



May 6, 2010

Mr. Ken Levine
Interim Director
Sunset Advisory Commission
P.O. Box 13066
Austin, Texas 78711

Dear Mr. Levine:

Thank you for your diligent review of Capital Metro and the opportunity to respond to the Sunset Staff Report. The review is a welcome opportunity for independent evaluation of the Authority and a resource we will use to improve our organization.

The Capital Metro Board of Directors and staff agree with the Sunset Staff Report recommendations. Moving forward, we will evaluate each recommendation with the appropriate Capital Metro board committees and staff to determine the next steps.

Our agency has been working since January on a number of issues identified as areas for improvement that are reflected in the Staff Report's recommendations. We believe the recommendations are consistent with our efforts. Progress has already been made in several key areas such as implementing new procedures to budget and manage reserves effectively, and developing a Railroad Bridge Plan to prioritize replacement, repair and maintenance of our bridges.

Capital Metro is committed to implementing a comprehensive and thorough process for transforming the Authority into a more respected, effective and efficient transit provider. We believe the recommendations are a foundation for significant structural change that will strengthen our organization for years to come.

Capital Metro's responses to the specific recommendations in the Sunset Staff Report are attached. Please contact us if we can be of assistance.

Sincerely,

Mayor Pro Tem Mike Martinez
Board Chair

Doug Allen
Interim President and CEO

cc: Capital Metro Board of Directors

Attachment

Issue 1 Finances

Recommendations for Change in Statute

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

Capital Metro agrees that a Board-approved reserve policy is needed. Since January 2010, the Finance & Audit Committee of the Board has deliberated on an appropriate reserve policy which defines the types and uses of reserve funds. Based upon an assessment of Capital Metro's financial condition and risks, a review of best practices, and consultation with local and state budgeting experts, a reserve policy that includes at least a 60-day operating reserve has been developed. The policy is currently being vetted by the Audit & Finance Committee for advancement to the full board. Capital Metro concurs with this recommendation.

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

Capital Metro concurs with this recommendation.

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

Current law requires Capital Metro to balance its budget and it has consistently done so. We concur that better and more detailed budget planning would be an important improvement. The Board will continue to adopt an annual balanced budget that includes both operating and capital spending. Beginning in FY2011 the annual budget will include more detailed information regarding proposed capital spending.

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

Capital Metro agrees that the Board should adopt a five-year Capital Improvement Plan (CIP). The need for a Board-approved CIP was recommended earlier this year in an internal audit of Capital Metro's capital planning and management practices. As a result, development of a five-year CIP has been initiated and it will be presented to the Board of Directors for their approval as part of the FY2011 annual budgeting cycle.

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

Capital Metro concurs with this recommendation. We feel that it is better suited as a management recommendation, not as a statutory requirement.

Recommendations for Management Action

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

Capital Metro agrees that there are opportunities for the agency to reduce costs and increase revenues. The Board of Directors and management must judiciously deliberate the *specific* cost-saving and revenue-generating recommendations suggested by Sunset Staff as there are trade-offs involved with each recommendation. Other means to improve the Authority's financial

position will also be considered, as appropriate, as part of the FY2011 and future years' budgeting cycles.

Issue 2 ***Capital Metro's In-house Transit Services***

Recommendation for Change in Statute

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

Capital Metro agrees that the current organizational structure between Capital Metro and StarTran is confusing and should be addressed. Conversations about how to best resolve this issue have occurred for many years and the Board will consider different options and structures for providing transit-related services. There are significant legal and financial matters that must be fully evaluated in order to ensure that the proposed recommendation will not introduce additional challenges and risks.

Recommendation for Management Action

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

Capital Metro currently contracts out approximately 40% of transit services. The competitive process used to procure these services is based on best practices. Modifications could be made to the process to procure additional service currently provided by StarTran. Capital Metro will continue to evaluate all transit services in order to deliver cost effective service.

Issue 3 ***Commuter Rail***

Recommendations for Change in Statute

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

The Federal Railroad Administration (FRA) is the regulatory agency with exclusive jurisdiction and oversight of all Capital Metro rail operations. The FRA works closely with the Texas Department of Transportation (TxDOT) in fulfilling these responsibilities. Prior to opening the Red Line, a rail safety plan was submitted to, and accepted by, the FRA. Capital Metro is committed to the ongoing safe operations of the commuter and freight rail lines and will report on the safety of the system to the Capital Metro Board of Directors on a quarterly basis. We believe that this recommendation is better suited as a management recommendation since the FRA is the designated regulatory agency with exclusive jurisdiction and oversight.

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

A proposed job description for a Vice President of Rail Operations was developed in January 2010 and provided to the Sunset Staff during their review. The Vice President of Rail Operations, an executive-level position, would be responsible for overseeing the management of all contracted services related to passenger and freight rail operations. The VP of Engineering and Construction would be responsible for coordinating with the VP of Rail Operations on all *development* activities related to the rail corridor. We believe that recommendations pertaining to organizational staffing are more appropriately classified as a management recommendation.

Recommendations for Management Action

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

Rail safety is a top priority and focus for Capital Metro and, as such, our agency has already begun to prioritize needed replacement, repair, and maintenance of our railroad bridges. Prior to opening the Red Line, all bridges in the commuter rail corridor passed rigorous safety inspections by the FRA. The Sunset Report's findings were based upon a 2007 consultant's report. Since that report was issued (and prior to starting commuter rail service) Capital Metro made all necessary repairs on the three highest priority bridges. Currently, there are no bridges within the 32-mile corridor that need immediate replacement. Moving forward, Capital Metro, along with its rail contractor, will finalize priorities for additional bridge maintenance, rehabilitation, and replacement.

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

Capital Metro agrees that additional measures were needed to ensure accountability. In March 2009, the agency instituted a new requirement for a customized Contract Monitoring Plan for *all* new contracts, including rail projects.

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

In October 2009, our agency publicly enumerated the "Lessons Learned" on the Red Line project and we identified many of the same deficiencies noted in the Sunset Report. Since then, Capital Metro has brought on consultants to work with agency staff on issues that may require more experience than is available in-house and consolidated responsibility and accountability for all construction and engineering within a single department. The MetroRapid bus rapid transit project is also a good example of a current project that is being implemented with the Red Line lessons learned in mind. For this project, Capital Metro has been more prudent about establishing timelines and budgets, and regular updates are communicated at board meetings and through the web. Capital Metro concurs with this recommendation.

Issue 4 ***Engaging Stakeholders***

Recommendation for Change in Statute

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

Capital Metro agrees that a Board policy to guide and encourage more meaningful public involvement would be beneficial. The Staff Report acknowledged that "Capital Metro makes extensive efforts to gather public input, including holding neighborhood meetings, using passenger surveys, and reviewing customer complaints." It is also noted that the new Board of Directors no longer uses a consent agenda in order to increase transparency. While Capital Metro has an existing ambitious outreach program, which includes the development of public involvement plans for every major project, we will identify additional ways to enhance the agency's decision-making processes.

Recommendations for Management Action

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

Since February 2010, a draft agenda and related backup materials are provided ten days in advance of all regularly scheduled Board meetings. Greater efforts are also underway at the executive management level to ensure that written agenda backup provided to the board is clear and sufficiently developed. In addition, an enhanced board committee structure that focuses on labor, financial, and operational issues has been implemented in order to delve into greater detail on critical issues. Capital Metro staff will also continue to use one-on-one briefings with individual board members in order to ensure that each member has the opportunity to fully consider and ask questions on significant matters for which they will be required to vote. Capital Metro concurs with this recommendation.

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

Capital Metro is committed to an active, meaningful, and participatory advisory committee feedback process for key agency decisions and as such, will develop the recommended policy. Currently, advisory committee chairs do have a standing board meeting agenda item to update and provide input to the Board of Directors on any agency matters and decisions. In January of this year, the Chairman of the Board also requested that advisory committee chairs begin providing committee reports at least one week in advance of board meetings so that committee information could be considered sufficiently in advance.

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

Capital Metro concurs with this recommendation. The Board of Directors regularly discusses how to best solicit input on paratransit issues and is currently considering changes to improve input opportunities. For example, the Chairman has requested that all committee chairs (including the chair of the committee that deals with paratransit issues) submit their monthly reports one week in advance of scheduled Board meetings so that issues raised can be considered in advance. The Board of Directors and staff are also currently evaluating advisory committee structure options to best facilitate citizen input on MetroAccess issues, as well as for all other Capital Metro services. Given the significance of paratransit issues for the agency, we will continue to assess the efficacy of our outreach efforts and explore other mechanisms to garner valuable and constructive public input.