the framework earlier established in the Whitewater VII development agreement. That agreement provided that, if a FrontRunner station was built at the Draper location, adequate land for a surface parking lot would be provided to UTA at no cost.

Because UTA paid for the project before construction began—even before construction designs or specifications were in place—UTA lost much of its ability to control the timing and completion of the project. These actions are not in line with UTA practice and the intent of UTA’s policies and procedures. See Figure 2.1 for a summary of actions taken by UTA and the relevant policy and practice not adhered to.

⁴ A Limited Review of Conflict of Interest Allegations at the Utah Transit Authority Board (Report # 2010-17) — http://le.utah.gov/audit/10_17rpt.pdf

UTA paid \$10 million to the developer shortly after the developer acquired the development rights.

UTA paid \$10 million to the developer before either designs or specifications were in place.

Figure 2.1. Some Decisions on Draper Parking Structure Were Not Consistent with UTA Policy. This figure shows some of the key decisions made by UTA executives that were not consistent with UTA practice and policy.

Actions Taken by UTA Management	Actions Are Not Consistent with UTA Practice and Policy
\$10 million paid to developer (Draper Holdings) before construction began.	UTA policy on progress payments states, “the Authority shall not make payments to a contractor, prior to the incurrence of costs by such contractor...” UTA practice and the intent of the policy is to pay for work completed. This was the only example that we found where UTA paid for work not yet completed.
No drawings or design for parking structure were created or reviewed before payment was made for the garage.	UTA policy states, “The Authority should incorporate a clear and accurate description, if possible, of the technical requirements and/or performance for the goods and services to be procured.”

Prepayment Affected UTA’s Ability to Use Its Funds. The risk associated with violating the UTA policies shown in Figure 2.1 was illustrated by subsequent events. The Draper garage ended up not being built until years later by a different contractor, yet UTA had to wait to get the funds returned because the developer no longer had the prepaid funds. This detail was brought to our attention at the end of the audit by a law firm UTA had hired to draft some of the original legal documents. The law firm hired by UTA stated the following:

Draper Holdings had also informed UTA that Draper Holdings did not have immediately available funds to repay the entire \$10,000,000 purchase price.

Thus, although the \$10 million was for a garage, the developer could not repay that amount when plans to build the garage changed.

UTA officials told us during the course of the audit that the reason the developer did not repay the \$10 million prepaid funds after UTA terminated the agreement with the developer was because UTA was only terminating some provisions of the agreement, and they elected to not seek return of the funds because they desired the project to continue. This is not consistent with the information from the law firm stated above. The information that the developer did not have funds immediately available would have been valuable to know during the course of the audit.

Draper Holdings did not have available funds to repay the \$10 million prepaid amount.

Also of note is that, during the course of the audit, the Draper property where the parking structure is located was not listed on UTA's official property assets list prepared and presented to the board. This omission raises questions about the sufficiency of information presented to the UTA board. The board's oversight role can be less effective if they are not provided complete information.

Cost-Benefit Analysis Should Have Been Conducted

UTA should have conducted a cost-benefit analysis to determine or explain why building a parking structure instead of a surface lot was a good business decision. The cost-benefit analysis should have also analyzed if the Draper station was the best location to construct a parking structure compared to other stations on the FrontRunner line. The original Whitewater VII agreement among Draper City, the previous developer/owner of the property, and UTA envisioned a surface parking lot on land that UTA would receive at no cost. Interactions with other transit agencies revealed that other agencies conduct detailed cost-benefit analyses before they construct parking structures.

Shrinking the parking footprint at a greater cost also provided more land space for development, which benefits the developer of the site. In fact, when the parking footprint was reduced in size, UTA transferred the excess land back to the developer.

We understand that UTA also obtains benefit from a parking structure through increased ridership, but a cost-benefit analysis should have been conducted to determine if Draper was the best location to increase ridership through a parking structure. We question if locating a parking structure in Draper was the best decision due to the following reasons:

- UTA had no financial involvement, such as a joint venture
- UTA had sufficient acreage to construct a surface lot
- UTA admitted that greater needs for structured parking existed in other locations
- A smaller UTA footprint appears to have benefited the developer more than UTA, yet UTA bore the additional cost of a parking structure versus surface parking

UTA should have conducted a cost-benefit analysis to determine if Draper was the best location to build a parking structure.

We question why UTA would spend millions on a parking structure that primarily benefits a private developer without a thorough cost-benefit analysis.

- UTA’s initially stated written goal for the site was not paying more for a parking structure than they would for a comparable surface lot

Again, we understand that increased density can create more UTA ridership. However, UTA is not in control of adjacent land development or density. Currently, every other parking lot on the FrontRunner line has surface parking. In fact, with the exception of the Jordan Valley TRAX Line, every other lot in UTA’s inventory is a surface parking lot.

Lastly, besides UTA, eBay is the only other tenant currently at or near the Draper site that has constructed parking. eBay constructed a surface parking lot (about 18 acres) and has plans for a parking structure in the future when the need arises. The same option was available to UTA. We believe UTA should have considered that option in a cost-benefit analysis.

UTA Can Improve Its Process and Legal Documentation

We contracted with the law firm of Snell and Wilmer in Salt Lake City to review a series of questions we had about the Draper parking structure project. Snell and Wilmer provided us valuable insight into improvements UTA needs to make when documenting its process. The following section provides some of those insights. See Appendix A for Snell and Wilmer’s full letter.

UTA Terminated the Purchase Sales Agreement, But Did Not Immediately Recoup Its Funds. UTA had the option to cancel the purchase agreement; which automatically required the developer to return the prepaid \$10 million, plus accumulated interest. In fact, on August 30, 2010, UTA’s general manager sent a letter to the developer terminating the agreement. According to Snell and Wilmer, the language of the agreement then automatically required the developer to repay the \$10 million with interest. This repayment did not occur and UTA did not enforce the return of the funds.

When we asked UTA’s general counsel and another UTA senior legal counsel why UTA was not repaid the prepaid \$10 million, we were initially told that only the joint development agreement was being terminated. We were later told only provisions of the Purchase Sale Agreement were being terminated. Unfortunately, none of these

UTA did not enforce repayment of all funds after they terminated the agreement.

answers are supported by the documentation. Figure 2.2 provides Snell and Wilmer’s conclusion after reviewing pertinent documentation.

Figure 2.2 Snell and Wilmer Disagreed with UTA’s Explanation of Termination Letter.

“UTA’s explanation that it was only cancelling portions of the PSA [agreement for Draper parking structure] is not supported by the documentation that we reviewed.”

Source: Snell and Wilmer Law Offices, (see Appendix A)

We provided Snell and Wilmer with all relevant documentation that we obtained from UTA.

After UTA failed to enforce the return of the full \$10 million plus interest, it had a second opportunity to recoup its funds. More than a year after UTA ended the agreement, it entered into an amended purchase sale agreement (amended PSA) on the already terminated agreement. The amended PSA states that the developer owed UTA \$7,166,667⁵ of the prepaid \$10 million plus interest. During the course of the audit we asked for documentation or explanation as to why UTA did not seek the full reimbursement of the funds. We did not learn until the end of the audit that the developer did not have funds immediately available to repay UTA.

UTA Released Good Collateral for Questionable Collateral.

UTA officials have emphasized that the \$10 million advanced to the developer was not at risk because UTA had good collateral in the form of a deed of trust on the developer’s property. However, when eBay was considering locating on the developer’s land, it was important to release the deed of trust to aid economic development efforts to attract eBay to the site. Locating eBay in Draper was a coordinated effort by the state and was an important economic development consideration for the state.

While we do not question releasing the original collateral to help bring eBay to the site, it is not clear that the collateral was adequately replaced. As shown in Figure 2.3, our legal consultant, Snell and Wilmer, concluded that UTA released valuable collateral for more questionable collateral.

⁵ See Appendix A, page 6 for more information.

During the course of the audit, there were no clear explanations as to why UTA did not seek return of prepaid funds.

Figure 2.3 Snell and Wilmer Questioned the Value of the Collateral UTA Received after Releasing the Deed of Trust.

“Quite simply, UTA gave up good collateral in exchange for collateral of questionable value. One can infer from the documentation, that UTA simply trusted Holdings [the developer] to make good on its representation. . .”

Source: Snell and Wilmer Law Offices, (see Appendix A)

While having good collateral on outstanding funds is important, it also emphasizes that in some respects, UTA appears to be acting as a banker for the developer. As explained later in this chapter, the developer still owes UTA some of the funds originally advanced in 2009.

The Independent Law Firm Expressed Concern with UTA’s “Casual” Approach to Legal Documentation. Another concern we have is the adequacy of documentation available for development projects. In fact, our legal consultant concluded that UTA’s documentation was troubling. Figure 2.4 quotes Snell and Wilmer’s conclusion referring to UTA’s lax documentation.

Allowing the developer to retain UTA’s funds puts taxpayer dollars at unnecessary risk.

Figure 2.4 Snell and Wilmer Questioned UTA’s Casual Approach to Documenting the Parties’ Interactions after the Agreement Was Cancelled.

“The most troubling and ‘out-of-market’ aspect of this deal was not the fact that Holdings [the developer] did not repay the investment, or that UTA did not seek return of its investment, but remains instead the casual approach of the documentation relating to continued negotiations of the parties even after cancellation of the PSA.”

Source: Snell and Wilmer Law Offices, (see Appendix A)

In agreement with Snell and Wilmer’s conclusion, we generally had a difficult time accessing information related to these development projects. We were also given changing explanations by some individuals at UTA. Following are some examples, which are in addition to examples already given in this chapter:

- UTA initially told us they had completed a cost-benefit analysis on the Draper parking structure, but after many requests and months later, they said no such analysis existed.
- UTA officials gave us conflicting information about \$1.5 million worth of site preparation expenses at the Draper FrontRunner station. At first, we were told that the funds paid

were for grading the site, but UTA had no documentation that justified this expense. Later, we were told that the amount paid was simply negotiated with the developer. Then, at the conclusion of the audit (and six months after our initial request), UTA claimed to have found lost documents that did support the expense. We are unsure what to believe.

- We generally had a difficult time accessing information at UTA. TOD records were especially difficult to obtain. Access to files was guarded and some files were not readily available for our review. Even more, we found that, when it came to development projects, functions and responsibilities that were typically performed by different staff separated throughout UTA were instead centralized within the legal department.

Snell and Wilmer concluded in their review that UTA’s documentation was at times contrary to what actually transpired. Figure 2.5 provides a quote from Snell and Wilmer’s letter to us.

Figure 2.5 Snell and Wilmer Question Documentation at UTA.

“In some aspects, the documentation is contrary to what actually transpired between the parties, suggesting that much of this transaction was and is based on handshakes and verbal representation between the parties—to the potential detriment of the primary financial investor, UTA.”

Source: Snell and Wilmer Law Offices, (see Appendix A)

We believe, and UTA management has told us they agree, that in the future UTA can improve their process with development projects, especially with respect to documentation and record keeping.

UTA Has Not Yet Recouped All Prepaid Funds

In addition to the concerns stated above, UTA has not recouped all of its initial \$10 million investment plus interest. UTA pointed out to us that they have received value for the initial \$10 million investment. While we do not dispute that UTA was able to eventually construct a parking structure on the site, the difficulty we had obtaining documentation about how UTA’s funds were spent illustrates the importance of an improved process moving forward.

Further, we feel it is important to point out that UTA is still owed about \$1.7 million of the \$10 million plus interest paid or charged to

We believe, and UTA told us they agree, that they can improve their process and documentation with development projects in the future.

The developer still owes UTA about \$1.7 million.

the developer. Further, UTA had difficulty accounting for another \$1.5 million in grading and site preparation work. Figure 2.6 shows our reconstruction of the accounting of the \$10 million given to the developer.

Figure 2.6 Accounting of the Prepaid \$10 Million. UTA did not provide us a clear accounting of prepaid funds during the course of the audit. This figure provides our best estimate based on information available to us.

Amount	Explanation
\$ 10,000,000	Dec 17, 2009. Funds intended for a future 1,000-stall parking garage.
766,667	Dec 17, 2009 to Nov 17, 2011. Interest charged by UTA
248,968	Nov 18, 2011 to Oct 1, 2012. Interest charged by UTA
(1,500,000)	Nov 17, 2011. UTA credits this amount. Mixed and conflicting information was given to support this expense. We were first told that no documentation existed. We were later told that the amount was simply negotiated. Six months later, UTA claimed to have found lost documents that supported the expense. We are unsure what to believe. When the construction company began building the garage in the summer of 2012 using a design-build process, they charged UTA \$497,500 to grade the property to the garage specifications.
(2,100,000)	Nov 18, 2011. Developer returns funds. Documentation exists supporting return of funds.
(171,000)	Sep 26, 2012. Developer returns funds. Documentation exists supporting return of funds.
(1,499,435) ¹	Oct 1, 2012, 2014. UTA credits this amount. Funds still owed to UTA. UTA elects to not seek repayment of these funds, which are instead transferred to the Jordan Valley TOD capital account.
(179,000)	Oct 1, 2012 UTA receives a promissory note for this amount. The funds still owed to UTA. Developer has until 2015 to repay funds.
(5,566,200)	Oct 5, 2012. Developer returns funds to escrow. These funds are to be used for the construction of a 600-stall parking structure built by a separate contractor. Documentation exists supporting return of funds.

Source: OLAG accounting of UTA information

1. A different amount of \$1,489,356 is put on the Jordan Valley capital account creating a \$10,079 difference. UTA did not have an adequate explanation for this discrepancy.

UTA had difficulty providing us adequate documentation for \$1.5 million in grading and site preparation cost.

At the conclusion of the audit, UTA provided us with an analysis showing what they believe is a \$12.5 million return on the prepaid \$10 million. As shown in Figure 2.6, we acknowledge that UTA eventually did recoup much of its initial investment and a parking structure was eventually constructed. However, we do not believe the ends justify the means. Nor do we strictly agree with UTA's analysis. Figure 2.6 shows that UTA is still owed about \$1.7 million (\$1,499,435 + \$179,000). Also, there is a question about the difficulty UTA had in providing us documentation for the \$1.5 million grading and site preparation work. Further, in its analysis, UTA incorrectly included the value (estimated at \$1.5 million) of the

land it received. As previously explained, the Whitewater VII agreement provided land for a surface parking lot, regardless of UTA prepaying for a future parking structure.

In some respects, it appears that UTA was acting as a banker for the developer. First, the \$10 million was advanced to construct a garage although there were no immediate plans to do so. About two years later, some of the funds were returned with interest. Then, nearly three years later, when UTA hired a contractor to build a garage, most, but not all, of the outstanding funds were returned. At that time, the developers returned \$171,000 to UTA and signed a promissory note to repay \$179,000 plus interest by the end of 2015. The remaining nearly \$1.5 million was credited to the capital account of a completely separate project, the Jordan Valley TOD.

Questions Exist with \$1.5 Million Transferred to Jordan Valley TOD Capital Account. Snell and Wilmer’s review of the Jordan Valley agreement found that the agreement was “...tipped significantly in favor of Associates [the developer] with most of the financial responsibility and risk falling squarely upon UTA.” See the next section for more information. We asked Snell and Wilmer how likely it would be for UTA to realize any interest on the \$1.5 million transferred to the Jordan Valley project. Snell and Wilmer concluded that, while it is possible for UTA to earn interest on those funds, there are several obstacles that may prevent UTA from realizing any interest payments. Figure 2.7 summarizes the conclusions reached by Snell and Wilmer.

Figure 2.7 Snell and Wilmer Described Obstacles that Could Prevent UTA from Realizing Any Interest Payments.

“Per the Bangerter operating agreement, UTA ostensibly should earn a 5.5% return on its capital contributions. However, there are some definite limitations . . . the Preferred Returns are non-cumulative, which means that if there isn’t enough cash to satisfy the Preferred Return, then the undistributed amount does not accumulate and roll over the following year. . . . If there isn’t enough cash . . . then that amount just disappears or is forfeited. Of equal importance in that regard is the fact that the payments and distributions . . . are in the Manager’s [developer] discretion, meaning the Manager could potentially delay making distributions and payments . . . this type of broad discretionary power could be exercised to UTA’s detriment and the interest never paid.”

Source: Snell and Wilmer Law Offices, (see Appendix A)

There are issues with the Jordan Valley TOD agreement that cause us to question the protection of UTA funds in the project. An obvious

The operating agreement gives the developer broad discretionary power that could be exercised to UTA’s detriment.

scenario would have been for UTA to simply have been repaid all of the funds. Time will tell if UTA's investment in the Jordan Valley TOD project is successful. We are hopeful that it will be. However, several questions and concerns have been raised by an independent law firm that reviewed the agreements. These questions will be discussed further in the following section.

Questions Exist with Jordan Valley TOD Project

Questions exist with some of the decisions made on the Jordan Valley TOD project. Some UTA employees question the procurement process used to select the developer on the Jordan Valley TOD project. We also believe some aspects of the procurement process are concerning. This is the same developer to which UTA prepaid \$10 million for a future parking structure at the Draper FrontRunner station. UTA obtained an independent legal opinion that states no federal laws were broken. We agree with UTA employees that some questions exist with the procurement process.

Also, our contracted independent law firm, Snell and Wilmer, determined that the operating agreement and subsequent amendments were slanted towards the developer. Snell and Wilmer believe that some of the provisions of the contract are "far out of market." Further, Snell and Wilmer concluded the agreements did not adequately protect UTA's financial interests. Lastly, to date, \$26 million in federal and state funds have been spent on infrastructure and two parking structures at the Jordan Valley project site. The developer was originally supposed to pay about \$3.9 million of these costs, but that has not yet occurred. Instead, UTA paid that amount and received a credit to its capital contribution.

Questions Exist with Process Used to Select Jordan Valley TOD Developer

Some UTA employees questioned aspects of the process UTA followed when selecting the developer for the Jordan Valley TOD project. These employees documented their concerns in emails to UTA management. We share the concerns of these UTA employees. Questions about the process center on the developer, Boulder Ventures (a company related to Draper Holdings), not fully supplying all requested financial information and not meeting deadlines. UTA

An independent law firm concluded that agreements with the developer are "far out of market."

Some UTA employees questioned aspects of the process UTA followed when selecting the developer on the Jordan Valley TOD project.

Some members of UTA management voted to award the contract to Boulder Ventures without requesting the required financial information.

received a legal opinion stating that no federal laws were broken during the procurement process. However, we do believe questions raised by UTA employees have merit and should be considered to help UTA refine its processes in the future.

UTA's procurement request document (Request for Financial Qualifications and Financial Proposals or RFQ & FP) had two parts: first, qualifications and land-use proposal and second, the financial proposal and qualification section. In part two, Boulder Ventures did not provide all of the requested information. Some of the key financial information was never formally submitted. Even so, some members of UTA management voted to award the contract without requesting the required financial information. This is concerning because even according to a legal opinion received by UTA, the required financial information was "necessary for it [UTA] to determine that Boulder was a responsible proposer." We understand why UTA employees would raise concerns.

Both UTA's grants and contract administrator and real estate director were members of the review committee and raised concerns about awarding the contract to Boulder Ventures. Specifically, the grants and contract administrator questioned the award because Boulder Ventures was nonresponsive on such a large portion of requested information. Figure 2.8 provides two written statements UTA employees made regarding the process.

Figure 2.8 Emails From UTA Employees Questioned the Selection of the Jordan Valley Developer.

UTA Grants and Contractor Administrator
<p>“The other two proposers submitted the required information with their proposals. I gave Boulder Ventures an opportunity to supply the missing items from their proposal and the response I received was ‘While I have read the attached letter, I believe that my qualifications have been met and demonstrated.’ I feel that the proposal from Boulder Ventures should be deemed non-responsive because they submitted incomplete information with their original proposal and when this missing information was requested, they missed the deadline for responding and when they did respond, they didn’t supply the requested information. I don’t think it is fair to the other proposers that submitted all the required information with their proposals to have us try and coax the required information out of Boulder Ventures. If they had a concern about supplying this information, they could have submitted a question while the RFQ was on the street before the cutoff time for questions.”</p>
UTA Real Estate Director
<p>“[I don’t] see anywhere in the Boulder proposal where the financial capacity of Boulder has been demonstrated.”</p>

Source: Utah Transit Authority Procurement File

The concerns expressed by these employees appeared justified in our review of the procurement file. Figure 2.9 provides a summary of some of the concerns we had while reviewing the procurement file.

Figure 2.9 Summary of Jordan Valley Procurement Questions.

UTA-Requested Information	Boulder Ventures	Other Two Respondents
“UTA will consider financial proposals with a preference for a land lease arrangement.”	No lease option provided	Lease options provided
“[The financial proposal] shall include financial qualifications, history, and references.”	Key financial information not submitted	Key financial information submitted
Additional Concerns		
Three top UTA executives and one city representative voted to award the contract to Boulder Ventures with significant financial information missing. Four UTA middle managers and one city representative voted to give Boulder Ventures a second opportunity to provide requested information after the deadline.		
Boulder Ventures did not respond in the given time frame with requested financial information. The company did provide some additional information, including a positive letter from Zion’s Bank, and requested information on pending lawsuits and workers’ compensation.		

Source: Auditor Analysis of Utah Transit Authority Procurement Files

UTA employees questioned the selection of the developer for the Jordan Valley TOD project, calling it unfair.

Three top UTA executives voted to award the developer the contract even though he was missing key financial information.

The required financial information was important. UTA’s chief financial officer at the time wrote, “Financial statement information is important because Boulder is just a shell to be used for the development as would be typical in these type of developments.” While it was reported that the developer showed some UTA officials his financial information, no financial documentation is in the file.

The detail of the developer’s financial capacity seems appropriate given that funds owed to UTA from the Draper project were held by the developer for a number of years and have still not been completely repaid, but instead have been credited as a transfer to the capital account of the Jordan Valley project.

Lastly, when we asked UTA management why the developer was selected over the other two respondents, one official initially told us that the decision was really driven by representatives of a local city and not UTA. This claim was made even though only two of the nine individuals scoring the proposal were from the city. UTA management said that the city had prior experience with the developer that was very positive and they desired to conduct business with him again. We believe that it is UTA’s responsibility to ensure they provide a procurement process without the appearance of conflicts.

Independent Law Firm Believes Jordan Valley Operating Agreement Unusually Favors Developer

We requested a review by the law firm of Snell and Wilmer for this project as well. Snell and Wilmer reported that the Jordan Valley operating agreement and subsequent amendments raised many concerns and unduly favored the developer. Due to the language in the agreement, the firm questioned whether UTA will realize a fair return in the joint venture, even though UTA assumes most of the financial risk.⁶ Figure 2.10 summarizes key points from that report.

Snell and Wilmer, a recognized law firm, strongly questioned the operating agreement UTA signed with the developer.

⁶ For Snell and Wilmer’s complete letter, see Appendix B.

Figure 2.10 Excerpts from Snell and Wilmer’s Report on Jordan Valley TOD. Snell and Wilmer independently reviewed the Jordan Valley TOD operating agreement and other relevant information.

Excerpts from Snell and Wilmer Letter
“The operating agreement gives the impression that UTA is acting more as a funding source rather than a partner in the project. UTA is given very little say in the project itself, but has numerous financial burdens that it is required to meet. On balance, the Operating Agreement seems tipped significantly in favor of Associates [the developer] with most of the financial responsibility and risk falling squarely upon UTA.”
“There are drafting issues and ambiguities that raise additional areas of concern. It is unclear whether these drafting issues are simply errors and oversights, or intentionally vague and unclear.”
“Throughout Operating Agreement, UTA appears to have some protections as its consent is required for certain actions of the manager. However, these protections are severely limited because any consent is ‘not to be unreasonably withheld, conditioned, or delayed.’”

Source: Snell and Wilmer Law Offices, (see Appendix B)

Snell and Wilmer said UTA was acting more as a funding source than a partner, and the agreement is tipped significantly in favor of the developer.

It is important to note that not only does Snell and Wilmer question the unbalanced nature of the project agreement, but they also question the drafting of the document. Weaknesses in the drafting of the document create uncertainty and ambiguities that could be used against UTA.

UTA Reported that Revenue Is a Secondary Goal for TOD Sites. UTA management reported to us that their ventures into TODs are primarily aimed at increased ridership, cleaner air, and reduced highway congestion. Revenue from the sites is secondary. We spoke with a Federal Transit Administration (FTA) official, who stated that revenue-sharing guidance is primarily a role for the state and local boards. However, he said that the FTA has given some direction on the subject. He referred us to a February 7, 2007 Federal Register statement that says,

FTA will not define the term “fair share of revenue,” nor will it set a monetary threshold. . . . The only requirements are: (i) that the recipient’s Board of Directors . . . determines, following reasonable investigation, that the terms and conditions of the joint development improvement . . . are commercially reasonable and fair to the recipient, and (ii) that such revenue shall be used for public transportation.

We believe that Snell and Wilmer’s independent review questioned the fairness to UTA of the Jordan Valley TOD operating agreement. For example, Snell and Wilmer referred to one provision in the operating agreement as being “far out of market” and stated that UTA is acting more as a funding source than a partner. The concern with UTA’s financial role is consistent with our earlier observation that, in some respects, UTA seemed to be acting as a banker for the same developer with the \$10 million advance payment for the Draper FrontRunner parking structure.

UTA Board Has Already Approved New Policies Addressing Recommendations. In light of the concerns raised in this report and the policy guidance from the FTA, we recommend that the UTA Board of Trustees require all written agreements on development projects be subject to an external independent review before they are signed. The independent review should determine whether the agreements are commercially reasonable, fair to all parties, and in the best interests of UTA, based on established laws and policies. This requirement could be removed at some point if UTA shows consistent and prolonged compliance. The UTA board should also establish clear policy directives, goals, and benchmarks for development projects. These directives and goals would define, among other things, “commercially reasonable” for UTA’s purposes, and set goals for intended outcomes, such as projected revenue and ridership increases.

\$26 Million in Local and Federal Funds Have Been Spent on Jordan Valley TOD

The Jordan Valley TRAX TOD infrastructure and parking garages cost about \$26 million, with federal funding paying for about 80 percent of the project. Had UTA not built the parking structures and upgraded other infrastructure needed for the TOD development, the cost of the Jordan Valley site would have been significantly less. Figure 2.11 breaks out the cost of the Jordan Valley parking structure and infrastructure improvements.

The UTA board has approved a new policy requiring independent and external review of new TOD agreements.

Figure 2.11 Cost of Jordan Valley TOD Project. Cost of infrastructure and parking structures was the most significant cost at the Jordan Valley TRAX station.

Funded by UTA ¹	Developer Portion Not Yet Paid ²	Total Currently Funded by UTA ¹
\$22,154,209	\$3,896,000	\$26,050,209

Source: Utah Transit Authority

1. Federal dollars are included in the UTA column

2. Developer has not yet paid these costs. Instead, UTA absorbed them in its capital account of the joint-development.

Please note that the \$3,896,000 listed above is in addition to the \$1,489,356 noted in the Draper FrontRunner project. In other words, UTA has currently absorbed \$5,385,356 in developer costs.

Because the operating agreement is slanted in favor of the developer, Snell and Wilmer questioned whether UTA will recoup the investment it made in the project. Snell and Wilmer stated, “While there is a potential for return on UTA’s significant investment, such a return is out of UTA’s control and largely contingent upon Associates’ good-faith actions in managing the project through completion.” We are hopeful that the issues raised in this report will result in process changes at UTA that will in turn help produce successful TOD projects at UTA.

Better Controls and Increased Oversight Will Improve TOD Process

The number and severity of concerns identified in the two development projects we reviewed warrant increased procedures and better processes at UTA. To further strengthen controls and oversight and help prevent a recurrence of questionable decisions and actions, we recommend the following two changes.

- TOD Department Should Not Report to UTA General Counsel.** We believe there is a segregation of duty violation with the reporting relationship wherein the general counsel’s office negotiates contracts, writes the contracts, and executes the contracts for TOD projects. The UTA board has created a new position within UTA that will oversee TOD functions. This new position will report directly to the general manager of UTA, the position has not yet been filled.

Including costs transferred from the Draper project to the Jordan Valley project, UTA has absorbed \$5.4 million of developer costs in its Jordan Valley capital account.

The UTA board has begun taking action to correct segregation of duties concerns.

The TOD department has reported to UTA's general counsel since 2010, in our opinion, created a segregation of duty problem

- **UTA's Internal Auditor Should Take on a More Visible Role—That of Providing the Board with Detailed Information.** To increase accountability, UTA's internal audit function should increase its visibility in the TOD area and provide the board independent information.

Current Structure of TOD Department Creates a Segregation of Duties Weakness

The TOD department has reported to UTA's general counsel since 2010, creating in our opinion, a segregation of duty problem. We spoke with the vice-chair of UTA's board early in the audit about this concern. The vice-chair concurred and told us he also recognized this issue early into his tenure at UTA before the audit began. The UTA board has begun addressing this issue.

We were told that the TOD department was put in the general counsel's office because of the general counsel's experience in real estate development. The concern with this reporting relationship is that key duties or functions have not been properly dispersed to different departments in the organization. The general counsel's office negotiates the contracts with developers, writes the contracts, reviews the contracts for legality, updates and informs the UTA board, and then executes the contracts. While different individuals within the general counsel's office perform these duties, all these individuals work under the direction of the general counsel.

As we conducted our audit work, we would often ask UTA staff questions regarding projects or assignments they were in charge of. Staff would provide us information, except when it came to TOD projects. In those cases, they always referred us to the Office of General Counsel. The following points illustrate the close control over TOD projects:

- **Escrow Balances:** we approached the designated UTA staff over escrow accounts for assistance. He told us he was not responsible for any TOD accounts and referred us to the Office of General Counsel.
- **Land Management:** staff designated with managing UTA's real estate assets were unaware of the Draper FrontRunner land acquisition. In fact, as previously explained, the Draper

FrontRunner property was also not disclosed to the board in the annual property inventory list.

The centralization of TOD responsibilities is a concern. Figure 2.12 provides some of the accepted accounting guidance on segregation of duties issues.

Figure 2.12 Segregation of Duties Guidance. The American Institute of Certified Public Accountants (AICPA) and the Institute of Internal Auditors (IIA) have provided guidance on the need for segregation of duties.

American Institute of Certified Public Accountants (AICPA)
“The principle of [segregation of duties] is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.”
Institute of Internal Auditors (IIA)
“No employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. In general, the principal incompatible duties to be segregated are: Custody of assets, Authorization or approval of related transactions affecting those assets, Recording or reporting of related transactions.”

Source: AICPA [www.aicpa.org] and IIA [www.theiia.org]

We discussed our concerns with UTA’s general counsel and he agreed that a segregation of duties issue did exist. He said that he instituted mitigating controls to alleviate the problem. While mitigating controls might promote more oversight, we see no compelling reason for the TOD department to be in the general counsel’s office. Adequate separation of responsibilities is better than implementing mitigating controls.

Even more, as indicated by both the AICPA and the IIA, inadequate segregation of duties increases the risk of fraud in an organization. We also reviewed “red flags” identified by the Association of Certified Fraud Examiners and others as warning signs that fraud could exist. For example, changing and inconsistent explanations, management decisions dominated by an individual or small group, and difficulty in obtaining documents.

We are further concerned with money being paid prior to services provided, and contracts that appear to favor the developer. Although we did not document instances of fraud at UTA, the many concerns discussed in the chapter demonstrate a heightened opportunity for errors or fraud. As explained, during the audit some members of the

The many concerns discussed in the chapter demonstrate a heightened opportunity for errors or fraud.

board told us they were aware of the segregation of duty concern, and had been in the process of correcting it before the audit began. The board did take action by creating a new position for property development (TOD) that will be separate from the general counsel's office, the position has not yet been filled.

UTA Internal Auditor Should Take On a More Active Role Within UTA

We also think that the UTA board should make better use of its internal audit function. UTA management has been heavily involved with TOD projects and TOD decisions. Further, we identified several areas where UTA policy was not followed. For these reasons, we believe UTA's internal auditor must take on a more active role with TOD oversight and provide the information to UTA's board.

We reviewed past audits conducted by UTA's internal auditor and found they were often informal. Working paper documentation was minimal and feedback to the board has been intermittent. In light of the concerns we identified with the reviewed TOD projects, we believe the internal auditor should be given more responsibility for auditing TOD projects.

We recommend that the UTA board direct its auditor to take on a more visible role with TOD oversight. The board should ensure the auditor adequately fulfills the responsibility assigned to him.

Recommendations

1. We recommend that UTA management follow UTA internal policy and practice with development projects.
2. We recommend that the UTA Board of Trustees require that all written agreements on development projects be subject to an external independent review before they are signed.
3. We recommend that the UTA Board of Trustees establish clear policy directives, goals, and benchmarks for development projects.
4. We recommend that UTA Board of Trustees ensure there is appropriate segregation of duties within UTA, including moving the TOD department out of the legal department.

The UTA board has already taken action to control risks by separating UTA's property development function from the general counsel's office.

5. We recommend that the UTA Board of Trustees direct its internal auditor to routinely review TOD processes, functions, and contracts, making written reports of its findings to the board.

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Chapter III

UTA Should Benchmark Total Compensation

Our audit assignment included a review of compensation paid to highly compensated employees at the Utah Transit Authority (UTA). Our 2008 audit called on UTA’s board to revise compensation policy by benchmarking⁷ total compensation⁸ and discontinuing the use of for-profit data in benchmarking reports. Our current audit found that the previous recommendations were not implemented. However, after our current audit work was completed, the UTA board approved policy changes addressing the recommendations in this chapter.

Figure 3.1 Prior Audit Recommendation and Summary of Current Audit Findings. UTA’s practice of benchmarking only salary raises concerns.

2008 Audit Recommendation	Current Audit Findings
<p>The UTA Board of Trustees should change its policy regarding compensation and establish salaries, benefits, and bonuses that are more in line with other transit agencies and public sector entities.</p>	<ul style="list-style-type: none"> • UTA executive’s total compensation includes large bonuses and special benefits. • UTA continues to use for-profit companies in its benchmarking. • UTA only benchmarks salary, not total compensation. • UTA has not reported all of the total compensation to the state's transparency website.

As reported in our 2008 audit, UTA’s benchmarking practices may lead to higher compensation than intended. Although UTA provides executive staff large bonuses and special benefits not available to other UTA employees, it excludes these amounts when benchmarking. Instead, only base salary is compared to other entities’ salaries. UTA also includes data from for-profit companies in benchmarking surveys.

The recommendation associated with compensation in 2008 had not been implemented, though the UTA board recently implemented policy changes related to recommendations in this chapter.

UTA has not benchmarked total compensation and has included for-profit data when calculating salary.

⁷ UTA currently benchmarks, or compares, base salary to a variety of entities.

⁸ Total compensation consists of the following:

1. Salary—including base pay and leave paid
2. Benefits—including standard benefits and special benefits such as additional life insurance, 457 plans, transportation allowances, and asset management plans
3. Bonuses

Furthermore, we found that UTA did not report all employee compensation to transparent.utah.gov as is required by law and policy. For executives, UTA failed to report 15 percent of total compensation.

Notably, UTA’s board of trustees solicits an annual review of compensation that evaluates UTA’s process in determining salaries. The board carefully reviews this report each year. While this review is independent in nature, it does not consider total compensation, including benefits and bonuses, which is a primary recommendation in this chapter.

UTA Executive Compensation Includes Large Bonuses and Special Benefits

Besides base salary and standard benefits, UTA provides additional compensation to executives. Top executives at UTA receive bonuses and special benefits not available to other UTA employees, including two types of deferred compensation plans (an asset management plan and a maximum 457 plan) and car allowances. The two highest-paid employees at UTA also have special life insurance benefits. Figure 3.2 shows compensation packages provided to UTA’s three highest-paid executives in 2013.

Top executives at UTA receive bonuses and special benefits not available to other UTA employees.

Figure 3.2 Cost of Total 2013 Compensation for UTA’s Three Highest-Paid Executives.

	General Manager	General Counsel	Chief Operating Officer
Base Salary	\$228,558	\$222,835	\$174,534
Bonus	30,000	30,000	29,918
Benefits	143,629	131,637	105,052
Total Compensation	\$402,187	\$384,472	\$309,503

Source: Utah Transit Authority

This section discusses bonuses and benefits received by top executives that are not available to most UTA staff. It is important to recognize that the executive benefits discussed here are rewarded in addition to standard benefits available to other UTA employees. Retirement pensions, health insurance, employer-paid taxes, sell-back vacation options, imputed income, gift certificates, and dependent care bonuses are considered standard benefits.

Our analysis focuses primarily on the cost of total compensation of UTA’s executive team, including the general manager, general counsel, and seven other executive-level positions. These nine positions also represent UTA’s nine highest-paid positions. However, most of the special benefits described in the next section are also provided to some other high-level staff. A total of 17 staff (including the 9 executives) receive the asset management plan, maximum 457 plan, and car allowances discussed below.

UTA Executives Receive Additional Benefits

This section describes benefits that UTA executive employees receive beyond what is included in the standard benefits package offered to other UTA employees. In 2013, UTA executives each received, on average, additional benefits valued at \$47,036. Figure 3.3 shows benefits packages provided to UTA’s three highest-paid executives in 2013.

Figure 3.3 Cost of Total 2013 Benefits for UTA’s Three Highest-Paid Executives.

	General Manager	General Counsel	Chief Operating Officer
Standard Benefits*	\$79,812	\$68,637	\$59,415
<i>Executive Benefits</i>			
Asset Management Plan	17,850	17,850	16,637
Maximum 457 Plan	23,000	23,000	23,000
Car Allowance	10,212	12,240	6,000
Additional Life Insurance	12,755	9,910	
Total Benefits	\$143,629	\$131,637	\$105,052

*Standard benefits include employee assistance program, basic life insurance, health insurance, employer-paid taxes, sell-back vacation, imputed income, gift certificates, dependent care bonus, and pension benefits.

Source: Utah Transit Authority

In 2013, UTA’s executive team each enjoyed, on average, \$47,036 in extra benefits.

All Executives Receive Extra Compensation Through an Asset Management Plan. All nine executives and some other senior-level positions receive additional deferred compensation through an asset management plan. The asset management plans represent an employer contribution to an employee-directed retirement plan. These accounts are funded by a mandatory, 3 percent contribution (covering both salary and bonuses) by the employee, and a 7 percent contribution from the employer. The average UTA contribution per executive was \$15,578 in 2013.

Unlike other employees, executives are not required to make an individual contribution in order to receive UTA's 457 plan contribution.

All Executives Receive IRS Maximum-Allowed 457 Contribution. UTA provides a 457 retirement plan for both executive and non-executive employees. This defined contribution retirement plan allows employees to contribute pre-tax dollars into a retirement account (similar to a 401k). In general, UTA employees are eligible for a 2:3 match. That is, for every 3 dollars the employee contributes, UTA matches the contribution with 2 dollars. These employees are limited to a maximum match of up to 2 percent of their salary. However, UTA executives receive a much larger contribution from UTA. Executives receive the maximum contribution allowed under IRS rules. This results in a UTA contribution of either \$17,500 or \$23,000, depending on the executive's age. Unlike other employees, executives are not required to make an individual contribution in order to receive UTA's contribution. In 2013, the average UTA contribution to each executive's 457 plan was \$21,778.

All Executives Receive a Car Allowance. This allowance is provided, in addition to a transit pass, in lieu of reimbursements for travel within UTA's service area. While seven member of the executive team each received \$6,000 for transportation costs in 2013, general counsel and the general manager received \$12,240 and \$10,212, respectively.

Two Executives Have Special Life Insurance Plans. UTA's general manager and general counsel have additional universal life insurance policies. In 2013, UTA paid \$12,755 and \$9,910 for the general manager's and general counsel's life insurance policies, respectively. These policies are held in addition to basic life insurance policies.

One Employee Has a Special Retirement Benefit. UTA's general counsel's employment contract includes a stipulation that enables him to earn double service credits towards a pension in his first 10 years of service. If the general counsel were to retire at the end of 2015, UTA would pay approximately \$50,000 annually in additional retirement benefits above what would be paid under the standard pension contract.⁹ Therefore, after ten years of service, UTA's general counsel will earn a pension worth about \$100,000 annually instead of the \$50,000 that 10 years of credit would have earned.

⁹ See Appendix D for more information on UTA general counsel's pension benefit

UTA Executives Receive Large Bonuses

UTA employees are eligible for bonuses. UTA executives have received bonuses in nine of the last ten years. In the last five years that bonuses have been distributed, the average bonus for the top three executives equaled \$23,048. In 2013, the average bonus for the eight executives who were employed for all of 2012 equaled \$29,228 (that average excludes the chief financial officer who received a partial year bonus of \$10,471). These bonuses average to be 17 percent of salary. Bonuses distributed to other UTA employees under UTA's Incentive Award Program averaged \$3,943.

We are concerned that, although UTA provides its executives large bonuses and generous benefits, these items are excluded when UTA compares its compensation to other entities' compensation. Currently, only base salary is benchmarked. For example, UTA reports that its compensation is in line with the market by citing the general manager's base salary, which they have documented at 3 percent below market value. However, in 2013 the general manager also received \$173,629 in benefits and bonuses that were not compared to the market. In our opinion, it only makes sense to benchmark total compensation, since that represents the true cost incurred by UTA. This chapter will discuss benchmarking in greater detail.

UTA Compensation Higher than UDOT or SLC Department of Airports

The audit team was specifically asked to compare UTA executive compensation to the Utah DOT and the Salt Lake City DOA by the audit requestor and UTA's board chair, respectively. UTA's total compensation is high when compared to these two agencies. Some positions, such as general counsel, are paid significantly higher than at these other entities. The audit team recognizes that the positions at UDOT and the SLC Department of Airports are not identical to positions at UTA. However, these positions do represent senior management positions at public sector transportation agencies and in that sense, we believe it is insightful to examine the compensation practices for these executives.

As discussed below, we also attempted to compare total compensation of UTA executives with comparable positions at other

In 2013 the average bonus for the eight executives who were employed for all of 2012 equaled \$29,228.

In 2013 the general manager received \$173,629 in benefits and bonuses that were never compared to the market.

Some positions, such as general counsel, are paid significantly higher than at other entities.

transit agencies. However, there was concern with the reliability of the data and we decided against reporting it. Figure 3.4 shows total compensation for UTA’s nine highest-paid employees.

Figure 3.4 CY 2013 UTA Executive Compensation Summary. This figure shows compensation information for UTA’s executive level positions.

Position	Salary	Bonus	Benefit	Total Compensation
General Manager	\$228,558	\$30,000	\$143,629	\$402,187
General Counsel	222,835	30,000	131,637	384,472
Chief Operating Officer	174,534	29,918	105,052	309,503
Chief Technology Officer	158,316	24,233	101,661	284,211
Chief Financial Officer	168,461	10,471	96,570	275,503
Chief Communications Officer	165,671	29,918	81,998	277,587
Chief Capital Development Officer	149,525	29,918	95,813	275,256
Chief Safety Officer	144,243	29,918	90,084	264,245
Chief Planning Officer	\$142,236	\$29,918	\$85,734	\$257,887

Source: Utah Transit Authority

UTA’s General Manager received \$402,187 in total compensation in 2013.

Peer Transit Comparison Not Reported Due to Unreliable Data

We attempted to compare the total compensation of UTA executives with comparable positions at selected out-of-state transit agencies. Although we were able to identify six comparable peer transit authorities, UTA felt that some peer transit agencies may have inaccurately reported their data to us. In particular, UTA was concerned that the out-of-state agencies may not have reported some bonuses and benefits. We believe UTA identified legitimate limitations with the total compensation data we collected. This concern was heightened by the audit finding (discussed at the end of this chapter), that UTA has not reported all of its compensation to transparent.utah.gov.

We hired a consultant to review our survey method and results. Our consultant, Dr. Rex L. Facer II, an expert in compensation analysis at Brigham Young University, felt our approach and methodology was reasonable, but agreed that additional benefit information would be valuable. Dr. Facer advised us that collecting the additional data proposed by UTA would take an extensive amount

of time. Because of data concerns we previously discussed, and because the recommendations in this report do not depend on the transit compensation comparison and UTA has already agreed to conduct a total compensation review, we have not included the peer transit comparison in this report.

UTA Compensation Higher Than That at UDOT

The audit requestor asked that we compare UTA salaries with those at UDOT. Figure 3.5 presents the compensation for the eight highest-paid employees at UDOT and the Chief Civil Deputy in the Attorney General’s Office.

Figure 3.5 Select UDOT and AG Compensation Information. This figure shows compensation information for UDOT’s highest-paid employees and the chief deputy for civil matters in the Utah Attorney General’s Office.

UDOT Job Title	Salary	Bonus	Benefits	Total Compensation
Executive Director	\$155,127	\$0	\$66,306	\$221,433
Director of Project Development	139,114	5,378	65,768	210,260
Director of Program Development	138,571	5,628	65,231	209,430
Region Director	134,183	5,336	63,968	203,487
Engineer Manager III	135,774	4,378	61,208	201,360
Engineer Manager IV	133,478	3,336	63,344	200,158
Deputy Director	135,190	1,420	63,224	199,833
Region Director	131,064	5,295	62,834	199,192
Chief Civil Deputy, Utah Attorney General*	\$149,189	\$0	\$76,343	\$225,532

*Source: Utah Department of Human Resource Management, Utah Attorney General’s Office
 * Rather than employ in-house legal counsel, UDOT works with the Attorney General’s office to settle legal disputes. We included the highest-compensated member of the Attorney General’s office in our analysis.*

UTA executives are compensated considerably more than are executives at UDOT. Following are notable differences between UTA’s and UDOT’s compensation:

- UTA’s executive team earned 49 percent more in total compensation than UDOT’s nine highest earners.

The audit requestor asked that we compare UTA salaries with those at UDOT.

UTA’s executive team earned 49 percent more in total compensation than UDOT’s nine highest earners.

At the request of UTA's board chair, we compared UTA's compensation to compensation at Salt Lake City Department of Airports.

On average, UTA's three highest-paid executives are compensated significantly more than executives in similar positions at Salt Lake City Department of Airports.

- UTA bonuses were, on average, nearly six times larger than UDOT bonuses.
- UTA's general manger is compensated 82 percent more than UDOT's executive director.

UTA Compensation Higher Than That at Salt Lake City Department of Airports

At the request of UTA's board chair, we also compared UTA's three highest-paid positions to corresponding positions at Salt Lake City Department of Airports. Figure 3.6 shows the information collected.

Figure 3.6 Select Salt Lake City Department of Airports and City Attorney Compensation Information. This figure shows compensation information for Salt Lake City Department of Airports' two highest-paid employees and the Salt Lake City Corporation's highest-paid attorney.

SLC Dept. of Airports Job Title	Salary	Bonus	Benefits	Total Compensation
Executive Director	\$264,389	\$12,500	\$74,223	\$351,112
Director of Airport Operations	\$141,357	\$0	\$40,386	\$181,743
City Attorney, Salt Lake City*	\$154,000	\$0	\$44,044	\$198,044

Source: Salt Lake City Corporation
 * Rather than employ in-house legal counsel, Salt Lake City Department of Airports works with the City Attorney's office to settle legal disputes. We included the highest-compensated member of the City Attorney's office in our analysis.

On average, UTA's three highest-paid executives are compensated significantly more than executives in similar positions at Salt Lake City Department of Airports. Some notable comparisons follow:

- UTA's general manager is compensated more than the director of the airport by 15 percent.
- UTA pays its next two highest-paid executives 83 percent more than the executives in corresponding positions at Salt Lake City Department of Airports and Salt Lake City Corporation.

SLC Department of Airports provided a bonus to its executive director, but UTA's general manager bonus was 140 percent larger.

UTA Benchmarking Practices May Contribute to Overcompensation

As reported in our 2008 audit, UTA's benchmarking practices may lead to higher compensation. The 2008 legislative audit team sought advice from experts in human resources who reported that UTA's compensation practices were inappropriate for a public entity. Because UTA did not change policy and practices as encouraged in the 2008 audit report, in this report we recommend that UTA's board revise compensation policy by benchmarking total compensation and discontinuing the use of data from for-profit companies in benchmarking practices. In response, UTA recently implemented policy changes that address this report's recommendations.

UTA Should Benchmark Total Compensation

Currently, UTA benchmarks base salary against market data, but does not benchmark bonuses or benefits. Since UTA's bonuses and executive benefits are generous, excluding them when benchmarking does not provide an accurate comparison. For comparison purposes, while UTA's salaries are 24 percent and 12 percent higher than UDOT and Salt Lake City Department of Airports, respectively, total compensation is 50 percent and 46 percent higher. Thus, only comparing base salary provides misleading comparisons and allows top employees to receive compensation that has not been benchmarked.

Because total compensation reflects UTA's costs for employee services more accurately than just base salary, we believe it is appropriate to benchmark total compensation. UTA's general manager recently reported that a 2014 market study will compare UTA salaries and benefits against public and private employers. However, UTA has not yet completed this analysis. We recommended that UTA alter its policy to require benchmarking total compensation—including salary, benefits, and bonuses—rather than just base salary.

UTA Should Discontinue Benchmarking Against For-Profit Companies

The 2008 legislative audit report stated that UTA should change the practice of using data from for-profit companies in its benchmarking activities, citing the practice as "inappropriate due to

We recommend that UTA's board revise compensation policy by benchmarking total compensation and discontinuing the use of for-profit data when calculating salaries.

Only comparing base salary provides misleading comparisons and allows top employees to receive compensation that has not been benchmarked.

UTA has continued to use for-profit, in addition to non-profit data when determining compensation and will continue to do so in the upcoming 2014 market study.

UTA's board has approved a policy change requiring UTA to benchmark total compensation.

Despite being made aware that they were not reporting all compensation to transparent.utah.gov, UTA management still underreported compensation in 2013.

the public nature of UTA's service." However, UTA did not change its practice after the 2008 audit. UTA has continued to use for-profit, in addition to non-profit, data when determining compensation and will continue to do so in the upcoming 2014 market study. We recommend that UTA adjust policy and practices to discontinue the use of for-profit data when benchmarking UTA compensation.

UTA Board Recently Implemented Audit Recommendations.

In response to the two benchmarking issues discussed above, UTA responded by altering policy as follows:

Figure 3.7 UTA Executive Limitations Policy No. 2.3.1. This figure shows UTA's response to report recommendations relating to compensation.

UTA Executive Limitations Policy No. 2.3.1

...The General Manager shall not fail to establish total compensation and benefits which represent market value for the skills employed within comparable labor markets made up of appropriate transit, government and non-profit sectors. Comparisons may be expanded to include private industry when transit government, and non-profit sector information is not available or adequate...

We believe that benchmarking total compensation—including bonuses and benefits rather than just base salary—and focusing comparisons on the government sector will provide more appropriate information for the UTA board to consider.

UTA Did Not Report All Compensation Information to Transparency Website

Utah's transparency website, transparent.utah.gov, was created by the Legislature in 2008 (SB 38). The legislation was sponsored by Senator Wayne Niederhauser to promote transparency and accountability in public agencies. UTA did not report portions of employee compensation information from this website, thus obstructing accountability to the public and circumventing the intent of the statute. We raised this issue with UTA management several months prior to their submission of 2013 compensation information, yet UTA did not correct the omissions prior to submitting the information. UTA said that they were counseled by their legal department that they were not legally required to provide certain information to the transparency site. Since then, however, UTA has

implemented new policy that requires them to fully comply with *Utah Code* relating to compensation reporting requirements. UTA reported to us that they intend to update their 2013 transparency website reporting to include all compensation.

Utah Transparency Advisory Board's Policy Requirement

The *Utah Code* establishes a transparency advisory board with the authority to set policies that determine what information public entities are required to report. The board's policy is clear that all personnel-related expenses should be reported. The *Utah Code* provision and transparency board policy can be seen in Figure 3.8.

Figure 3.8. Statute and Policy Governing Transparency Data. This figure shows the *Utah Code* provision and transparency board policy relating to reporting employees' compensation.

Utah Code 63A-3-403(3)(c)
The [Transparency] Board shall. . . determine what public financial information shall be provided by participating state and local entities . . .
Transparency Board Policy 01-01.02
Employee compensation summary information will, at a minimum, break out the following amounts separately for each employee: <ul style="list-style-type: none">• Actual total wages or salary recorded as an expense by the entity, (not budgeted amounts); Total benefits only, which shall include all items recorded as personnel-related expenses such as FICA, <i>retirement*</i> and 401K contributions, <i>deferred compensation,*</i> health and dental insurance, workers compensation, unemployment insurance, self-assessed internal rates for leave payouts, and other similar items recorded as a personnel-related expense by the entity, benefit detail is not allowed....

Source: transparent.utah.gov
*Emphasis added

Fifteen Percent of Executive Compensation Not Reported

UTA's executive team's total compensation was underreported on transparent.utah.gov. For these nine executives, the amount not reported to the site equals \$400,905, or 15 percent of actual total compensation. Specifically, the following two compensation components were not reported:

All of UTA's executive compensation was underreported by a rate of 15 percent.

The UTA board recently approved new policy requiring the UTA general manager to comply with laws and policies governing the transparency website.

- **Pension Contribution (Retirement).** Members of UTA’s executive team received unreported retirement pension benefits, totaling \$260,702 in 2013.
- **Asset Management Plan (Deferred Compensation).** UTA’s executive team received a collective \$140,203 in unreported benefits relating to contributions to deferred compensation.

The transparency board’s policy clearly states that all employee compensation should be reported to transparent.utah.gov. UTA management stated that their reading of the law allows them to exclude pension amounts and that they neglected to report all deferred compensation. UTA did not correct this issue after we notified them of the problem several months before they submitted 2013 data to the transparency website.

UTA Board Approved New Policy Requiring UTA Management to Report all Compensation. The UTA board approved new policy in June 2014 that requires the UTA general manager to comply with the appropriate statutory and policy sections governing the submittal of information to the transparency website. UTA reports that it will submit all information in next year’s report and will also inquire if they can update their 2013 report.

We recommend that UTA report all the compensation paid to its employees to transparent.utah.gov, including pension contributions and deferred compensation.

Recommendations

1. We recommend that the UTA Board of Trustees direct UTA staff to benchmark total compensation, including salary, benefits, and bonuses when comparing themselves to other agencies.
2. We recommend that the UTA Board of Trustees direct UTA staff to discontinue the use of for-profit data in its compensation benchmarking policy and practice and instead limit comparisons to other appropriate transit and government entities.

3. We recommend that UTA report all employees' compensation to transparent.utah.gov.

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Chapter IV

Financial Constraints Affect Asset Upkeep, Bus Service, and New Projects

We were asked to follow up on issues raised in our January 2012 audit of the Utah Transit Authority (UTA). As suggested in our previous report, using local funds to accelerate the construction of new rail lines has put a long-term strain on UTA’s finances. Large increases in debt service as well as operations and maintenance costs have required UTA to draw down reserves for ongoing needs. Debt service currently consumes nearly half of UTA’s sales tax revenues and by 2018 will consume 60 percent of sales tax revenues. In the absence of new borrowing, the debt service to sales tax ratio will steadily improve after 2018.

A new concern are the costs associated with maintaining the many miles of previously constructed rail. These costs were not reported in our previous report, but UTA’s preliminary estimates show these costs will add up to \$2.9 billion by 2033. Currently, UTA has only projected funding for a portion of these costs, but the UTA board has set goals to fully fund them. In addition, the adequacy of bus service continues to be a concern and funds for new projects are lacking. In accordance with the audit request letter, this chapter provides a follow-up on past audit recommendations dealing with UTA’s financial condition.

Debt service currently consumes nearly half of UTA’s sales tax revenues and by 2018 will consume 60 percent of sales tax revenues.

Figure 4.1 Summary of Prior Audit Recommendations and Current Audit Findings. UTA has financial constraints, but there remain many demands for additional funding.

Prior Audit Recommendation	Current Audit Findings
UTA should use sales tax revenue models from planning entities to establish sales tax revenue projections, rather than applying constant growth factors to current sales tax figures.	UTA has improved sales tax projections, and has also adjusted other revenues and expense forecasts with more reasonable assumptions. However, financial constraints remain.
UTA should identify reliable revenue sources for future transit projects’ capital and O&M costs before construction is initiated.	No major projects have begun since our prior audit. However, many demands for new funding exist, including: <ul style="list-style-type: none"> • Asset upkeep for rail lines • Bus service improvement • New transit projects

To provide updated information on the issues addressed in our prior UTA audit, this chapter is organized into four sections:

- **UTA Faces Financial Constraints.** UTA has made some adjustments to revenue and cost projections as recommended in our prior audit report. However, UTA continues to face financial constraints much of it due to borrowing heavily to accelerate rail line construction. The recession also affected UTA. As a result, debt service consumes a large portion of sales tax receipts, limiting funds available for other uses.
- **Rail Upkeep Costs Are Significant and Currently Underfunded.** UTA needs to adequately plan for upcoming asset maintenance costs or state-of-good-repair costs. Preliminary estimates by UTA of these costs are nearly \$2.9 billion over 20 years.
- **Bus Service Has Suffered Due to Financial Constraints.** As reported in our prior audit, the expansion of rail service and the economic downturn have resulted in the reduction of bus service. In light of the reduction, the 2014 Legislative General Session included an effort to increase funding for buses. This bill did not pass.
- **Future Capital Projects Depend on New Funding Sources.** Many projects, totaling billions of dollars, have been proposed in different documents, but construction plans are relying on future tax increases.

UTA Faces Financial Constraints

Our 2012 audit indicated that UTA's revenue and expense projections were optimistic. This follow-up review found that UTA has adjusted projections to make them more reasonable. Nonetheless, as previously reported, the rapid expansion of rail lines has sharply increased debt payments, thereby reducing the funds available for operations and maintenance (O&M) costs. Because debt service, O&M, and capital costs will exceed revenues for most years until 2020, UTA plans on drawing down its reserves to maintain services.

UTA Has Adjusted Some Cost and Revenue Projections

Our 2012 audit report expressed concern that UTA's revenue projections were optimistic while expenses may have been understated. Since that audit, UTA has made some adjustments to its projected revenues and costs in its thirty-year transit development plan. This development plan is an important and useful planning document that allows UTA to estimate future costs and revenues to better manage future cash flows. Over the next ten years, UTA has adjusted projected cumulative revenues downward by 3 percent and increased cumulative projected costs by 7 percent. Reaching these adjustments included the following steps made in response to past audits' recommendations.

- Decreased sales tax revenue growth estimates from a 5.25 percent yearly increase to a 5 percent yearly increase
- Decreased farebox revenue projections from \$80 million to \$68 million by 2020
- Decreased projected federally funded maintenance grant amounts
- Increased O&M costs to more reasonable estimates

Debt Service Will Consume Increasing Percentages of UTA Revenue Until 2018

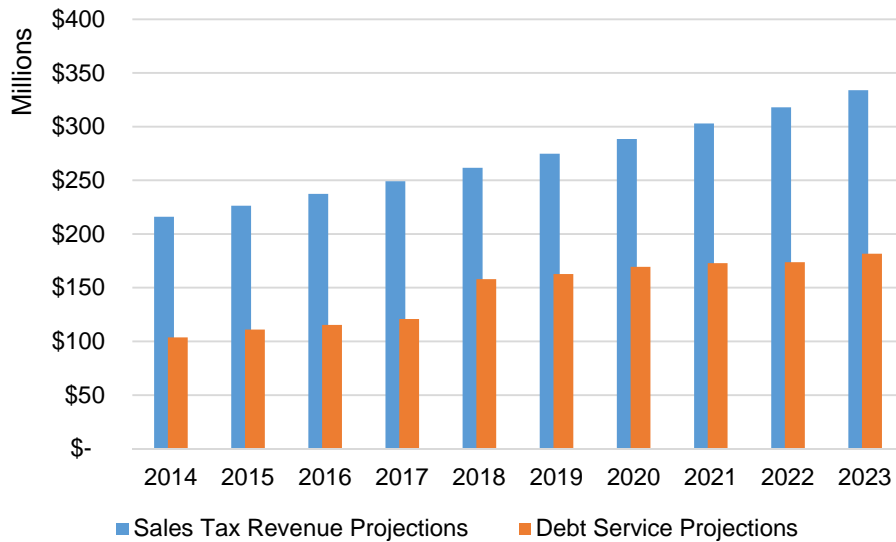
Sales tax revenues, farebox collections, and federal maintenance grants are UTA's major sources of revenues. These revenues are used to cover operations and maintenance costs as well as debt service on the \$2 billion in outstanding bonds. Debt service currently consumes nearly half of UTA's sales tax revenues and by 2018 will consume 60 percent of sales tax revenues. After 2018, the debt service to sale tax ratio steadily improves in the absence of new borrowing. Figure 4.2 shows that, because of the way the debt payments were structured, the debt service will continue to increase several years after the major expansion in rail lines is complete. In 2018, debt service will increase 30 percent from 2017 to over \$150 million, with modest increases in the years after that.

UTA has made adjustments to its optimistic revenue and cost projections.

Because of the way the debt was structured, debt service costs will continue to increase until 2018.

By 2018, debt service will consume 60 percent of UTA sales tax revenues.

Figure 4.2 Projected UTA Debt Service and Sales Tax Revenue Growth. Though UTA has completed its large capital projects, there will still be increases in debt service costs because of the way payments were structured.



Source: Auditor analysis of Utah Transit Authority data

Debt service currently consumes nearly half of UTA’s sales tax revenues, but by 2018, the level consumed will increase to 60 percent. After 2018, debt service gradually decreases to 43 percent of sales tax revenues by 2030 assuming there is no new borrowing. UTA’s board has taken steps to address UTA’s debt and has created a Debt Service Reserve and Rate Stabilization Fund. This fund will accrue the savings from bond refinancing, net interest savings, and onetime monies to retire debt early without re-bonding.

We recognize that the recession negatively affected UTA as it did other state and local agencies. However, UTA’s large debt also leaves the agency with limited financial flexibility to cover other costs, as will now be discussed.

Operating and Debt Service Costs Will Exceed Revenues for Three Years

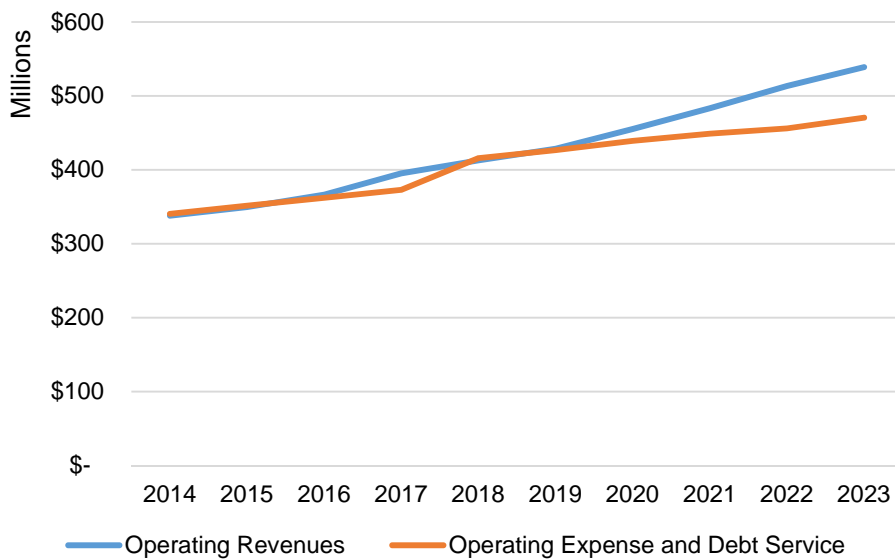
UTA’s recently expanded rail lines require operating subsidies. With the accelerated openings of five new rail lines since 2008, O&M costs have accrued sooner than originally planned. From 2010 to 2014, O&M costs have increased by 36 percent or nearly \$62 million. A new rail line necessitates hiring new drivers and mechanics to operate and maintain the line. Ignoring capital and debt service costs,

From 2010 to 2014, O&M costs have increased 36 percent or nearly \$62 million.

light rail fares cover about 40 percent of operating costs, while commuter rail fares cover 13 percent of operating costs. Thus, every new rail line that opens requires a portion of ongoing sales tax revenues to cover much of these increased operating costs.

Figure 4.3 shows that UTA’s estimated costs (orange line) are projected to exceed operating revenues (blue line) for three of the next five years (in 2014, 2015, and 2018). Revenues and expenses remain close until the end of the decade, when debt service begins to level out and sales tax revenues are projected to continue increasing. To cover the deficit, UTA is drawing down previously built-up reserves to maintain service levels.

Figure 4.3 Future Projected Revenues and Costs. For three of the next five years, UTA’s O&M costs and debt service are projected to exceed its operating revenues.



*Operating Revenues includes Federal Bond Interest Subsidies
Source: Auditor analysis of Utah Transit Authority data*

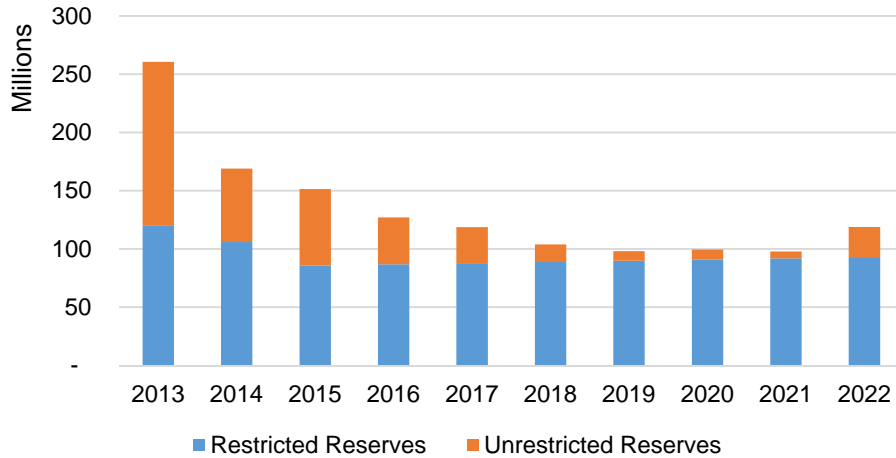
Costs are projected to exceed revenues for three of the next five years.

UTA Reserves Will Decrease Until the End of the Decade

In 2013, UTA had about \$260 million in total reserves, of which \$140 million were unrestricted reserves that can be spent on capital expansion or operations and maintenance shortfalls. It is estimated that by the end of 2014, unrestricted reserves will have decreased by \$91 million. These unrestricted reserves are rapidly being drawn down to cover ongoing and capital expenses. As Figure 4.4 shows, if current

sales tax revenues and future expense assumptions hold, these unrestricted reserves will be nearly depleted by 2021.

Figure 4.4 UTA Estimated Reserves. Unrestricted reserves will decrease by \$91 million in 2014 and UTA projects unrestricted reserves to be at their lowest point by 2021.



Source: Auditor analysis of UTA data

UTA has little margin for error if sales tax revenues do not meet expectations. UTA maintains unrestricted reserves as a buffer against revenue fluctuations and for capital development. Unfortunately, recent increases in operations and maintenance costs as well as increased debt service on over \$2 billion in debt for expanded rail service are continuing to strain these reserves. For three of the next five years, UTA projects that it will draw down its unrestricted reserves to cover current expenses, but we are told they have no plans to touch the restricted reserves. Through the rest of the decade, UTA will need to be diligent to maintain current service levels and will not have the funds to expand services without increased revenue streams.

UTA has good bond ratings with all the major rating agencies. In a recent rating dated April 22, 2014, Moody's Investors Service said that UTA has "strong management which has a positive track record of delivering capital projects on schedule and within budget." As of April, 2014 Fitch Ratings said their outlook for UTA bonds is stable, citing Utah's strong economy and revenue growth.

However, these agencies also note UTA's vulnerabilities. Fitch views UTA's "financial flexibility as weak" and says they have "weaker than average financial metrics." Moody's says that UTA has "highly

Unrestricted reserves will be nearly depleted by 2021.

Through the rest of the decade, UTA will need to be diligent to maintain current service levels and will not have the funds to expand service without increased revenue streams.

leveraged sales tax revenues” and notes that “a significant step up in debt service in 2018 and gradually increasing debt service through 2033...will challenge the Authority if assumptions about sales tax growth and farebox recovery are not met.”

In summary, the financial constraints at UTA result from recent rail expansion coupled with impacts from the recession. The Federal Transportation Administration (FTA) recently reported to Congress that UTA has gone through one of the most aggressive rail expansions in transit history. Five new rail lines were added to the system in less than five years, largely paid for by borrowing against future sales tax revenues. As was described in our 2012 report, that debt must now be repaid, leaving less funding for operations or new projects. In addition, we have learned that the future costs of upkeep and repair of rail assets is significant and that these costs are currently underfunded.

Rail Upkeep Costs Are Significant and Currently Underfunded

As we followed up on our prior audit work on UTA revenues and costs, an important concern arose that had not been addressed in our last audit. We identified another cost, state-of-good-repair¹⁰ (SGR) cost (or asset maintenance), that needs to be considered before UTA begins construction on new projects. SGR refers to the maintenance, overhaul, and replacement of assets like railroad track, railroad crossings, train platforms, and rail vehicles. This upkeep of rail infrastructure includes periodic refurbishment or replacement of assets, not regular ongoing maintenance.

SGR costs are a problem for transit systems nationwide; UTA’s board is aware of this issue and has made it a priority. The board’s 2020 strategic plan calls for full funding of a state-of-good-repair costs program. With a newer rail system, UTA is just beginning to encounter these costs and has recently developed an asset management system to track future SGR needs. Unfortunately, these future SGR costs are significant at a potential \$2.9 billion in expenses up to 2033. Because these costs have been recently identified, UTA has not yet

State of good repair (SGR) costs refer to the maintenance, overhaul, and replacement of assets like railroad track, railroad crossings, train platforms, and rail vehicles.

¹⁰ The Federal Transit Authority generally defines state-of-good-repair or SGR as maintaining an agency’s rolling stock of infrastructure to a defined service level, performing maintenance, repair, rehabilitation, and renewal according to agency policy, and reducing or eliminating an agency’s backlog of unmet needs.

The UTA board is aware of future SGR costs and prioritized full funding in their 2020 strategic plan.

UTA planning documents currently only cover two-thirds or less of the potential \$2.9 billion in SGR costs over the next 20 years.

We recognize that the SGR cost estimates are preliminary and will likely be adjusted in the future.

worked much of these costs in its long-term planning documents and needs to identify future funding sources. However, the UTA board is aware of future SGR costs and prioritized full funding in their 2020 strategic plan. Given UTA's current financial condition, needed maintenance of these assets will be challenging and might be postponed. UTA should not construct future projects until these rail upkeep costs and funding have been identified.

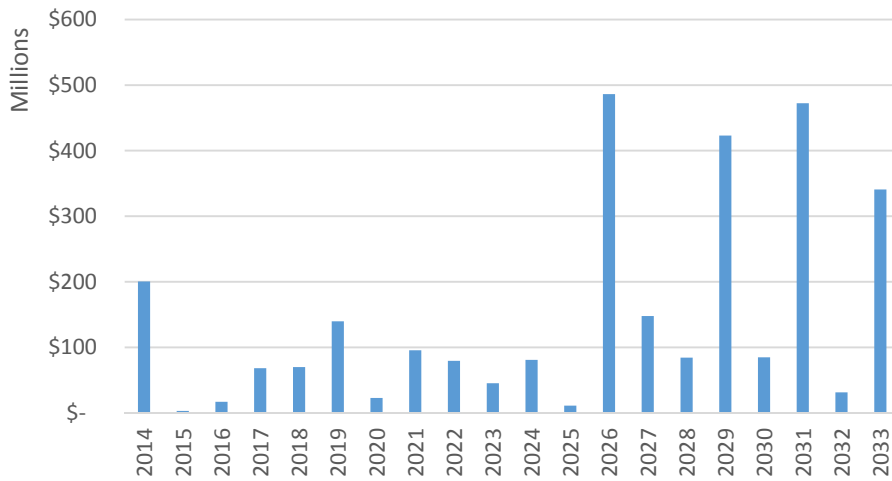
UTA Will Need to Identify Future Funding Sources for State-of-Good-Repair Costs

SGR costs are an issue that has recently garnered national attention. It is a serious problem with older rail systems that have not received needed maintenance. We are encouraged that the UTA board has already made it a goal to fund SGR. However, UTA planning documents currently only address about 50 to 66 percent of the potential \$2.9 billion in SGR costs that UTA will incur by 2033. A UTA official says more of these costs can be covered by future unrestricted reserve funds that are expected to increase in the next decade. The potential cost estimates were generated by UTA as part of a federal grant to implement an asset management system to track the cost of preventive maintenance, overhaul, and replacement of rail and other assets.

UTA's present SGR estimates are still being refined and are currently based on asset age, not actual condition. It is hoped that visual inspections will reveal that assets are doing better than anticipated and actual SGR costs will be lower than projected. Despite these uncertainties, UTA needs to include these costs and their funding sources in its planning document.

Figure 4.5 shows the amount of SGR needs UTA has estimated over the next 20 years. Again, we recognize that future SGR costs are preliminary and will likely be adjusted in the future. We report these preliminary numbers here to provide understanding and context for this issue.

Figure 4.5 Anticipated SGR Costs Increase in Next Decade. UTA needs to fully plan for a potential \$2.9 billion in future SGR costs in its planning documents. SGR costs shown are preliminary estimates.



Source: Utah Transit Authority

The graph shows about a \$200 million backlog in SGR costs reported in 2014, with huge increases after 2025, reaching nearly a half billion dollars as trains need replacing. These increases are a result of building multiple rail lines back to back, which means their maintenance, overhaul, and replacement cycles will coincide, as represented by the large spikes in cost.

Even though the bulk of UTA’s SGR costs are still a decade away, these costs need to be included in all future financial planning documents to ensure funding is available when scheduled maintenance comes due.

SGR Costs Need to Be Fully Considered Before New Rail Lines Are Constructed

UTA should consider the total cost of ownership of its assets before embarking on new projects. Future SGR costs, needed for the adequate upkeep of rail infrastructure is an important item that should be fully recognized before additional rail lines are built. UTA should ensure funding has been identified for O&M and SGR before building new projects.

Figure 4.6 provides a statement by former FTA administrator Peter Rogoff, referring to the \$78 billion of deferred SGR costs at transit agencies, much of it for rail.

SGR costs need to be included in all future financial planning documents to ensure funding is available when scheduled maintenance comes due.

Figure 4.6 Former FTA Administrator Provided Insight into the Importance of Carefully Weighing the Future Costs of Rail.

Peter Rogoff, FTA Administrator – May 2010 Statement

“Communities deciding between bus and rail investments need to stare those numbers in the face. Some communities might be tempted to pay the extra cost for shiny new rails now. But they need to be mindful of the costs they are teeing up for future generations.”

Source: www.fta.dot.gov

As it stands, future generations in Utah are now in line for future SGR costs of potentially \$2.9 billion by 2033. UTA rapidly expanded its rail lines during a recession. However, capital-intensive projects are also costly to maintain, and building them too early may mean costly overhauls before they are fully utilized. Once projects have been built, their repair and replacement time frames are set, forcing future generations to find the large amount of funds needed for SGR or live with substandard infrastructure.

Bus Service Has Suffered Due to Financial Constraints

As discussed earlier, UTA finances have been strained by borrowing against future sales tax revenues to pay for recent rail expansion. In addition to debt service payments, new rail lines come with associated increases in operations and maintenance costs as well as increased upkeep, or costs known as state-of-good-repair (SGR). As our prior audit pointed out, these cost increases have put a strain on UTA’s ability to provide service. Our 2012 audit report stated the following: “As UTA begins to integrate more rail lines within its current system, route adjustments and additional service cuts may be needed. Similarly, revenue shortfalls may require adjusting expansion plans.” As expected, bus service has suffered because of financial constraints. In fact, concern about inadequate bus service has led to proponents seeking a tax increase to improve service.

More Bus Service Is Needed

UTA acknowledges that bus service was reduced in part because of the cost of the rail expansion. With new rail lines opening earlier than planned, UTA was forced to find millions of dollars to pay for the new lines’ O&M costs. The drop in revenues during the recession also contributed to bus service cuts that were implemented in order to

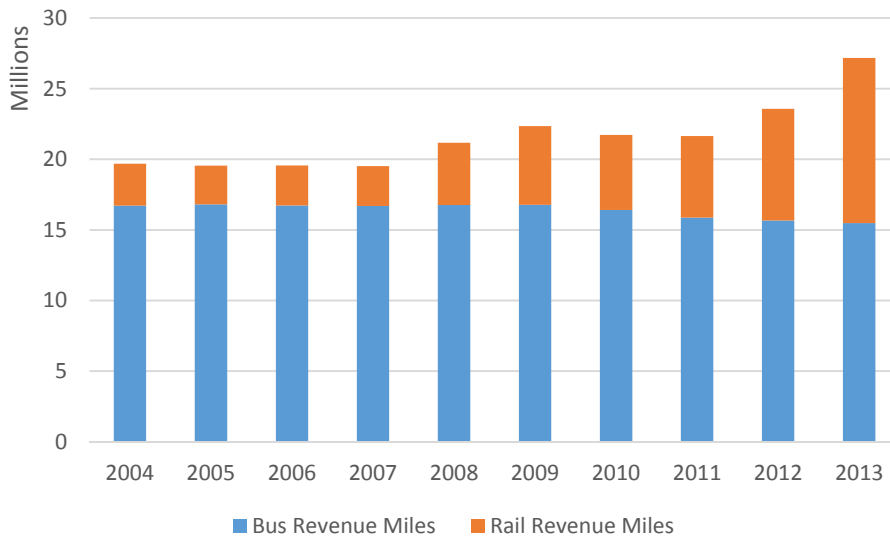
Once projects have been built, future generations will be forced to find the large amount of funds needed for SGR.

As our prior audit report pointed out, UTA has reduced bus service because of financial constraints, which has led proponents to seek tax increases.

balance the budget. Between 2007 and 2012, UTA made many changes in bus routes. Some routes were replaced by train routes, while other routes were reduced in span and frequency.

One way to evaluate the overall reduction in bus service is to examine the total revenue miles that buses are driven each year. This tells us how many miles bus drivers are behind the wheel on routes each year. Figure 4.7 shows that, according to the National Transit Database, from a high point in 2009, UTA bus revenue miles decreased 8 percent by 2013, while rail revenues miles increased 109 percent over the same period.

Figure 4.7 Bus Revenue Miles. Bus revenue miles have declined since 2009 while rail revenue miles have increased.



Source: National Transit Database and Utah Transit Authority

It should be noted that, in 2013, local bus revenue miles increased over 800,000 miles from 2012. However, total bus revenue miles decreased slightly in 2013, because commuter bus revenue miles decreased by almost a million miles over the same period because some commuter express buses were replaced by Frontrunner South. With the addition of new rail lines, total revenue miles have gone up, with the lost bus miles being made up by rail.

New Funding Sought to Increase Bus Service

The adequacy of bus service is a widespread concern. With rail providing the backbone to the system, UTA management talks about the need to fill in the “ribs” with more bus service. Some state

From 2009 to 2013, bus revenue miles decreased 8 percent.

Some state lawmakers report that the need for more bus service is a significant concern to their constituents.

The 2014 Legislative General Session included an effort to increase funding for buses.

One concern that HB 388 tried to address was that funding for buses needs to be protected from diversion to new rail projects.

Projects costing billions have been proposed, but construction plans are predicated on future tax increases.

lawmakers also report that the need for more bus service is a significant issue to their constituents.

In light of the reduction in bus service, the 2014 Legislative General Session included an effort to increase funding for buses. If passed, House Bill (HB) 388 would have allowed local elected officials to propose a sales tax increase for a public vote.

The need to improve bus service was of special concern in Salt Lake County. The bill sponsor said the new funding “gives back the transit system that people want; the transit system that people lost here along the Wasatch Front during the recession. We need these bus routes back, we need the frequency back.” Another lawmaker said, “So many times I hear from my constituents, ‘I’d love to take the bus, but I can’t get there from here. It takes too long, the routes are too infrequent.’” A third legislator said, “I hope all the stakeholders heard loud and clear what we as legislators and as representatives of the people want to see happen: that is, expanded bus service, plain and simple.”

One concern that HB 388 tried to address was that funding for buses needs to be protected from diversion to new rail projects. Therefore, the bill provided that, in Salt Lake County, new funds could not be used for the construction or extension of the rail system or for rail construction’s debt service costs. However, some other counties (of the second class) would not have been restricted from using the funds for rail capital costs.

While HB 388 did not pass during the 2014 General Session, supporters plan to introduce a similar bill next session. If such a bill is introduced, an important consideration will be whether potential new tax revenues will be targeted primarily for improved bus service. While there is support for enhancing existing service, there are also many proposed new transit capital projects seeking funding.

Future Capital Projects Depend on New Funding Sources

Our audit request letter directed us to review projections for future transit projects and the capital costs necessary to build them. Many projects costing billions of dollars have been proposed in different documents, but construction plans are predicated on future tax

increases. However, as discussed above, the tax increase proposed in the 2014 Legislative General Session was intended (at least in Salt Lake County) to increase bus service and increase frequency on existing rail lines rather than pay for new capital projects.

Planning Documents Include Many Projected Transit Projects

A variety of new transit projects is under consideration by UTA and its planning partners. We reviewed two key planning documents. *Utah's Unified Transportation Plan* for 2011-2040 was prepared by UTA, Utah Department of Transportation (UDOT), and local metropolitan planning organizations (MPOs). The *UTA Network Study* was prepared by a UTA consultant along with UTA and MPO staff.

***Unified Transportation Plan* Has Billions in Projected Transit Projects' Costs.** The Utah *Unified Transportation Plan 2011-2040* provides a summary of anticipated 30-year needs for both road capacity and transit improvements. The first phase of the plan, ending in 2020, includes 23 UTA projects at an estimated cost of \$1.39 billion. However, three of these projects have already been completed. The second and third decades of the plan include \$12.5 billion more in capital costs, as well as other projects lacking a cost estimate. A complete list of future anticipated transit projects can be found in Appendix E, Figure E.2.

One of the UTA board's strategic plan goals is to support full funding of the *Unified Transportation Plan*. The financial assumptions included in the unified plan identify potential tax increases on sales, fuel, and increases in registration fees.

***UTA Network Study* Identifies Projects to Be Built in the Near Future.** A more recent study (completed in 2013), the *UTA Network Study* focuses just on transit projects that should be built following the completion of the *Frontlines 2015* rail expansion projects. Figure 4.8 below shows some of the new bus rapid transit (BRT) and rail projects being considered in the next tier of projects UTA has been studying.

One of the UTA board's goals is to support the full funding of the *Unified Transportation Plan*, which includes tax increases.

Figure 4.8 A Sample of Future UTA Projects. These are a few of the transit projects UTA is contemplating in its next tier of transit projects to study and construct.

Project Name and Location	Proposed Improvement	Est. Cost in Millions
5600 West Transit	BRT	\$420
Bus Rapid Transit – Provo to Orem Line	BRT	150
Ogden to WSU Transit Corridor	Streetcar	200
SLC Downtown Streetcar	Streetcar	120
Draper to Orem Light Rail Extension	Light Rail	\$1,500

Source: Utah Transit Authority Network Study

The *UTA Network Study* includes other projects not shown in the figure above. For example, adding more double-tracking of FrontRunner in selected locations and the Wasatch canyons transit planning known as the Mountain Accord Project are included in the *UTA Network Study*. According to the report, “The anticipated costs of the Next Tier projects are [about] \$4.8 billion.” The report continues: “With the decrease in sales tax revenue due to the state of the economy and the bonding levels associated with the FrontLines 2015 program, UTA has limited financial ability to further invest in the Next Tier projects.”

Therefore, the report mentions a number of potential tax increases that could help pay for the next tier projects, including sales taxes, hotel taxes, rental car taxes, and property taxes.

If Transit Taxes Are Increased, New Capital Projects Require Restraint

Transit planners see a clear need to increase transit taxes. MPOs have projected the funding needed for transit through 2040. In order to meet the anticipated costs, the MPOs, in their long-range plans, have identified a financial plan that includes a local option 1-cent sales tax dedicated to transit by 2040. Of course, new taxes would need to be authorized by the Legislature and voted on by the public.

Even if new taxes are approved, restraint needs to be exercised because the demand for new projects is so great. Perhaps one lesson of the recent rail expansion is that funds must be reserved to operate a robust bus system that supports the rail system.

The anticipated costs of the Next Tier projects are \$4.8 billion.

One lesson of the recent rail expansion is that funds must be reserved to operate a robust bus system to supplement the rail system.

The financial constraints discussed earlier in this chapter should also be considered as new construction is contemplated. For example,

- \$3.4 billion in debt payments over 20 years
- \$2.9 billion in SGR costs over 20 years
- The depletion of reserves
- The acknowledged need to provide better bus service

Other needs exist as well. For example, UTA's pension plan is underfunded. UTA has a plan to increase the contribution rate from 13 percent in 2013 to 16 percent in 2016. This additional pension funding will also take a portion of UTA's revenues.

In conclusion, we believe that if a tax increase is approved, the allocation of new tax dollars needs to be carefully considered. In our 2012 audit report, we recommended that UTA identify reliable revenue sources for future transit projects' capital and O&M costs before construction is initiated. This recommendation, with the addition of identifying SGR, costs remains important.

Recommendations

1. We recommend that UTA management consider the total cost of ownership before embarking on new capital projects. This includes:
 - a. Identifying ongoing funding for operations and maintenance costs
 - b. Identifying funding for state-of-good-repair costs
2. We recommend that UTA management include the current projected ongoing state-of-good-repair costs in its transit development plan.

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Chapter V

Transit Is Highly Subsidized; Better Data Can Aid UTA Board’s Customer Focus

We were asked to follow up on our January 2012 audit report on the Utah Transit Authority (UTA). The audit request letter asked that we follow up on issues relating to ridership, farebox policy, and the costs, revenues, and subsidy for each mode of transit. Figure 5.1 is a summary of the pertinent recommendations and a brief description of the findings from our current audit work.

Figure 5.1 Summary of Prior Audit Recommendations and Current Audit Findings. UTA hopes to implement a distance-based fare system by 2020 to help address ridership issues.

2012 Recommendation Summary	Current Audit Findings
UTA Board of Trustees should clarify its fare strategy including: <ul style="list-style-type: none"> • Target level of discounts for different types of fare passes • Target level of subsidies for different types of services • Target minimum farebox recovery rate. 	Board policy has not been updated since 2008, and subsidy levels continue to vary widely by passenger type and mode. However, UTA’s farebox recovery rate has increased for the last several years. The board is currently reviewing a distance-based fare program that may address some of these issues.
UTA should continue to develop good passenger data to support informed decisions on fares and fare policy, including obtaining feedback from transit users.	UTA has implemented electronic fare collection (EFC) products for some fare types; however, the system lacks full implementation and user compliance.
UTA should use more frequent surveys or other means to better understand the passenger experience, monitor passenger trips completed, and estimate transit market share.	Additional metrics are needed to help the board with its customer focus, including: <ul style="list-style-type: none"> • Customer satisfaction measurements • Transit market share measurements.

This chapter discusses prior audit recommendations in farebox policy and data collection, as well as additional metrics to improve informed decision making.

To provide updated information on the issues addressed in our prior UTA audit, this chapter is organized into three sections:

- **Questions with farebox policy still exist.** Subsidies continue to vary widely by passenger type and mode, leading to questions about how staff implements fare policy following a market-based approach. We think the UTA board should

periodically review fare policy implementation to ensure it is comfortable with the results.

- **UTA still needs to improve aspects of its passenger data.** Electronic Fare Collection data is inadequate, effectively tracking only 37 percent of ridership responsible for less than 32 percent of UTA fare revenue. Good data collection and methodology practices across all UTA departments are essential to informed policy decisions by the UTA board.
- **Additional metrics can help UTA’s board realize its customer focus.** The board should track customer feedback on its dashboard and periodically measure transit market share.

Questions with Farebox Policy Still Exist

A 2011 consultant hired by UTA reported that pass programs were so heavily discounted that some UTA staff felt the programs were inequitable. We believe the question of equity is one the UTA board should review. Our 2008 and 2012 audits reported widely different subsidy levels among passenger types and transit modes. Our 2008 audit also identified a concern that UTA’s overall operating subsidy level was relatively high. Our current audit request asked us to again review subsidy levels. We found that inconsistency in subsidy levels among passenger types and modes remains, but that the overall subsidy level has decreased since 2006. Given the discretion the board gives staff to make fare policy decisions, and questions raised by varying subsidy levels, we think the board should periodically review the effect of fare policy for different types of customers.

Rather than clarify existing board policy as recommended in past audit reports, the board chair told us that the board has been discussing distance-based fares. UTA recently announced it has hired a consultant to help complete a “fare policy analysis project” that will take an in-depth look at UTA’s fare policies and how they might be improved. This project may also help guide the future implementation of a distance-based fare system.

Currently, UTA board policy sets base fares but provides limited guidance about pass programs and other discounts. UTA managers have discretion to negotiate pass programs as long as they are projected to increase ridership without reducing revenue. Similarly,

Our audit request asked us to conduct a follow-up review of subsidy levels.

staff may offer promotional programs designed to attract ridership with temporarily reduced fares. UTA staff report they follow a market-based approach designed to strengthen UTA's ability to reach ridership goals while increasing farebox recovery.

We are impressed with the many innovative programs UTA staff use to try to increase ridership without reducing fare revenue. However, to some extent, the metrics driving staff efforts appear to focus on immediate rather than long-term outcomes. Given the apparent inconsistencies in subsidy levels among passenger types and transit modes, we think the board should review the outcome of existing policies to verify that they result in the type of fare structure intended.

Fare Prices Vary Significantly By Type of Fare

The prior legislative audits recommended that the board address farebox recovery rates among fare types. The board has not yet established any such policy. Instead, the board continues to allow a high level of discretion in negotiating pass programs. That discretion has perhaps led to the large difference in the fare per boarding paid by public pay riders and pass program riders. The difference in amounts paid leads to questions about the disparity of the fare system between those who pay the public rate and those with discounted passes.

Available data indicates the public pay riders pay over twice as much as pass program riders. We define public pay riders as those who pay fares through publicly available means (cash, monthly pass, Farepay pass, etc.). Pass program riders are those who have some kind of discounted pass through membership in a participating organization (Ed pass, Eco pass, etc.). Figure 5.2 indicates that the average fare per boarding for a public pay rider was \$1.70, well above that of a pass program rider at \$0.66.

The average public pay fare is well above that of a pass program fare.

Figure 5.2 Fares Per Boarding Vary Significantly Between Pass Program Riders and Public Pay Riders. Riders paying publicly accessible fares have much higher rates on average than those available to members of participating organizations.

	Boardings Estimate	Revenue	Fare Per Boarding
Public Pay Riders (cash, standard passes, etc.)	18,545,347	\$31,441,112	\$1.70
Pass Program Riders (Eco/Ed Pass)	21,960,187	\$14,538,944	\$0.66

Sources: 2011 UTA On-board survey data, 2012 NTD data, and fare revenue from 2013 UTA financial data. Analysis does not include Paratransit, Vanpool, Medicaid or Free Fare Zone.

We recognize that grouping customers into two fare types can be simplistic, but the data articulated so poorly among UTA departments that comparisons could not be made between revenue and ridership without the simplification. Even then, some data was so vague as to inhibit its clear interpretation. Though less suitable, we felt the absence of ideal data should not deter the audit from addressing the issue. In fact, a UTA consultant hired to address fare policy took a similar approach and reached a similar conclusion. Later in the chapter, we will address some of UTA’s data challenges.

The UTA-paid consultant analysis (using 2008 data) showed that the average public pay rider paid \$1.28 per boarding. In comparison, revenue from Ed Pass users was \$0.30 and from Eco Pass users was \$0.64. The consultant also compared fare revenues and ridership. Its report stated:

The *EdPass and EcoPass programs* account for over 50% of UTA boardings, but less than 28% of fare revenue. Nevertheless, as long as these are new boardings, the programs have met their UTA-defined objective: to increase ridership. The programs are popular and have created a network of invested riders. However, UTA [internal] stakeholders¹¹ are concerned that the EdPass and EcoPass are too deeply discounted; some also feel they are inequitable.

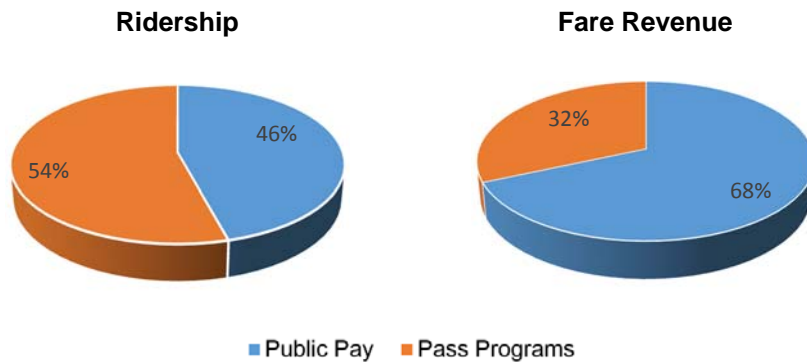
Using the data available to us, Figure 5.3 shows continued imbalances among ridership (measured in 2011) and actual revenues collected in 2013. Pass programs that are not available to the general

In 2011, a UTA consultant reported concerns that pass programs were so heavily discounted that some UTA staff felt they were inequitable.

¹¹ The study identified stakeholders as UTA management and staff.

public account for 54 percent of UTA’s ridership, but only generate 32 percent of fare revenue.

Figure 5.3 Comparison of 2011 Ridership Data and 2013 Fare Data. Pass program riders use the system more than public pay riders but pay much less in fares.



Source: The most recent data available was 2011 UTA ridership survey data, 2012 NTD data, and 2013 UTA financial data.
Comparison excludes vanpool, Paratransit, Medicaid passes, and Free Fare Zone riders

Pass programs are responsible for 54% of UTA ridership but only 32% of UTA fare revenues.

The UTA consultant’s analysis came at a time when UTA was seeking to raise its systemwide farebox recovery ratio to 30 percent by 2020. According to the consultant’s report:

Achieving this target will require re-evaluating those fare products, such as EdPass, EcoPass, and others that are structured and priced almost solely to generate ridership. From a systemwide perspective, it will also be necessary to refocus the departments from their ridership generation objective, to balance ridership and revenue consistent with the fare system mission and goals.

Our 2012 audit report expressed concern with achieving the 30 percent farebox recovery without hurting ridership. Additionally, one UTA executive stated that the current farebox recovery level (see Figure 5.4) was about as high as the market would allow. A lower target eases the need to generate more revenue from heavily discounted pass programs. However, the question still remains whether too much burden for fare payment is being placed on public riders who are not eligible for the special pass programs.

UTA Staff Have Developed a Variety of Fare Discounts and Initiatives. As noted earlier, UTA board allows staff the discretion to structure discounted pass programs and promotional discounts. UTA

staff has responded with many innovative efforts to increase ridership while maintaining fare revenue, resulting in a variety of unique programs and agreements, a few of which include:

- **FAREPAY Card.** With a prepaid, reloadable electronic FAREPAY card, riders save up to 20 percent off the base fare through the end of 2014.
- **Hive Pass.** The Hive Pass is available only to residents of Salt Lake City. Residents can purchase a Hive Pass for one year for \$350 dollars, an 85 percent discount off the regular price of \$2,376.
- **State of Utah Pass Program.** State government has transitioned from a standard Eco Pass program to a new type of agreement at an introductory rate. UTA reports state employee ridership has doubled since the agreement's introduction.

With these and other promotional programs, questions exist about what the future holds. First, will FAREPAY discounts be extended beyond year end, and if not, will their use decline? Second, will the Hive pass concept be extended to other cities and if so, at what rate? Third, what level of payment will UTA negotiate with state government next year?

Taxpayer Subsidies Vary Significantly by Type of Service

Our 2008 and 2012 audit reports also provided information on subsidy level by transit mode. This audit request directed us to again address the "level of tax subsidy required by FrontRunner, TRAX, and buses." Generally, tax subsidy is simply the remainder of costs not covered by fares (miscellaneous revenues such as advertising are very minor). Thus, a 20 percent recovery ratio corresponds to an 80 percent subsidy level.

Subsidy levels can be calculated for just operating costs or for total costs. UTA and other transit agencies focus on operating costs; these are important and need to be used for comparisons among transit agencies. However, total costs are important as well and must be used to account for the much heavier capital investment required by rail systems compared to buses. Figure 5.4 shows UTA cost, revenue, and subsidy level by transit mode.

Prior audits recommended farebox policy according to service mode, but no such policy has yet been enacted.

Figure 5.4 2012 Fare Revenues, Expenses, Boardings, and Subsidy Rates by Mode. Commuter rail is most heavily subsidized by taxpayers, requiring subsidies for 87 percent of its operating costs and 95 percent of its total costs.

	Bus	Light Rail	Commuter Rail	Combined
Operating Costs	\$ 118,808,072	\$ 42,177,868	\$ 20,041,804	\$ 181,027,744
Total Costs ¹	\$ 143,258,793	\$ 101,128,651	\$ 54,682,649	\$ 299,070,093 ²
Farebox Revenue	\$ 21,498,909	\$ 16,794,310	\$ 2,698,343	\$ 40,991,562
Boardings	21,198,533	17,401,892	1,905,109	40,505,534
Passenger Miles	80,333,738	79,831,264	50,850,500	211,015,502
Average Trip Length (miles)	3.8	4.6	26.7	5.2
Operating Cost Per Boarding	\$5.60	\$2.42	\$10.52	\$4.47
Total Cost per Boarding	\$6.76	\$5.81	\$28.70	\$7.38
Farebox Revenue Per Boarding	\$1.01	\$0.97	\$1.42	\$1.01
% of Subsidy per Operating Costs	82%	60%	87%	77%
% of Subsidy per Total Costs	85%	83%	95%	86%

1. Total costs comprise operating costs, depreciation, and interest expenses.
 2. Does not include \$51 million in multimodal expenses.
 Analysis excludes non-fixed route services (i.e. vanpool and Paratransit)
 Source: 2012 NTD data and UTA financial data

Figure 5.4 shows that the subsidy level for the three main transit modes combined is 77 percent (23 percent recovery rate) for operating costs or 86 percent (14 percent recovery rate) for total costs. However, subsidy rates vary among the three modes. Light rail requires the least subsidy, whether only operating cost or total costs are included, while commuter rail is the most subsidized. However, when total costs are considered, the subsidy level for buses is similar to that of light rail (85 vs. 83 percent).

Just before this report was printed UTA sent us a portion of the 2013 data they submitted to NTD. UTA sent us the information shortly after providing it to the NTD to meet its FY2013 deadline. However, we did not receive the data in time to fully incorporate it in the report. The updated data does provide insight on commuter rail change since the opening of the FrontRunner South line specifically that, as expected, commuter rail usage and cost significantly increased. However, the data does not change the overall picture or conclusions

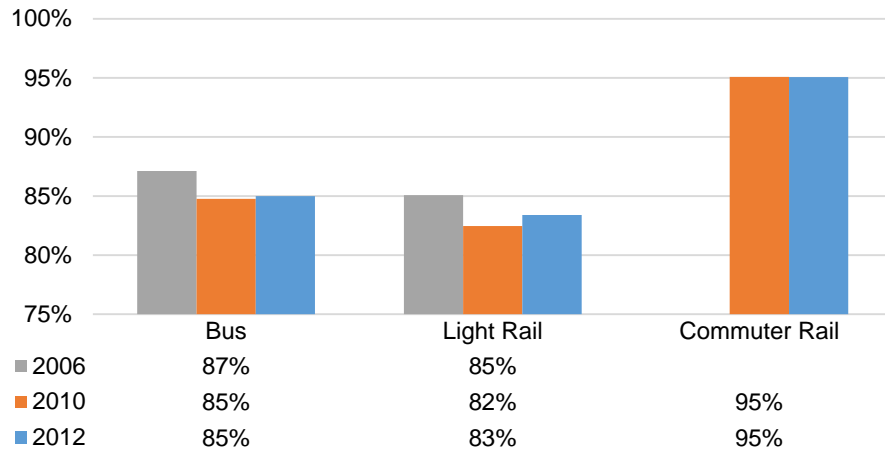
Commuter rail is more subsidized than TRAX and bus modes.

2013 data shows some increase in commuter rail service with opening of FrontRunner South. More information can be found in Appendix F.

in the body of this report. For a summary of relevant 2013 NTD data, see Appendix F.

Figure 5.5 shows how the subsidy rates of total costs have changed over time. As mentioned earlier, total costs include not only operating costs, but also the applicable portion of capital cost (for example, depreciation amount of rail infrastructure). Depreciation allocates the cost of the rail system infrastructure over time. Figure 5.5 shows changes in transit mode subsidies for total costs during the course of our three audits.

Figure 5.5 Tax Subsidies of Total Costs by Mode. Commuter rail continues to be highly subsidized.



Sources: UTA internal data, UTA CAFR's, previous audit reports

As shown in Figure 5.5, commuter rail is the most highly subsidized of the three transit modes. When considering total cost, 95 percent of commuter rail costs are taxpayer subsidized, with riders paying only 5 percent. For more detail on expenses and revenues by mode, see Appendix F.

Interestingly, although commuter rail is more highly subsidized than other modes, it tends to carry more affluent riders. According to 2011 UTA survey data, the majority of FrontRunner riders earn more than \$50,000 per year, whereas the majority of bus riders earn less than \$25,000 per year. UTA data also indicate that FrontRunner riders have a far longer average trip length than bus riders (26.7 miles vs. 3.8 miles). UTA receives more fare revenue per boarding from FrontRunner riders than bus riders (\$1.42 vs. \$1.01), but on a per mile travelled basis, a FrontRunner ride costs far less than a bus ride (\$0.05 vs. \$0.27).

While commuter rail is the most highly subsidized mode, the majority of its riders earn annual incomes of over \$50,000.

While commuter rail is more highly subsidized than light rail or buses at UTA, the relationship nationally appears different. Comparisons among transit agencies are limited to operating costs because those costs are reported to the National Transit Database (NTD). Figure 5.6 shows operating subsidy data by mode for UTA and DART (Dallas) as well as national averages from the NTD.

Figure 5.6 National Transit Database information on Subsidy Levels for Bus, Light Rail, and Commuter Rail. UTA subsidy levels among modes appears unusual compared to other systems.

	Bus	Light Rail	Commuter Rail
UTA	82%	60%	87%
DART	87%	87%	68%
National Average	78%	73%	57%

Source: National Transit Database (NTD), 2012

Figure 5.6 indicates that DART (and other transit systems) provide greater subsidies for bus and light rail than for commuter rail. However, at UTA the opposite is true. There are many possible reasons or explanations for the data in Figure 5.6. For example, UTA’s revenue allocation method among modes could be faulty or agencies could have different policy objectives. Either way, we believe the board should carefully review subsidy rates among modes to provide the board greater information about fare policy outcomes.

UTA Has Increased Operating Cost Farebox Recovery

Our 2008 legislative audit report pointed out that UTA’s farebox recovery rate was low compared to peer transit agencies. UTA has since increased its recovery rates to be on par with transit peers. Farebox recovery is the extent to which the agency is able to pay operating costs through fare revenues. This section only addresses operating costs because, as mentioned above, that information is available in the national transit database. Farebox recovery is important because costs not covered by transit users are subsidized by taxpayers.

Figure 5.7 shows UTA’s farebox recovery rates for 2006, 2010, and 2012 in comparison to some of its transit industry peers.

UTA’s commuter rail subsidy is much higher than average for other transit systems.

UTA has increased farebox recovery rates to be on par with peer transit agencies.

Figure 5.7 UTA Farebox Recovery Has Increased to Be About Average with Its Peers. UTA has considerably increased farebox recovery over the last six years, second only to Denver’s transit system in overall growth since 2006.

Transit Agency	Fare per Boarding 2012	Operating Cost per Boarding 2012	Farebox Recovery of Operating Costs			Change 2006 - 2012
			2012	2010	2006	
DART (Dallas)	\$ 0.87	\$ 6.39	14%	13%	12%	1.7%
Valley Metro (Phoenix)	0.89	4.28	21	20	20	0.6
UTA (Salt Lake City)	1.12	4.77	23	20	17	5.9
RTD (Sacramento)	1.13	4.79	24	24	18	5.5
RTD (Denver)	1.16	4.23	27	25	21	6.2
Trimet (Portland)	1.01	3.60	28	25	23	4.7
Peer Transit Averages	\$ 1.03	\$ 4.68	23%	21%	19%	4.1%

Source: National Transit Database (NTD) data

UTA’s farebox recovery has consistently increased since our first audit in 2006. In fact, UTA’s 5.9 percent increase is the second highest increase reported among UTA’s peer transit agencies.

Board Should Review Effect of Fare Policies. As noted earlier, the UTA board allows staff great discretion to structure discounted pass programs and promotions. Staff follows a market approach to maximize ridership and fare revenue. Still, most UTA revenue comes from tax receipts.

Given the large taxpayer subsidy, it seems appropriate for the board to periodically review the overall effect of fare policy on different types of customers. The market approach used tends to favor large groups and choice riders; individuals and transit-dependent riders are less able to command discounts. Two broad issues the board should review are the average fares per boarding of different customer types and the subsidy rate of different modes that were discussed earlier in this chapter.

If UTA moves to a distance-based fare system, a review of fare policies could yield useful information for the planned change. UTA has followed federal Title VI requirements to analyze how system changes affect the community, but we are uncertain whether

UTA’s market approach to fare policy may favor choice riders with higher subsidies than the transit dependent.

minimum federal requirements are adequate. In this, public input might be useful in achieving an intensified customer focus, as will be discussed further in the report.

UTA Still Needs to Improve Passenger Data

Our prior audit reports have identified concerns with UTA's passenger data. UTA previously reported to us, and we agree, that its electronic fare collection (EFC) system could provide good data. The system has cost UTA about \$19 million. While UTA has made improvements to its EFC system since the last audit, the system is still insufficient to analyze ridership. Also, inconsistencies and limitations in the data uncovered during our audit work prevent effective analysis. The board should use its internal auditor to help implement audit recommendations and improve data practices. Internal audit should periodically review UTA's data practices and evaluate reports received by the board.

UTA's EFC System Is Promising But Not Yet Adequate

While promising, the EFC system still does not fulfill its potential. In 2009, UTA's then general manager said that "the new EFC system is an investment in the future that will pay big dividends for our riders. The EFC system will help UTA better determine ridership patterns and be more responsive when planning service." Five years later, and at a cost of about \$19 million, UTA's EFC technology as currently implemented is still insufficient to monitor ridership, particularly the ridership responsible for the majority of UTA revenues.

As of October 2013, we estimate 68 percent (see Figure 5.3) of UTA fare revenue comes from riders not tracked through the EFC system. Further, as Figure 5.8 shows, just over half of UTA's riders are not tracked using the EFC system. While the other half of UTA customers are tracked, EFC non-compliance, both at the beginning and the end of customers' trips, reduces the amount of complete electronic customer data to just over one-third of UTA boardings.

As of October 2013, EFC data was limited to mainly Eco and Ed passes. That month, UTA introduced Farepay cards to the general public; the cards have the potential of increasing UTA's usable

UTA data practices inhibit high-level analysis and informed decision making.

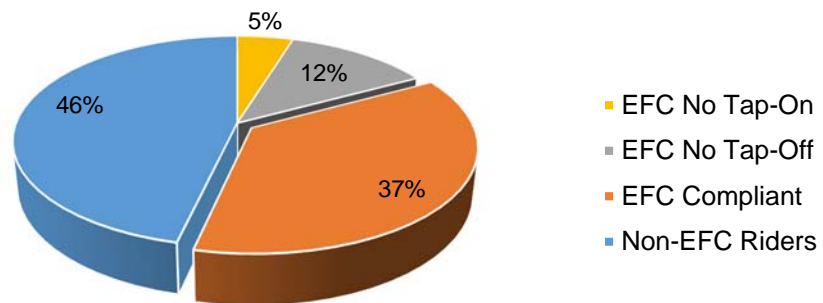
UTA's Electronic Fare Collection (EFC) system has potential but still lacks full implementation.

electronic ridership data. However, the majority of full fares, monthly and daily passes, tokens, and Medicaid passes are not yet tracked electronically.

Figure 5.8 shows that the current EFC system tracks 54 percent of UTA ridership. However, because of EFC noncompliance, total ridership data is only available from 37 percent of customers.

Figure 5.8 Data Collected from UTA’s Electronic Fare Collection System Provides Complete Data for 37 Percent of UTA Ridership.

While EFC system users total 54 percent of all ridership, some EFC riders’ noncompliance further reduces reliable ridership data.



*Sources: UTA EFC data for February and October of 2011-2012, 2011 on-board survey data, 2012 – 2013 tap compliance data.
* Excludes Paratransit, Vanpool, and Free Fare Zone*

Some EFC data is unusable due to a lack of EFC policy or enforcement. According to EFC compliance reports and EFC data, we estimate 5 percent of all riders fail to tap on and an additional 12 percent of riders fail to tap off. This means that only 37 percent of all riders provide complete trip data through the EFC system.

On the other hand, we estimate that non-EFC fare types, those not tracked electronically, account for 68 percent (see Figure 5.3) of UTA’s fare revenues. UTA management has discussed bringing more fare types into EFC usage, and reports having tested monthly passes through EFC. One executive said that UTA’s goal is to become “cashless” by 2020, at which point, all fare types should be using EFC technology.

The EFC system has made improvements in identifying customer behavior but lacks full implementation and compliance. As currently deployed, the EFC system is promising but still inadequate for tracking customer travel patterns.

Noncompliance from riders using the EFC system further reduces ridership data on UTA customers.

EFC data collection does not track riders responsible for 68 percent of UTA fare revenues.

Improved Data Needed to Implement Audit Recommendations

UTA needs to improve its data collection processes to fully implement past audit recommendations. One primary issue is that departments within UTA do not generate and store their data in a uniformly accessible manner across all UTA departments. Understandably, departments within UTA collect information for different purposes. However, information collected by each department can be useful for management's analysis when merged and analyzed.

Unfortunately, there has not been direction on how to categorize and process the data. For example, the planning unit conducts extensive surveys for use in long-range development. Their 2011 on-board survey asked respondents to identify how they paid their fares, but survey fare categories were defined differently from the way the financial department or the marketing unit defines fare types. The resulting data was less useful for making comparisons between UTA's financial or marketing efforts and actual ridership data. While this impeded our own ability to make connections with the data, issues such as this also impede UTA's ability to provide stronger analysis to UTA's board.

We also found that UTA has no central client identification system for organizations with EFC passes. Rather, each UTA department names each client separately, which leads to confusion across departments. In an analysis of client organization data between two UTA departments, we found different names in use for 81 percent of the individual clients, and in at least one case, different names in use for the same client within the same UTA department. Moreover, UTA's filing system for client contracts is disorganized. Many client files were missing and some could never be produced. These data inconsistencies limited our ability to verify client revenues and validate client contracts, lengthening the audit process.

If past audit recommendations dealing with ridership, boardings, and farebox policy are to be fully implemented, the board needs updated information based on accurate and sufficiently organized data.

If the UTA Board of Trustees is to be better informed, UTA needs to improve its data practices.

The board of trustees should require more independent validation of the information it receives.

We recommend the board require the internal auditor to regularly audit information presented to the board.

The Board Could Better Utilize Its Internal Auditor to Improve the Quality of UTA Data

The UTA board can better use its internal auditor to help validate information and review the impact of UTA management's fare policy implementation. We acknowledge that UTA staff works hard to gather and provide good data for use in decision making. However, we believe staff could also benefit from periodic review of their processes by someone independent of day-to-day operations. The board could also benefit from an employee independently validating the reports the board receives.

We recommend that the board require regular internal audits on any periodic reports to the board or its committees. For example, the Stakeholder Relations Committee receives a monthly Twitter report. The committee could benefit from an independent validation of that report's methodology and accuracy.

Additional Metrics Can Help UTA's Board Realize Its Customer Focus

The board recently adopted a new strategic plan (the 2020 strategic plan) that places the customer as its primary focus (see Chapter 1 Figure 1.1). More accurate and relevant performance measures are needed to provide the board with frequent and competent information to realize that focus. Our 2012 audit report recommended that UTA better understand the passenger experience, monitor passenger trips completed, and estimate transit market share. We recommend that the board of trustees supplement its dashboard with additional performance measures to enhance its customer focus. This section discusses two measures that should be included in the board performance measures, which are:

- **Customer Experience:** Board performance metrics are primarily financial; while that data is important, the board should also ask for metrics dealing with customer experience and satisfaction.
- **Market Share:** Currently, UTA tracks boardings (calling it ridership); while the tracking of boardings is important and used industrywide, it is limited and influenced by the transfer

rate. Market share tracks the percentage of travelers using transit and is not altered by changes in transfer rates.

Customer-Satisfaction-Focused Metrics Should Be Provided to UTA’s Board

The majority of UTA’s dashboard performance measures are finance related, lacking any measure of customer satisfaction. A Federal Transit Administration (FTA) study on transit performance measures suggested that financial measures are only one of three important guiding performance measure categories for service industry organizations (customer satisfaction and system monitoring being the other two). The study reports that transit systems often neglect customer service or community-oriented aspects of agency performance.¹²

The UTA Board of Trustees recently produced a 2020 strategic plan. The plan states “the most commonly heard message from the stakeholders was that UTA should first and foremost focus on our customers.” Relevant metrics that track customer satisfaction and feedback, as well as monitoring the customer experience, can help the board achieve the intended customer focus. Although some departments within UTA track and report customer satisfaction metrics, those metrics do not reach the oversight of the full board on a frequent basis.

- **Customer Satisfaction:** UTA tracked customer satisfaction through a metric called Net Promoter Score (NPS) in 2008, 2011, and 2013. We believe that, performed more frequently and consistently, NPS could provide valuable insight into customer satisfaction with UTA. In fact, one UTA board member told us that market research showed the NPS to be the best indicator of people’s attitudes toward the system.¹³
- **Customer Complaints:** UTA already collects data and produces reports on customer complaints but only reports that data annually to a board committee. Other transit agencies include a customer complaints component in their top-level performance measures. Of

¹² Transit Cooperative Research Program. *A Guidebook for Developing a Transit Performance-Measurement System*. 2003.

¹³ NPS is another customer feedback measure where the board’s internal auditor could provide valuable insight into UTA staff’s methodology. We briefly reviewed UTA’s methodology for determining NPS and have questions about its validity.

Transit systems often neglect customer-service-oriented performance metrics.

To meet UTA strategic goals of customer focus, UTA should have customer satisfaction-oriented metrics regularly reported in the board’s top-level dashboard.

UTA should frequently and consistently measure and report customer satisfaction to the full board.

the transit agencies that responded to our requests for data, half reported customer complaints per boarding measures in their top-level metrics. Like other transit agencies, UTA could include a complaints per boarding (usually complaints per 100,000 boardings) metric in its top-level monthly dashboard.

- **Transfer Rates:** Both our 2008 and 2012 audit reports suggested that transfer rates were an important part of the customer experience that UTA should track. Obviously, it is an inconvenience to customers to have to transfer from one UTA vehicle and board one or even two others to reach a destination. Given that rail lines were being added and some bus routes converted to rail service, we believe that transfer rates are important in understanding apparent increases in ridership and corresponding changes in customer satisfaction. The EFC data discussed in the previous section could help UTA estimate transfer rates, especially as more riders are converted to electronic fare payment.

We believe customer focus should begin with regular customer feedback in some form, reported frequently and consistently to the highest level of UTA oversight (the full UTA board of trustees). We recommend that the board of trustees direct UTA staff to provide them with customer feedback metrics, particularly in its top-level monthly dashboard.

UTA Board Should Routinely Review Market Share Metrics

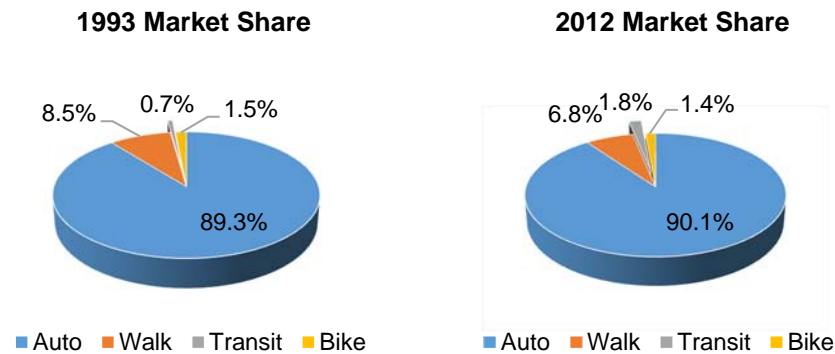
UTA's 2020 strategic plan also calls for UTA to double ridership. Ridership as it is now measured at UTA considers only boardings. While boardings is an important metric that is tracked and reported industrywide, it is also influenced by the transfer rate. If a transit agency that tracked just boardings changed its route configuration, requiring more passengers to transfer, it could conclude that its ridership increased when in actuality no or few new riders entered the system. UTA changed its route configuration with the introduction of its commuter rail (FrontRunner). Whereas before, many passengers were dropped off downtown closer to their destinations, the same passengers are now dropped off further west and take buses into downtown, which increases the number of boardings.

Market share provides a more objective perspective, looking at the number of trips made, calculating transit as a percentage of the total trips made for a set time period. The FTA tracks transit market share using data from the US Census Bureau. In fact, one of the FTA’s strategic goals is to increase community livability by increasing the market share of work trips taken via transit. Further, Portland and Seattle metro systems also conduct analyses of local travel market share, including the level of transit usage.

Market share provides a metric not affected by changes in transfer rates, and shows UTA impact on the travel market.

In 2012, the Wasatch Front Regional Council (WFRC) conducted a robust market share analysis that provides insightful information. Previously, the WFRC’s last equivalent market share analysis was done in 1993. While the WFRC survey was initially costly, the WFRC told us it could refresh its data every few years for a much-reduced cost. Also, UTA can reduce the cost of obtaining market share data by undertaking much less extensive studies. Figure 5.9 shows the overall travel market share data from the WFRC.

Figure 5.9 Market Share per Travel Mode Shows Percentage of Actual Transit Users Overall. According to the Wasatch Front Regional Council, transit is used for 1.8 percent of the Wasatch Front area travel, more than doubling transit usage from 1993.



Source: Data from the Wasatch Front Regional Council

UTA market share more than doubled from 1993 to 2012.

Figure 5.9 shows that UTA’s market share of all trips increased from 0.7 to 1.8 percent, or more than doubled over 19 years. Other important market share figures that could be noted and tracked are:

- 3.7 percent of all work trips were on transit
- 9.9 percent of all trips to downtown were on transit
- 10.5 percent of trips during peak hours with a downtown destination were on transit.

The UTA's board should require regular market-share information from UTA staff.

- 19.8 percent of all trips to the University of Utah were on transit
- 20.8 percent of trips during peak hours to the University of Utah were on transit

UTA agrees that market share is a key metric. The last market share studies were cost intensive, however. We believe there are several ways UTA can generate less costly market-share metrics, including:

- Helping fund a WERC's updated market share analysis
- Obtaining market-share information being collected and analyzed by the FTA
- Adding questions about work trips or other useful market share information to UTA's current annual public perception phone survey

We recommend that the UTA Board of Trustees direct UTA staff to begin providing them with regular and consistent transit market-share information.

Recommendations

1. We recommend the UTA Board of Trustees periodically review fare policy implementation. The review should include analyzing taxpayer subsidies provided to different customer groups and service modes as well as integrating public and stakeholder feedback.
2. We recommend that the UTA Board of Trustees improve data practices by making better use of its internal auditor to periodically review and validate information it receives.
3. We recommend that the UTA Board of Trustees direct UTA staff to provide them with regular and consistent customer feedback metrics.
4. We recommend that the UTA Board of Trustees direct UTA staff to begin providing them with regular and consistent transit market-share information.

Appendices

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Appendix A
Snell and Wilmer Report Relating to
Draper FrontRunner Station

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RENO
SALT LAKE CITY
TUCSON

July 16, 2014

Kade Minchey
Audit Supervisor
Office of the Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, Utah 84114-5315

Re: Review of Agreements Between Utah Transit Authority and Draper Holdings,
LLC—**REVISED TO REFLECT ADDITIONAL DOCUMENTS**
REVIEWED

Dear Mr. Minchey:

You previously asked us to review a series of 15 different documents surrounding a deal between Utah Transit Authority (“UTA”) and Draper Holdings, LLC, regarding land and a parking structure at UTA’s FrontRunner station in Draper, Utah, and give our opinion on six questions posed by you. Subsequent to our correspondence dated June 19, 2014 (“June 19 Letter”) responding to your questions, you provided 14 additional documents, and asked us to update our June 19 Letter. This letter constitutes that update. The narrative and written responses have remained largely the same unless the additional documentation suggests otherwise. Significant changes over the June 19 Letter will be specifically noted. Attached hereto is a revised Exhibit A, consisting of a list of the documents originally provided by you that formed the factual basis for the June 19 Letter, numbered 1 through 15, and a list of the additional documents forming the basis of this revised letter, bearing letters A through M to more easily distinguish them herein.

I. Summary of the Review of the Additional Documents

The additional documents do fill in some minor factual holes that were apparent in the June 19 Letter, however, the conclusion remains the same--despite the number of documents reviewed, it is difficult to precisely define and delineate the dealings between the parties from the documentation when compared to what actually transpired. In some aspects, the documentation is contrary to what actually transpired between the parties. This suggests that much of this transaction was and is based on handshakes and verbal representations between the parties, a suggestion that is supported by the additional documentation. One can infer that the parties contemplated some flexibility despite the otherwise definite contractual language. Regardless,

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Audit Supervisor
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the documentation remains surprisingly casual, leaving much room for speculation, and gives the impression that UTA is largely dependent on the good-faith of its partner in the project.

II. Documentary History

Based upon the documentation originally provided to us, UTA entered into a Purchase and Sale Agreement (“PSA”) with Draper Holdings, LLC (“Holdings”) on December 16, 2009, contemplating the purchase of approximately 20 acres in Draper, Utah, and construction of a parking structure. (Exhibit A, Document #1.) Some of the additional documentation predates the PSA and gives some prior factual history but offers little in the way of explanation for later decisions.

For example, over a year before the PSA, on or about November 20, 2008, UTA entered into a Development Agreement (Exhibit A, Document A, hereinafter “Development Agreement”) with Draper City and Whitewater VII Holdings, LLC (“Whitewater”) contemplating a relationship between the three parties for the development of the same property (along the FrontRunner line at approximately 12800 South). This property, called the “Master Developer Parcel” in the Development Agreement, was represented in the Development Agreement to be owned by Whitewater (or which Whitewater otherwise had the right to acquire). Referred to as a “roadmap” for a future development by UTA’s counsel in its July 3, 2014 letter to UTA (Exhibit A Document M), the Development Agreement was entered into “for the purpose of establishing [the parties’] intent and commitment to work together in good faith to the end that future specific written agreements between them, consistent with the terms and provisions of this Agreement, can later be negotiated and entered into” (Exhibit A, Document A, p. 2.) Among other terms, the Development Agreement contemplated that UTA would conduct a new environmental evaluation for a Draper FrontRunner site (which prior environmental evaluation had originally recommended a site at approximately 14000 South), obtain funding, and contemplated the substantial completion of all infrastructure requirements without cost to UTA, and the contribution to UTA of sufficient land for the station. In October of 2009, the Environmental Re-Evaluation was completed. (Exhibit A, Document B.) Consistent with the Development Agreement, this re-evaluation recommended a new location for the Draper FrontRunner station at approximately 12800 South. Sometime prior to December, 2009, Whitewater transferred title to the Master Developer Parcel to Danville Land Investments, LLC, because on December 1, 2009, Danville transferred by quitclaim deed the Master Developer Parcel to Holdings, setting up the groundwork for the PSA entered into some 16 days later. (Exhibit A, Document C.)

The PSA called for an upfront payment of \$10 million by UTA after which a 270-day due diligence period commenced. During the due diligence period, UTA could further consider whether to continue with the purchase. The agreement gave UTA the option, prior to the

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expiration of the due diligence period, of either completing the purchase or terminating the agreement with a full refund, plus interest, of the \$10 million. Holdings performance under the agreement, including repayment of the \$10 million, was secured by a deed of trust in favor of UTA on other land owned by Holdings. (Exhibit A, Document #2.)

On the same date as the PSA, UTA signed another agreement with Holdings, giving UTA an additional option of electing to form with Holdings a joint entity to develop the Draper property, with UTA's \$10 million being converted into a capital account. (Exhibit A, Document D.) The version provided by you is unsigned by Holdings so it is unclear whether this document was ever fully-executed. Regardless, the facts indicate that UTA never exercised the option to form a joint-development entity with Holdings on the Draper project.

In an agreement dated as of December 17, 2009, UTA and Draper City purportedly consented to the transfer of Whitewater's rights and obligations under the November 2008 Development Agreement to Holdings, although UTA's signed consent is not attached to the document provided to us. (Exhibit A, Document D.)

On August 30, 2010, prior to the expiration of the due-diligence period, and pursuant to the terms of the PSA, UTA exercised its right to terminate the PSA, triggering Holding's obligation to repay the \$10 million. (Exhibit A, Document #3.)

Despite the termination of the PSA by UTA, the funds were not repaid to UTA and the parties continued to do business together under the PSA. There is no documentation regarding that inconsistency in the documents reviewed, other than one sentence in UTA's counsel's July 3, 2014 letter that at some point Holdings "had also informed UTA that [Holdings] did not have immediately available funds to repay the entire \$10,000,000 purchase price." (Exhibit A, Document M, p. 8.) On November 22, 2010, Holdings conveyed by Special Warranty Deed an approximate 10-acre parcel located in Draper, Utah. (Exhibit A, Document #4.)

On February 15, 2011, UTA, Draper City, and Holdings amended the 2008 Development Agreement to acknowledge conveyance of the "Draper FrontRunner Station Site" directly to UTA (presumably the 10-acre parcel noted above), and acknowledging the satisfaction of several conditions precedent in the Development Agreement. (Exhibit A, Document F.)

The next chronological event that occurred per the documentation we reviewed was not until approximately nine months later, on November 17, 2011, when the parties entered into an agreement entitled Amendment to Purchase and Sale Agreement (Amended PSA), which purported to amend the document previously terminated by UTA. The amendment acknowledged the prior conveyance of the 10-acre parcel, effected an exchange of property so as to accommodate a boundary issue and/or a plat amendment, and acknowledged an amount owing

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to UTA under the PSA of \$10,766,667 (original payment by UTA plus interest). Then, in satisfaction of that amount, the agreement provides for a cash payment to UTA of \$2.1 million, a payment, through escrow, to Holdings in the amount of \$1.5 million for site preparation and infrastructure, leaving a repayment obligation of \$7,166,667, but acknowledging that a parking structure would be built for UTA on the property, and Holdings would receive a dollar-for-dollar credit against the outstanding amount owing for the cost of the parking structure. The agreement also cancelled the prior deed of trust securing Holdings' performance under the original PSA. That security was replaced by an undated (but assumed to be November 17, 2011) security agreement wherein Holdings assigned its interest in an unrelated entity to UTA as security for Holdings' performance under the Amended PSA. (Exhibit A, Document #6.) (See also, Exhibit A, Documents G, H, & J.) That unrelated entity was Bangerter Station, LLC ("Bangerter"), an entity that UTA had previously formed in December 2010 with the same developer in connection with another proposed transit-oriented development.

There is another significant break in the documentation, from November 2011 to October, 2012. On October 1, 2012, Holdings and UTA entered into a series of letter agreements. The first was an acknowledgment that Holdings had satisfied the conditions for the release of the security agreement assigning the Bangerter interest to UTA by payment in full of the outstanding amounts owing under the Amended PSA. (Exhibit A, Document #7.) Another was acknowledging the release of a Covenant Not to Encumber. (Exhibit A, Document #8; *see also*, Exhibit A, Document I.) Another provided detail as to how the outstanding amounts owing under the Amended PSA were paid off. (Exhibit A, Document #9.) This letter agreement provided for a total repayment amount under the Amended PSA, including accrued interest, of \$7,415,635. That amount due and owing UTA under the Amended PSA was paid as follows: Cash payment to UTA of \$171,000; promissory note in favor of UTA in the amount of \$179,000 (Exhibit A, Document #13), and a payment into escrow of \$5,566,200, which would be paid out over time to the general contractor of the parking structure on UTA's Draper property for construction of the parking structure (Exhibit A, Document #12.). The remaining balance of \$1,499,435 would be credited to UTA's capital account in Bangerter as an additional capital contribution, resulting in full payment of the amounts due and owing under the Amended PSA. Another document of the same date set forth the same payoff structure but acknowledged the possibility that UTA may lack the statutory authority for a capital account credit in an unrelated entity. (Exhibit A, Document #10.)

On October 4, 2012, Holdings transferred to UTA by Special Warranty Deed all of Lot 3 of the Draper TOD; on April 10, 2013, Holdings transferred to UTA by Special Warranty Deed all of Lots 104, 105, and 107 of the Draper TOD. These appear to be part of the "exchange of deeds" described by UTA's counsel in its July 3, 2014 letter as "relating to the final configuration of the Draper FrontRunner Station site . . ." (Exhibit A, Document M, p. 10.)

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The first reflection of the Bangerter capital account credit does not appear in the documentation until February 2, 2014 in the Second Amendment to the Operating Agreement of Bangerter Station, LLC and its Amended Schedule One showing capital account balances, and includes the credit, albeit in a slightly different amount (\$1,489,356). (Exhibit A, Document #15.)

III. QUESTIONS

- A. **Will UTA earn interest on the \$1,489,356 in the Jordan Valley [Bangerter Station Associates] capital account? If so, how likely is it that UTA will actually realize that interest?**

Even with the additional documents, there is little documentation showing the transfer of balances between projects. The approximate \$1.4 million additional contribution to UTA's Bangerter capital account as an offset to the balance owing under the Draper project is addressed in October 1, 2012 letter agreements (*e.g.*, Exhibit A, Document #9), but does not appear in the Bangerter documentation until February of 2014, suggesting that there may still be some missing documentation in the interim. Regardless, this additional contribution to Bangerter is included as part of UTA's amended capital account as an additional contribution "related to Parking Structures." As such, it appears to become a Capital Contribution as that term is used throughout the Bangerter operating agreement and subject to the same issues identified previously with regard to that project.

Thus, per the Bangerter operating agreement, UTA ostensibly should earn a 5.5% return on its capital contributions. However, there are some definite limitations per section 8.1 of that agreement. In paragraph 8.1(a) of that operating agreement, for example, there is some confusion between (i) distributions of net cash, and (ii) payments of certain amounts before reaching the "net cash" amount. Although Section 8.1 appears to be intended to deal with distributions, this "first tier" distribution is not a distribution at all, but is instead a payment of mandatory fees and expenses to UTA's partner (the entity's "Manager") before any distributions to UTA.

Payments to UTA are addressed in the second tier distribution set forth in 8.1(b) of that operating agreement, which contemplates distributions to the members based on their Preferred Returns. However, the Preferred Returns are non-cumulative, which means that if there isn't enough cash to satisfy the Preferred Return, then the undistributed amount does not accumulate and roll over to the following year. Instead, if there isn't enough cash to satisfy the Preferred Return before the end of the year, then that amount just disappears or is forfeited. Of equal importance in that regard is the fact that the payments and distributions in Section 8.1 are in the Manager's discretion, meaning that the Manager could potentially delay making distributions

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and payments to the members or other recipients until after the end of a particular year, in which case the anticipated Preferred Return for such year would never be paid. This type of broad discretionary power could be exercised to UTA's detriment and the interest never paid. Thus, the likelihood of UTA ever realizing a return appears to be entirely dependent on the Manager's good-faith observance of the spirit, if not the specific terms, of that operating agreement.

B. Was the transfer of the \$1,489,356 to UTA's capital account adequately protecting UTA's funds or did it dilute UTA's assets in the Jordan Valley project?

In our June 19 letter, we stated, "The purpose for the transfer is unclear, and there is nothing in the documentation we reviewed that gives a reasonable explanation for the transfer. However, the documentation taken as a whole, with its numerous amendments, and redefinitions, and multiple starts and restarts, followed by various proposals for repayments with notes and credits, suggests that the transfer occurred simply because there was insufficient cash to pay UTA back." The additional documentation that you provided for our review sheds no light on this issue with the exception of a sentence in the July 3, 2014 letter from UTA's counsel that states simply that "[Holdings] had also informed UTA that [Holdings] did not have immediately available funds to repay the entire \$10,000,000 purchase price." That of course supports our original suggestion, but the statement does not refer to any specific communication or other document for support. Keep in mind that this is just one of many different inferences that can be taken from the documentation, which is surprisingly casual and leaves much room for speculation. If this lack of cash flow is the case, however, then of course UTA's funds are not adequately protected. Only time will tell. However, as was pointed out in connection with our review of that project, while there certainly is the potential for a return to UTA on its investment, it is not guaranteed and is at the end of a long line of prior contingencies and guaranteed payouts to the Manager.

As for dilution, per the Bangerter Operating agreement, it appears that UTA's interest can never go above 50%, regardless of how much capital it injects, but certainly can go down to the extent that other outside parties contribute capital. Regardless, UTA's 50% interest appears to have remained at 50% even after the \$1.4 million credit to its capital account. Going from a capital account balance in that project of \$11.75 million in 2009 to over \$17.1 million in 2014, without a significant increase in other members' capital accounts, while maintaining a 50% interest, however, shows a significant dilution of UTA's interest in that project and an increase in risk to UTA.

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C. Based upon the facts in the termination letter and the language in paragraph 5 of the December 16, 2009 PSA, is UTA’s explanation [that it was only cancelling certain provisions of the PSA] legally valid? Or do the facts of the documents show that UTA was terminating the document and was therefore entitled to seek return of the prepaid \$10 million plus interest?

Section 5 of the PSA contemplates only two options: to close the land purchase or to terminate the PSA. The language is clear and unequivocal. To the extent there are “side agreements” or other oral representations above and beyond these two specific options, Section 19 of the PSA essentially invalidates those, stating that the PSA contains the entire agreement of the parties and cannot be modified except by a writing executed by the parties. The language of the termination letter is equally clear: “Pursuant to the terms of Paragraph 5 of the PSA, UTA hereby exercises its right to terminate under the PSA.” There is no limiting language, and this termination language is entirely consistent with the PSA, falling within the required notification times, and following the requirements of the PSA. Thus, UTA’s explanation that it was only cancelling portions of the PSA is not supported by the documentation that we reviewed. To put it another way, were the parties involved in a lawsuit where Holdings was asserting that UTA terminated the PSA, UTA would have an extremely difficult—if not impossible—time proving otherwise, based on the documentation reviewed.

As to UTA’s entitlement to seek return of the \$10 million, the documentation is equally clear. Under the terms of the PSA, the repayment obligation is automatic: per paragraph 5.2 of the PSA, in the event UTA elects to terminate the agreement, then within 120 days (unless extended an additional 30 days) “[Holdings] shall refund to [UTA] the entire amount of the Purchase Price, together with interest thereon” (Emphasis added.) However, the PSA absolves Holdings of any personal liability, stating in paragraph 5.3 that UTA’s sole remedy is foreclose under the deed it was given as security. Thus, UTA does not technically have the right to *seek* return of the \$10 million. While the PSA by its terms obligated Holdings to repay the full \$10 million with interest upon UTA’s termination of the PSA, when it failed to do so, UTA’s only recourse was foreclosure of its trust deed on other property.

D. If UTA was entitled to seek return of its funds, is it normal in the market place to not seek repayment when an entity is entitled to return of funds and the entities appear to be terminating their contractual relationship?

Under the question posed by you, in general it is certainly unusual for a party who is cancelling its contractual relationship thus entitling it to a return of its significant financial investment to not seek a return of that investment. However, as summarized above, UTA did not have the right to *seek* return of the funds if Holdings chose, as it did, to not repay those funds. When Holdings disregarded its repayment obligation under the PSA, UTA’s only right under the

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PSA was foreclosure under the deed that it held in security. UTA does not offer any explanation, and the documents do not suggest any reason why it did not proceed with foreclosure, other than the after-the-fact explanation contained in Document 14 of Exhibit A suggesting that UTA was still trying to get a deal done with Holdings even after apparently terminating the PSA. This conclusion is further supported by the July 3, 2014 letter from UTA's counsel explaining the detailed history of the interaction between the parties, much of which appears to be extra-contractual.

Even after additional documents were provided, the most troubling and "out-of-market" aspect of this deal was not the fact that Holdings did not repay the investment, or that UTA did not seek return of its investment, but remains instead the casual approach of the documentation relating to continued negotiations of the parties even after cancellation of the PSA, and proceeding with the transaction as if that agreement was still in place albeit with significant modifications of and amendments to the previously cancelled agreement.

E. Is there a satisfactory explanation in the documents why UTA did not seek the full return of the \$7.1 million it was owed [under the amendment to the PSA]?

By the time of the amendment to the PSA in November, 2011 ("Amended PSA"), UTA was owed a total of \$10,766,667, which included interest on its initial \$10 million investment. The Amended PSA modified how the parties would go about constructing the parking garage, and appears to have shifted property around to accommodate boundaries and plats. The Amended PSA also provided for partial repayment of the outstanding \$10.7 million owing to UTA. This acknowledgement raises a legal puzzle since the amount owing would only occur upon UTA's termination of the PSA, but the parties are proceeding at this point as if the PSA was still operative and proceed to amend it, rather than draft an entirely new agreement. Regardless, under the Amended PSA, of the \$10.7 million due UTA is to receive a cash payment of \$2.1 million, and Holdings is to receive \$1.5 million for site preparation and infrastructure, leaving a balance due and owing of \$7,166,667. The Amended PSA also provided that Holdings would receive a dollar for dollar credit against the outstanding amount for the costs of constructing the parking structure. There is no explanation as to why UTA did not seek return of the \$7.1 million balance at that time other than at least two inferences that can be drawn from the documentation. First, there was no new contractual right for UTA to *seek* return of the \$7.1 million any more than there was a right to *seek* repayment of the original \$10 million—even less in fact, since the Amended PSA cancelled the deed that UTA held as security for Holdings' performance. Second, and more practically speaking, the parties were proceeding as if the project was still continuing, including providing for the construction of a parking structure on the Draper property and therefore UTA presumably "kept its money in the game" so as to realize the original purpose of the agreement.

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This inference is confirmed in the documentation occurring approximately one year later in October, 2012. In a flurry of documentation between the parties at that time (still based upon the previously-terminated PSA), the parties acknowledged a total amount due and owing under the Amended PSA, now including accrued interest, of \$7,415,635, to be paid as follows: cash payment to UTA of \$171,000; promissory note in favor of UTA in the amount of \$179,000 (Exhibit A, Document #13), and a payment by Holdings into escrow of \$5,566,200, which would be paid out over time to the general contractor of the parking structure on UTA's Draper property for construction of the parking structure (Exhibit A, Document #12.). The remaining balance of \$1,499,435 would be credited to UTA's capital account in Bangerter as an additional capital contribution, resulting in full payment of the amounts due and owing under the Amended PSA. Thus, of its initial investment of \$10 million, UTA got back in cash and notes \$2.45 million, plus a capital account credit in Bangerter of approximately \$1.5 million, plus land and a parking structure. \$1.5 million went to Holdings for site preparations, and approximately \$5.5 million went to Ralph L. Wadsworth Construction Company, LLC for construction of the parking structure. (Exhibit A, Document #12.)

F. If not, is it normal in the market place to not seek full payment, but instead seek partial payment and then transfer funds to a capital account for an unrelated project?

As with UTA's failure to seek return of its \$10 million investment upon apparent cancellation of the PSA, discussed above, in general it is unusual for a party who is cancelling its contractual relationship to not seek of return of its financial investment *if* it is entitled to do so. Under this amendment, however, UTA again does not appear to have the right to affirmative *seek* return of the funds. Indeed, its rights were arguably much more limited under the Amended PSA since in that agreement it also gave up the deed which secured Holdings' performance under the PSA.

That release of security raises perhaps the most "out-of-market" aspect specific to the Amended PSA, since UTA does not appear to have received much at the time other than a renewed promise to repay an even smaller amount secured by a membership interest in a future project of questionable value, in exchange for giving up real security that appears to have been more than adequate to cover the full amount due and owing. Quite simply, UTA gave up good collateral in exchange for collateral of questionable value. One can infer from the documentation, that UTA simply trusted Holdings to make good on its representations. That is only one of several possible inferences, however, since the documentation is unusually sparse by way of explanation.

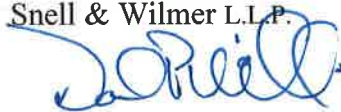
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IV. CONCLUSION

The foregoing responses are based upon the documents provided for review, both initially, and after the July 19 Letter. There may still be additional documentation which we have not reviewed that could result in a different answer. However, all of the documents provided continue to paint a picture of an evolving and ever-changing deal. In some aspects, the documentation is contrary to what actually transpired between the parties, suggesting that much of this transaction was and is based on handshakes and verbal representations between the parties—to the potential detriment of the primary financial investor, UTA.

Very truly yours,

Snell & Wilmer L.L.P.



David P. Williams

Enclosure

EXHIBIT A

Date	Description	No.
12/16/09	Purchase and Sale Agreement between Draper Holdings, LLC and Utah Transit Authority	1
12/16/09	Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing by Draper Holdings, LLC for the benefit of Utah Transit Authority	2
8/30/10	Correspondence from Utah Transit Authority to Draper Holdings, LLC, re Notice of Election to Terminate under Paragraph 5 of the Purchase and Sale Agreement	3
11/22/10	Special Warranty Deed by Draper Holdings Associates, LLC in favor of Utah Transit Authority	4
11/17/11	Amendment to Purchase and Sale Agreement between Draper Holdings, LLC and Utah Transit Authority	5
11/??/11	Assignment of Membership Interest and Security Interest between Bangerter Station Associates and Utah Transit Authority	6
10/1/12	Correspondence from Draper Holdings, LLC to Utah Transit Authority confirming conditions of release of Security Agreement satisfied and Security Agreement terminated.	7
10/1/12	Correspondence from Draper Holdings, LLC to Utah Transit Authority clarifying construction of the Parking Structure and the release of the Covenant Not to Encumber.	8
10/1/12	Correspondence from Draper Holdings, LLC to Utah Transit Authority re unpaid balance of Repayment Amount of \$1,499,435.00 and clarifying construction of the Parking Structure and the release of the Covenant Not to Encumber.	9
10/1/12	Correspondence from Draper Holdings, LLC to Utah Transit Authority re Amendment of Draper TOD Plat and Substitution of Collateral.	10
10/1/12	Correspondence from Draper Holdings, LLC to Utah Transit Authority re reduction of Repayment Amount to \$7,166,667.00 and payment terms.	11
10/3/12	Escrow Agreement between Draper Holdings, LLC, Utah Transit Authority and Metro National Title.	12
10/4/12	Promissory Note from Draper Holdings, LLC to Utah Transit Authority for \$179,000.00.	13
4/4/14	E-mail from Bruce T. Jones to M. Allegra, J. Rigby, and S. Meyer re Draper memo to auditors to review.	14
2/2/14	Second Amendment to Operating Agreement of Bangerter Station, LLC.	15

Date	Description	No.
11/20/08	Development Agreement between Draper City, Redevelopment Agency of Draper City, Utah Transit Authority and Whitewater VII Holdings, LLC	A
10/09	Environmental Re-Evaluation for The Draper/Bluffdale Station Site Location, Provo to Salt Lake City FrontRunner Project	B

Date	Description	No.
12/1/09	Quitclaim Deed with Danville Land Investments as Grantor to Draper Holdings, LLC as Grantee	C
12/16/09	Agreement between Draper Holdings, LLC and Utah Transit Authority regarding Formation of Joint Entity (unsigned by Draper Holdings)	D
12/17/09	Assignment of Development Agreement between Whitewater VII Holdings, LLC and Draper Holdings, LLC	E
2/15/11	First Amendment to Development Agreement and Confirmation of Satisfaction of Conditions Precedent between Draper City, Utah Transit Authority and Draper Holdings, LLC	F
11/17/11	UCC Financing Statement of Debtor Bangerter Station Associates, LLC in favor of Utah Transit Authority	G
11/18/11	Deed of Reconveyance signed by Bruce T. Jones as Trustee and executed by Draper Holdings, LLC	H
11/18/11	Covenant Not to Encumber between Draper Holdings, LLC and Utah Transit Authority	I
11/21/11	Acknowledgement of Filing of UCC with Bangerter Station Associates, LLC as debtor and Utah Transit Authority as Secured Party	J
10/4/12	Special Warranty Deed of Draper Holdings, LLC to Utah Transit Authority	K
4/10/13	Correspondence from UTA to Metro National Title with Draper TOD Special Warranty Deed	L
3/7/14	Correspondence from counsel regarding review of documentation regarding Draper FrontRunner Station	M
Undated	Draper—Purchase Sale Agreement Table of Contents	N

Appendix B
Snell and Wilmer Report Relating to
Jordan Valley TOD

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June 6, 2014

Kade Minchey
Audit Supervisor
Office of the Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, Utah 84114-5315

Re: Review of Bangerter Station Operating Agreement

Dear Mr. Minchey:

You have asked us to review the operating agreement, and amendments thereto, of Bangerter Station, LLC (the "Operating Agreement"), and give an opinion as to whether the Operating Agreement is "within market" or otherwise overly biased in favor of one party. This letter constitutes the summary of our review. Capitalized terms used but not otherwise defined herein have the meaning ascribed to such terms in the Operating Agreement.

I. Summary

The parties to the Operating Agreement are Utah Transit Authority ("UTA") and Bangerter Station Associates, LLC ("Associates"), named in the Operating Agreement as Manager of Bangerter Station, LLC. In our opinion, the Operating Agreement raises several concerns for UTA and its significant investment in the project. While there certainly is the potential for a return to UTA on its investment, that non-guaranteed return is at the end of a long line of prior contingencies and guaranteed payouts to Associates. The Operating Agreement gives the impression that UTA is acting more as a funding source rather than a partner in the project. UTA is given very little say in the project itself, but has numerous financial burdens that it is required to meet. On balance, the Operating Agreement seems tipped significantly in favor of Associates with most of the financial responsibility and risk falling squarely upon UTA. There are drafting issues and ambiguities that raise additional areas of concern. It is unclear whether these drafting issues are simply errors and oversights, or intentionally vague and unclear.

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II. Specific Examples of Concerns

Attached hereto as Exhibit 1 is a detailed summary of red flags and concerns that we identified in our review of the Operating Agreement, including unbalanced provisions and drafting issues. Below is a description of the more egregious examples:

A. Unbalanced Provisions

1. Section 5.2 addresses capital and equity interests. The Operating Agreement allows for the raising of capital by issuing equity interests to current members, however this will only cause dilution of UTA's interests in the project. Additionally, initial capital contributions by new members in exchange for an equity interest will currently also only dilute the percentage interest of UTA, and in no event is the percentage interest of Associates diluted as a result of a capital contribution by a new member. Section 5 of the Second Amendment backs away from that somewhat, by providing that initial capital contributions by a new member will dilute the percentage interest of all members equally. This modification applies however only if and to the extent proceeds of the any initial capital contribution of a new member is used to repay the Parking Structure Contribution and the Parking Structure Contribution Preferred Return. Thus, only in this particular circumstance will all parties' percentage interests be diluted *pro rata*. If initial capital contributions come in for any other reason, then only UTA's interests will be diluted. Furthermore, Section 8.1(d) provides that Associates can never be diluted below its 50% interest, whereas UTA's interest can be.

2. Section 8.1(b) addresses certain distributions. The second tier distribution contemplates distributions to the members based on their Preferred Returns. Importantly the Preferred Returns are non-cumulative, which means that if there isn't enough cash to satisfy the Preferred Return in any given year, then the undistributed amount does not accumulate and roll over to the following year. Instead, if there isn't enough cash to satisfy the Preferred Return before the end of the year, then that amount appears to just disappear and/or is forfeited. Also, with respect to the Preferred Return, it is unclear whether Article 1, Section (ppp) controls (defining UTA Preferred Return), or if Article 1, Section (gg) controls (defining, among others, UTA's Initial Capital Contribution and, in that clause, limiting the controlling provisions respecting UTA's Preferred Return). The concern is that UTA contributes approximately \$11M, but may, for certain purposes impacting the economics of the deal, get credit for only contributing \$7M).

3. Section 9.3 addresses the modification of budgets. As amended, the Operating Agreements provides that Associates, as Manager, has ability to increase, modify, or supplement, any operating budget or the Development Budget. While UTA

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has an approval right with respect to a “material deviation” of 115% (see Section 9.3(g)), that right is severely restricted due to fact that UTA cannot unreasonably withhold its approval (see paragraph 5 below). Additionally, a “material deviation” is only with respect to “expenditures which are in the aggregate in any Fiscal year, in excess of 115% of the aggregate expense and costs set forth in the *then-current* budget.” (emphasis added) Thus, the Manager’s ability to supplement, modify, or amend the operating budgets or Development Budget at any time appears to get around the 115% threshold. For example, if the Manager amends an operating budget only 3% at a time but he does that 10 times in a year, it appears that the Manager could technically do that because none of those 10 increases would have been a 115% markup from the *then-current* budget.

4. Article XII and Section 12.7 address restrictions on transfer of interests. These restrictions are generally acceptable and common in the market. However, Section 12.7 allows a Member to pledge its interest in the Company for a loan even if the loan is to an affiliate of the member-borrower, so long as the affiliate uses the proceeds to “benefit” the Development Property. *This allowance is far out of market.*

5. Throughout Operating Agreement, UTA appears to have some protections as its consent is required for certain actions of the Manager. However, these protections are severely limited because any consent is “not to be unreasonably withheld, conditioned or delayed”. Additionally, there appears to be no option where UTA can simply disapprove of an action as Section 15.11(c) provides that any disapproval response must set forth (1) the reason for disapproval and (2) the corrective action that must be taken to obtain consent or approval. These protections are further curtailed by Section 15.11(b), which provides that in the event approval or consent is not received by a requesting Member within 5 business days of the request, such consent or approval is deemed given. Finally, Section 11 of the Second Amendment provides that in the event approval or consent is not received by the Manager within 10 days of the request, such consent or approval is deemed given.

B. Drafting Issues and Ambiguities

1. Section 7.1 addresses how income and losses are allocated among the members. However, as written, the order of how income and losses are allocating among the members is confusing and includes incorrect internal cross-references. As currently drafted, it is not possible to determine if the allocation provisions are compliant with the Internal Revenue Code’s requirements that allocations have substantial economic effect.

2. In section 8.1(a), there is confusion between (i) distributions of net cash, and (ii) payments of certain amounts before reaching the “net cash” amount. Although

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Section 8.1 appears to be intended to deal with distributions, the “first tier” of distributions is not a distribution at all, but is instead a payment of fees and expenses. Significantly, this first tier of payments contemplated in Section 8.1(a) includes payments of fees to Associates.

3. The second amendment is confusing. For example, under that document it is wholly unclear how Section 3 is intended to work. Additionally, there are some terms used that do not necessarily match reality. For example, the preferred distributions in Section 4 are subordinate to the payment of a number of fees to Associates, and is therefore, a preferred distribution in name only.

III. Conclusion

The Operating Agreement presents a number of very significant concerns regarding UTA’s investment in this project. As drafted, the Operating Agreement is extremely favorable towards Associates, and much less favorable towards UTA—even though UTA is injecting the vast majority of the hard-money assets into the project. While there is a potential for return on UTA’s significant investment, such a return is out of UTA’s control and largely contingent upon Associates’ good-faith actions in managing the project through completion.

Very truly yours,

Snell & Wilmer L.L.P.



David P. Williams

Enclosure

Bangerter Station, LLC Operating Agreement Summary of Concerns

*Capitalized terms used but not otherwise defined herein have the meaning ascribed to such terms in the Operating Agreement of Bangerter Station, LLC, as amended from time to time. The comments below are not comprehensive of all of the potential issues required to be considered.

Capital Contributions	
Section 3.2	Associates control the timing of transfer of the Development Property from UTA to the Company.
Section 3.2(a)	UTA required to develop and improve the Retained Property but Associates must approve the final development plan for the Retained Property.
Section 3.2(b)	Notwithstanding general prohibition that none of the Retained Property may have monetary or financial encumbrances placed on it, it appears that the last sentence of Section 3.2(b) limits this protection as it permits the Company to pledge or encumber any portion of the Infrastructure (which is defined to include rights pertaining to the Retained Property) for which UTA receives a credit to its capital account.
Section 3.2(d)	Restrictive covenant on UTA's ability to encumber any portion of the Development Property prior to it being conveyed to the Company.
Section 5.1	Additional information regarding how capital was (or will be) intended to be funded is necessary to comment on the provisions of Section 5.1.
Section 5.2	No capital call mechanism. If funds are needed to continue the business, there is no mechanism to <u>require</u> each member to contribute its proportionate share of the necessary funds.
Section 5.2	Appears that the Company may raise capital by borrowing from a Member or third party, with terms being agreed upon by the Manager and such Member or third party. Associates has control on terms.
Section 5.2	May raise capital by issuing equity interests to current Members or new members. Required to have UTA's prior written consent but this will cause the dilution of <u>only</u> UTA.
Section 5.2	Initial Capital Contributions by new members dilute the Percentage Interest of UTA only, and in no event is the Percentage Interest of Associates diluted as a result of a capital contribution by a new member. Section 5 of the Second Amendment provides that Initial Capital Contributions by new member will dilute the Percentage Interest of all Members equally, <u>only if and to the extent</u> proceeds of the Initial Capital Contribution of the new members are used to repay the Parking Structure Contribution and the Parking Structure Contribution Preferred Return. So only in this particular circumstance will all parties' Percentage Interests be diluted pro rata. Still the case that if Initial Capital Contributions come in for any other reason then only UTA will be diluted.

Section 5.2	Capital needs are determined solely by the Manager and must be consistent with the Development Budget and the Development Plan which is also at sole discretion of Manager.
Tax and Certain Economics-Related Provisions	
Section 7.1	The ordering of how income and losses are allocating among the members are confusing and includes incorrect internal cross-references. As currently drafted, not possible to determine if allocation provisions are compliant with the Internal Revenue Code’s requirements that allocations have substantial economic effect.
Section 8.1	<p>The payments and distributions in Section 8.1 are in the Manager’s sole discretion, meaning that the Manager could purposefully and unreasonably delay making distributions and payments to the members or other recipients. Possible that this type of broad discretionary power could be exercised to UTA’s or the LLC’s detriment.</p> <p>There is language providing that amounts paid pursuant to the provisions of Section 8.1 are advances for tax distributions and liquidating distributions. However, there is no language providing that tax distributions are advances for Section 8.1 distributions. This could potentially skew the economics to UTA’s detriment.</p> <p>As a general matter, it appears that the arrangement is more favorable to Associates than to UTA. It is possible, however that the arrangement was bargained for at arm’s length and is exactly what UTA desired. Without knowing UTA’s expectations, it is difficult to determine whether the Agreement (as amended) reflects UTA’s intentions.</p>
Section 8.1(a)	<p>Confusion within the document between (i) distributions of net cash, and (ii) payments of certain amounts before reaching the “net cash” amount. Although Section 8.1 appears to be intended to deal with distributions, the “first tier” of distributions is <i>not</i> a distribution at all, but is instead a payment of fees and expenses. Significantly, this first tier of payments contemplated in Section 8.1(a) includes payments of fees to Associates.</p> <p>There is also a lack of clarity respecting the \$50,000 payment and whether it can be paid even before it is earned. This \$50,000 payment is also addressed by the Second Amendment. A better understanding of the intentions of the party and the agreed upon deal is necessary to be able to advise as to whether the language accomplishes the parties intent.</p>
Section 8.1(b)	<p>The second tier distribution contemplates distributions to the members based on their Preferred Returns. Importantly the Preferred Returns are non-cumulative, which means that if there isn’t enough cash to satisfy the Preferred Return, then the undistributed amount does not accumulate and roll over to the following year. Instead, if there isn’t enough cash to satisfy the Preferred Return before the end of the year, then that amount just disappears or is forfeited.</p> <p>UTA should consider this fact in light of the first comment in Section 8.1 (regarding the Manager’s delay in making distributions)—as it appears that the Manager can simply delay making a distribution until after the end of a particular year, in which</p>

	<p>case the anticipated Preferred Return for such year would never be paid.</p> <p>Concept of the “Phase Pro-Ration” mechanism is not perfectly clear and this should be discussed with UTA to better understand its expectations and understanding with respect to it.</p> <p>Also, with respect to the Preferred Return, it is unclear whether Article 1, Section (ppp) controls (defining UTA Preferred Return), or if Article 1, Section (gg) controls (defining, among others, UTA’s Initial Capital Contribution and, in that clause, limiting the controlling provisions respecting UTA’s Preferred Return). The concern is that UTA contributes approximately \$11M, but may, for certain purposes impacting the economics of the deal, get credit for only contributing \$7M).</p> <p>The Second Amendment (Section 4) further confuses the Preferred Distribution tier.</p>
Section 8.1(c)	Provisions regarding the acceleration of UTA’s capital contribution. Possibility that such an acceleration could potentially decrease UTA’s rate of return on its investment, assuming the Preferred Returns are paid annually. Would need additional information from UTA to understand intent.
Section 8.1(d)	<p>Apparently Associates can never be diluted below its 50% interest (although the Second Amendment allows <i>some dilution in limited instances</i>), whereas UTA can be diluted below its 50% interest.</p> <p>Under this provision the final distribution goes 50% to Associates and 50% to <i>all other members</i>. Thus, you have potential of multiple parties splitting 50% amongst themselves while Associates as a whole 50%.</p>
Section 8.2	There appears to be somewhat related to a tax distribution concept. Typically, a tax distribution is incorporated to ensure that the members receive cash in an amount sufficient to pay their taxes relating to income allocated to them from the company. The assumption is that UTA does not pay tax (this needs to be confirmed). In Section 8.2, the tax distribution does <i>not</i> relate to income allocated to the Member, but instead relates to the development fee. This is essentially a gross-up of the development fee and appears to be made at the expense of UTA.
Management	
Section 4.3	Manager may change the financial and tax accounting method of the Company as its own discretion.
Section 9.1	Manager has complete discretion over control of the Company with very few and limited carve outs which are in Section 9.3 (see below).
Section 9.1	Manager can hire or engage any third party to assist Manager in completing its duties. Provides another potential money stream for Associates to direct money to a related third party.
Section 9.2	Argument can be made that only Associates or one of its Affiliates in which Jeff Vitek has a substantial ownership interest can be the Manager. Maybe only refers to the “initial” Manager but language is not clear.

Section 9.3(b)	UTA is approving entitlements <i>to be obtained</i> by the Company. Potential issues with UTA approving entitlements of which it is not yet aware.
Section 9.3(e)	Requires the Manager to assume responsibility for the payment by the Company and construction of improvements to the Development Property that were deferred and which are items 41-45 on Exhibit C. Exhibit C has not been provided.
Section 9.3(g)	Manager has sole discretion over preparing, modifying, amending, etc. annual operating budgets and the Development Budget. UTA has ability to review and approve.
Section 9.3	<p>As amended, Manager has ability to increase, modify, supplement, etc. any operating budget or the Development Budget. While UTA has an approval right with respect to a material deviation of 115% (see Section 9.3(g)), that right is severely restricted due to fact that UTA cannot unreasonably withhold its approval.</p> <p>Additionally, a “material deviation” is only with respect to “expenditures which are in the aggregate in any Fiscal year, in excess of 115% of the aggregate expense and costs set forth in the <i>then-current</i> budget.” Thus, the Manager’s ability to supplement, modify, amend, etc. the operating budgets or Development Budget at any time appears to get around the 115% threshold. For example, if the Manager amends an operating budget only 3% at a time but he does that 10x in a year, it appears that Manager could technically do that because none of those 10 increases would have been a 115% markup from the <i>then-current</i> budget.</p>
Section 9.3(i) – (vi)	<p>Provides a list of protections to Members (for all intents and purposes UTA) whereby the Manager cannot take certain actions unless it has the consent of all the Members. Two of those protections are the Managers inability to obtain financing or other indebtedness secured by the Development Property or to sell the Development Property. However, these protections are basically carved out with the addition of language stating that UTA cannot unreasonably withhold its approval.</p> <p>Second Amendment may provide additional protection to UTA in such event (as it requires the members’ consent, without the “unreasonably withheld” language) but language is ambiguous viewed together with the original Operating Agreement.</p>
Section 9.4	Fairly high protections for Manager and its actions, as Manager is not liable to the Company unless its actions amount to fraud, gross negligence or wilful misconduct.
Section 9.5	Manager not required to devote its full time and effort to the Company.
Section 9.10	Manager can only be removed “for cause” by a vote of 60% of the Members (not including the vote of the Associates for so long as Associates is the Manage. This carve out does not contemplate situation where an affiliate of Associates is the manager. Thus for example, if another entity owned by Jeff Vitek is the manager, to remove that manager “for cause”, a vote of 60% of the members would be required to remove the manager). Note that this percentage requirement is 60% of the Members and not the Members holding 60% of the membership interest in the

	<p>Company.</p> <p>Notwithstanding the above, the Manager has a 30-day right to cure. Considering that “for cause” only includes “intentional misconduct, fraud, gross negligence or material breach of the operating agreement”, it is extremely favorable to allow the Manager to correct those actions. Appropriate provisions would be fore 30-day cure right regarding a breach of the operating agreement only. If Manager’s actions reach the level of intentional misconduct, fraud or gross negligence, Manager should have no right to cure and Members should be able to remove Manager immediately.</p>
Section 9.11	Associates basically granted multiple payment streams. Appears that this relates to its position as the Manager but agreement actually says “Associates” is entitled to the fee.
New Members / Transfer Restrictions	
Article XI	<p>New members cannot be admitted without written consent of Manager.</p> <p>Additionally, members holding 75% of the membership interest of the Company must approve the new members. This provides protection for UTA as it has some say in who will be its partner in this venture. However, that protection is limited because UTA’s approval cannot be unreasonably withheld.</p>
Article XII and Section 12.7	Transfer restrictions are generally acceptable and market. However, Section 12.7 allows a Member to pledge its interest in the Company for a loan even if the loan is to an affiliate of the member-borrower, so long as the affiliate uses the proceeds to “benefit” the Development Property. <i>This is nowhere close to market.</i>
Buy-Out Events / Liquidating Distributions	
Section 13.1	The Buy-Out provision can be used as a way to cash out of the investment. For example, if Associates transfers its LLC interest to an affiliate, then that could trigger a “buy-out” of Associates’ interest in the LLC. This could be used by Associates as a way to exclusively cash out of its investment in the LLC.
Section 13.2	Potential for the Manager and Associates to determine a fair valuation in the case of a Buy-Out Event of Associates. Issue because Associates and Manager are on both sides of determination.
Other	
Services Provided By Associates	There does not appear to be a provision in the Agreement penalizing Associates for failing to perform services. Generally, if one member is providing services, then that member’s interest may be subject to vesting and the retaining or forfeiture of such interest, as the case may be, is contingent upon certain performance milestones of timeline requirement. If met or satisfied then the member keeps that interest, if such requirements or timelines are not satisfied or met, then the member forfeits that interest. The Agreement only provides that Associates will not be required to render extraordinary efforts with respect to any of its duties.
Section 10.2	Lists multiple obligations of UTA. Generally fine, but UTA has obligation, at its sole cost and expense, to complete all punch list items on Exhibit C. Exhibit C not

	<p>provided.</p> <p>Need to understand reason why UTA is required to complete punch list and not the Company.</p>
Section 10.3	<p>Access to books and records is only permitted upon 10 business days prior written notice to Manager. Time period generally not normal. Would suggest 2 business days at most—perhaps 3 calendar days.</p>
Section 15.1	<p>Permits Associates to make technical changes to the operating agreement at any time which do not affect the economic interest of the Members but which are required to be in compliance with applicable tax and LLC law. This appears that Associates have ability to change other provisions that are non-economic. Agreement should require written consent of all members to amend any part of it (with exception of any membership/ownership schedule or capital contribution schedule—which Manager may amend on its own without prior written consent).</p>
Section 15.11	<p>Throughout Operating Agreement, UTA appears to have some protections as its consent is required for certain actions of the Manager. <i>However, these protections are severely limited because any consent is “not to be unreasonably withheld, conditioned or delayed”.</i> Additionally, there appears to be no option where UTA can simply disapprove of an action as Section 15.11(c) provides that any disapproval response must set forth (1) the reason for disapproval and (2) the corrective action that must be taken to obtain consent or approval.</p> <p>These protections are further curtailed by Section 15.11(b), which provides that in the event approval or consent is not received by a <u>requesting Member</u> within 5 business days of the request, such consent or approval is deemed given.</p> <p>Additionally, Section 11 of the Second Amendment provides that any approval or consent that in the event approval or consent is not received by the <u>Manager</u> within 10 days of the request, such consent or approval is deemed given.</p>
Second Amendment	<p>Unclear how Section 3 is intended to work.</p> <p>Additionally, note that the preferred distributions in Section 4 are subordinate to the payment of a number of fees to Associates. In other words, a preferred distribution in name only.</p>

Appendix C

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Appendix C Development Projects Timeline

The following timeline provides historical information and key decisions on the Draper FrontRunner and Jordan Valley TRAX development projects. Please note that the Jordan Valley TRAX site meets UTA’s definition of a transit-oriented development (TOD) in that there is a joint development agreement in place between UTA and a developer. The Draper FrontRunner site began with the idea of becoming a full TOD site, but those plans were never realized.

Key Terms

Draper FrontRunner Station	Jordan Valley (Bangerter) TRAX Station	Note
Whitewater VII		This entity owned the development rights and sold them to Draper Holdings.
Draper Site		Location of the Draper FrontRunner Station.
Draper Holdings	Boulder Ventures	The developer on both the Draper and Jordan Valley sites. Draper Holdings and Boulder Ventures refer to the same developer.
Purchase Sale Agreement		States the final sale price and terms of the purchase of Draper site.
Development Agreement		Defines development responsibilities
	RFQ&FP	The Request for Qualifications and Financial Proposal (RFQ & FP) issued by UTA to solicit proposals for transit-oriented development surrounding the Bangerter (Jordan Valley) TRAX Station.
	Operating Agreement	Creates joint venture company Bangerter Station, LLC and defines responsibilities in developing the Bangerter Station and its surrounding area.

Legend

Draper FrontRunner Project	Denoted in <i>Black</i> Text
Jordan Valley TRAX Project	Denoted in <i>Blue</i> Text

Historical Information

1. **November 20, 2008:** UTA, Whitewater VII, and Draper City enter into a development agreement on the Draper site. The development agreement states that UTA will conduct a public evaluation of four sites and that the development agreement remains in force only if UTA chooses the Draper site for the placement of a FrontRunner station. The development agreement also says that, if certain conditions are met, Draper City and Whitewater VII will build infrastructure and UTA will build a *surface lot* for 1,000 parking spaces and the FrontRunner platform. Finally, the development agreement stipulates that UTA will contribute only the cost of a surface lot for 1,000 parking spaces and the platform and, if conditions are met by other parties, UTA will build the surface lot and platform.

2. **November 24, 2008:** The UTA Board of Trustees officially adopts the development agreement between UTA, Whitewater VII, and Draper City.
3. **December 10, 2008:** A UTA trustee becomes the owner of Whitewater VII.
4. **November 4, 2009:** UTA officially selects the Draper site for future FrontRunner station.
5. **December 2009:** The UTA trustee sold the development rights for the property to Draper Holdings for an undisclosed amount.
6. **December 14, 2009:** UTA issues a Request for Qualifications and Financial Proposals (RFQ&FP) for a transit-oriented development (TOD) at Bangerter Station (later called Jordan Valley Station). Proposals due January 19, 2010. The developer that owns Draper Holdings is one of three respondents to this RFQ&FP.
7. **December 17, 2009:** UTA pays \$10 million to Draper Holdings for a future 1,000 stall parking structure, even though there are no engineering designs and drawings. UTA also receives 20 acres of land adjacent to the future Draper FrontRunner Station.
8. **January 21, 2010:** UTA scores three RFQ&FP respondents. The developer that owns Draper Holdings – known as Boulder Venture for this procurement – was awarded the contract.
9. **January 21, 2010:** UTA asks Draper Holdings or Boulder Ventures, in writing, to provide the missing RFQ&FP information by January 25, 2010. Boulder provides some, but not all, of the information, which included:
 - **January 25, 2010:** A letter from a local bank stating that Boulder Ventures has a favorable relationship with the bank.
 - **January 25, 2010:** Information on pending lawsuits, legal history, and workers' compensation.

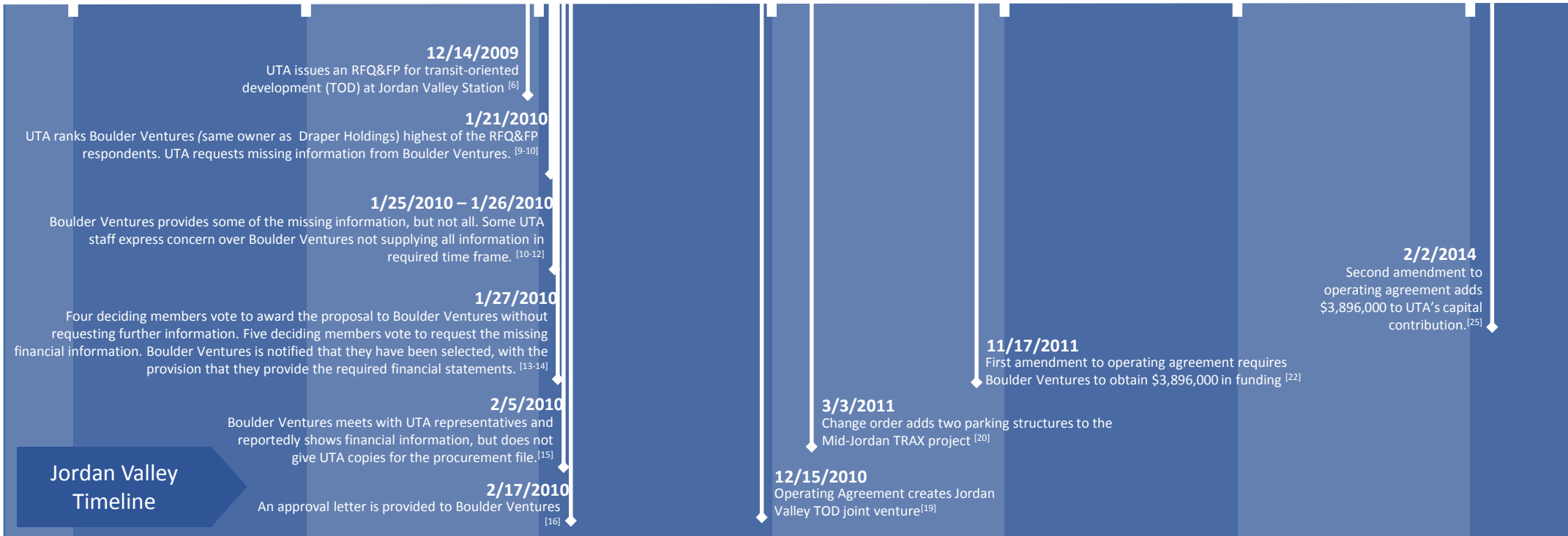
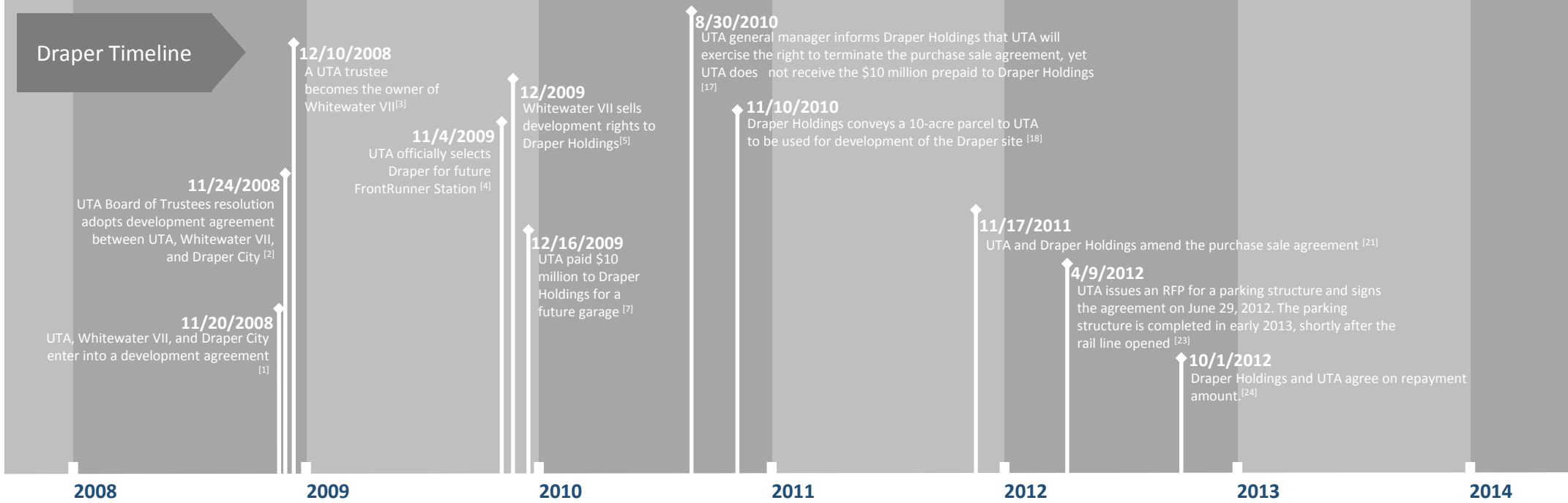
Boulder did not respond with the requested financial information that would demonstrate they have the capacity to timely complete a project of this magnitude.

10. **January 25, 2010:** UTA's grants and contracts administrator recommends, in writing, that the Boulder Ventures proposal be deemed as nonresponsive.
11. **January 26, 2010:** UTA's real estate director is quoted as saying that he doesn't see anywhere in the Boulder Ventures proposal where the financial capacity of Boulder Ventures is demonstrated.

12. **January 26, 2010:** Boulder Ventures principal requests a meeting with UTA during his next trip to Salt Lake City.
13. **January 27, 2010:** UTA's grants and contracts administrator asks the deciding committee if UTA should award the contract to Boulder Ventures with the information they have or grant Boulder Ventures more time to provide the required financial information. Three UTA senior executives and one representative from a local city vote to award the proposal without requesting further information. Four UTA employees and another local city official vote to request the missing financial information.
14. **January 27, 2010:** UTA notifies all other RFQ&FP respondents in writing that they were not selected for the project. Boulder Ventures is notified that they have been selected, with the provision that they provide the required financial statements.
15. **February 5, 2010:** Boulder Ventures meets with several UTA representatives and reportedly shows additional financial information, but does not give UTA a copy of the information for the procurement file.
16. **February 17, 2010:** Boulder Ventures is notified in writing that UTA will enter into exclusive negotiations with the company.
17. **August 30, 2010:** UTA general manager sends a registered letter to Draper Holdings, LLC, informing Draper Holdings that UTA will be exercising the right to terminate under the purchase sale agreement. However, Draper Holdings does not return the prepaid \$10 million.
18. **November 10, 2010:** Draper Holdings conveys a 10-acre parcel to UTA to be used for development of the Draper station.
19. **December 2010:** Bangerter Station, LLC operating agreement creates Jordan Valley TOD joint venture.
20. **March 3, 2011:** Change order adds Jordan Valley TOD to the Mid-Jordan TRAX project. The Jordan Valley TOD, with its two parking structures and infrastructure improvements, has cost about \$26 million in federal and state funds. The developer is to pay \$3,896,000 for shared parking stalls and other infrastructure costs. The developer has not yet paid this amount.
21. **November 17, 2011:** UTA and Draper Holdings amend the purchase sale agreement to reflect the following:
 - UTA returned 10 acres of the original 20 acres to Draper Holdings on November 10, 2010.

- Draper Holdings returns \$2.1 million to UTA.
 - Draper Holdings is allowed to substitute \$1.5 million owed to UTA with all reasonably necessary site preparation. UTA had difficulty providing documentation for this expense.
22. **November 17, 2011:** First amendment to the Bangerter Station, LLC operating agreement. Boulder Ventures agrees to pay \$3,896,000 to UTA for the portion of parking stalls dedicated to the development.
23. **April 9, 2012:** UTA issues a Request for Proposals (RFP) for construction of a 600-stall parking structure at the Draper FrontRunner Station. The developer (Draper Holdings) is part of the selection committee for the construction company, but otherwise is not involved in the project. UTA signs a construction agreement on June 29, 2012. The parking structure is completed in early 2013, shortly after the rail line opened.
24. **October 1, 2012:** Draper Holdings and UTA enter into a letter agreement providing for a total repayment amount under the Amended PSA, including accrued interest, of \$7,415,635. That amount was paid as follows:
- A \$171,000 cash payment to UTA.
 - A \$179,000 promissory note in favor of UTA.
 - A \$5,566,200 payment into escrow, which would be paid out over time to the general contractor of the parking structure on UTA's Draper property for construction of the parking structure.
 - \$1,499,435 credited to UTA's Jordan Valley capital account as an additional capital contribution.
25. **February 2, 2014:** Second amendment to operating agreement adds \$3,896,000 to UTA's capital contribution.
26. **July 2014:** Declarations of covenants, conditions, restrictions, easements, and the parking structure management agreement at the Jordan Valley Station TOD are not yet signed. UTA has not yet conveyed property title to the joint venture.

Draper Timeline



Jordan Valley Timeline

Appendix D

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Appendix D Additional UTA Compensation Information

Figure D.1 CY 2013 UTA Executive Team Compensation Data. This figure shows the total compensation for the nine highest-paid employees at UTA.

	General Manager	General Counsel, President of Government Resources	Chief Operating Officer	Chief Technology Officer	Chief Financial Officer	Chief Communications Officer	Chief Capital Development Officer	Chief Safety Officer	Chief Planning Officer
Salary	\$228,558	\$222,835	\$174,534	\$158,316	\$168,461	\$165,671	\$149,525	\$144,243	\$142,236
Bonus	30,000	30,000	29,918	24,233	*10,471	29,918	29,918	29,918	29,918
Benefits	143,629	131,637	105,052	101,661	96,570	81,998	95,813	90,084	85,734
Total Compensation	\$402,187	\$384,472	\$309,503	\$284,211	\$275,503	\$277,587	\$275,256	\$264,245	\$257,887

*CFO received a below-average 2013 bonus because he was employed for only part of 2012
Source: UTA Internal Data

Figure D.2 CY 2013 UTA Executive Team Benefits Data. This figure shows the total benefits for the nine highest-paid employees at UTA.

	General Manager	General Counsel, President of Government Resources	Chief Operating Officer	Chief Technology Officer	Chief Financial Officer	Chief Communications Officer	Chief Capital Development Officer	Chief Safety Officer	Chief Planning Officer
Standard Benefits	\$79,812	\$68,637	\$59,415	\$57,489	\$52,904	\$43,119	\$52,167	\$46,809	\$48,506
<i>Executive Benefits</i>									
457 Plan	23,000	23,000	23,000	23,000	23,000	17,500	23,000	23,000	17,500
Asset Mgt. Plan	17,850	17,850	16,637	15,172	14,666	15,379	14,646	14,275	13,728
Car Allowance	10,212	12,240	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Exec Life Insurance	12,755	9,910	0	0	0	0	0	0	0
Total Benefits	\$143,629	\$131,637	\$105,052	\$101,661	\$96,570	\$81,998	\$95,813	\$90,084	\$85,734

Executive benefits is the total of the 457 plan, asset mgt. plan, car allowance, and exec life insurance.
Source: UTA Internal Data

General Counsel Pension Description

UTA's general counsel's employment contract holds a stipulation that enables him to earn double service credits towards a pension. The normal pension benefit at UTA allows employees to earn 2 percent towards a pension for each year they work. If an employee works 9 years, he/she earns an 18 percent pension benefit. The general counsel earns double the normal benefit—for 9 years worked, he is granted 18 years of service, or a 36 percent pension benefit. The doubling provision is capped at 10 years; after 10 years, the normal

benefit is awarded. Figure D.3 provides the language in the employee's contract stipulating this additional benefit.

Figure D.3 UTA General Counsel Receives Special Pension Benefit. The following excerpt is found in the general counsel's employment contract.

"...the Years of Service (as defined in the Retirement Plan) of Employee for purposes of determining benefit accrual...shall be equal to two (2) Years of Service for each Year of Service worked by Employee...By way of example, in the event the employment of Employee continues for nine years from his date of hire, Employee shall be deemed to have earned and shall be credited with eighteen (18) Years of Service...retirement benefit of employee shall be equal to 2%. . . [employee's] average compensation multiplied by eighteen (2% multiplied by 18 = 36%)"

Source: Utah Transit Authority General Counsel Employment Contract

Appendix E

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Appendix E Past and Future Project Costs

Figure E.1 Completed Rail Projects. Recent projects were funded primarily with local funds.

Project		Total Cost (in millions)	Federal Funding	Local Funding	Local Cost (in millions)
Previous Rail Projects:					
TRAX North-South	(1999)	\$313	77%	23%	\$71
TRAX University	(2001)	119	82%	18%	22
TRAX Medical Ext.	(2003)	89	60%	40%	36
FrontRunner North	(2008)	612	80%	20%	122
Previous Rail Projects		\$1,133	78%	22%	\$251
FrontLines 2015 Projects:					
TRAX Mid-Jordan	(2011)	\$535	80%	20%	\$107
TRAX West Valley	(2011)	346	0%	100%	346
TRAX Airport	(2013)	344	0%	100%	344
TRAX Draper	(2013)	193	60%	40%	77
FrontRunner South	(2014)	874	0%	100%	874
FrontLines 2015 Projects		\$2,292	24%	76%	\$1,748

Figure E.2 Utah's Unified Transportation Plan. The following is a list of transit projects UTA is studying as part of the 2040 plan. The bolded projects have been completed.

Transit Phase One 2011-2020			
County	Project Name, Location, and (Phasing)	Proposed Improvement(s)	Est. Cost: in Millions
Davis	Falcon Hill - Hill AFB West Transit Center — Near Hill AFB West Gate	Transit Hub	\$2
Davis/Salt Lake	North Ogden - Salt Lake Corridor (South Davis) — Farmington to Salt Lake (1st of 3 Phases)	BRT/Enhanced Bus	\$36
Salt Lake	200 South — Salt Lake Central to Downtown Salt Lake	Streetcar and Enhanced Bus	\$67
Salt Lake	SLC - Foothill Drive - Wasatch Drive Corridor — SLC to Little Cottonwood Canyon (1st of 3 phases)	Enhanced Bus/BRT	\$18
Salt Lake	State Street Bus Rapid Transit — Salt Lake Central to Draper FrontRunner (1st of 3 Phases)	Enhanced Bus	\$57
Salt Lake	Draper Line TRAX Extension (South) — 10000 South TRAX Station to 12600 South TRAX Station	Light Rail	\$253
Salt Lake	Redwood Road Bus Rapid Transit — Downtown SL to Draper FrontRunner (1st of 3 Phases)	CorPres/BRT/Enhanced Bus	\$58
Salt Lake	5600 West Corridor — Downtown Salt Lake to Daybreak	CorPres/BRT	\$50 to \$142

Salt Lake	West Bench Corridor Preservation (11400 South)	Corridor Preservation	Local Contribution
Salt Lake	Sugarhouse Streetcar (1st Phase) — 2100 South TRAX to Highland Drive/Sugarmont	Streetcar	\$67
Salt Lake	3900 South/3500 South Corridor (west) — Meadowbrook TRAX Station to West Bench (2nd of 4 Phases)	Bus Rapid Transit	\$31
Salt Lake	Taylorville Murray Central Segment — Murray Downtown to SLCC Redwood (1st of 2 Phases)	Enhanced Bus	\$12
Salt Lake	Taylorville Murray West Valley Segment — SLCC Redwood to W.V. Intermodal (1st of 2 Phases)	Enhanced Bus	\$8
Salt Lake/Summit	Park City Corridor — Downtown Salt Lake City to Park City	Operations only	\$3
Utah	FrontRunner Commuter Rail - Salt Lake City to Provo Line (UT County Portion)	Commuter Rail	\$455
Utah	Bus Rapid Transit - Provo to Orem Line	Bus Rapid Transit	\$125
Utah	Bus Maintenance Facility Expansion, Orem	Other Transit	\$3
Utah	Orem Intermodal Center	Other Transit	\$12
Utah	Provo Intermodal Center	Other Transit	\$18
Weber	Ogden - Weber State University (1st of 2 Phases)	BRT/Enhanced Bus	\$57
Weber	Ogden Valley Park and Ride — Near Pineview Dam	Park and Ride	\$2
Weber/Davis	West Weber - West Davis Enhanced Bus — Ogden to Layton FrontRunner (1st of 2 Phases)	Enhanced Bus	\$15
Weber/Davis	North Ogden - Salt Lake Corridor (North) — North Ogden to Farmington Station (1st of 3 Phases)	CorPres/BRT/Enhanced Bus	\$41

Transit Phase Two 2021-2030			
County	Project Name, Location, and (Phasing)	Proposed Improvement(s)	Est. Cost: in Millions
Davis	Hill AFB South Transit Center — Near Hill AFB South Gate	Transit Hub	\$4
Davis	Antelope Drive Park and Ride — Antelope Drive and US-89	Park and Ride	\$4
Davis/Salt Lake	North Ogden - Salt Lake Corridor (South Davis) — Farmington to Salt Lake (2nd of 3 Phases)	BRT/Enhanced Bus	\$239
Davis/Salt Lake	North Redwood Enhanced Bus -- Bountiful Bench to Salt Lake via Woods Cross (1st of 2 Phases)	Enhanced Bus	\$43
Salt Lake	University TRAX Line to SL Central TRAX Connection	Enhanced Bus	\$97
Salt Lake	Salt Lake Downtown Bus Transit Center — Near 200 South State Street	Transit Hub	\$4
Salt Lake	Interstate-80 Transit Only Freeway Ramps — Near 900 West/200 South	Transit Only Freeway Ramps	\$36
Salt Lake	SLC - Foothill Drive - Wasatch Drive Corridor — SLC to Little Cottonwood Canyon (2nd of 3 phases)	BRT/Enhanced Bus	\$149
Salt Lake	State Street Bus Rapid Transit — Salt Lake Central to Draper FrontRunner (2nd of 3 Phases)	BRT/Enhanced Bus	\$344
Salt Lake	Redwood Road Bus Rapid Transit — Downtown SL to Draper FrontRunner (2nd of 3 Phases)	BRT/Enhanced Bus	\$489
Salt Lake	3900 South/3500 South Corridor (West & East) — East Mill Creek to West Bench (3rd of 4 Phases)	BRT/Enhanced Bus	\$147
Salt Lake	Taylorville Murray Holladay Extension, Enhanced Bus — Downtown Murray to Wasatch Boulevard	Enhanced Bus	\$38

Salt Lake	Taylorsville Murray Central Segment — Murray Downtown to SLCC Redwood (2nd of 2 Phases)	Bus Rapid Transit	\$76
Salt Lake	Taylorsville Murray West Valley Segment — SLCC Redwood to W.V. Intermodal (2nd of 2 Phases)	Bus Rapid Transit	\$47
Salt Lake	5400 South Corridor — Murray FrontRunner to West Bench (1st of 2 Phases)	BRT/Enhanced Bus	\$55
Salt Lake	7000 So./7800 S. Enhanced Bus — Murray FrontRunner to West Bench (1st of 2 Phases)	Corridor Preservation	\$3
Salt Lake	12300/12600 S. Bus Rapid Transit — Draper TRAX to Daybreak TRAX Station (2nd of 3 Phases)	CorPres/Enh Bus	\$54
Salt Lake	East Airport Transit Hub — Near 1950 West North Temple	Transit Hub	\$4
Utah	FrontRunner Commuter Rail - Provo to Payson Line	Commuter Rail	\$495
Utah	Enhanced Bus - Lehi to Lindon Line	Enhanced Bus	\$69
Utah	Enhanced Bus - American Fork to Eagle Mountain Line	Enhanced Bus	\$71
Utah	Enhanced Bus - American Fork to Provo Line	Enhanced Bus	\$49
Utah	Enhanced Bus Route - Provo to Spanish Fork Line	Enhanced Bus	\$37
Weber	Ogden - Pleasant View Commuter Rail Improvements	Commuter Rail	\$113
Weber	Ogden - Weber State University (2nd of Two Phases)	Streetcar	\$197
Weber/Davis	North Ogden - Salt Lake Corridor (North) — North Ogden to Farmington (2nd of 3 Phases)	BRT/Enhanced Bus	\$280

Transit Phase Three 2031-2040			
County	Project Name, Location, and (Phasing)	Proposed Improvement(s)	Est. Cost ₁ in Millions
Davis/Salt Lake	North Redwood Enhanced Bus — Bountiful Bench to Salt Lake via Woods Cross (2nd of 2 Phases)	Enhanced Bus	\$31
Salt Lake	SLC - Foothill Drive - Wasatch Drive Corridor — SLC to Little Cottonwood Canyon (3rd of 3 phases)	BRT/Enhanced Bus	\$361
Salt Lake	1300 East (North) Bus Rapid Transit — U. Medical Center to Fort Union (1st of 2 Phases)	Enhanced Bus	\$82
Salt Lake	1300 East (South) Bus Rapid Transit — Murray FrontRunner to Draper	Enhanced Bus	\$373
Salt Lake	700 East Bus Rapid Transit — Salt Lake City Central to Fort Union	Bus Rapid Transit	\$524
Salt Lake	State Street Bus Rapid Transit — Salt Lake City Central to Draper FrontRunner (3rd of 3 Phases)	Bus Rapid Transit	\$336
Salt Lake	Draper Line TRAX Extension (South) — 12600 South TRAX Station to Utah County Line	Light Rail	\$1,047
Salt Lake	Redwood Road Bus Rapid Transit — Downtown SL to Draper FrontRunner (3rd of 3 Phases)	Bus Rapid Transit	\$284
Salt Lake	5600 West Corridor — Downtown Salt Lake to Daybreak	Bus Rapid Transit	\$256
Salt Lake	Sugarhouse Streetcar (Westminster Segment) — Westminster College to N/S TRAX Line	Streetcar	\$80
Salt Lake	Parkway Boulevard Bus Rapid Transit — Downtown Salt Lake City to Kearns	Bus Rapid Transit	\$212
Salt Lake	3900 South/3500 South Corridor (West & East) — East Mill Creek to West Bench (3rd of 3 Phases)	BRT/Enhanced Bus	\$378
Salt Lake	5400 South Corridor — Murray FrontRunner to West Bench (2nd of 2 Phases)	BRT/Enhanced Bus	\$371
Salt Lake	Ft Union Boulevard Corridor — Big Cottonwood Canyon to Fashion Place West TRAX	Bus Rapid Transit	\$261

Salt Lake	7000 So/7800 So Enhanced Bus — Murray FrontRunner to West Bench (2nd of 2 Phases)	Enhanced Bus	\$56
Salt Lake	9000 South West Side Corridor — Sandy/South Jordan FrontRunner to Mid-Jordan TRAX	Enhanced Bus	\$146
Salt Lake	9400 South Corridor — Little Cottonwood Canyon to South Jordan FrontRunner	Bus Rapid Transit	\$320
Salt Lake	10200/10400 South Enhanced Bus — South Jordan FrontRunner to Daybreak TRAX	Enhanced Bus	\$58
Salt Lake	12300/12600 S. Bus Rapid Transit — Draper TRAX to Daybreak TRAX Station (2nd of 3 Phases)	Bus Rapid Transit	\$308
Salt Lake	5400 South Redwood Rd Park and Ride	Park and Ride	\$5
Salt Lake	3100 South/5600 West Park and Ride	Park and Ride	\$5
Salt Lake	6200 South/5600 West Park and Ride	Park and Ride	\$5
Salt Lake	5400 South/5600 West Park and Ride	Park and Ride	\$5
Salt Lake	Fort Union Transit Hub — Near Union Park Avenue/Ft Union Boulevard	Transit Hub	\$5
Salt Lake	Little Cottonwood Canyon Park and Ride — Mouth of Little Cottonwood Canyon	Park and Ride	\$5
Salt Lake	Big Cottonwood Canyon Park and Ride — Mouth of Big Cottonwood Canyon	Park and Ride	\$5
Salt Lake	3500 South Redwood Road Park and Ride	Park and Ride	\$5
Utah	FrontRunner Commuter Rail - Payson to Santaquin Line	Commuter Rail	\$331
Utah	TRAX Light Rail - Draper to Orem Line	Light Rail	\$2,300
Utah	Enhanced Bus - Spanish Fork to Payson Line	Enhanced Bus	\$41
Washington	Bus Rapid Transit Corridor - St. George to Hurricane	Bus Rapid Transit	\$177
Weber	Ogden Downtown Streetcar Circulator — Ogden FrontRunner to Downtown Ogden	Streetcar	\$161
Weber/Box Elder	Pleasant View - Brigham City - Corridor Preservation	Corridor Preservation	\$6
Weber/Davis	West Weber - West Davis Enhanced Bus — Ogden to Layton FrontRunner	Enhanced Bus	\$108
Weber/Davis	North Ogden - Salt Lake Corridor (North) — North Ogden to Farmington Station (3rd of 3 Phases)	Bus Rapid Transit	\$753

Appendix F
UTA Expenses, Revenues, Boardings,
and Passenger Miles

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Appendix F-1 Summary of UTA 2013 Data Submitted to NTD

	Operating Costs	Boardings	Passenger Miles	Average Trip Length	Operating Cost per Boarding	Operating Costs per Passenger Mile
Bus	\$112,595,523	19,651,731	87,730,975	4.5	\$5.73	\$1.28
Light Rail	45,452,100	18,997,860	85,567,407	4.5	2.39	0.53
Commuter Rail	35,734,292	3,816,414	108,921,186	28.5	9.36	0.33
Paratransit	13,873,638	236,449	2,351,871	9.9	58.67	5.90
Vanpool	4,809,668	1,387,816	53,824,927	38.8	3.47	0.09
Total	\$212,465,221	44,090,270	338,396,366	7.7	\$4.82	\$0.63

Source: Utah Transit Authority 2013 NTD Data

Appendix F-2

UTA Expenses, Revenues, Boardings, and Passenger Miles

2012							
	Operating Costs	Total Costs	Farebox Revenue	Subsidy % of Operating Costs	Subsidy % of Total Costs	Boardings	Passenger Miles
Bus	\$118,808,072	\$143,258,793	\$21,498,909	82%	85%	21,198,533	80,333,738
Light Rail	42,177,868	101,128,651	16,794,310	60	83	17,401,892	79,831,264
Commuter Rail	20,041,804	54,682,649	2,698,343	87	95	1,905,109	50,850,500
Paratransit	13,520,362	15,562,868	1,314,737	90	92	412,924	4,374,246
Vanpool	870,717	2,142,047	2,183,284	-151	-2	1,446,888	56,859,848
Subtotal	\$195,418,823	\$316,775,008	\$44,489,583	77%	86%	42,365,346	272,249,596
Multi-modal		51,333,406					
Total		\$368,108,414			88%		
2010							
	Operating Costs	Total Costs	Farebox Revenue	Subsidy % of Operating Costs	Subsidy % of Total Costs	Boardings	Passenger Miles
Bus	\$106,093,464	\$123,183,442	\$18,768,808	82%	85%	21,716,864	128,375,843
Light Rail	28,006,025	59,386,513	10,413,625	63	82	13,400,546	57,228,605
Commuter Rail	19,839,534	42,165,082	2,076,875	90	95	1,389,872	36,276,338
Paratransit	18,577,110	20,563,908	1,371,955	93	93	509,625	5,294,524
Vanpool	1,378,362	3,437,834	2,528,801	-83	26	1,346,949	54,429,401
Subtotal	\$173,894,497	\$248,736,779	\$35,160,064	80%	86%	38,363,856	281,604,711
Multi-modal		26,655,270					
Total		\$275,392,049			87%		
2006							
	Operating Costs	Total Costs	Farebox Revenue	Subsidy % of Operating Costs	Subsidy % of Total Costs	Boardings	Passenger Miles
Bus	\$94,016,983	\$108,272,503	\$13,938,564	85%	87%	21,598,392	148,984,636
Light Rail	23,131,704	50,123,633	7,478,060	68	85	15,203,660	86,039,042
Commuter Rail							
Paratransit	16,355,021	17,331,607	1,322,303	92	92	476,039	5,665,436
Vanpool	3,320,527	4,644,782	1,182,196	64	75	1,316,599	58,598,969
Subtotal	\$136,824,235	\$180,372,525	\$23,921,123	83%	87%	38,594,690	299,288,083
Multi-modal		20,831,482					
Total		\$201,204,008			88%		

Appendix F-3 Expenses and Revenues by Boarding and Passenger Mile

2012								
	Per Boarding			Per Passenger Mile			Subsidy Required	
	Operating Cost per Boarding	Total Cost per Boarding	Farebox Revenue per Boarding	Operating Costs per Passenger Mile	Total Costs per Passenger Mile	Fare Revenues per Passenger Mile	Subsidy % of Operating Costs	Subsidy % of Total Costs
Bus	\$5.60	\$6.76	\$1.01	\$1.48	\$1.78	\$0.27	82%	85%
Light Rail	2.42	5.81	0.97	0.53	1.27	0.21	60	83
Commuter Rail	10.52	28.70	1.42	0.39	1.08	0.05	87	95
Paratransit	32.74	37.69	3.18	3.09	3.56	0.30	90	92
Vanpool	0.60	1.48	1.51	0.02	0.04	0.04	-151	-2
Subtotal	\$4.61	\$7.48	\$1.05	\$0.72	\$1.16	\$0.16	77%	86%
Multi-Modal		1.21			0.19			
Total		\$8.69			\$1.35			88%
2010								
	Per Boarding			Per Passenger Mile			Subsidy Required	
	Operating Cost per Boarding	Total Cost per Boarding	Farebox Revenue per Boarding	Operating Costs per Passenger Mile	Total Costs per Passenger Mile	Fare Revenues per Passenger Mile	Subsidy % of Operating Costs	Subsidy % of Total Costs
Bus	\$4.89	\$5.67	\$0.86	\$0.83	\$0.96	\$0.15	82%	85%
Light Rail	2.09	4.43	0.78	0.49	1.04	0.18	63	82
Commuter Rail	14.27	30.34	1.49	0.55	1.16	0.06	90	95
Paratransit	36.45	40.35	2.69	3.51	3.88	0.26	93	93
Vanpool	1.02	2.55	1.88	0.03	0.06	0.05	-83	26
Subtotal	\$4.53	\$6.48	\$0.92	\$0.62	\$0.88	\$0.12	80%	86%
Multi-Modal		0.69			0.09			
Total		\$7.18			\$0.98			87%
2006								
	Per Boarding			Per Passenger Mile			Subsidy Required	
	Operating Cost per Boarding	Total Cost per Boarding	Farebox Revenue per Boarding	Operating Costs per Passenger Mile	Total Costs per Passenger Mile	Fare Revenues per Passenger Mile	Subsidy % of Operating Costs	Subsidy % of Total Costs
Bus	\$4.35	\$5.01	\$0.65	\$0.63	\$0.73	\$0.09	85%	87%
Light Rail	1.52	3.30	0.49	0.27	0.58	0.09	68	85
Commuter Rail								
Paratransit	34.36	36.41	2.78	2.89	3.06	0.23	92	92
Vanpool	2.52	3.53	0.90	0.06	0.08	0.02	64	75
Subtotal	\$3.55	\$4.67	\$0.62	\$0.46	\$0.60	\$0.08	83%	87%
Multi-Modal		0.54			0.07			
Total		\$5.21			\$0.67			88%

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Agency Response

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669 West 200 South
Salt Lake City, UT 84101

August 15, 2014

John Schaff
Auditor General
Office of the Legislative Auditor General
State Capitol Complex, W315
Salt Lake City, UT 84114

Re: Management Response to the Performance Audit of the Utah Transit Authority

Dear Mr. Schaff,

On behalf of the Utah Transit Authority (UTA) Board of Trustees, we express our appreciation to the Office of the Legislative Auditor General for its recently completed review of UTA, and for working in cooperation with UTA trustees and management to conduct this Performance Audit. We understand the mission of the Office of the Legislative Auditor General is to provide objective information, in-depth analyses, and useful recommendations to help state-funded agencies and other organizations, such as UTA, improve and better serve the citizens of Utah.

The UTA Board of Trustees is proud of the many accomplishments achieved in recent years. Under our direction, the authority provides bus, light rail, commuter rail, paratransit and other services; all within budget. In fact, UTA services are among the lowest cost per mile of any in the country. Ridership continues to grow, reaching an all-time high of 44.2 million trips in 2013. Last year the agency finished building more than 70 miles of new rail two years ahead of schedule and \$300 million under budget. The administrative overhead on this \$2.5 billion dollar program was less than 10 percent, compared to an industry average of 30 percent. UTA's efficiencies saved taxpayers hundreds of millions of dollars.

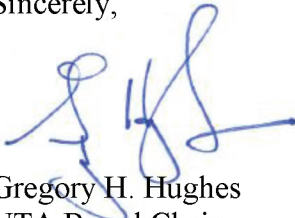
In addition to developing and operating excellent transit services, UTA has pioneered many new customer service efforts that are transforming the transit industry. These efforts include new innovative technologies designed to improve the customer experience, such as, electronic and smart phone fare collections, customer communication systems, real-time trip information and more.

UTA has also been a national leader in developing a transit oriented development program. Although this is a relatively new function, UTA has successfully partnered with local cities and businesses to maximize existing resources for the purpose of enhancing the community, increasing transit ridership, and generating new revenue sources to fund transit operations.

UTA has again been recognized by the American Public Transportation Association as the best large transit system in the country. We believe this is due to the great accomplishments and dedication of all UTA employees.

This Management Response will provide additional information related to specific areas reviewed by the Performance Audit. We believe that our additions are necessary to provide full context and understanding of both past and current decisions and practices. Also included in the Management Response is a list of each recommendation of the Performance Audit and corresponding action taken by the board and management. The Performance Audit recognizes that recommendations have been addressed and we are pleased that UTA has already adopted or is in the process of adopting each recommendation.

Sincerely,



Gregory H. Hughes
UTA Board Chair

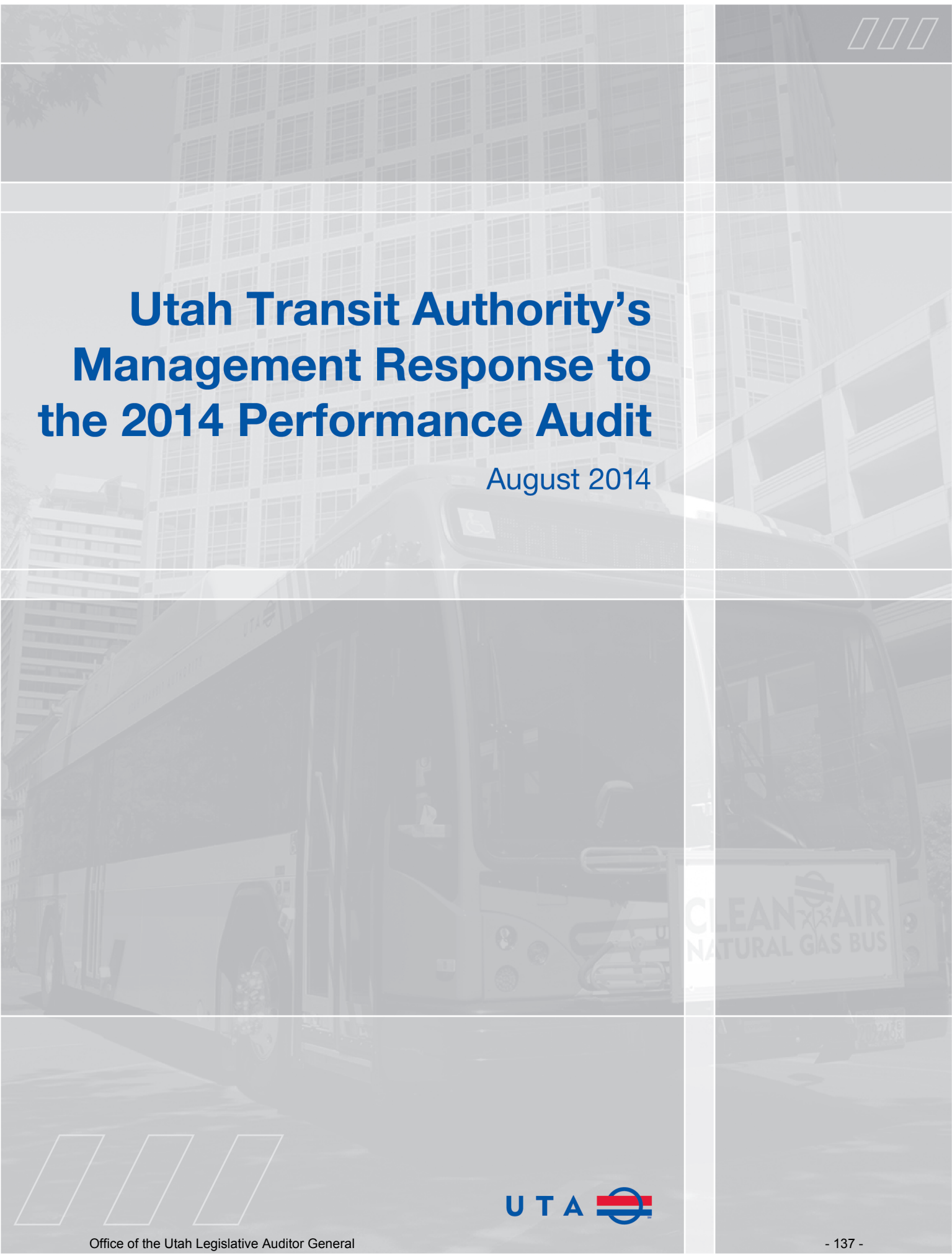


H. David Burton
UTA Board Vice-chair



Utah Transit Authority's Management Response to the 2014 Performance Audit

August 2014



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Executive Summary

Utah Transit Authority (UTA) appreciates the thorough analysis conducted by the legislative auditors, and strongly supports the use of independent review to improve our organization. The Performance Audit focuses primarily on four areas, which will also be addressed in the Management Response:

1. Development projects
2. Employee compensation benchmarking
3. Financial conditions
4. Passenger data collection and customer focus

For nearly one year, legislative audit staff have been conducting an in-depth review of UTA, with their primary focus falling on the areas mentioned above. Following the direction of the Board of Trustees and UTA's General Manager, UTA has fully cooperated and provided all available information requested by legislative auditors. While the Performance Audit provides valuable recommendations, UTA believes that the report needs additional context and information, which will be provided in the Management Response.

While many recommendations were already being addressed prior to the Performance Audit, the UTA Board of Trustees and management agree with and have adopted all recommendations made in the Performance Audit.

Chapter I: Introduction

The performance audit notes some recent highlights about UTA as well as changes and improvements since the 2008 and 2012 audits. Since those audits were concluded UTA completed the FrontLines 2015 capital program and developed a 2020 Strategic Plan. UTA is now transitioning from a major capital program toward a much greater focus on customer service, transit operations, economic development, transit oriented development and long term sustainability.

Chapter II: Development Projects

The Performance Audit recommended five changes with respect to future development projects. UTA has implemented all five recommendations.

UTA believes that all policies were followed in the development of both the Draper and Jordan Valley projects. UTA has always followed its Spending and Contracting Authority Policy, which requires at least two executives to sign every agreement (this means executives of different departments and segregated duties).

With respect to the Draper Station parking project, UTA's intention was to increase transit ridership and provide good access to the commuter rail line. Additionally, UTA helped support the initiative of the Governor's Office of Economic Development, Draper City, Salt Lake County and local legislators to attract a major employer (eBay) to the area. UTA

The UTA Board of Trustees and management agree with and have adopted all recommendations made in the Performance Audit.

UTA has implemented all five recommendations regarding development projects.



agrees with the Performance Audit that our participation was necessary to what ultimately was a very successful outcome.

Regarding the Jordan Valley transit oriented development (TOD) project, UTA successfully sought and retained a well-qualified developer with the ability to facilitate high quality, mixed use TOD. UTA's procurement process was completely appropriate, and this Management Response provides additional context to support this position.

Chapter III: Compensation

The Performance Audit recommended three changes with respect to compensation benchmarking and reporting. UTA has implemented all three recommendations.

The UTA Board of Trustees strongly supports the organization's compensation policies and practices that are designed to encourage and reward efficiency and productivity, and have helped UTA find savings in an effort to put as much service on the street as possible. This has made UTA's administrative overhead cost one of the lowest in the country.

UTA uses credible market surveys to develop base pay compensation recommendations for all employees. For executive positions UTA uses public, non-profit and other transit agencies as the primary point of comparison. While the Performance Audit compares certain UTA executives' salaries and benefits to those of UDOT, Salt Lake City, and other state employees, it recommends UTA compare itself to similar transit agencies. UTA is currently conducting a total compensation survey of comparable transit agencies that will be presented to the board upon completion.

The Performance Audit reviews employee incentive payments that were awarded based on goals established in 2011 and implemented in 2012. Recognizing that UTA is making a significant shift from developing new projects to operating them, UTA management made significant changes to the employee incentive program in 2014. Changes include significantly reducing incentives, particularly for executives and top managers. Additionally, the board approved a policy requiring any award greater than \$8,000 be reviewed and approved by the board in a public meeting.

UTA has reported and updated all compensation to the transparent.utah.gov website.

Chapter IV: Financial Conditions

The Performance Audit recommended two changes with respect to financial conditions. UTA has implemented both recommendations.

The Performance Audit reports that UTA is financially constrained for future capital development projects. UTA agrees that new projects will require new funding. In 2006, the voters of Salt Lake and Utah Counties passed funding increases for the development of new projects and services. Despite the elimination of sales tax levied on food and major

UTA has implemented all three recommendations regarding compensation.

UTA has implemented both recommendations regarding financial conditions.



economic impacts of the Great Recession, UTA successfully delivered all voter approved projects—ahead of schedule and below budget. UTA has sufficient resources to operate and maintain its existing system.

The UTA Board of Trustees has directed staff to develop a state-of-good-repair program and refine the 30-year financial plan. Currently, more than \$2 billion is funded in UTA’s state-of-good-repair projections.

Chapter V: Passenger Data Collection and Customer Focus

The Performance Audit recommended four changes with respect to passenger data collection and customer focus. UTA has implemented all four recommendations.

Following the direction of the Board of Trustees, UTA has developed a robust fare policy that provides equitable and consistent fares and pass programs designed to maximize ridership and farebox revenue. UTA believes its fare policy and structure have helped the organization achieve its highest ridership ever, over 44.2 million trips, and increase farebox revenue.

UTA employs a market-based philosophy to setting fares and establishing pass programs. Market-based fare strategies are considered a best practice in the transit industry, as they offer a choice of fare products and pricing based on several conditions including product characteristics, customer eligibility, specific customer markets and market opportunities. Market-based pricing charges what the market will bear by providing a variety of fare products designed to appeal to the needs of different rider segments.

The primary purpose of UTA’s electronic fare collection (EFC) system is for fare collection, but EFC offers other benefits such as data collection. Currently, EFC provides an adequate sample size for planning purposes, but as more passengers convert to EFC products, UTA’s use of that data will also increase. In addition to EFC, UTA utilizes other tools for data collection such as automatic passenger counters.

The UTA Board of Trustees developed the 2020 Strategic Plan that identifies customer focus as the organization’s top priority. To stay apprised of this goal, UTA staff will increase its customer focus metrics reports to the board. Most notably, a compliance report on customer and public feedback is required annually. Additional reports of customer feedback from social media activities are also reported to the board’s Stakeholder Relations Committee each month.

UTA has sufficient resources to operate and maintain its existing system.

UTA has implemented all four recommendations regarding passenger data collection and customer focus.

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Auditor Recommendations and UTA Action Check List

Chapter II: Development Projects

Action Taken	Audit Recommendation: We recommend that UTA management follow UTA internal policy and practice with development projects.
✓	UTA Action: The UTA Board of Trustees has approved a policy requiring the General Manager to ensure compliance with internal board and corporate TOD policies (Executive Limitations Policy No. 2.2.4).
Action Taken	Audit Recommendation: We recommend that UTA Board of Trustees require that all written agreements on development projects be subject to an external independent review before they are signed.
✓	UTA Action: The UTA Board of Trustees has approved a policy requiring management to establish an internal, multi-disciplinary team to review proposed TOD development and operating agreements and establish independent external reviews of proposed TOD development agreements and provide comments to the board’s Planning and Development Committee (Executive Limitations Policy No. 2.2.4).
Action Taken	Audit Recommendation: We recommend that the UTA Board of Trustees establish clear policy directives, goals, and benchmarks for development projects.
✓	UTA Action: The UTA Board of Trustees established a 2020 Strategic Plan, which identified an increased role for TOD in the future. Additionally, a new TOD department at UTA has been formed which will develop more Board directives, goals, and benchmarks in addition to the currently approved TOD design guidelines.
Action Taken	Audit Recommendation: We recommend that UTA Board of Trustees ensure there is appropriate segregation of duties within UTA, including moving the TOD department out of the legal department.
✓	UTA Action: The UTA Board of Trustees has restructured TOD and General Counsel functions at UTA. This restructuring created an independent TOD department that reports directly to the General Manager. The General Counsel will continue to report directly to the Board of Trustees.
Action Taken	Audit Recommendation: We recommend that the UTA Board of Trustees direct its internal auditor to routinely review TOD processes, functions, and contracts, making written reports of its finding to the board.
✓	UTA Action: The UTA Board of Trustees has approved a policy requiring the Internal Auditor review development and operating agreements and provide an independent report to the board’s Planning and Development Committee (Executive Limitations Policy No. 2.2.4).



Chapter III: Compensation

Action Taken	Audit Recommendation: We recommend that UTA Board of Trustees direct UTA staff to benchmark total compensation, including salary, benefits, and bonuses when comparing themselves to other agencies.
✓	UTA Action: The UTA Board of Trustees approved a new policy requiring staff to use total compensation and benefits for benchmarking and comparisons (Executive Limitations Policy No. 2.3.1). UTA will continue to use credible market surveys and follow best practices to develop compensation recommendations.
Action Taken	Audit Recommendation: We recommend that the UTA Board of Trustees direct UTA staff to discontinue the use of for-profit data in its compensation benchmarking policy and practice and instead limit comparisons to other appropriate transit and governmental entities.
✓	UTA Action: The UTA Board of Trustees approved a new policy requiring total compensation and benefits be used for comparison of appropriate transit, government, and non-profit sectors. Comparison may be expanded to private industry only when transit, government, and non-profit sector information is not available or adequate (Executive Limitations Policy No. 2.3.1).
Action Taken	Audit Recommendation: We recommend that UTA report all employees' compensation to transparent.utah.gov.
✓	UTA Action: The UTA Board of Trustees has reaffirmed its policy directing staff to comply with all state compensation-reporting requirements for transparency (Executive Limitations Policy No. 2.3.1). UTA has corrected all 2013 reported data on transparent.utah.gov.

Chapter IV: Financial Conditions

Action Taken	Audit Recommendation: We recommend that UTA management considers the total cost of ownership before embarking on new capital projects. This includes: <ul style="list-style-type: none"> a. Identifying ongoing funding for operations and maintenance costs b. Identifying funding for state-of-good-repair costs
✓	UTA Action: UTA management agrees and believes this recommendation is consistent with UTA policy and practice and with Federal Transit Administration requirements. UTA management will more clearly identify ongoing funding and state-of-good-repair costs for future capital projects.
Action Taken	Audit Recommendation: We recommend that UTA management include the current projected ongoing state-of-good-repair costs in its transit development plan
✓	UTA Action: UTA management agrees and is refining its 30-year financial plan to more clearly identify projected ongoing state-of-good-repair costs.

Chapter V: Passenger Data Collection and Customer Focus

Action Taken	Audit Recommendation: We Recommend that UTA Board of Trustees periodically review fare policy implementation. The review should include analyzing taxpayer subsidies provided to different customer groups and service modes as well as integrate public and stakeholder feedback.
✓	UTA Action: The UTA Board of Trustees received a fare policy and implementation update during its July 2014 board meeting. The board will continue to receive and review regular fare policy and investment updates before making fare increases or changes (Executive Limitations Policy No. 2.4.2).



Action Taken	Audit Recommendation: We recommend that the UTA Board of Trustees improve data practices by making better use of its internal auditor to periodically review and validate information it receives.
✓	UTA Action: The UTA Board of Trustees has directed its Internal Auditor to integrate data practices to present to the board with a proposed work plan, which will be reviewed by the board annually.
Action Taken	Audit Recommendation: We recommend that the UTA Board of Trustees direct UTA staff to provide them with regular and consistent customer feedback metrics.
✓	UTA Action: The UTA Board of Trustees developed a 2020 Strategic Plan establishing customer focus as the agency’s top priority. UTA staff will enhance and incorporate additional customer feedback metrics to its monthly dashboard.
Action Taken	Audit Recommendation: We recommend that the UTA Board of Trustees direct UTA staff to begin providing them with regular and consistent transit market-share information.
✓	UTA Action: The UTA Board of Trustees has directed staff to partner with other planning organizations to provide regular and consistent transit market-share information.

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Response to Chapter II: Development Projects

The Draper FrontRunner transactions resulted in an excellent investment for UTA, complied with state law and UTA policy while facilitating broader state and local economic development initiatives.

The Draper Station transactions may be reasonably characterized as win-win. The Performance Audit highlights the value received by UTA at the Draper Station, while facilitating the broader state and local initiatives at the time, but also includes a number of concerns. In order to understand the Draper parking structure and Jordan Valley TOD referenced in the Performance Audit it is critical to view those events in context.

In this chapter is a timeline schedule that sets out events that guided UTA actions and decisions regarding both the Draper and Jordan Valley projects. The FrontRunner Provo to Salt Lake construction was commenced in 2009. During the 2008-2009, Draper City expressed interest in having a FrontRunner station located in its city and the State of Utah expended great efforts to attract potential employment centers to Utah, including eBay at the Draper site. UTA was also expending substantial sums in the construction of this commuter rail line. Being a design-build project, significant decisions were very time critical. Draper City requested of UTA some guidance as to the possibility of a FrontRunner station and the Draper site which lead to a Development Agreement between the City, UTA and the potential land owner. At that point, UTA did not own any property at the proposed site. UTA, for its part, expressed interest in the site, but confirmed that a process was required to make a station site selection. Included among the conditions for UTA's interest in the site were substantial infrastructure requirements, the cost of which was to be incurred by the City and the land owner.

In 2009, UTA completed its environmental process and selected the Draper site for the FrontRunner project. It was very time critical to the project to assure the potential station location and therefore, UTA entered into a Purchase and Sale Agreement (PSA) in December 2009 with Draper Holdings for the acquisition of the property and the potential construction of a parking facility. Draper Holdings was willing to convey property to UTA for the site and also offered UTA the opportunity to participate in the overall development as a limited liability partner. The concurrent agreements provided UTA the ability to choose between such an interest in the project, along with a parking structure, or to terminate the transaction. The price for the property and construction of the parking facility was \$10 million, to include up to 1,000 parking spaces. There is no dispute that the market cost of 1,000 parking spaces in a structured parking facility at that time far exceeded the price of \$10

UTA responded quickly to assist the state, county, and city to assist in getting eBay to locate in Draper.



million, and yet UTA negotiated the right to have both property and parking facility for this price, or to receive back its money plus interest. UTA determined it may have not had statutory authority to acquire an interest in the development and, in any event, that such an investment may violate the intentions of potential authorizing legislation, and therefore, UTA elected not to invest the \$10 million in the development, but wished to instead proceed with the acquisition of the property and planning for the parking facility. Because of the potential option to acquire an interest in the development venture, the PSA provided for the payment of for such investment in the amount of \$10 million. At the same time, the PSA permitted UTA to alternatively apply the \$10 million to the acquisition of the station site property and construction of the parking facility. UTA was desirous of securing its investment and required the land owner/developer to convey to UTA a deed of trust encumbering the entire 142 acre site (which had an appraised value of approximately \$36 million) as collateral for the obligation to either return the \$10 million to UTA or provide the property and parking facility, at the option of UTA.

In 2011, eBay purchased property at the site, to the excitement of the State of Utah, Salt Lake County, and the City of Draper. UTA received \$2.1 million from the developer at time of this transaction and also negotiated an agreement with the developer for \$1.5 million in grading and infrastructure costs to be paid by the developer, thus reducing the total amount expended by UTA from the initial \$10 million by a total of \$3.6 million. UTA did not know the precise number of acres of property that would be required for its station when it executed the PSA in December 2009, but provided for up to 20 acres to be conveyed to UTA, in addition to a parking facility. In 2011, the rail line project and the station plans had sufficiently progressed to reduce the number of acres required for the station to 10 acres, which was ultimately finalized with final specifications at approximately 6 acres. The value of the 6 acre parcel was \$1.5 million, using the conservative appraisal of 2009. Finally, by 2012, the developer had provided the \$5.6 million funds for the construction of structured parking facility. As a result, by 2013, UTA had received for its initial \$10 million purchase price the following:

Draper Station Financial Summary

Initial Purchase Price	\$10,000,000
Parking Structure	\$5,600,000
Property	\$1,500,000
Cash Payments	\$2,271,000
Promissory Note	\$179,000
Jordan Valley Capital Account	\$1,500,000
Site Costs	\$1,500,000
Total	\$12,550,000



The Performance Audit acknowledges that UTA received some \$2.5 million return on its initial investment. The findings of the Performance Audit should be put in context with the overall statewide and local initiatives at risk at the time. UTA accommodated the attraction and location of a major employer at the Draper Station site that provides 1,800 high-paying jobs and is the source of additional property and sales tax revenues that benefit the State, Salt Lake County and the City of Draper. The cost of the parking at the Draper site is the lowest cost per stall of all our station sites, as shown on a following page.

UTA was actively working to meet both the needs of UTA and support larger state economic goals with the implementation of the commuter rail station in Draper. UTA provided funds for the acquisition of property which ultimately included a parking structure; the funds were always secured with collateral worth several times the value of the funds. The course that UTA adopted at the site was both beneficial to UTA and essential to attract eBay to the site, which was the subject of a multi-million dollar infrastructure improvements bill passed by the Utah Legislature in 2009 that facilitated road improvements to access the Draper site, and a multi-million dollar tax incentive bill passed by the Utah Legislature, with cooperation and assistance from Salt Lake County in 2010.

While the Draper FrontRunner transaction may have been unique, UTA chose the course of dealing with the developer that would facilitate a major undertaking of many levels and departments of State government, Salt Lake County, as well as the City of Draper. As further described herein below, UTA had remedies available to it at all steps, but the remedy of foreclosure would have resulted in a delay and potential derailment of the location of a major employer at the Draper Station site.

UTA complied with its internal policies.

Rather than a pre-payment for a parking garage, the PSA provides that “the Purchaser [UTA] agrees to purchase, the “Property” (not merely a parking garage). As noted, the “Property” was defined to initially include approximately 20 acres, 10 of which was in excess of the acreage allotted under the Development Agreement. Under the PSA, the Seller was only obligated to construct a parking structure if UTA elected to close the transaction under the PSA, which UTA did not. The PSA did not authorize the procurement or the construction of the parking structure. The PSA specifically provided that the developer was required to comply with “all applicable federal and state procurement regulations” associated with the construction of the parking structure. Once it became clear that UTA was authorized to proceed with construction of both the Draper Station and parking structure, UTA took the steps necessary to procure the parking structure in accordance with both the Utah Code and UTA policy.

UTA does not believe either policy cited by the Report was violated in these transactions. The UTA policy relating to “progress payments,” forbids UTA from making “advance payments” without the approval of the Procurement Officer. UTA’s Chief Procurement Officer executed the

The Draper Station assisted in bringing 1,800 high-paying jobs to Draper.



UTA's procurement for the Draper parking structure was in compliance with UTA's policies and procedures.

PSA that advanced the funds that would both purchase real property and provide the funds necessary per policy to construct the parking structure.

The Performance Audit also cites UTA internal policy regarding writing specifications. The policy quoted in the Performance Audit states that clear and accurate description should be included in procurement documents, if possible. The policy further states “[t]he description may include a statement of the qualitative nature of the goods and services to be procured and may . . . set forth minimum essential characteristics. . .” Section 6 of the PSA satisfies this standard. Section 6 states the number of parking stalls, the number of floors of parking and the number of parking stalls per floor. Section 6 further states a qualitative statement of the manner in which the parking structure shall be completed (“commercially reasonable and according to plans and specifications for other transit station parking structures.”) As such, UTA did not violate its procurement policy.

UTA obtained opinions from outside counsel to review the transaction; an opinion from Dan Egan at Ballard Spahr and a second opinion from Charles Brown at Clyde, Snow. These opinions attest that the Draper transactions were consistent with the terms of other large transactions reviewed and prepared.

Structured parking was always contemplated at the Draper Station to facilitate larger state and local initiatives for locating major employers at the Draper site.

While UTA has been cautious in the implementation of structured parking at many of its stations, UTA, in deference to the importance of this particular site and to the City of Draper’s TOD overlay zoning implemented on the property surrounding the Draper Station, and in an effort to make the site more attractive to large employers (such as eBay), elected to construct structured parking at the Draper Station. As early as November 2008, the Development Agreement, entered into between UTA, the developer and the City of Draper, provides for the option to have structured parking at the site. Section 2.1.1 (d), the Development Agreement states:

“...contribution to UTA of appropriately located property for the construction of the FrontRunner Station within the TSD (referred to herein as the “Draper FrontRunner Station Site” (including without limitation the platform, signals utilities, sufficient acreage for a park and ride lot to consist of parking stalls for not less than one thousand (1,000) vehicles, ...”

Section 2.1.2 (g), the Development Agreement contemplates the option of structured parking:

“if structured parking is provided to UTA in connection with the Draper FrontRunner Station Site, (UTA will) contribute to the cost of developing the TSD System Improvements and/or such structured parking, an amount equal to what UTA would have otherwise spent



in constructing surface parking facilities for the Draper FrontRunner Station Site.”

UTA’s TOD Design Guidelines provide that parking structures should be constructed where feasible. The determination to construct structured parking also reflected the analysis conducted by Keith Bartholomew, a nationally recognized transit planning expert, University of Utah professor, and UTA board member, who preferred that parking structures be constructed where possible. The construction of a parking structure is a desirable attribute near a high capacity rail station (such as FrontRunner). The desire for parking structures, rather than surface parking, is limited only by the availability of funds for construction.

A cost benefit analysis was performed.

The Report is critical of UTA’s failure to perform a “cost benefit analysis” for constructing a parking structure. UTA supports the recommendation in the Report to perform a more formal cost benefit analysis, but also notes that it did perform an evaluation, including an analysis of various policy issues and facilitation of major state and local initiatives. UTA analysis also considered the overall context of the decision to construct a parking structure. A smaller UTA footprint (for parking and station) actually benefits UTA more than the developer because of the proximity of the parking structure to both the station and the remainder of the development, which would be much further away, if UTA had constructed surface parking.

UTA recouped funds in a manner that facilitated project and station construction while maintaining adequate collateral at all times that facilitated broader state and local initiatives.

The Performance Audit stated concerns that UTA did not immediately recoup funds from the developer. The remedy of UTA was to foreclose on the deed of trust. If UTA foreclosed on the deed of trust that secured its funds, UTA would have been involved in prolonged litigation with the most positive result being UTA owning property, not liquid funds. While UTA could have sold the property, the property had not yet been subdivided, so between the two processes – foreclosure and subdivision - it would have meant a long process to attempt to obtain the property that UTA needed for its station, all of which could have jeopardized the site work, including the platting and construction of roadways, the construction of the horizontal infrastructure to the site and ultimately, the location of eBay and the availability of property to be sold to eBay. Filing a lawsuit would have had a similar detrimental impact on the eBay project. Had UTA elected one of these options and jeopardized the location of eBay at the Draper Station site, it is likely that many other public and private parties would have attempted to prevent UTA from

Structured parking uses less land in valuable high-density transit-oriented developments.



doing so. Foreclosure was an important remedy of last resort, but not the preferred course of action under the circumstances. The desire to facilitate a major state-wide and local initiative – the location of eBay to the Draper Station site – was a factor in the determination of UTA to avail itself of the alternative course of action, while preserving its security.

UTA chose the course of working with the developer to accommodate both the construction of the Draper FrontRunner Station and parking, as well as the overall site and taking security for the funds advanced by UTA, in the form, initially, of a deed of trust and later, (to accommodate the transfer of property to eBay), a Covenant Not To Encumber and an Assignment of Membership Interests in another entity under joint ownership with the developer.

UTA received value in excess of the amount that UTA advanced at the Draper Station site.

As previously mentioned in the Management Response, UTA received more than \$12.5 million in value at the Draper Station. UTA undertook an analysis of all of its stations on the FrontRunner South project and ascertained that the Draper Station Parking Structure cost the least per parking stall than any other station on the FrontRunner South line. See table below, which demonstrates the excellent value received by UTA at the Draper Station site.

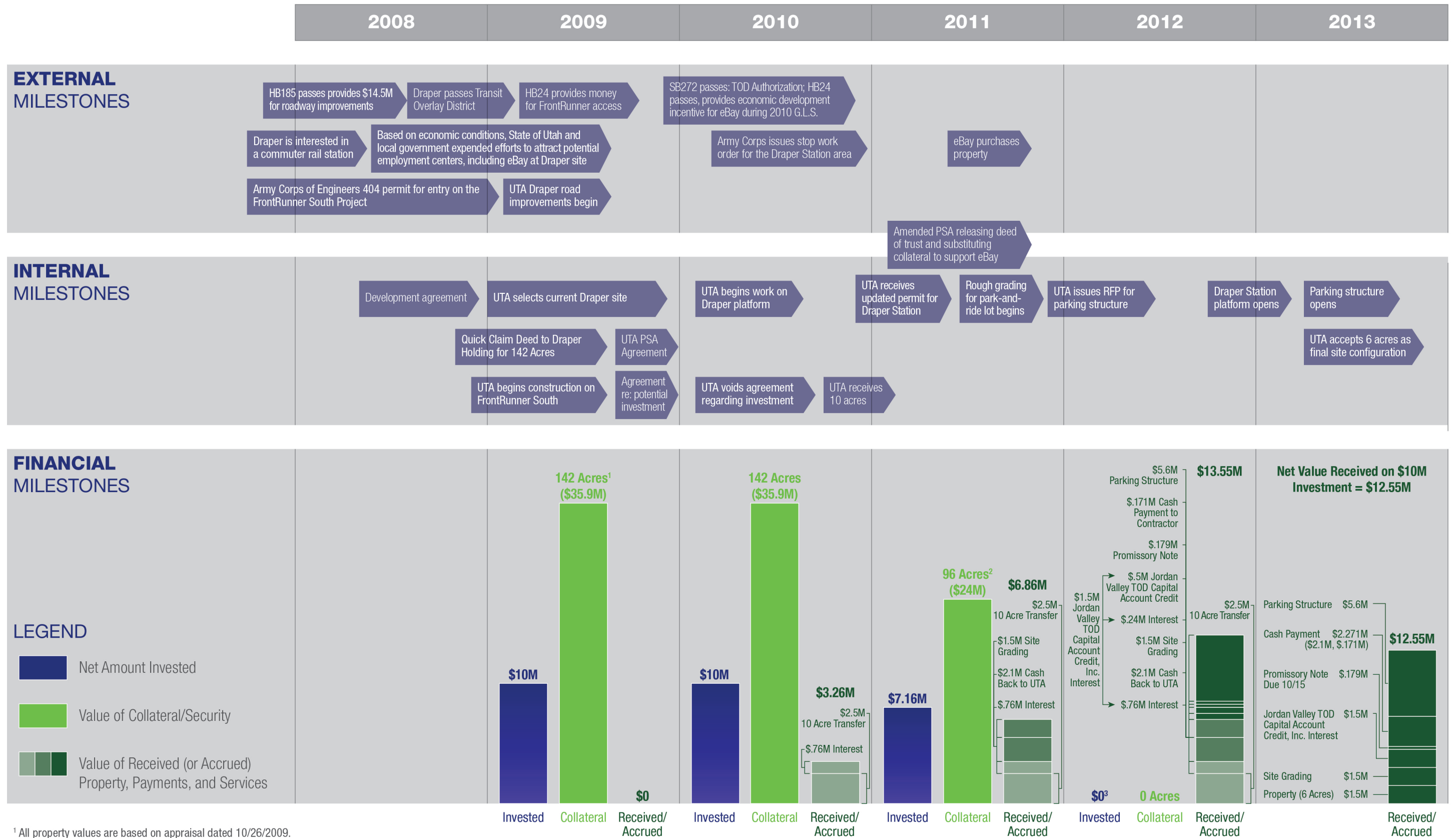
UTA Parking Cost per Stall

Station	Total Square Feet	Property Cost	Construction Cost	Design Cost	Stalls	Cost per Stall
Draper	197,600	\$0	\$6,219,492	\$0	622	\$9,999
Lehi	479,285	\$3,551,033	\$3,811,223	\$381,122	739	\$10,478
American Fork	343,954	\$2,042,115	\$3,869,215	\$386,922	553	\$11,389
South Jordan	367,962	\$10,555,817	\$2,780,533	\$278,053	703	\$19,366
Orem	398,877	\$4,609,022	\$4,114,000	\$966,000	498	\$19,456
Murray	220,735	\$4,529,595	\$2,516,694	\$251,669	357	\$20,442
Provo	612,523	\$14,063,616	\$6,432,000	\$1,558,000	791	\$27,881
Average						\$17,002

Note: Draper was design-build, design cost included in construction cost.

We feel that the Draper transaction was a win-win project. UTA was able to secure a station site in an excellent location and support the larger economic development goals of the State of Utah and Draper City. The parking structure was constructed at the lowest cost per stall of all the parking on the FrontRunner South project, \$7,000 per stall less than the average cost. UTA's funds were always well secured through the course of the transaction. UTA expects to fully recoup all funds associated with the Draper Station expenditure, pursuant to documented obligations that accrue and have specific due dates associated with payment.

The Draper Park-and-Ride Lot is the most cost-effective on the FrontRunner South Project.



¹ All property values are based on appraisal dated 10/26/2009.
² Collateral comprised of covenant not to encumber and assignment of membership interest. Amount of collateral reflects property security only.
³ Entire investment returned.
⁴ 622 stall parking structure which represents the most cost effective parking stalls constructed at \$9999/stall inclusive of property costs.

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Jordan Valley Operating Agreement is reasonable.

The legal opinion relied upon in the Performance Audit was drafted and signed by David Williams, a lawyer of counsel to Snell & Wilmer. In addition to assistance from outside counsel in the initial preparation of transaction legal documentation, UTA obtained an opinion from Charles Brown of Clyde Snow, a respected real estate and transactional lawyer in the State of Utah, attesting to the appropriateness and reasonableness of the Jordan Valley Operating Agreement.

Jordan Valley TOD project procurement was appropriate and complied with the requirements of the RFQ-FP.

The Performance Audit includes concerns regarding the Jordan Valley TOD procurement. The Performance Audit relies on “emails from UTA employees” about the award of the contract to Boulder Ventures. The specific concern was raised prior to receipt of the supplemental information provided by the developer, including a Zions Bank reference letter that attested to the substantial financial strength of the developer, a long-time client and borrower.

The Performance Audit further raises concerns about the Jordan Valley TOD procurement process. The Performance Audit was completed in accordance with the terms of the RFQ-FP; it was not protested by any of the unsuccessful proposers and was completed in conformity with all applicable laws, regulations and policies. To further attest to the rationality and reasonableness of the procurement, UTA obtained an opinion from attorney Ann-Therese Schmid, at Nossaman Law Firm, nationally recognized procurement legal expert. The UTA Selection Panel waived only minor irregularities that were actually associated with ALL of the proposals received, not just that of the proposal awarded. The waiver of such irregularities in proposals is done as a means of maximizing competition, so that the selection panel can maximize proposals to be competitively considered.

The legal review from this nationally recognized procurement expert and lawyer regarding the terms of the selection of Boulder Ventures under the RFQ-FP concludes that UTA acted reasonably and rationally in accordance with the terms of the RFQ-FP in awarding the proposal of Boulder Ventures, which is further evidenced by the fact that there were no protests to the award.

All members of the Selection Committee voted to award the RFQ-FP to Boulder Ventures, upon the receipt of the additional information from Boulder Ventures, which was submitted.

The Jordan Valley TOD procurement was in compliance with UTA's policies and procedures.



UTA retained some of the most respected law firms to document transactions.

The Performance Audit raises concerns about the legal work being casual. UTA, however, retained outside counsel for all of the referenced transactions. Perhaps, different lawyers would have documented the transactions differently, but the transactions went through extensive legal review, both internal and external. In any complex real estate transaction, there is always a certain level of uncertainty that must be accommodated by the parties and the transaction documents attempted to accomplish this goal.

Separation of functions and duties was retained on all projects.

The Performance Audit raises concerns that many functions and duties normally performed by departments outside of the Office of General Counsel were instead performed by staff within the Office of General Counsel. It is important to note that at the time of the Draper property acquisition and the selection of the developer for the Jordan Valley project, there was no TOD department at UTA and the Office of General Counsel provided only legal assistance. There was a segregation of duties. Certain tasks associated with TOD were performed by various UTA departments and then reviewed for legal compliance by the Office of General Counsel.

Under UTA's Spending and Contracting Authority policy, two executives are required to execute every agreement signed by UTA, and the Office of General Counsel is required to review and approve each agreement. UTA's procurement policy requires the Office of General Counsel to document transactions and agreements, as well as assign various other functions in the procurement process to other departments. A review of all executed documents evidences that all documents complied with all of these UTA policies. No UTA policy was violated regarding the segregation of duties.

It is also important to note that the UTA Board of Trustees authorized UTA staff to execute the documents evidencing the referenced transactions and at all times, UTA executive staff fully informed and sought the approval of the UTA Board of Trustees prior to selecting the course of dealing with the developer that it did.

UTA appreciates the recommendations from the Performance Audit. The UTA Board of Trustees has made significant policy changes with the adoption of the Executive Limitations Policy No. 2.2.4. This clarifies internal policy and practice with the development of projects. It also clarifies requirements for external reviews for TOD projects. As recommended by the Performance Audit, the board has restructured the TOD and General Counsel functions, with the TOD Department now reporting to the General Manager rather than General Counsel.

There was a segregation of functions and duties throughout the Draper and Jordan Valley projects.



Response to Chapter III: Compensation

UTA's Total Rewards Support Strategic Goals and Objectives.

UTA has created and designed a total reward package that focuses both on internal and external equity and supports the organization's strategic goals and objectives.

In order for UTA to successfully attract, retain, and motivate qualified high performing employees, it reviews the relevant labor market area in which it competes for talent. UTA considers the following factors: transit industry, not-for-profits, public sectors, national, regional, local, and peer companies that the organization hires from and loses employees to in order to gain the most comprehensive understanding of where the labor supply for the jobs is most likely found.

In 1978, the UTA Board of Trustees began providing goal-based performance compensation to the General Manager and authorized the organization to institute a performance compensation program for the agency directors. The board desired to implement private sector business management principles and practices in order to improve agency performance. Compensation has been one of those practices. Over time, the program was refined and formalized to include a set amount each year based on payroll and written goals approved by the board. In 1993, the program was extended to managers and strategic professionals. A few years later, supervisors were added to the program. In 2013, the performance compensation program was extended to all administrative employees.

UTA uses a performance compensation program that is aligned with its business strategy, vision and mission in order to achieve organizational results. Generally, organizations use a mix of total rewards that assist in attracting, motivating and retaining the talent needed to effectively contribute to organizational objectives.

The UTA Board of Trustees closely oversees performance compensation and establishes formal, written, measurable goals each year in conjunction with the budgeting process. The goals are monitored monthly by the Finance and Operations Committee of the board. In 2013, goals included ridership, investment per rider, revenue development, completion of several rail construction projects, expansion of transit-oriented development, plus goals related to improving customer service, safety and state of good repair. The performance compensation program is designed to maximize UTA's performance ultimately producing savings and efficiencies for the taxpayer.

UTA has developed well-balanced, effective executive compensation programs that not only reward the achievement of performance objectives, they also reward how results are achieved. The design and administration of this compensation program goes a long way toward attracting talent and achieving high standards of organizational

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UTA is committed to developing a total compensation package for all of its employees which is market based and includes appropriate comparisons to transit agencies, local governments and non-profits.

performance. UTA is committed to developing a total compensation package for all of its employees which is market based and includes appropriate comparisons to transit agencies, local governments and non-profits.

In its meeting of June 25, 2014, the Board of Trustees updated UTA’s Executive Limitations Policy No. 2.3.1 to better identify the market comparisons to be used. The policy states, the General Manager shall “...establish total compensation and benefits which represent market value for the skills employed within comparable industry labor markets made up of appropriate transit, government, and non-profit sectors. Comparisons may be expanded to include private industry when transit, government, and non-profit sector information is not available or adequate.”

UTA has also contracted with the Employers Council to conduct an in depth study in order to benchmark benefits and total compensation with transit, public and private companies. UTA’s consultant has designed a total rewards survey that has been issued to public, transit and private companies. A full report of this benchmarking survey is scheduled to be delivered to the board in November. The survey includes questions related to incentives and other executive benefits.

For several years, UTA has worked with its benefit consultant, GBS Benefits, to benchmark health and welfare benefits offered to employees. UTA benefits are benchmarked against the GBS Benefits’ client’s including cities, counties, school districts as well as private companies. The outcome of this comparison helps UTA determine benefit structures. Further, this annual comparison has determined UTA’s benefits are on average equal to those provided by cities, counties and school districts across the Wasatch Front.

UTA is a Performance Driven Organization

According to Towers Watson, a leader in consulting service for Human Capital and Total Rewards, 59% of employers throughout the nation use performance incentive programs as part of their total rewards program. UTA’s performance incentive program, encourages employees to meet goals, improves employee performance, increases productivity, and saves money through increased efficiency.

In the wake of completing the FrontLines 2015 program this year, and transitioning its focus to operations, UTA implemented a new performance incentive program. The new incentive program was expanded to include all administrative employees, and incentives were significantly reduced—particularly for executives and top managers.

UTA’s performance incentive program, encourages employees to meet goals, improves employee performance, increases productivity, and saves money through increased efficiency.



Performance Incentive Outcomes

- Creates high-performance standards for all UTA departments, teams, and individuals that have a clear line of sight to Authority goals developed by UTA’s Board of Trustees.
- Performance incentive program achieves:
 - » Higher productivity with better results
 - » Lower overall costs
 - » Lean processes
 - » Continuous improvement
 - » Innovative and creative workplace solutions
 - » High priority outcomes
 - » Teamwork
 - » Employee loyalty and engagement

Below are specific examples of outcomes from UTA’s performance incentive program. As a result of these achievements, UTA is able to expand transit services and provide better bus and rail services to the Wasatch Front under budget every year.

Accomplishments: Direct Result of UTA’s Performance Culture

- ✓ Completed 2015 capital projects ahead of schedule and \$300 million under budget
- ✓ Increased ridership to over 44 million trips in 2014, the highest in UTA history
- ✓ Increased farebox recovery
- ✓ Reduced investment per rider
- ✓ \$6.94 million, or 3%, under budget in 2012
- ✓ Developed an award-winning social media and customer information outreach program
- ✓ Developed real-time bus and train tracking data feeds
- ✓ Developed re-loadable pre-paid fare cards
- ✓ Partnered with Questar Gas to develop a fleet of CNG buses
- ✓ Developed fuel saving techniques to reduce consumption by more than 300,000 gallons per year

UTA Executive Compensation

UTA uses credible market surveys to develop base pay compensation recommendations. UTA includes not-for-profit, public data, and transit data when available in benchmarking base pay. Private sector data is also used when other data is not available or when data sources are limited. For executive positions, public, non-for-profit and transit data is used

UTA has used credible market surveys to develop base pay compensation recommendations.

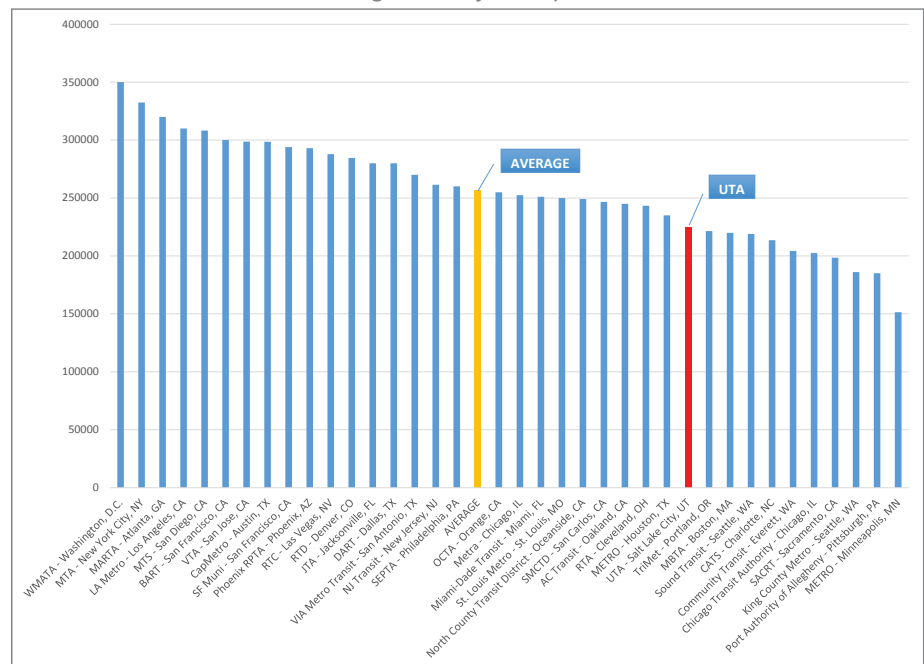


in each executive match. UTA's compensation consultant reviews UTA's data collection to verify the organization is following best practices.

UTA has benchmarked benefits offered to its employees, and to enhance this process the organization will ensure that compensation and all benefits will be included in future benchmarking. UTA always follows best practices and generally accepted compensation principles when making comparisons. UTA's consultant has designed a total rewards survey that has been issued to public, transit and private companies. A full report of this benchmarking survey is scheduled to be delivered to the Board in November.

As noted below, the base salary for the UTA General Manager is less than average when compared with other peer agencies. Specifically the average is \$256,000 vs. \$225,000. Similar relationships exist at the other executive positions as well.

2013 US Transit General Manager Salary Compensation



UTA Executives Benefits

A recent National Executive Compensation survey completed by the Employers Council shows that thirty-four percent of public executives receive long-term incentives and additional benefits as part of their compensation package. According to the survey, other benefits offered to public executives include, automobile, additional life, supplemental pensions, all-expense medical insurance, and legal and other financial benefits.

Both public and private sector employers offer additional benefits for executives. As executive leadership is critical to the overall success of an organization both public and private sector employers have recognized



the value of enhanced executive compensation as a tool for retention and organization performance.

Review of Other Transit Agency Executive Benefits

Although a comprehensive survey should be completed in order to draw any conclusions regarding executive benefits among transit agencies, UTA was able to gather the following information on the range and type of benefits seen in the transit industry. These benefits vary widely from transportation and living expenses to special pension plans and annuities. Many agencies reported bonuses for their General Manager. Transit agencies provided information on the following benefits:

Pension

Payments made to special pension plans on the executives' behalf ranging from 1.6% base pay to 11.98% of base pay. One transit agency contributed to a special pension plan after 8% defined contribution allowance was met.

Defined Contribution

Defined contribution payments vary by agency and included:

- Lump sum payments to plans ranging from \$6,000 (plus 3% of base pay) to \$46,000.
- 8% of salary toward contributions.
- 8% of salary up to the max allowed by IRS (\$23,000 over 50) then rolling to a special pension plan.
- Full contribution as allowed by IRS.
- 401A (employer only contributions) lump sum payments ranging from 50% of base pay to a \$30,000 flat payment amount.

Annuities

Some agencies provide annuities ranging from payment of \$5,000 monthly after retirement to an annual employer contribution of \$40,000.

Additional Benefits

- Life insurance ranging from \$200,000-\$650,000 with full premiums paid on their behalf.
- Full medical insurance premiums for the General Manager family, in addition to retiree medical insurance provided and premiums paid in full by the agencies.
- Car allowances and living expenses paid ranging from \$9,180-\$19,800 annually.

The Board has directed that salary and benefits be reviewed as part of the 2014 total compensation study which will be presented to the board in November. It should be noted that the board approved modification to its Executive Limitations Policy No. 2.3.1 at its April 2014 meeting. The modification requires "The General Manager to report to the board for approval in a public meeting any incentive pay awards that are not

The Board has directed that salary and benefits be reviewed as part of the 2014 total compensation study.



vested or contractually obligated as of January 1, 2014, in excess of \$8,000 annually.”

UTA Follows Generally Accepted Compensation Benchmarking Practices

Gaining and retaining high-performing employees is crucial to the success of any organization. Offering a competitive compensation package is one of several key factors these high-performing individuals consider when making their employment choices. As previously noted, UTA will be conducting survey of total compensation for its November 2014 compensation report to the Board of Trustees.

UTA follows Generally Accepted Compensation Practices and employs certified compensation and benefits professionals. UTA implemented a market-based pay system in 2006, which is considered to be the most common form of benchmarking for base pay among employers, with about 80% of employers in the public and private sector using this method to determine base pay for their employees. In addition, UTA contracts with an independent compensation professional, Ms. Kimberley Barton with the Utah Employers Council to audit UTA’s Compensation Program. During the annual audit, Ms. Barton verifies that the market matches utilized are accurate, relevant and follow Generally Accepted Compensation Practices, and that UTA policies and standard operating procedures are followed. Again, these matches are made from credible market surveys available to UTA.

Best practices for administering a market-based pay system include using varied cuts of data to determine the appropriate market-based pay by position. According to UTA turnover data, the number one reason employees have left UTA over the last several years is due to retirement, with the second reason being to accept another job outside of the transit industry. For many positions, UTA finds itself competing for talent from labor markets which include private industry. The cuts of data outlined below are recommended for any organization trying to compete in a tight labor market:

Data from within the same geographic location. Data from larger organizations are collected from the same geographic location whether they be private, public or non-profit. As demonstrated in UTA’s turnover data, UTA loses its employees to other organizations. This would justify UTA using some private sector data in determining its base rate of pay.

Data from similar industries. Annually, UTA conducts the largest industry wide Transit Salary Survey which provides UTA, as well as transit agencies across the country, market data that is used to benchmark “transit specific jobs”. Out of 265 administrative jobs at UTA approximately 90 jobs are considered “transit specific”.

Data from non-profits. UTA is considered a non-profit organization and routinely uses market data from non-profit organizations whenever available.



Data from direct competitors. UTA's competitors come from the public sector, private and non-profit sector. Data should reflect a good mix of where UTA is losing employees to or has a potential to lose employees.

UTA follows a methodical process in comparing jobs to the labor market. 83% of UTA jobs are matched to jobs in the labor market using credible market surveys. UTA compares jobs in the market that match 75% or more of the job duties for a UTA position. Generally Accepted Compensation Practices indicate that 3 or more data points should be used in order to determine the market value for a job and labor market data that has a disparity of more than 20% are removed. This means if a survey data point is very high or very low compared to the majority of surveys it is removed. The average market pay from each survey used is then averaged to determine the market pay for the UTA position.

The November 2013 independent audit report from the Employers Council affirmed that Human Resources' work met best practices. Additionally, the Employers Council provided several recommendations which have or are being implemented, and indicated that the base rates of pay of UTA employees were, on average, at 93% of market. A copy of this report was provided to the audit team during their review.

As shown above, UTA gathers a large amount of market compensation information. In accordance with the board's direction, the upcoming compensation report will establish total compensation and benefits which represent market value for the skills employed within comparable industry labor markets made up of appropriate transit, government, and non-profit sectors. Comparisons may be expanded to include private industry when transit, government, and non-profit sector information is not available or adequate."

UTA has Reported and Updated all Compensation to Transparent.utah.gov Required by Law and Policy

Transparency is very important to UTA's Board of Trustees and management. Whether through planning processes, community outreach, goal setting, public hearings, social media, white papers, and committee meetings, UTA strives to be open and available to the community.

Openness extends to providing information to the state transparency website. At the inception of the compensation reporting requirement, UTA staff met with transparency board personnel to define in detail the reporting requirements. UTA's understanding was that pension contributions should not be included in compensation reporting.

Although reporting requirements changed, UTA misunderstood that pension contributions were not to be included in our reports to the transparency website. UTA regrets the oversight and has corrected its 2013 compensation reporting to the state transparency website. The board changed executive limitations policy to ensure all transparency requirements are met.

UTA follows a methodical process in comparing jobs to the labor market.

Transparency is very important to UTA's Board of Trustees and management.

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Response to Chapter IV: Financial Conditions

UTA's Strong Financial Management Is Well-Recognized

UTA is expected to use its resources wisely to provide the most amount of service possible while maintaining prudent financial strength. Accordingly, UTA implemented long-term financial and service planning many, many years ago. UTA's knowledge and experience in these areas is a well-recognized strength. UTA is unique in having a 30-year financial plan. Few, if any, entities look ahead as far, or as well, as UTA. A copy of the 30-year financial plan has been provided to the audit team.

For example, the projects that became the 2015 Program were identified initially in the 1996 Transit Master Plan developed by the Wasatch Front Regional Council (WFRC). The plan envisioned the development of a backbone rail system that would be coordinated with an integrated bus network. UTA built the initial elements of the plan with the construction of the North/South LRT Line, University Line, Medical Center Extension and Commuter Rail in Salt Lake, Davis and Weber Counties. In 2006 voters in Utah and Salt Lake Counties voted to accelerate the original plan with the passage of a sales tax increase. As a result, UTA was able to save \$300 million in construction costs and placed all of the lines into service in 2013, two years ahead of schedule.

UTA Regularly Adjusts Cost and Revenue Projections

UTA regularly reviews its long-term financial forecasts and makes appropriate adjustments. As with other tax-supported enterprises, UTA was severely tested during the Great Recession. Because of UTA's ability to analyze long-term effects quickly, UTA was able to adjust to a reduction of \$50,000,000 plus of annual anticipated sales tax. UTA's fast, effective response to this shortfall minimized overall service reductions in 2011. Since then, miles of service provided have increased by almost 25%.

Payments for Construction Bonds Will Increase through 2018 and Decline Thereafter

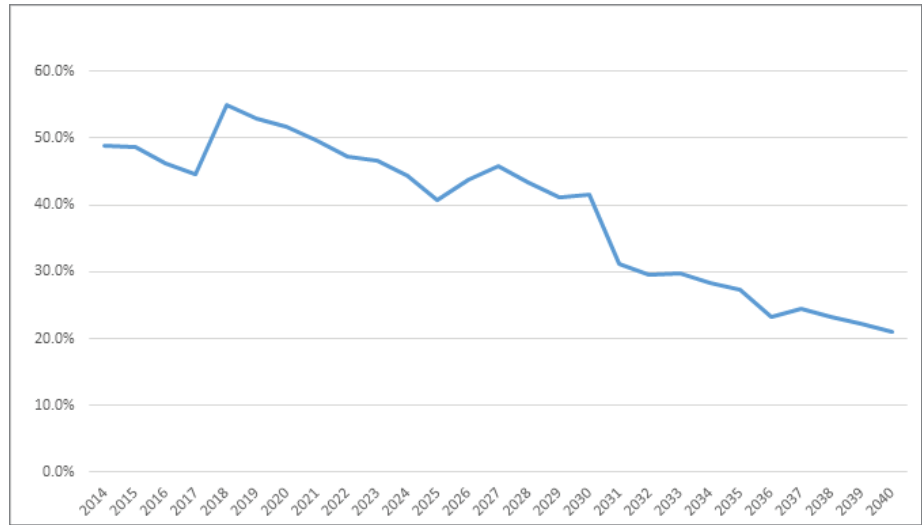
Although debt service as a percentage of sales tax will increase over the next few years, as shown below, the percentage declines rapidly thereafter.

UTA is unique in having a 30-year financial plan.

UTA regularly reviews its long-term financial forecasts and makes appropriate adjustments.



Percent of Debt Service to Sales Tax



In conjunction with the April 2014 subordinate bond refunding, the three rating agencies, Moody’s, S&P, and Fitch had the opportunity to closely analyze UTA’s financial outlook. Moody’s and Fitch confirmed their strong, stable ratings for UTA while S&P chose to upgrade its rating for UTA. These ratings and the strong demand to own UTA debt at low rates indicates that the financial community sees UTA as financially strong and well run.

UTA’s Board of Trustees is diligent in managing debt and recently established a new debt service reserve to retire outstanding debt early. This reserve receives an annual budget appropriation (\$1 million in 2014) as well as debt service savings from refinancing bonds. An April 2014 refinancing will contribute \$5.4 million to this early bond retirement reserve account over the next four years.

UTA Uses Financial Reserves to Stabilize Service and to Make Capital Improvements

As shown in the summary of the April 2014 TDP below, in seven of the next ten years net cash flows from operations are positive with steady increases after 2019. In addition, in the next ten years, net cash flow from operations will contribute approximately \$182 million toward capital projects.

Prudent financial planning includes maintaining financial flexibility using reasonable reserves. Ultimately, the purpose of reserves is to maintain steady levels of service through challenging financial times. UTA believes that its good governance and good management of public funds has allowed UTA to maintain or slightly increase service levels as revenues continue to recover from the Great Recession. The Board of Trustees has established multiple long-term reserves that total \$85.2 million in 2014, or almost 26% of the 2014 operating budget. These reserves will grow every year and reach over \$94 million in 2023.

UTA’s Board of Trustees is diligent in managing debt.

In the next ten years, net cash flow from operations will contribute approximately \$182 million toward capital projects.

The Board of Trustees has established multiple long-term reserves that total \$85.2 million in 2014, or almost 26% of the 2014 operating budget.



Operating and Capital Funding Overview Based on April 2014 TDP

Utah Transit Authority										
Operating and Capital Funding Overview										
Based on April 2014 TDP										
(thousands \$)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating Funding										
Operating Revenue	\$ 328,971	\$ 340,783	\$ 357,649	\$ 386,433	\$ 403,859	\$ 419,650	\$ 446,366	\$ 474,475	\$ 504,575	\$ 529,419
BAB interest subsidy	\$ 8,748	\$ 8,748	\$ 8,748	\$ 8,748	\$ 8,748	\$ 8,748	\$ 8,748	\$ 8,748	\$ 8,748	\$ 9,427
Less: Debt Service	\$ 104,749	\$ 112,060	\$ 116,682	\$ 121,798	\$ 158,888	\$ 163,784	\$ 170,407	\$ 173,891	\$ 174,743	\$ 182,660
Net Revenue Available for Operations	\$ 232,970	\$ 237,471	\$ 249,715	\$ 273,383	\$ 253,719	\$ 264,614	\$ 284,707	\$ 309,332	\$ 338,580	\$ 356,186
Less: Operating Expense	\$ 235,740	\$ 239,276	\$ 245,365	\$ 251,011	\$ 256,786	\$ 262,695	\$ 268,740	\$ 274,924	\$ 281,250	\$ 287,721
Net Cash Flow from Operations	\$ (2,770)	\$ (1,805)	\$ 4,350	\$ 22,372	\$ (3,067)	\$ 1,919	\$ 15,967	\$ 34,408	\$ 57,330	\$ 68,465
Provided to Capital Funding				\$ 12,500	\$ 12,000	\$ 8,000	\$ 15,000	\$ 36,000	\$ 36,000	\$ 63,000
Add: Beginning Balance	\$ 109,066	\$ 106,296	\$ 104,491	\$ 108,841	\$ 118,713	\$ 103,646	\$ 97,565	\$ 98,532	\$ 96,940	\$ 118,270
Ending Cash Balance	\$ 106,296	\$ 104,491	\$ 108,841	\$ 118,713	\$ 103,646	\$ 97,565	\$ 98,532	\$ 96,940	\$ 118,270	\$ 123,735
Capital Funding										
Capital Revenue Sources	\$ 42,179	\$ 104,538	\$ 120,867	\$ 33,421	\$ 62,231	\$ 60,443	\$ 57,621	\$ 38,064	\$ 22,519	\$ 33,887
Available from Operating Sources				\$ 12,500	\$ 12,000	\$ 8,000	\$ 15,000	\$ 36,000	\$ 36,000	\$ 63,000
Capital Spending	\$ 127,293	\$ 123,029	\$ 149,502	\$ 64,219	\$ 73,962	\$ 68,138	\$ 72,242	\$ 74,130	\$ 58,884	\$ 96,717
Net Cash Flow from Current Year Capital	\$ (85,114)	\$ (18,491)	\$ (28,635)	\$ (18,298)	\$ 269	\$ 305	\$ 379	\$ (66)	\$ (365)	\$ 170
Beginning Cash Balance	\$ 150,553	\$ 65,439	\$ 46,948	\$ 18,313	\$ 15	\$ 284	\$ 589	\$ 968	\$ 902	\$ 537
Ending Cash Balance	\$ 65,439	\$ 46,948	\$ 18,313	\$ 15	\$ 284	\$ 589	\$ 968	\$ 902	\$ 537	\$ 707
Total Cash										
Ending Cash Per TDP	\$ 171,735	\$ 151,439	\$ 127,154	\$ 118,728	\$ 103,930	\$ 98,154	\$ 99,500	\$ 97,842	\$ 118,807	\$ 124,442
Required Reserves	\$ 85,201	\$ 85,857	\$ 86,882	\$ 87,846	\$ 88,832	\$ 89,840	\$ 90,871	\$ 91,925	\$ 93,003	\$ 94,105
Ending Cash over Required Reserves	\$ 86,534	\$ 65,582	\$ 40,272	\$ 30,882	\$ 15,098	\$ 8,314	\$ 8,629	\$ 5,917	\$ 25,804	\$ 30,337



These reserves are accounted and allocated for the following purposes:

- Debt Service Reserve
- Debt Rate Service Stabilization
- Service Sustainability Reserve
- Working Capital Reserve
- Risk Reserve

Net cash flow from operations will be used to fully fund UTA's ten-year \$908 million capital program. As shown above, from 2014 through 2023, net cash flow from operations will provide \$182 million for capital projects. That cash flow along with anticipated revenues of \$575 million and \$150 million of beginning cash balances completely fund the ten-year capital program. However, before starting each capital project, UTA will ensure revenues will be sufficient to construct and operate the project.

UTA's anticipated ending cash in 2021 is projected to be approximately \$98 million (36% of operating expense) with approximately \$6 million of unrestricted reserves. However, it is also true that UTA has a strong track record of generating annual operating savings. In the last two years, actual operating expense has been 3% (about \$6 million each year) below the adopted operating budget. UTA expects to be under its operating budget in 2014 as well.

Innovative leadership and strong management produce these kinds of results. Examples include:

- Saving \$2.2 million through 2013 efficiency reviews (LEAN management)
- Minimizing operating and capital administrative overhead (some of the lowest in the country) and saving approximately \$300 million on the 2015 capital projects
- Maximizing service by maintaining the lowest cost per vehicle revenue mile for rail and one of the lowest for bus

UTA also has a strong record of coming in under budget on capital projects as shown by the \$300 million of construction savings achieved through diligent and effective project management.

Finally, it may be useful to compare Figure 4.4 in the 2014 Performance Audit report to Figure 2.9 in the 2012 Performance Audit report. Even with its more conservative projections in 2014, UTA's long-term forecast projects reserves will be higher than those reported in the 2012 Performance Audit.

UTA Is Developing an Industry-Leading State of Good Repair System

State of Good Repair is a serious problem with all public infrastructures: www.dot.gov/sites/dot.gov/files/docs/Transit_DOT_Reauth_FINAL_%202014.pdf shows a summary just for transit.

UTA has a strong track record of generating annual operating savings.

UTA also has a strong record of coming in under budget on capital projects.



The American Society of Civil Engineers estimates that the nation faces a \$2.2 trillion infrastructure backlog. (See www.governing.com/columns/potomac-chronicle/The-Looming-Infrastructure-Crisis.html.) UTA is taking a proactive role in addressing this issue by analyzing and incorporating state of good repair into our management practices.

The Federal Transit Administration recognized the need for transit agencies to address long-term state of good repair planning with their 2008 State of Good Repair initiative. Although “State of Good Repair” is still being defined, FTA recognized UTA’s planning ability and invited UTA to be involved in development and testing on FTA’s state of good repair software product TERM-Lite. Others at the national and international level recognize UTA’s planning abilities and have invited UTA staff to share their expertise at national and international state of good repair conferences and to share UTA’s expertise with individual highway and transit agencies.

Work continues on the state of good repair software. New qualitative factors being developed and added to the software include rate of wear, asset condition, and planned maintenance. As a result of these enhancements, UTA will be able to optimize maintenance and capital expenditures, minimize overall costs, and maximize results.

For example, the normal life of a parking lot pavement is 15 to 20 years. Timely pothole patching, crack sealing and slurry seals can double the life of the parking at half the replacement cost, in much less time, with minimal service disruption. Vehicle maintenance efforts can yield the same results. For instance, as a result of timely overhauls and refurbishments, Berlin’s transit agency is still operating subway vehicles that were originally constructed in the 1960’s.

For many years, UTA has used its 30-year financial plan to balance service levels, new projects and service, and maintaining UTA infrastructure in a state of good repair. The April 2014 long-term financial forecast devotes over \$2.0 billion of funding from 2014 to 2033 to maintain a state of good repair.

Cumulative Capital Budget for 2014 through 2033

	Amount
Revenue Service Vehicles	\$857,607,000
Facilities, Maintenance & Admin Equipment	101,035,000
Major Strategic Projects	216,778,000
Rail Maintenance Projects	139,063,000
State of Good Repair	813,994,000
Total Funding	\$2,027,442,000
Estimated Capital Program Required	\$2,904,790,000
Funded Percentage	70%

For the assets currently covered in the database and the funding sources applicable to those assets, UTA’s 2040 Financial Plan has programmed capital expenditures to cover 70% of the cost of age-based needs through

Others at the national and international level recognize UTA’s planning abilities.

UTA’s 2040 Financial Plan has programmed capital expenditures to cover most of the cost of age-based needs.



the year 2033. This estimated cost is solely based on an expected life model of asset replacement.

Even with these sizable allocations, two additional matters deserve mention:

1. The Federal government has indicated new federal funding may become available through a future State of Good Repair allocation.
2. The April long-term financial plan assumes almost all capital projects will be paid for with cash. As noted in the Performance Audit (Figure 4.5, page 55), preliminary state of good repair estimates indicate large funding needs of over \$300 million in 2026, 2029, 2031, and 2033. Large expenditures of these amounts indicate the purchase of assets with long lives will most likely be financed through issue of bonds rather than through cash. As state of good repair needs become better defined, UTA will be in a better position to begin planning the method of funding all future capital needs.

UTA concurs with the auditors' statement that "SGR costs need to be fully considered before new rail lines are constructed" and will use its long-term financial planning process to include total cost of ownership for all, not just rail, systems.

UTA Balanced Service Volume, Service Quality, and Rail Expansion through the Recession

In 2006, voters of Salt Lake County chose, through a public sales tax initiative, to increase their transit tax rate in order to accelerate the construction of five rail lines by 2015. UTA bonded to construct the rail system, completing six lines (including Sugar House Streetcar), two years earlier than 2015 and hundreds of millions of dollars under budget. After voters directed UTA to accelerate the rail construction program, UTA quickly began securing financing and contractors. When the Great Recession began in 2008, UTA already had financing in place and contractors progressing on the projects. Faced with the decision to cancel or delay one or more of the projects in response to the recession, the UTA Board of Trustees wisely chose to take advantage of favorable finance rates and construction costs to finish the rail system.

With the addition of additional TRAX lines, commuter rail, and a streetcar line, UTA reviewed and adjusted bus service to avoid duplication of service. Although bus service declined, total service miles have increased by almost 25% over the last two years (Performance Audit, Figure 4.7, page 57). UTA actually improved service quality during the period from 2008 to the present. For example, on-time reliability of the bus system improved from 80% to 92% between 2008 and 2014.

Total service miles have increased by almost 25% over the last two years.

On-time reliability of the bus system improved from 80% to 92% between 2008 and 2014.



Future Capital Projects Depend on New Funding Sources

This section of the audit report refers to future transit projects and initiatives contained in the two documents, “Utah’s Unified Transportation Plan, 2011-2040”; and “UTA Network Study.” As correctly discussed in the audit, the transit development program reflected in these documents does not have identified funding for projects that are not currently in place. It is important to note that the transit component of the Unified Transportation Plan, as it is commonly referred to, is just one of four elements of the plan. The other components are state roads (i.e. UDOT roads), local roads, and active transportation (i.e. walking and biking). And while it is true that the future transit projects shown in this plan are predicated on future funding, it is also true that ALL future transportation projects in that same plan would require additional funding. In fact, the Unified Plan assumes that transit along the Wasatch Front would be funded at an equivalent of a one cent sales tax (or 1%). But this same document also includes assumptions for funding sources for the state and local roads components, which generally includes an increase in the statewide fuel tax.

UTA is working very closely with UDOT, WFRC, MAG, and the other MPOs in Utah to update the Unified Transportation Plan for the 2015-2040 time frame. In general, future funding needs are split evenly between transit, state roads, and local roads (which generally include the active transportation components). All of our transportation partners are in the same situation and realize that very little, if any, opportunity exists for more transportation projects, including transit, unless new resources are identified. It is very important to emphasize that the funding needs contained in the Unified Transportation Plan are not just based on capital costs of projects, but also the associated ongoing operations and maintenance (O&M) costs that are necessary to actually run and keep the system in a state of good repair. This is consistent with UTA’s constrained financial plan, as discussed in other portions of this response document.

As noted in the Performance Audit, the UTA Network Study from 2013 went into more detail than the Unified Transportation Plan, and took a closer look at projects and initiatives that should be a priority for the agency in the near term. The audit seemed to focus on capital projects that were outlined in the Network Study, but one of the main outcomes of the study, which has resonated with UTA stakeholders ever since, was the development of a “core” network of bus service. This bus service, which would be frequent, fast, and unchanging, is one of the tenets of the transit development plan going forward. It would better link together with all the rail projects just completed, as well as connect with neighborhoods, and markets that need additional transit service. In fact, this “core” network of bus service which stemmed from the Network Study, was used as a template for the plan for increased bus services associated with HB388. UTA deeply understands that bus ridership is paramount to

UTA is working very closely with UDOT, WFRC, MAG, and the other MPOs.

UTA deeply understands that bus ridership is paramount to mobility along the Wasatch Front.



mobility along the Wasatch Front, and we stand ready to quickly deliver more service and connectivity once additional funds are made available.

UTA does not plan on construction of the projects contained in the Unified Plan or the Network Study, without additional future resources. As noted in the audit, the UTA 2020 Strategic Plan includes supporting full funding of the Unified Transportation Plan. While UTA does not, and is statutorily prohibited from advocating for tax increases, the UTA board, just like our partners at a local and regional level do support the underlying funding increases that will make additional projects and service initiatives possible. As mentioned previously, when UTA was approached by lawmakers earlier this year who were exploring ways to increase funding for transit in order to help improve air quality, UTA was ready with a plan to quickly add more service and to get more cars off the roads.

The agency has been very open, transparent, and receptive to new ideas with our transit planning process, both from the standpoint of the suite of projects and services that are contained in the plans that the audit references, as well as the myriad ways to pay for them. In fact, UTA is one of a number of partners engaged with the Transportation Coalition (through the Salt Lake Chamber) working with the Legislature's Transportation Interim Committee on transportation funding options.



Response to Chapter V: Passenger Data Collection and Customer Focus

UTA's Market-Based Fare Philosophy Reflects Industry Best Practices

As directed by the UTA Board of Trustees, UTA's fare policies and practices are designed to maximize ridership as well as farebox revenue. UTA continues to actively work to maximize overall system ridership and revenue return through effective route and service planning, as well as through the fare products and pass programs offered.

Seeking to achieve the goal of maximizing both ridership and revenue is a delicate balancing act. To that end, UTA has a very structured program for fares and pass products based on business-minded principles of offering consistent, equitable pricing and discounts while maintaining the flexibility to respond to changing and evolving rider segments and market opportunities.

UTA employs a market-based philosophy to setting fares and establishing pass programs. Market-based fare strategies are considered a best practice in the transit industry, as they offer a choice of fare products and pricing based on several conditions including product characteristics, customer eligibility, specific customer markets and market opportunities. Market-based pricing charges what the market will bear by providing a variety of fare products designed to appeal to the needs of different rider segments.

Market-based fare strategies are considered a best practice in the transit industry.

UTA Board of Trustees Oversees Fare Policy and Pricing

UTA's fares are directly overseen by the Board of Trustees. Executive Limitations Policy No. 2.4.2 – "Review of Rates and Charges for Services" requires the board to approve all public fares following a public comment and outreach period. According to this policy, UTA:

...shall not disregard the legislative mandate that rates and charges shall be reasonable...

...shall not fail to solicit and consider public comments in advance of a fare increase...

...shall not fail to deviate from the board's priorities to encourage ridership, to fulfill important community needs, to be fair to transit users and taxpayers, and to sufficiently offset operating expenses...

...shall not fail to present to the Finance & Operations Committee, and to the full board, recommendations regarding adjustments to rates and charges for service in advance of the proposed implementation date...

The fare policy is also guided by UTA Corporate Policy No. 3.2.2, "Policy Regarding Fare Structure, Discount Transit Pass Programs, Fare Collection." According to this policy, any recommended adjustments to the rate structure presented to the Board of Trustees must be designed to:



...encourage ridership; maximize revenue; fulfill important community needs; be fair to transit users and taxpayers with the district; and sufficiently offset operating expenses.

UTA's Fares and Pass Programs Reflect Structured and Consistent Pricing

UTA's public fares, promotions and pass programs all reflect market-based strategies, with pricing guided by the public fare policy and structure approved by the Board of Trustees.

UTA offers a variety of market-based fare products that differentiate among the price sensitivities of its riders, based upon affordability and the willingness of customers to pay more for higher service quality. Having the ability to set different rates for different customers is a standard practice in public transit.

Guided by the policy and structure approved by the Board of Trustees, UTA's fares and pass programs are equitable and consistent with respect to pricing and discounts. Fares and discount programs are reasonable and justifiable, consistent with market-based practices and other transit agencies, and in compliance with federal regulations and requirements.

Overview of Public Fares

UTA's public fare structure includes base cash fares with a variety of market-based fare products with pricing and products that differentiates among rider sensitivities, affordability, and service quality. Pricing is primarily driven by three factors - product, usage and eligibility - that provide a variety of discount opportunities for riders.

Product categories generally include regular and premium service. Supporting market-based principles, the base cash fare for each of these products categories is different due to the unique nature of the product offered to the customer. The base cash fare is intended for the single trip rider, not unlike common business practices where single use customers pay a higher rate and "regular" customers are rewarded.

Multiple discounts on the base cash fare are available to riders based on frequency of use and eligibility. Day Passes, Monthly Passes and Group Passes provide discounts as a reward for riders who are willing to pre-purchase multiple transit trips. In general, the price for a single ticket bought by an occasional rider is higher than the price for a pass bought by a more frequent rider.

Promotional offers are another market-based fare strategy commonly employed by UTA. Promotions represent temporary fares designed to support new product launches, specific rider markets and unique partnerships. As an example, we are currently featuring a 20% off introductory offer for the new FAREPAY card to drive awareness and adoption of this new product available to riders.

UTA's public fares and products, approved by the Board of Trustees, include base fares for regular and premium services with passes available

Guided by the policy and structure approved by the Board of Trustees, UTA's fares and pass programs are equitable and consistent with respect to pricing and discounts.

Multiple discounts on the base cash fare are available to riders based on frequency of use and eligibility.



to reward customers for more frequent usage. Reduced pricing on fares and products is available to a variety of eligible riders, with discounts at 25 percent and 50 percent, in addition to free fares. This fare structure and policy was approved by the Board in early 2011 following an extensive public hearing process.

Free Fares: Children five and under, Paratransit-eligible riders, homeless riders, Free Fare Zone

50% Discount: seniors, riders with disabilities, Medicaid, homeless service agencies

25% Discount: students, minors, low-income riders, Group Pass

Pre-Purchase Discount (% varies by usage): tokens, Day Pass, Monthly Passes

In accordance with the above pricing and discount levels embodied in the structure approved by the Board of Trustees, the following summarizes the fare products and discounts available:

Base Cash Fares: designed for occasional or single-trip use. Different fares for regular, premium and specialty services. Discounts available: Group Pass provides a minimum 25% discount; seniors, riders with disabilities, and valid Medicare card holders receive a 50% discount; children five and under, Paratransit-eligible riders, and those in the Free Fare Zone ride free.

Monthly Passes: discounted to reward frequent, regular use. Includes regular and premium monthly passes. Discounts available: students and minors receive a 25% discount; low-income riders receive a 25% discount with their Horizon card; seniors and disabled riders receive a 50% discount.

UTA's fare structure addresses equity by requiring the fare structure and fare collection system to comply with state and federal regulations, including but not limited to requirements under Title VI of the Civil Rights Act, the solicitation and review of public comments, and the FTA reduced fare requirements for senior citizens and persons with disabilities.

As federally mandated¹, UTA also offers a 50% discount to seniors and persons with disabilities. However, UTA goes above the federal requirement by providing the 50% discount to senior/disabled riders at all hours, instead of just during off-peak service hours, and by providing monthly passes at the same discount.

Overview of Pass Programs

In accordance with market-based pricing strategies, UTA also offers a variety of pass programs to eligible institutions, including private business organizations, government agencies and educational institutions. By design, these "bulk" pass products are designed to:

¹ Transit agencies that receive funds from the Federal Transit Administration (FTA) are required to offer half-fare discounts on fixed route cash fares to seniors and persons with disabilities during off-peak times.

Reduced pricing on fares and products is available to a variety of eligible riders, with discounts at 25 percent and 50 percent, in addition to free fares.

UTA goes above the federal requirement by providing the 50% discount to senior/disabled riders at all hours.



- Provide UTA with the flexibility to respond to market opportunities and unique partnerships
- Capture large ridership markets by leveraging the willingness of the partnering institution to invest in providing public transit passes for their employees and/or students
- By partnering with a third party, allowing UTA to access and attract new riders it would not be able to reach otherwise.

UTA’s pass programs represent guaranteed annual revenue to the organization, which is usually paid in advance, depending on the product. UTA also benefits because, unlike a manufacturer that must produce more goods as demand builds, the organization’s supply side is fixed. By accessing large employer and educational institutions with bulk pass products, UTA is able to provide the same service at the same operational costs while increasing ridership and revenue. This results in a lower operating cost per rider.

UTA’s pass programs are similar to those around the country as profiled in “Unlimited Access” by the University of California Transportation Center². This report states that:

“Transit agencies report that Unlimited Access increases ridership, fills empty seats, improves transit service, and reduces the operating cost per rider.”

To get the most value out of their transit investment, the institutions who contract with UTA on a pass product often heavily promote transit internally. Many distribute the transit pass free of charge, participate in a tax-reducing payroll deduction program, or provide subsidies to decrease the out-of-pocket cost to the rider. Sponsors may even adopt strategic policies that favor transit in the long run, such as pricing parking permits higher than a transit pass, integrating their transit pass with an employee or student ID card, and managing land use to facilitate transit, bicycle, and pedestrian access. All of these partner-driven actions add additional value to the pass program and help increase UTA ridership.

UTA’s pass programs are structured after the pricing and discount thresholds (25 percent and 50 percent) in the public fare structure approved by the Board of Trustees. In addition, with the exception of a small number of unique, multi-year contracts and pilot programs, UTA offers standard pricing to institutions for its pass products. The institution has the ability to further subsidize the pass to the level they deem prudent for their business or to the level of benefit they wish to provide to their employees. Although the price ultimately paid by the end user/participant may vary, the price UTA charges to the organizations is consistent.

More recently, UTA has developed pass programs that promote pay-per-use concepts – with increased discounts available for greater use – and “pass in every pocket” concepts that capture the largest ridership market potential by providing a transit pass to every eligible participant.

² <http://www.uctc.net/papers/525.pdf>

By accessing large employer and educational institutions with bulk pass products, UTA is able to provide the same service at the same operational costs while increasing ridership and revenue.

UTA’s pass programs are structured after the pricing and discount thresholds (25 percent and 50 percent) in the public fare structure approved by the Board of Trustees.

Although the price ultimately paid by the end user/participant may vary, the price UTA charges to the organizations is consistent.



Annual Employer Pass Programs. Bulk pass programs designed for organizations that purchase annual passes for their employees. Requires minimum of 35 employees. The business can subsidize the passes at different levels – so employees from different businesses may pay different amounts – but the programs are structured as follows:

Eco Pass. Unlimited pass (regular or premium) for a fixed annual price. Employers are required to purchase passes for 100% of eligible employees. Pricing is determined by the employer’s location/service level:

2014 Cost Per Person Per Year

UTA Service Level	Regular Eco Pass	Premium Eco Pass
A-Rail	\$286.00	\$377.00
A	\$286.00	\$377.00
B	\$223.00	\$291.00
C	\$135.00	\$180.00
D	\$64.00	\$86.00

Eco Trip Rewards. Unlimited pass (regular or premium) and the employer is billed for actual trips taken. Discounts of 5-25% are available, based on annual boardings. The 5% discount achieved with 10,000 annual boardings; the maximum 25% discount achieved with 2 million annual boardings.

Co-op. Businesses can purchase monthly passes for a 20% discount, then the organization subsidizes it at least another 30%. Employees can then purchase monthly passes from the employer at a minimum 50% discount.

Student Consignment. 30-day or Semester Passes for students, faculty and staff sold only through participating schools. A 25% discount is provided to the institution. Schools can subsidize any amount reducing the student’s out-of-pocket cost.

Homeless Service Providers. Qualified social service can purchase UTA tokens, Day Passes and Regular Monthly Passes at a 50% discount, which they usually provide free of charge to their homeless clients.

Ed Pass. Unlimited annual pass for a fixed annual price. Individually negotiated pricing for large, multi-year contracts. Requires 100% participation with passes provided to every eligible rider. Pricing includes annual increases based on enrollment/participation and transit usage.

The Ed Pass program is a legacy program originally implemented decades ago. Most educational institutions have transitioned to other programs; the Ed Pass now represents just a few of UTA’s largest contract partners, such as the University of Utah. This program meets the unique needs and circumstances of very large partners that represent tens of thousands of participating riders.



As an example, the University of Utah program is a ten-year contract. With 44,000 transit passes provided to all students, faculty and staff, the University of Utah represents approximately 8 percent of UTA’s annual ridership.

As stated in a document highlighting educational institutions and the University of Utah in particular³:

The University of Utah

“Today more than 10,000 people, or nearly one third of the campus population, use transit to commute to campus. The partnership between the University of Utah and UTA is largely responsible for this success.”

Source: “A Transit Success Story: The University of Utah & Utah Transit Authority Form a Partnership to Serve Campus & Community” (April 2006).

In addition to the university programs, in 2013-14 the State of Utah transitioned from a standard Eco Pass program - with dozens of individual state departments - to a consolidated agreement at introductory rate for one year. The consolidated program provides passes to all 19,000 state employees in UTA’s service area. Similar to other negotiated programs, it aims to expand access to transit and increase ridership while maintaining UTA’s fare revenue. As the Performance Audit highlights, ridership among state employees has doubled in just the first few months of the first year.

The Average Fare per Boarding Reflects a Market-Based Fare Structure

In the 2011 on-board rider survey, approximately half of riders said they paid a fare with a contract-based pass program such as an Eco Pass or a school-issued pass. About half of riders reported paying with a standard fare product, such as cash or paper monthly passes.

The following figure shows that about one- third of fare revenue was received from contract-based pass programs and approximately two-thirds from publicly available fare products. As described previously, UTA’s fare structure provides discounted bulk pass programs to eligible institutions, which explains the different ratios.

The Performance also includes an analysis of the “average fare per boarding” for public pay riders (defined as those who pay fares through publicly available means) in comparison with the average fare per boarding for pass program riders (defined as those who have some kind of discounted pass through membership in a participating organization).

By design, public pay riders inherently pay more than those riders on a discounted pass program. This is inherent to a market-based pricing

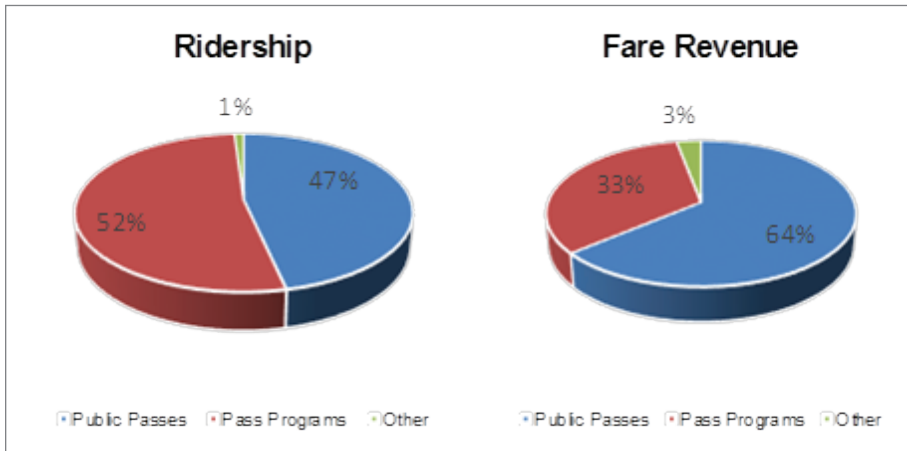
³ UTA / University Transportation Partnership, January 2012

As the Performance Audit highlights, ridership among state employees has doubled in just the first few months of the first year.



structure that prices individual purchases at a higher rate, provides discounts for frequent use and other eligible customer markets, and offers discounted programs for bulk purchases.

Comparison of 2011 Ridership Data and 2013 Fare Data⁴



However, the average fare per boarding analysis contained in the Performance Audit is incomplete because it excluded the Free Fare Zone. The Free Fare Zone is a publicly available fare, as defined in the Performance Audit, and is not limited only to those riders on a discounted pass program.

With respect to the intended scope of this analysis, UTA believes a complete and equitable analysis should include the Free Fare Zone and accurately account for the ridership attributed to those who paid \$0, in addition to the boardings attributed to those who paid a regular or other discounted public fare.

Additionally, the average fare per boarding estimate is only one piece of the puzzle. While this number is useful for budgeting, UTA does not rely on it for fare strategy, because the average fare per boarding is not the same thing as cost per trip.

With a few minor exceptions, the base cash fare provides passengers with an unlimited amount of rides in a two-hour period. This does not reflect the actual cost of a single boarding or a complete trip. UTA believes that the market-based fare structure with a base price of \$2.50 with frequent use passes and discounts ranging from 25% to free is more relevant to strategy and to most fare-paying riders.

The Performance Audit points out variances in the average fare collected by mode and corresponding subsidy levels. Instead, in accordance with common practice in the transit industry, UTA recommends tracking system-wide average fare because its service strategy emphasizes a system approach to travel. Bus and rail work together as complementing, not competing services. Moreover, the fare policy and structure is focused on achieving system-wide revenue and ridership goals. UTA operates a multi-modal, unified system with an integrated fare system so

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The average fare per boarding is not the same thing as cost per trip.

UTA recommends tracking system-wide average fare because its service strategy emphasizes a system approach to travel.

⁴ Figure 5.2 "Other" category is the State Department of Public Health Medicaid Bus Punch Pass Program



its riders have the convenience of traveling seamlessly across modes with a single fare payment.

UTA Transitioning Riders to Electronic Fare Payment

UTA has invested in its Electronic Fare Collection (EFC) system over the past several years, and has been strategically and systematically transitioning its riders to electronic fare media. As previously reported, most of UTA's bulk pass products have converted to EFC, represented approximately half of all riders. UTA continues to actively develop additional fare media products to replace cash and paper passes, in an effort to transition more riders to electronic fare payment.

In October 2013, to accelerate migration to electronic fares, UTA launched FAREPAY, a re-loadable electronic fare card. The organization also introduced "reduced fare" FAREPAY cards for seniors and persons with disabilities, and is currently offering a discounted promotional fare with FAREPAY. Future phases are in development and may include leveraging the value-based FAREPAY card charges according to ridership patterns, considering factors such as how far a rider travels, weekday or weekend trips, and time of day.

A quick review of peer agencies by CH2M HILL⁵ showed the following electronic fare market penetration rates:

- Los Angeles (LACMTA): 50%, electronic fare products include pass products, rail and BRT single ride fares, UPass, Employer Pass program
- Seattle (King County Metro): 62%, electronic fare products include monthly pass, UPass, Employer Pass program
- Seattle (Sound Transit): 69%, electronic fare products include transfer privileges, monthly pass, UPass, Employer Pass program
- Boston (still distributes cards for free): 70%, electronic fare products include fare differentials, transfer privileges, pass products, UPass, Employer Pass Program
- Chicago (CTA): 90%, electronic fare products include fare differentials, transfer privileges, pass products, UPass, Transit Benefits

The agencies with higher penetration rates have distributed cards copiously and for free (at least during a transition period), provide a discount on fares paid from stored value (relative to cash fares), and limit transfer privileges to EFC that have reached higher penetration rates. Other agencies (Seattle) attribute initial penetration rates to migrating robust employer programs to electronic fare as a first step.

UTA's current market penetration rate of approximately 50% is on par for a system that until last year has mostly relied on converting student and employer program fare payment to electronic cards.

5 Cyndy Pollan, CH2M HILL, July 7, 2014

UTA continues to actively develop additional fare media products to replace cash and paper passes, in an effort to transition more riders to electronic fare payment.



Electronic Fare Collection Promising; Provides New and Improved Data

With the implementation of EFC, UTA took another step toward its commitment to improve the way it collects, analyzes, and reports data. In 2012, UTA had a business need to transform its various data sources into a comprehensive information portal that could provide timely and accurate reports to leadership for decision making purposes. Additionally, EFC data has been extremely helpful to evaluate the usage and effectiveness of bulk pass programs.

As a result of this business need and in order to improve EFC data reporting systems, UTA committed funding in 2013 and 2014 to procure some of these tools. As part of this data initiative and to provide incremental improvements, UTA is currently working on procuring and deploying tools for EFC data reporting analysis.

The Performance Audit makes mention of issues with UTA’s data infrastructure, specifically electronic fare collection (EFC) and a lack of customer-focused metrics. The EFC system is providing robust data which, combined with other data collection systems like automatic passenger counters, allow UTA far greater analysis of ridership and operational factors.

UTA agrees this data set is limited because about only half of its ridership uses EFC and noncompliance to tap on/tap off rules further reduce reliability. In the future months, UTA will be moving additional groups of riders onto the EFC system and additional marketing and enforcement efforts will help with compliance. UTA recognizes EFC data as the most detailed, complete record of system ridership and will continue to enhance fare offerings which support EFC system use.

Additional Metrics Can Help UTA’s Board Realize its Customer Focus

The EFC system is primarily a fare collection system. UTA has other data collections systems in place such as automatic passenger counters. Over time EFC can evolve to be a data collection system, but inconsistencies in use by transit riders, such as passenger tap-on/tap-off rates, do not allow its use at this time. Through continued education and enforcement, UTA aims to achieve more accurate results and increased capability in using EFC as a data tool.

At present, EFC provides very insightful information along with the other data collection systems. At current levels, the data collected from EFC represents a more than adequate sample size. Statistically, only a small percentage of riders would need to be surveyed - fewer than 400 - to provide a valid sample. The data provided by the EFC system is more than adequate for transportation planning purposes. While UTA is continually working to improve data quality in EFC and other areas, it employs a rich variety of data sources and customer-focused metrics

The EFC system is providing robust data which, combined with other data collection systems like automatic passenger counters, allow UTA far greater analysis of ridership and operational factors.



to guide decision making, increase ridership, and improve the riding experience for all of its customers.

The success of a data gathering program comes from the use of many tools. To this end, UTA has worked diligently over the last several years to ensure that data quality is consistent across the organization. Recent data quality initiatives include the development of a web-based tool that a) unifies multiple data sources pertaining to operations performance, and b) provides quick, concise reporting for a variety of job responsibilities. Current plans include an enterprise-level data warehouse to unify all databases within the organization. UTA is justifiably recognized as an industry leader for these efforts.

The following screen shot is from the UTA performance management system. For the last several years UTA has been implementing an enterprise wide performance management system. UTA monitors safety, ridership, expense, revenue, efficiency, etc. This system allows UTA analysts and planners to monitor the performance of individual routes and business units.

UTA places a high value on process control. Recently the UTA was certified for ISO 9001 (Quality), ISO 14001 (Environmental), and SMS 18001 (Safety)—making it the only transit organization UTA is aware of that has achieved this level of certification. In addition, UTA recently began adopting principles from the Shingo Model of operational excellence and Lean Management. Using Lean tools and principles, UTA operations was able to save over \$2.2 million in 2013 from waste reduction and increased operational efficiency. These funds were used to maintain and increase service.

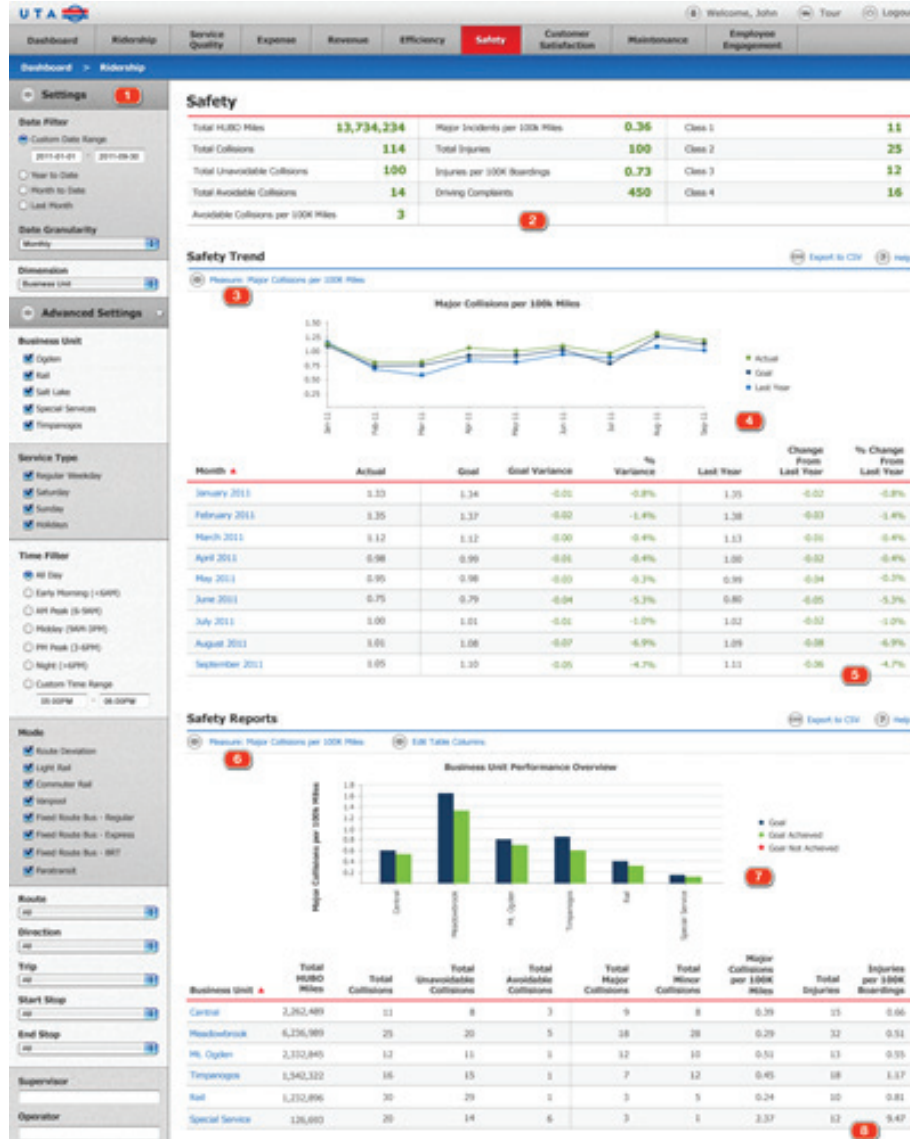
Internal measurements of operational performance are developed around the customer experience and fall into the areas of efficiency, effectiveness, service quality, and safety. These metrics are reported on a regular basis throughout operations and to other departments throughout the company.

UTA has used on-time performance data gathered from GPS units on board each bus to improve route schedules for better customer experience. Using frequency distributions based on trip and segment travel times for under performing routes, UTA planners and operations supervisors were able to increase on-time performance at bus stops from 61% in 2007 to almost 92% in 2014. UTA representatives will report on the results of this initiative at the American Public Transportation Association Multi-modal Operations Planning Workshop in August 2014.

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Performance Management System Screen Shot



UTA Pro-Actively Gathers Customer Feedback

UTA receives and tracks customer feedback in a number of ways via the customer service call center, website, social media, phone, email, and during formal public hearing processes. Per policy, comments are routed through the organization’s Customer Comment System (CCM), which is managed by the customer service department, to ensure comments are appropriately logged, addressed, and tracked.

As an example, the comment form on the website goes to customer service for entry into the CCM and distribution to the appropriate department/business unit. On social media, UTA staff responds to simple questions but if a customer is commenting about something more in depth, they are sent a link to UTA’s website comment form or provided with the customer service phone number so their concern can be recorded and addressed.

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All comments are entered into the CCM, logged, and sent to the appropriate department or division for investigation, response to the customer, and closure in the system. To ensure a timely response, UTA Corporate Policy 5.1.1 – Customer Communications and SOP 5.1.1 – Customer Communication Process establishes guidelines and timelines for both routing comments to the appropriate division and for responding to and resolving customer comments.

UTA has also established standards, per ISO, for answering calls to customer service. In the call center, the standard for answering calls is to answer 80% of calls within 20 seconds. In Customer Concerns, the standard for answering calls is to answer 70% of calls within 40 seconds. These standards are reported monthly, but are tracked continually so the organization can plan for staffing and scheduling.

The CCM provides excellent capacity and flexibility in producing reports about customer comments. Reports about customer comments can be generated in a variety of formats. Each department/business unit receives a monthly report of the top fifteen comments in their area. These reports can be requested or viewed by additional parties at any time.

Customer-Focused Metrics Regularly Provided to the Board of Trustees

UTA staff is required to make reports to the Board of Trustees regarding customer feedback on a regular basis. Most notably, a compliance report on customer and public feedback is required annually, per Ends Policy 1.2.2, EL Policy 2.1.3, EL Policy 2.5.1 and Board Process Policy 4.1.1). The compliance report typically includes information regarding an annual benchmark survey conducted with riders and the public, as well as a summary of customer comments from the CCM. Monthly reports on social media activities are also reported to the Stakeholder Relations Committee each month.

In addition, UTA is required to hold public hearings for fare changes and for service changes according to Board of Trustees policies 2.4.2 – Review of Rates and Charges and 2.1.4 – Changes to Level of Service. The organization is also required to hold public hearings as part of the federal environmental process for new projects and planning studies, and is required to have a public comment period and hearing on the tentative budget as part of the annual budget process. Except for the comment period on the budget which happens annually, the frequency of public hearings varies depending on proposals for fare changes, service changes, etc.

Reports regarding these public comment periods are made to the Board of Trustees. After the comment period in question, a report is provided to the board's Finance & Operations Committee, along with any adjustments to the proposed service or fare changes. The board is required to approve all fare changes, so a report is also given in board meeting for approval after going through the Finance & Operations Committee.

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UTA Uses Nationally-Recognized Customer Feedback Metrics

UTA employs the Net Promoter Score (NPS) to understand the level of customer satisfaction with its services. “Net Promoter Score” is a customer loyalty metric developed by (and a registered trademark of) Fred Reichheld, Bain & Company and Satmetrix. It was introduced by Reichheld in his 2003 *Harvard Business Review* article “One Number You Need to Grow.” NPS can be as low as -100 (everybody is a detractor) or as high as +100 (everybody is a promoter). An NPS that is positive (i.e., higher than zero) is felt to be good, and an NPS of +50 is excellent. Net Promoter Score (NPS) measures the loyalty that exists between a provider and a consumer.

Customers are asked how likely they are to recommend a UTA service to a family member or friend on a scale from 0 (low) to 10 (high). Scores classified as promoters (9-10), neutrals (7-8), and detractors (0-6). The percentage of promoters minus the percentage of detractors equals the net promoter score (P-D = NPS).

UTA began net promoter score research in 2008. The latest research was conducted in the fall of 2013. Over 3,400 randomly selected customers participated in this research. These customers gave UTA services positive net promoter scores. FrontRunner commuter rail service received a 59 net promoter score, TRAX light rail a 40, and fixed route bus service a 24.

In the fall of 2013, UTA also included an expanded customer satisfaction component to the NPS survey. Designed to complement the NPS scoring, the survey gauged the customer experience and satisfaction regarding several service quality characteristics, including on-time reliability, frequency, travel time, and cost-effectiveness. By capturing customer input as to what future service improvements they value highest, the improved survey tool can help determine service design and delivery improvements that could best increase the NPS and thereby increase customer satisfaction and ridership.

The NPS and Customer Satisfaction survey results are reported to the Board of Trustees, mostly recently in April 2014. As a certified ISO 9001 company committed to continual improvement, UTA is implementing strategies to improve service as indicated through this customer satisfaction research.

UTA Staff Will Provide the UTA Board of Trustees with Regular and Consistent Transit Market-Share Information

Understanding its modal market share has been and always will be a critically important element of transit planning at UTA. The Performance Audit refers to the WFRC 2012 market share analysis, which was a comprehensive home-based survey done statewide to gather and understand people’s travel patterns and mode choices. UTA was a very



involved partner in that process and has already been in discussions with WFRC and UDOT regarding follow-up surveys that will help it better understand its markets along the Wasatch Front.

The Performance Audit goes into detail regarding overall transit market share of trips as well as for specific travel markets, such as to downtown Salt Lake City and the University of Utah. It is important to note that the increase in transit market share from 1993 to 2012 can and should be depicted in another dimension. The Performance Audit states that the transit trips went from 0.7 percent to 1.8 percent or a 1.1 percent increase in those 19 years. In absolute numbers, the 1.1 percent increase is true, but when examined from the perspective of a *relative increase*, the percent increase is much higher; in fact it is a 157% increase. This is a compelling number considering that in 2012 there were an average of seven million trips taken each day along the Wasatch Front, and it is a very large difference when looking at a 0.7 percent or a 1.8 percent of that number (i.e. it is the difference between 49,000 daily linked trips carried by transit and 126,000 trips carried by transit).

In addition to using the data from the WFRC home-based survey, UTA analyzes market share with several other tools, and constantly evaluates the effectiveness of its transit service with its partners. One of the destination markets highlighted in the Performance Audit is the University of Utah. While the WFRC data indicates that the percent of transit trips during peak periods to the University is 20.8 percent, surveys conducted by the University of Utah Commuter Services Division indicate that this percentage is even higher; currently trending towards 35%. This has allowed the University to re-purpose parking lots into usable building space for classrooms and research facilities. In fact, the University has indicated that it has a goal of a 50% market share for transit; when combined with walking and biking trips to campus this will mean that a majority of students, faculty, and staff will not be driving to this major destination. Considering that just 20 years ago transit was carrying approximately 5% of trips to campus, this is a substantive evolution that underscores UTA's focus on markets and the best ways to serve them.

One important subset of travel to the University of Utah is special event service. During the fall of 2013, UTA and the University reached an agreement that allowed fans to use their game ticket as transit fare. During the Utes' first home football game on August 29, based on actual automated passenger counts on buses and TRAX trains, 20% of the sold-out crowd of 45,000 fans took transit to the Rice-Eccles Stadium, saving 7,500 car trips to the campus that evening.

Another tool that UTA uses to analyze market share is known as the Regional Travel Demand Forecasting Model. This tool - which like the home-based survey is owned and operated by WFRC - gives historical and future perspectives on how best to meet travel demand using any mode up and down the Wasatch Front. UTA has used this forecasting model extensively to analyze the Downtown Salt Lake City travel market, which is the largest overall trip generator in the state of Utah. This



provides another example where the organization’s focus has helped reduce congestion and provide transportation alternatives that make a meaningful difference. UDOT and UTA are continually examining the best ways to meet travel demand to extend the overall capacity of shared corridors like I-15 and the Legacy Parkway. In January, 2013 UTA completed a study called “UTA’s FrontLines 2015 Program: Measures of Success.” This study, which was presented and discussed at a UTA Board of Trustees Planning and Development Committee meeting, showed that in specific markets like Sandy and West Jordan to downtown Salt Lake, transit is now carrying upwards of 37% of all work trips. This equates to the number of cars that can be carried by three lanes of traffic on I-15 during the morning and afternoon rush hours.

UTA staff will continue to analyze and develop strategic partnerships with key market organizations and institutions that carry UTA customers. In addition to service development planning, fare pricing strategies and pass programs have been key to establishing healthy transit market share goals for the organization. While transit market share percentage is significantly impacted by external factors not controlled by UTA, such as level of roadway congestion, fuel prices, parking costs, and the general state of the economy, the organization will continue to work closely with the board to set goals and track these important market share components in order to understand and improve the role of transit along the Wasatch Front.

One market that UTA is addressing is Hill Air Force Base. When combining government employees and contractors, Hill represents the largest single employer in the entire state. In April 2014, UTA began providing regular bus service to both the South Gate and West Gate entrances, connecting with FrontRunner at the Clearfield station. While still in the ramp-up process, both UTA and Hill Air Force are optimistic that this service will be a robust success. UTA is working with Hill officials to develop reasonable as well as “stretch” goals for market share of trips carried to the base by transit.

UTA also tracks and uses data from the National Transit Database (NTD). Currently, the Federal Transit Administration (FTA) requires ridership information be submitted monthly NTD using their Monthly Ridership Activity Form. Recipients or beneficiaries of grants from the FTA under the Urbanized Area Formula Program (§5307) or Other than Urbanized Area (Rural) Formula Program (§5311) are required by statute to submit data to the NTD. Over 660 transit providers in urbanized areas currently report to the NTD through the Internet-based reporting system. Each year, NTD performance data are used to apportion over \$5 billion of FTA funds to transit agencies in urbanized areas (UZAs). Annual NTD reports are submitted to Congress summarizing transit service and safety data. The methodology used by UTA to calculate ridership meets FTA and NTD requirements and is considered the industry standard.

Additionally, UTA works closely with the local metropolitan planning organizations (MPOs), WFRC and MAG, to update the regional travel demand model. The model is calibrated to represent 2005



travel conditions and patterns (and will be updated to 2012 shortly). Calibration is performed at all levels of the model and the model is calculated when various model generated outputs such as road volumes, trip lengths, mode shares and transit ridership are reasonable and closely represent reality.