

DALLAS AREA RAPID TRANSIT AUTHORITY

July 1990

Table of Contents

	<u>PAGE</u>
Summary	1
Overview of Transit in Texas	3
Background	
Creation and Powers	7
Policy-making Body	9
Funding and Organization	10
Programs and Functions	12
Results of Review	
Overall Approach to Review	17
Recommendations	
<u>Policy-making Body</u>	
Issue 1 - Require specific grounds for the removal of board members	19
Issue 2 - Require policy separating board and staff functions	23
<u>Overall Administration</u>	
Issue 3 - Require development of a full-time internal audit program	25
Issue 4 - Require DART to publish and distribute an annual report	29
Issue 5 - Require more detailed financial statements	33

Table of Contents

	<u>PAGE</u>
Results of Review (cont.)	Issue 6 - Require DART to compare and report on its top administrative salaries 37
	Issue 7 - Authorize DART to provide retirement plans to its employees 41
	Issue 8 - Require DART to report on its retirement plans to the State Pension Review Board 43
<hr/>	
Minor Statutory Modifications	47
<hr/>	
Appendix	Exhibit 1 - DART: Selected Performance Indicators 49
	Exhibit 2 - Operating Statistics for All 15 Transit Systems used in DART's Salary Survey 50
	Exhibit 3 - Operating Statistics for the Seven Similar-size Transit Systems used in DART's Salary Survey 51
	Exhibit 4 - Average Salary Difference Between All Transit Systems used in DART's Salary Survey and Those of Similar Size to DART 52
	Exhibit 5 - Comparison of Top Administrative Salaries at DART and at All 15 Transit Systems used in DART's Salary Survey 53
	Exhibit 6 - Comparison of Top Administrative Salaries at DART and at Seven Similar-size Transit Systems used in DART's Salary Survey 54

SUMMARY

Summary

The Dallas Area Rapid Transit Authority (DART) is one of four Texas transit authorities that has been placed under the Sunset Act. The application of the sunset review process to these transit authorities is limited in that there is no automatic termination if legislation continuing the agency is not enacted. For that reason, the review did not include an assessment of the need to continue the agency or of other organizational alternatives for carrying out DART's functions.

The review of DART resulted in recommendations to improve the operation of the board and to strengthen the accountability of DART to various oversight bodies. These recommendations are summarized below:

- Grounds and procedures for the removal of board members should be added to the agency's statute.
- The board should be required to develop policies to clearly separate board and staff functions.
- DART should be required to develop a full-time internal audit program.
- The agency should be required to publish and distribute an annual report on its operations.
- The agency should be required to include more detailed information in its financial statements.
- DART should be required to annually compare and report on its top administrative salaries.
- DART should be authorized to provide retirement plans and should be required to report on all its retirement plans to the State Pension Review Board.

OVERVIEW OF TRANSIT IN TEXAS

Overview of Transit in Texas

Most Texas transit systems began as privately owned and operated enterprises with little or no governmental involvement. Privately owned transit companies existed in Texas for more than 100 years, beginning with horse-drawn railcars in the 1860's, changing to electric streetcars in the early 1900's, and evolving to the use of buses in the 1920's.

In the 1940's, after World War II, the demand for public transit began to decline as the use of private automobiles increased and people and jobs shifted out to the suburbs. Private transit companies could not afford to serve larger areas with fewer riders. As local governments began to subsidize or purchase transit systems, public transit became regarded as a basic element of public service in many cities. By the 1970's, most of the transit systems in Texas were publicly owned and operated by local governments.

City and regional traffic patterns began to change as the suburbs swelled with new homes and jobs and as private autos became prevalent on roads and freeways. Traffic congestion became a serious regional, rather than centralized, problem. At the same time, local funding for transit improvements was limited since the transit systems competed with other city services for tax dollars. Transit system development was further hindered by the fact that transit services were usually limited to city boundaries, while the problems of traffic congestion were regional in nature and involved suburban areas as well as central cities.

State policymakers began searching for ways to alleviate local and regional transit problems in the late 1960's. In 1969, the legislature established the Texas Mass Transportation Commission to encourage the development of mass transit in urban areas and to develop a master plan for public transportation in Texas. In 1975, the commission was merged with the State Department of Highways, now the State Department of Highways and Public Transportation (SDHPT). The SDHPT has distributed more than \$68 million in state funds to local metropolitan and rural transit systems to help them obtain federal assistance. As a result, more than \$418 million in matching federal dollars has been generated for state transit purposes. For fiscal years 1990-91, the legislature appropriated \$9.6 million in state funds for public transportation, with \$8.8 million designated for matching federal funds.

The SDHPT is also involved in funding transit projects that are developed in conjunction with the highway system. These projects include planning and constructing park and ride lots, constructing special freeway lanes for high occupancy vehicles, and reserving right-of-way for future high occupancy vehicle lanes. In addition, the SDHPT provides matching funds to local governments and transit authorities for development of principal arterial street systems (PASS) that are connected to or serve freeways and expressways in urban areas. The SDHPT allocates \$37 million a year to the PASS program, which will expire in 1992.

Exhibit A

Metropolitan Transit Authorities In Texas
Calendar Year 1989*

Transit Authority (Date Est.) 1980 Pop.	Total Operating, Farebox and Sales Tax Revenues	Sales Tax Rate	Sales Tax Revenues	Total Operating, Capital and Other Expenses	Total Operating Expenses	Total Number of Buses in Use	Total Number of Passenger Trips	Percent of Operating Expenses Covered by Fares	Operating Costs per Passenger Subsidized by Taxes
Houston (1978) 1,595,000	\$276,331,742	1%	\$193,627,514	\$227,127,088	\$140,695,714	1,076	78,910,296	27.52%	\$0.73
Dallas (1983) 904,000	\$240,541,032	1%	\$183,451,032	\$146,655,000	\$113,276,000	895	43,535,000	23.25%	\$1.29
San Antonio (1978) 786,000	\$54,134,930	1%**	\$32,994,771	\$77,514,505	\$49,365,136	575	40,808,127	20.47%	\$0.69
Fort Worth (1983) 385,000	\$20,493,776	$\frac{1}{2}\%$	\$15,811,883	\$15,107,474	\$13,054,582	129	5,076,997	19.38%	\$1.65
Austin (1985) 345,000	\$47,398,931***	$\frac{3}{4}\%$	\$38,887,225	\$59,644,709	\$37,476,709	235	15,125,870	6.93%	\$1.93
Corpus Christi (1985) 232,000	\$10,484,173	$\frac{1}{2}\%$	\$9,460,020	\$10,589,815	\$9,039,208	66	3,281,046	8.78%	\$2.44

*Information supplied by the State Department of Highways and Public Transportation except for sales tax revenues, which were supplied by the state comptroller's office.

** Half of San Antonio's transit sales tax is dedicated to the development of a new stadium complex. Revenue figures included in this chart for San Antonio reflect only the transit system's portion of the tax.

*** The Austin transit authority did not collect fares during the last quarter of 1989.

State laws have also been passed to help local governments establish and fund transit systems that are regional in scope. In 1973, the legislature authorized local governments to develop metropolitan transit authorities (Article 1118x, V.T.C.S.). The law enables voters in major metropolitan areas to approve the establishment of a separate governmental agency to provide mass transit services throughout the region. Under the law, an urban city, the surrounding county, and any adjacent suburban cities or counties may work together with voter approval to address their transit needs on a regional basis.

Article 1118x was amended in 1977 to authorize, with local voter approval, a sales tax of up to one percent to fund these authorities. The sales tax is imposed in each of the transit authority's member cities and must be used by the authority for transit-related expenditures. The first metropolitan transit authority in Texas was approved by San Antonio voters in March 1978, with a second authority approved by Houston voters in August 1978. In 1985, voters in Austin and Corpus Christi also approved the establishment of a metropolitan transit authority in their regions under Article 1118x.

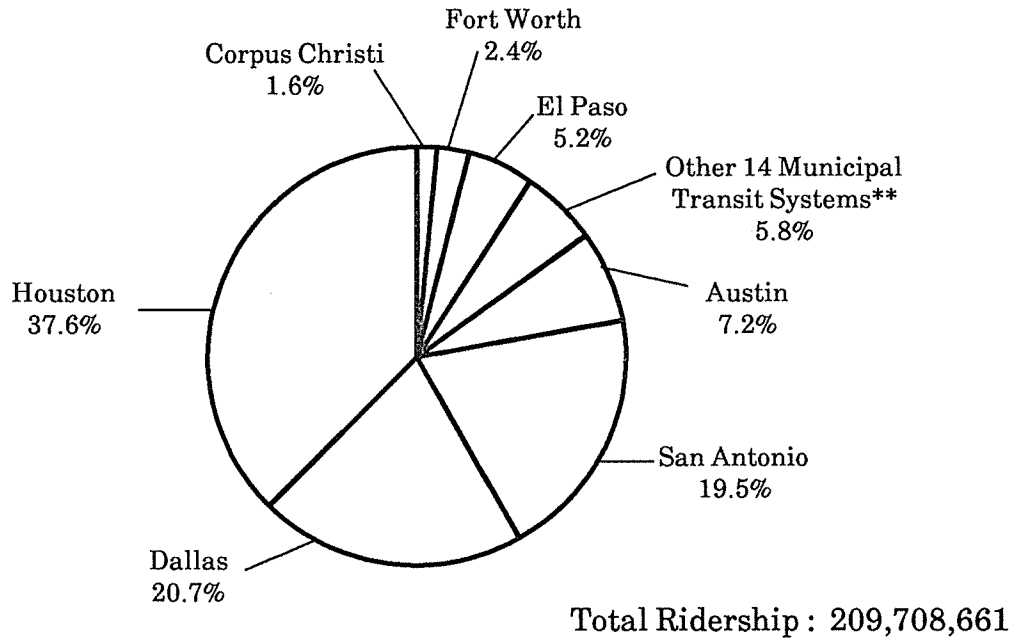
In 1979, the legislature passed a similar law that dealt with the unique geographical configuration of the Dallas/Fort Worth area (Article 1118y, V.T.C.S.). The two statutes are similar in most areas, with one major structural difference. Article 1118y allows Dallas and Fort Worth to either establish a joint regional transit authority or to separately set up regional transit authorities. Voters in both cities turned down a proposal to set up one transit system for the two regions in 1980. In 1983, proposals for separate transit authorities in Fort Worth and in Dallas were approved by the voters in each region.

In 1987, the legislature passed a law to help secure financing for smaller city-owned transit operations. The law allows voters in cities with a public transit system and a population of 56,000 or more to approve a local sales tax of up to one-half of one percent to fund the transit system (Article 1118z, V.T.C.S.). City transit departments must operate only within city limits, under the authority of the city council. They do not become a separate regional authority like the other transit authorities, instead remaining a division of city government. As of June 1990, El Paso is the only city that collects the city transit sales tax, with a rate of one-half of one percent. Twelve other municipal transit systems in Texas are eligible to impose the city transit tax if approved by local voters and if their local tax rates have not reached the maximum of two percent allowed by state law. These cities are Abilene, Amarillo, Beaumont, Brownsville, Galveston, Laredo, Lubbock, Port Arthur, San Angelo, Tyler, Waco and Wichita Falls.

The six metropolitan and regional transit authorities in Texas vary in their size and levels of service. Exhibit A provides an overall picture of the range that exists between these authorities. For example, total revenues for these systems ranged from \$10 million to \$276 million, while total expenses ranged from \$10 million to \$227 million. Sales tax revenues for all of the authorities in 1989 was \$492.5 million, with individual transit system tax revenues ranging from \$9.4 million to \$193.6 million.

The six transit authorities represent, by far, the majority of transit ridership in the state. In 1989, these transit systems carried 186 million passengers, which was 89 percent of the state's total transit ridership. Statewide transit ridership has increased by 42 percent since 1979. Exhibit B provides a breakdown of the state's transit ridership by system.

Exhibit B
Texas Transit Authority Ridership by System*
Calendar Year 1989



*Information supplied by the State Department of Highways and Public Transportation.

** Includes systems in Bryan-College Station and Sherman-Denison that do not meet the minimum population requirements for the city transit tax.

BACKGROUND

Creation and Powers

The process for establishing a transit authority in the Dallas area began in 1980, when voters in Fort Worth and Dallas were asked to approve a joint transit system plan for the two regions. However, the plan was rejected by voters in both cities, and in September 1981, an interim public transportation authority was established to develop a transit plan for the Dallas regional area alone. Within a month, 21 cities and Dallas County had joined the interim authority.

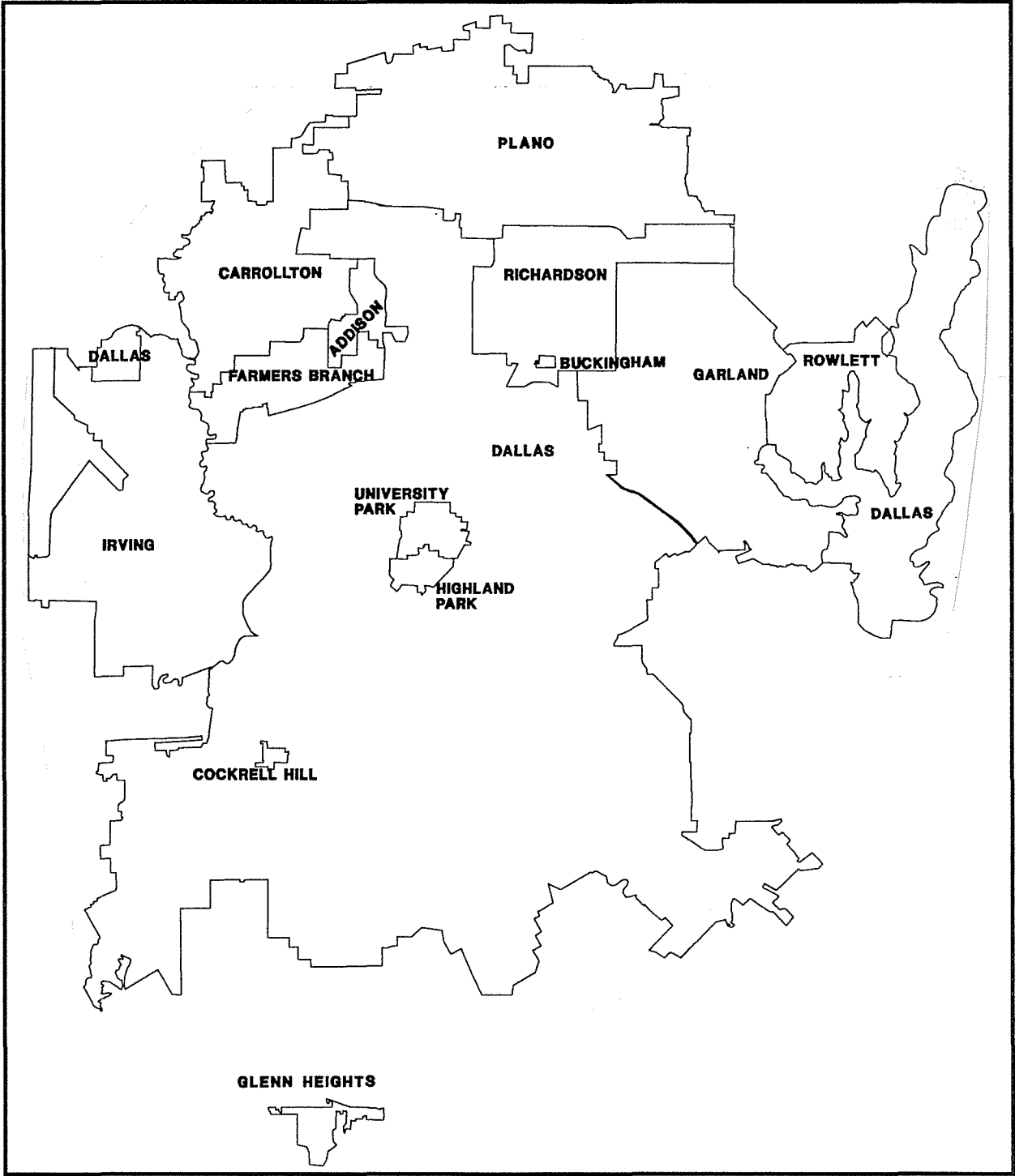
In 1983, the interim authority's new transit service plan and a one-cent transit sales tax were approved by voters in 14 of the 21 cities. Voters in seven cities and in the unincorporated areas of Dallas County rejected the plan. As a result of the election, the Dallas Area Rapid Transit (DART) Authority was created and began operations on January 1, 1984. Since that time, two more cities (Cockrell Hill and Buckingham) have elected to join DART and two member cities (Flower Mound and Coppell) have chosen to withdraw from DART, leaving the transit authority with 14 member cities and a total service area of 750 square miles. Exhibit C shows a map of the transit region.

The service plan that was approved by voters in 1983 contained several specific goals, such as improving existing regional bus services, constructing 23 miles of high-occupancy vehicle (HOV) lanes and eight miles of contraflow lanes on major highways, and constructing 147 miles of a light rail transit system, which was scheduled to begin carrying riders by 1995. In 1984, DART took over bus operations from the city of Dallas by contracting with the city to provide bus services within the city limits. Within a year, DART had improved Dallas' previous bus services by reducing bus fares, adding buses to the fleet, and expanding local, suburban and express bus routes. In 1986, DART began contracting with taxicab companies to provide service to mobility-impaired riders, and in 1987, DART purchased all assets of the Dallas-owned bus system.

In 1987, because of a statewide downturn in the economy, DART's sales tax revenues dropped significantly. In an effort to cut its operating costs, DART restructured bus services and increased bus fares. As sales tax revenues continued to fall, DART reduced the light rail transit system plan to 93 miles of rail and determined that long-term bond financing would be necessary to pay for the rail system. Since DART's statute requires the authority to gain voter approval before issuing bonds that will not mature within five years, voters were asked to approve a long-term bond financing plan. However, in 1988 voters in all of DART's member cities turned down the plan. The election results forced DART to reevaluate its overall purpose and its financial future.

In 1989, in an effort to recapture public confidence, the DART board approved a new transit system plan based on "pay-as-you-go" financing. The new plan relies on current sources of revenues, such as sales tax receipts, for financing instead of long-term bonds. In addition, the board further reduced the originally proposed rail mileage, which lowered the costs of the light rail transit system. DART's current transit system plan is estimated to cost \$2.5 billion (in 1990 dollars) and will include 66 miles of light rail transit, 37 miles of HOV lanes, and 18 miles of commuter rail service.

Exhibit C
DART Transit Service Area*
Fiscal Year 1990



*Map of service area provided by the Dallas Area Rapid Transit Authority.

DART's governing statute provides the transit authority with a variety of powers, including the right to acquire, construct and maintain a public transportation system and general transportation services within its boundaries; the right to make rules and regulations that govern the agency's operations; the ability to set fares that, when added to other revenues, will meet (but not exceed) the agency's financial obligations; the limited right of eminent domain, subject to approval by the affected city or county; the ability to contract with nonmember cities to provide transit services; and the authority to establish a transit system security force. DART is also authorized to raise funds to enhance the transportation system by issuing short-term bonds and notes that mature within five years and are secured by a pledge of sales taxes. The statute also allows voters in member cities to elect to withdraw from the transit authority. To make major changes in the service plan, DART must hold public hearings on the proposed changes and the board must approve the changes by a two-thirds vote.

Policy-making Body

DART is governed by a 25-member board that sets policy and provides guidance to the agency. One member is appointed by the Dallas County Commissioners Court and the remaining 24 members are appointed by the authority's 14 member cities, based on the population ratio of each city to the total transit system. The Dallas City Council appoints 14 board members. The remaining 13 city councils appoint 10 board members, with several smaller cities being represented by a single board member. Exhibit D shows each city's population and allotment of board members.

Exhibit D

**DART Member Cities' Population and
Number of Board Members
Fiscal Year 1990**

Member Cities	Population	Number of DART Board Members
Dallas	970,700	14
Garland	181,650	2 1/2
Irving	161,850	2
Plano	128,550	1 1/2
Carrollton	78,000	1
Richardson	75,750	1
Farmers Branch	24,100	1/2
University Park	21,700	1/6
Rowlett	21,000	1/6
Addison	8,850	1/2
Highland Park	8,800	1/6
Glenn Heights	4,100	1/6
Cockrell Hill	2,700	1/6
Buckingham	117	1/6

All board members serve at the pleasure of the governing bodies they represent. The statute allows board members to serve an unlimited number of two-year terms. Board members must be registered voters living within the transit service area. Officers are elected by the board each year and may be removed from office by the board for any reason. Board meetings are held once every two weeks, with 65 percent of the board (17 members) constituting a quorum. Board members receive \$50 compensation for each board meeting and may be reimbursed for reasonable expenses related to their duties.

The board has established a committee structure to streamline its activities. There are currently eight standing committees with an average of eight board members on each committee. The board chairman makes committee assignments and names committee chairs. In addition, the board chairman may establish ad hoc committees as needed. Most of the committees are scheduled to meet once or twice each month, but can meet more often.

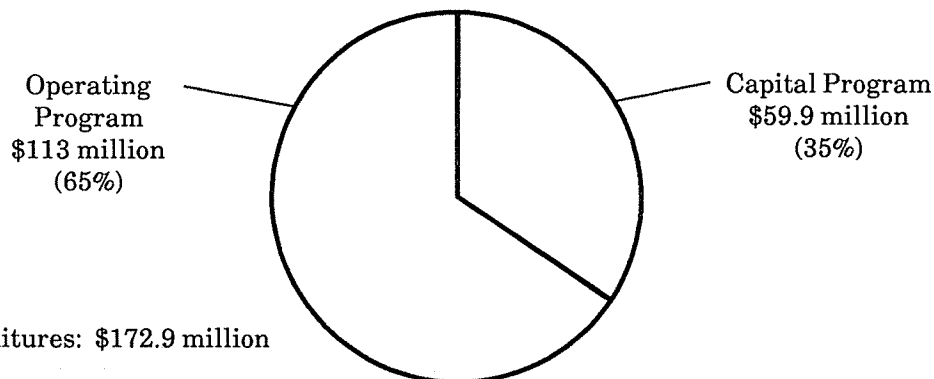
The board's statutory powers include approval of the agency's annual budget; appointment of the general manager, the agency's legal counsel and contract auditors; control over investment of the agency's funds; establishment of an accounting system; designation of banks for agency deposits; and establishment of board bylaws. The board may also revise the transit service plan approved by the voters, but a major change to the service plan requires a public hearing and a two-thirds vote of all board members. Major changes to the service plan include fare changes, new transit routes, significant increases or decreases in route service, and changes in the location of the fixed guideway system. The board has made a number of major and minor changes in the service plan and will continue to do so as plans for the light rail system are finalized and construction begins.

Funding and Organization

In fiscal year 1989, DART spent \$172.9 million and placed an additional \$71.5 million into a cash account for future expenditures. Most of DART's expenditures are in support of operations or capital purchases. Exhibit E provides a breakdown of DART's total expenditures in fiscal year 1989.

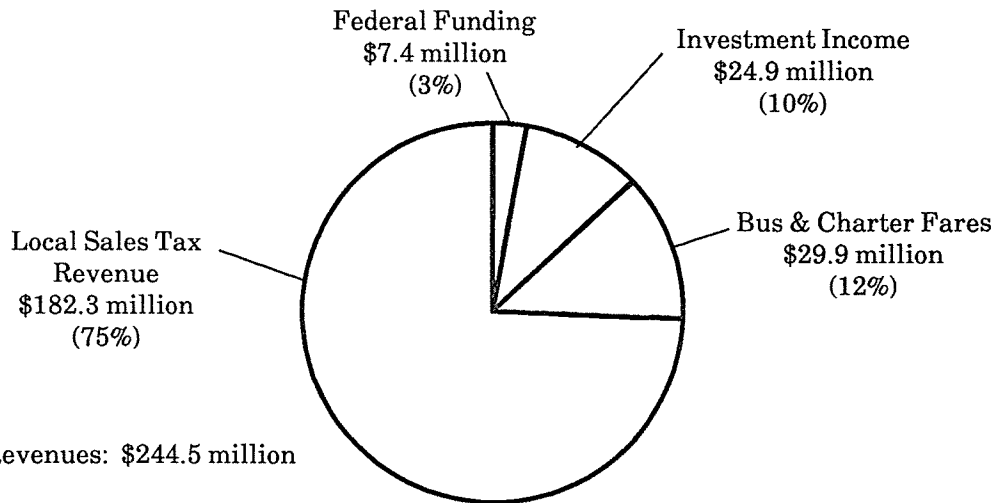
Exhibit E

Expenditures by Program Fiscal Year 1989



DART received \$244.4 million in revenues during fiscal year 1989. The bulk of DART's income is derived from a one-percent local sales tax that is collected in each of the authority's member cities. Fares are a relatively small source of income for DART, as is federal funding. DART did not receive any state funding in fiscal year 1989. Exhibit F provides a detailed breakdown of DART's revenues.

Exhibit F
Revenues by Source
Fiscal Year 1989



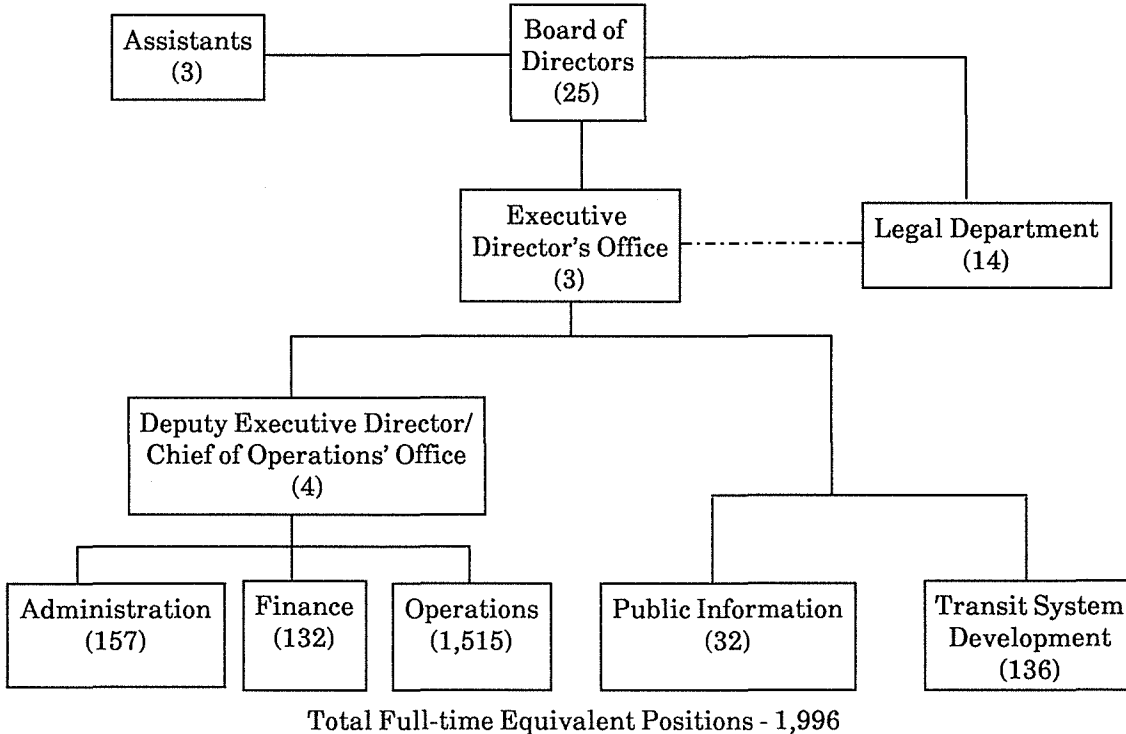
DART has a cash balance each year that contains unexpended revenues. The revenues are committed to on-going and future expenditures for operating items and construction and operation of the light rail transit system. Exhibit G shows the beginning balances, net sources and uses of cash, and ending balances of the cash account since it was established in 1984.

Exhibit G
DART's Cash Balances
Fiscal Years 1984-1989

	1984	1985	1986	1987	1988	1989
Beginning Cash Balance	\$97,000	\$31,514,000	\$109,905,000	\$239,460,000	\$281,916,000	\$260,589,000
Net Sources/ Uses of Cash	\$31,417,000	\$78,391,000	\$129,555,000	\$42,456,000	-\$21,327,000	\$71,591,000
Ending Cash Balance	\$31,514,000	\$109,905,000	\$239,460,000	\$281,916,000	\$260,589,000	\$332,180,000

DART has nearly 2,000 employees who work in the agency's nine divisions. Exhibit H provides a breakdown of employees by each division. DART staff operates out of eight facilities in its service area, including two downtown administrative offices, two customer assistance centers, and four bus operating and maintenance facilities located throughout the transit service area.

Exhibit H
DART Organization Chart
Fiscal Year 1990



Programs and Functions

DART provides a variety of transit services to meet the needs of riders within the service area. These services are carried out through DART's operating and capital programs, which in turn are backed by DART's administrative services.

Operating Program

DART's transit services to member cities include regular and express bus services, specialized van and taxi services for the mobility impaired, van services in low-ridership areas, charter service, and transit service for special events such as festivals and concerts. DART owns 768 buses, 11 percent of which are equipped with wheelchair lifts, and 130 vans, all of which are lift-equipped. Another 30 percent of DART's buses will be lift-equipped by 1992. DART had more than 46 million riders in fiscal year 1989. Exhibit I shows the total ridership per year since 1984, when DART first came into existence.

Exhibit I
DART Ridership by Program
Fiscal Years 1984-1989

Program	1984	1985	1986	1987	1988	1989
Regular Bus	42,581,564	45,958,149	48,360,628	41,123,659	38,682,000	37,744,000
Express Bus	N/A	1,880,382	2,520,965	2,477,243	2,268,000	2,338,000
Suburban Bus	N/A	20,022	1,744,588	2,385,365	2,325,000	2,505,000
DARTAbout	N/A	N/A	N/A	N/A	N/A	131,000
HandiRides	216,821	319,600	505,200	536,396	609,000	761,000
Charter/Flyer	2,240,672	1,767,520	2,242,156	1,809,552	2,332,000	2,581,000
TOTAL	45,039,057	49,945,673	55,373,537	48,332,215	46,216,000	46,060,000

DART has a zoned fare system, which means that the service area has been divided into four zones. Regular bus fares range between 75 cents and \$2.25 one way, depending on how many zones the rider has to cross. DART also offers a flat one-way fare of 15 cents to senior citizens and 35 cents to students and mobility-impaired riders who use the regular bus service. Effective October 1990, the zones will be eliminated, allowing riders to travel from one end of the service area to the other for one flat fare. At the same time, DART plans to adjust the fares for most of its transit services.

Regular Bus Service

DART provides bus service on 80 fixed routes within the service area. DART hires and trains the drivers who operate these routes. A total of 653 buses are assigned to the regular routes, and 13 percent of these buses are equipped with wheelchair lifts. The hours of operation for regular bus service is between 5 a.m. and 2 a.m., depending on the route. A total of 37.7 million riders used this service in fiscal year 1989.

DART also has three special high-frequency downtown routes that operate between 6:30 a.m. and 6:30 p.m. Monday through Friday. These routes, which circulate through the downtown area only, are considered a part of DART's regular bus service. The fare for this service is 35 cents one way.

Express Bus Service

DART contracts with a local company to provide express bus service from suburban areas to major urban areas between 5 a.m. and 9 p.m. Monday through Friday. DART currently has nine express routes and leases 118 buses from the contractor to provide service on these routes. None of the buses are lift-equipped. Fares for the express service range from \$1.50 to \$2.25 one way. More than 2.3 million passengers rode the express bus service in fiscal year 1989.

Suburban Local Bus Service

DART contracts for bus service within the suburban areas of the transit region in addition to the regular bus service that runs between downtown and the suburbs. The contractor uses 94 DART-owned buses on these routes. DART provides service on 30 suburban routes that directly link various suburbs, eliminating the need for passengers to go to major urban areas in order to transfer buses. The suburban local service allows DART to cut down on trip times and the inconvenience caused to riders by multiple transfers. Fares are 75 cents each way and the hours of operation are from 6 a.m. to 9:30 p.m. About 2.5 million riders used this service in fiscal year 1989.

DARTAbout Van Service

In January 1989, DART introduced a new program for low ridership areas. The program, called DARTAbout, was established to cut down on operations costs in low-ridership areas while still providing transit services. DARTAbout uses 45 12-passenger vans, all owned by DART and lift-equipped, to serve four areas -- Irving, Garland-Rowlett, Plano-Richardson-Buckingham, and Addison-Carrollton-Farmers Branch. All DARTAbout trips must begin and end in the same service area. DART provides two kinds of DARTAbout service in each of the four service areas. Demand-response service is available to passengers who call and request a ride to a specific destination, while flexible route service allows the van driver to accommodate passengers by varying somewhat from his fixed route. Both services had a combined total of 131,000 passengers from January through the end of fiscal year 1989. The fare for both types of service is 75 cents one way.

The demand-responsive DARTAbout service delivers passengers directly to a destination within the service area or to the nearest bus route or transit center, depending on where riders wish to go. Riders who wish to use DARTAbout's demand-responsive service must call 24 hours in advance to schedule a ride. The service is provided between 5:30 a.m. and 9 p.m.

The flexible route service involves using a van in place of a bus on fixed routes with low ridership. The vans generally operate during off-peak hours although a few routes provide flexible service continuously. With flexible service, the DARTAbout van drivers may deviate slightly from the regular service route to deliver passengers to specific, nearby activity centers, such as schools, shopping malls, large employers and community centers.

HandiRides Van and Taxi Service for the Mobility Impaired

In addition to its lift-equipped buses and vans, DART provides demand-responsive transit services to mobility-impaired riders who are located within DART's boundaries. The agency uses two types of vehicles -- taxicabs and vans -- to transport mobility-impaired passengers. To provide this service, DART contracts with four taxicab companies and one van contractor who uses 85 DART-owned vans. Taxi and van drivers are hired and trained by the contractors.

To register with the HandiRides program, applicants must have certain medical or physical disabilities that result in the person being unable to use the regular bus system. A licensed doctor must sign a medical certificate provided by DART before an applicant can be approved for the service. Once qualified, riders can either arrange for a ride at least 24 hours in advance or maintain a standing reservation.

Under the current system riders may call the service provider of their choice, but DART is in the process of installing a centralized dispatching system that will allow DART to increase the number of pooled trips and provide more control over the program.

Mobility-impaired riders pay a one-way fare of \$1 for pooled van or taxi rides to travel anywhere in the service area. If the rider requests single occupancy in a taxi, the fare is \$2. Taxi contractors are paid a flat rate of up to \$9 per trip by DART, depending on their contract, and the van contractor is paid an hourly rate of \$14.53. Rides are provided between 6 a.m. and 11 p.m. on weekdays and between 8 a.m. and 11 p.m. on weekends. In fiscal year 1989, 761,000 patrons used the van and taxicab services.

Charter and Flyer Services for Special Events

DART has established a charter program for local groups, visiting convention groups and others who need mass transportation on a charter basis. In fiscal year 1989, DART provided service to more than 2.5 million riders on its chartered buses. However, recent federal regulation prohibits public transit systems from bidding against local private charter companies for charter contracts. As a result, DART's charter service ridership and revenues are expected to shrink in the future.

DART also provides bus services, which DART refers to as "flyer services," to special events, such as concerts, festivals and sports events. Buses arrange to pick up riders from park and ride lots and other points, then transport them directly to and from the event. About 29,000 people used the bus flyer services in fiscal year 1989.

Rideshare

In October 1988, DART began providing a regional Rideshare program to match potential carpool riders who live and work in the same areas. More than 7,000 potential ridesharers are currently registered with the program.

Capital Program

DART's capital program can be divided into two primary functions. The first supports DART's current bus and van operations and includes expenditures for items such as bus shelters, maintenance parts, new vehicles, and other equipment and supplies. The second supports the planning and construction of DART's overall transit system plan and includes expenditures for land and right-of-way purchases, HOV lane and rail construction, and new equipment such as light rail and commuter rail trains. The completed transit system is estimated to cost \$2.5 billion (in 1990 dollars).

In fiscal year 1989 DART spent \$59.9 million on capital expenditures. Capital expenditures in support of bus operations totaled \$49.6 million, including financing and debt repayment costs, bus capital expenditures, and current assets. Capital expenditures for rail development totaled \$10.3 million, including fixed guideway development, land and right-of-way purchases, and a local assistance funding program. DART has budgeted \$56.2 million, or 42 percent of the total 1990 capital projects budget, for the initial 20-mile starter rail line. Construction on the line is scheduled to begin in the fall of 1990, with passenger service beginning in 1996.

In addition to light rail transit, DART is also constructing an 18-mile commuter rail system on existing tracks between Fort Worth and Dallas. The commuter rail will eventually connect the central business districts of Fort Worth and Dallas, with a connecting line to the Dallas-Fort Worth Airport. The rail is scheduled to begin operating in 1992 and is expected to cost a total of \$36.9 million (in 1990 dollars). Service to the airport is scheduled to begin in 1996.

DART is providing local assistance funding for public transit projects to the 11 member cities that won't receive rail service within the next seven years. The Capital Assistance Program (CAP) provides these cities with capital funding to construct public transportation improvement projects. The amount of funding available for each city is based on the city's annual local sales tax contributions to DART. The projects must be related directly to public transit and must benefit mobility, improve mass transit service and reduce bus interference with traffic. DART provides another local assistance funding program, called the Technical Assistance Program (TAP), which is available to all of DART's member cities and to Dallas County. Under TAP, the cities are provided with funds and support from DART staff to plan and develop projects that will improve local public transportation. These projects must meet the same criteria that have been established for CAP projects. DART spent \$3.4 million on these programs in fiscal year 1989 and has pledged \$17.3 million for 1990.

Administration

DART has a number of administrative functions that support the operating and capital programs. In fiscal year 1989, DART had 368 staff members, or 18 percent of its total employees, in administrative support positions, with 246 employees in operations and 122 in capital support.

In fiscal year 1989, DART spent \$19.6 million on administrative functions that support operations. Many of these functions are typical administrative support activities, including budgeting, purchasing, contracting, computer support, personnel, legal services and finance. In addition to these, DART also has several special functions including marketing and public information, coordinating government and community relations, and promoting minority and disadvantaged business participation.

DART also has a capital support budget, which includes expenditures for administrative personnel who perform duties that are related to or directly support the capital projects program. About \$6.1 million was spent on capital support salaries in fiscal year 1989.

RESULTS OF REVIEW

Overall Approach to the Review

Overall Approach to the Review

The Dallas Area Rapid Transit Authority (DART) was placed under sunset review by the 71st Legislature. The legislature scheduled DART for sunset consideration by the 72nd Legislature in 1991, with subsequent reviews to be conducted every 12th year after 1991. DART is one of four Texas transit authorities under sunset review. Austin's Capital Metro is also under current review. The Houston and Corpus Christi transit authorities were reviewed in 1989. The state's two remaining metropolitan transit authorities in San Antonio and Fort Worth are not subject to sunset consideration.

In placing DART under sunset review the legislature shaped the focus of the review in two ways. First, DART is to be reviewed, but is not subject to being abolished under the Sunset Act. Consequently, emphasis during the review was placed on recommendations to improve the ongoing operations of DART, rather than on evaluating the need for DART's continuation or alternative organizational approaches for carrying out DART's functions.

Second, the concern of the legislature in placing DART under sunset review appeared to center on the need for greater accountability. The language added to DART's statute last session placing it under review specifically refers to the review as an "accountability review." To address this concern, the review was structured to assess the accountability of DART, as a regional authority, to the public and various local and state officials.

Many issues relating to DART's accountability and overall operations were addressed as part of a study resulting from concerns raised by the Dallas delegation of the House of Representatives during the 71st Legislative Session. This study resulted in several statutory changes to DART's enabling legislation last session including: requiring oversight of DART's annual financial audit by the state auditor; requiring regular outside performance audits of DART's operations; and expanding DART board member terms from one to two years. In addition, a comparison of DART's overall system performance and operating costs with six other "peer" systems was conducted, as well as an examination of changes in DART's performance and costs over time since 1984. (An update on selected DART performance indicators is included in Exhibit 1 in the Appendix). Since these issues and comparisons had already been addressed by the legislature, they did not need to be included in the current sunset review.

A number of activities were undertaken by the staff to gain a better understanding of DART and the statutory provisions under which it operates. These activities included:

- a review of previous legislation on DART and other Texas transit authorities and an evaluation of the current statutory provisions;
- a review of staff recommendations and statutory changes adopted as a result of the sunset review of the Houston and Corpus Christi transit authorities;
- a review of numerous reports, documents and evaluations of DART;

- a number of visits to Dallas to meet with DART staff and review the agency's major programs and functions;
- observation of DART board and committee meetings;
- site visits to bus operating and maintenance facilities, park and ride lots and a new transit center;
- phone discussions with persons knowledgeable about transit issues both nationally and in Texas, including federal and state officials; and
- phone discussions with other transit systems in Texas and in other states to gain an understanding of their approach to transit.

The review of DART yielded a number of recommendations to improve the overall accountability and oversight of DART. The results of the review are addressed in the recommendations that follow.

Recommendations

ISSUE 1: The statute should be amended to provide specific grounds and procedures for the removal of DART board members.

BACKGROUND

The DART board is composed of 25 members, with 14 members appointed by the Dallas City Council, 10 members appointed by the city councils of the 13 other participating cities, and one member appointed by the Dallas County Commissioners Court. The statutory provisions governing DART provide that members of the board serve at the pleasure of the governing body of the governmental entity that appointed them. A member can be removed from the board at any time and for any reason by the entity that made the initial appointment.

The statutory provisions governing the appointment of persons to public policy-making boards should specify how and when these persons can be removed from office. Generally these provisions require that a member, once appointed, only be subject to removal if there is a documented cause for such removal. The specific grounds for removing a member, such as malfeasance (misconduct in office) or nonfeasance (failure to fulfill the duties of the office), are generally set out in statute. These procedures ensure that a board member can be removed if, for example, the member has violated conflict of interest provisions or is not fulfilling his duties. They also provide a safeguard against a member being removed without cause.

The review compared the current statutory provisions that allow for the removal of DART board members at the pleasure of the appointing body to the more standard statutory provisions that authorize removal only for a violation of grounds that are clearly set out in law. This review indicated the following:

- ▶ **Unlike the statutory provisions governing DART, the provisions governing other public policy-making bodies, including most of the other Texas transit authority boards, provide specific grounds for removing members appointed to serve on these boards.**
- Four out of the five other Texas transit authorities have statutory provisions requiring grounds for the removal of board members. The statutory provisions in Article 1118x, V.T.C.S., governing the Houston, San Antonio, Austin and Corpus Christi transit authorities authorize the removal of board members from office by a majority vote of the board for inefficiency, neglect of duty or malfeasance in office. The statutory provisions governing the Austin transit authority also authorize removal of board members from office by the appointing body for malfeasance or nonfeasance in office.
- State officials appointed by the governor may be removed from office only if good and sufficient cause exists (Article 5967, V. T. C. S.).

- Persons serving in county offices created under state law are subject to removal for incompetency or official misconduct (Section 87.012 of the Local Government Code).
- ▶ **Specific grounds and procedures for the removal of board members are generally added to the statute of an agency as part of the sunset process if the statute does not already contain them.**
- These provisions are applied "across-the-board" to agencies under sunset review and clarify that grounds for removal exist if a member: does not have or maintain the qualifications required for appointment; violates a conflict-of-interest provision; cannot discharge his duties; or is absent for more than half of the regularly scheduled meetings, unless excused by a majority vote of the board.
- Procedures are also routinely added that require the agency head to notify the chairman of the board if he has knowledge that a potential ground for removal exists, and the chairman must then notify the entity that appointed the member.
- These specific grounds and procedures were added to the statutes governing the Houston and Corpus Christi transit authorities as part of the sunset process last session.

PROBLEM

DART board members are subject to removal without cause. This differs from most statutory provisions that specify that the removal of appointed members to policy-making bodies be based on specific grounds set out in statute.

RECOMMENDATION

- **The statute should be amended to:**
 - **provide the same grounds and procedures for the removal of DART board members found in the statutes of the other transit authorities; and**
 - **authorize the removal of board members by the appointing entity only if a member violates these grounds.**

These changes will make the provisions governing DART more consistent with other policy-making bodies in the state, including other transit authorities. They will ensure that DART board members can be removed, but only when a member has violated one of the grounds specifically set out in statute. The statutory grounds for removal should include malfeasance and nonfeasance in office, failure to maintain the qualifications required for appointment, violation of a conflict-of-interest provision, inability to discharge the duties of the office, and absence from more than half of the regularly scheduled meetings, unless excused by a majority vote of the board. These changes will also ensure that proper procedures are in

place in the event that removal of a board member is required. These statutory provisions should be structured in a manner similar to those added to the statute last session for the Houston and Corpus Christi transit authorities.

FISCAL IMPACT

No fiscal impact is anticipated as a result of implementing this recommendation.

ISSUE 2: The statute should be amended to require the DART board to adopt policies that clearly separate board and staff functions.

BACKGROUND

The statutory provisions governing DART provide for a 25-member board to set policy for the authority. The statute also authorizes the board to appoint a general manager to manage the day-to-day operations of the authority. However, the statute does not provide a clear separation of the respective duties and responsibilities of the board and the staff in managing the authority. This can be particularly problematic with such a large number of board members and the technical nature of operating and developing a transit system.

Last session, the Dallas delegation of the Texas House of Representatives, due to concerns about the performance of DART, made several recommendations aimed at making DART more effective in carrying out its duties. One of these recommendations, which was included in House Concurrent Resolution 1 as adopted by the first called session of the 71st Legislature, directed the DART board to develop and implement a policy that clearly separates the respective functions of DART's board and the staff.

A review of DART's compliance with the recommendations contained in HCR 1 determined the following:

- ▶ The DART board has not developed a policy separating board and staff functions as required by House Concurrent Resolution 1, adopted by the Texas House of Representatives on July 6, 1989.
- ▶ Statutory mandates produce a more certain result. The Houston and Corpus Christi transit authorities, as part of the sunset process last session, were required by statute to develop such policies and have done so.

PROBLEM

The DART board has not complied with the requirement of House Concurrent Resolution 1 to develop a policy separating board and staff functions.

RECOMMENDATION

- The statute should be amended to require the DART board to develop and implement policies that clearly define board and staff functions.
-

Placing this requirement in statute will help ensure that the board implements a policy in this area as previously directed by HCR 1. Adding this provision to DART's statute will also be consistent with action taken on the Houston and Corpus Christi transit authorities while under sunset review last session. This approach will provide a mechanism to ensure that the board clearly separates its function of setting policy from the function of the DART staff in the day-to-day administration of the agency.

FISCAL IMPACT

No fiscal impact to DART is expected as a result of implementing this recommendation.

ISSUE 3: DART should be statutorily required to have a full-time internal audit program to ensure that DART's internal functions and controls are sufficiently audited.

BACKGROUND

Internal audit programs are responsible for producing independent judgements on the internal activities of an agency. These programs have become standard in the public sector because they provide oversight of internal activities and can result in better system controls and lower costs. Activities that should be audited include accounting systems, administrative systems, operating systems and other systems that may be unique to an agency. During these audits, examiners search for problems such as inefficiency, waste, wrongdoing and conflicts of interest. Once a problem has been identified, internal audit programs generally make recommendations to resolve the problem and conduct follow-up reviews to ensure compliance.

The DART board of directors has the statutory power to hire an internal auditor who may develop a full-time internal audit program. Instead of hiring an internal auditor on staff, the board has chosen to contract annually with a part-time auditor to perform internal audits of the agency. The contractor reports to the board and prepares a work plan of potential audits for the board each year. The contractor maintains an office at DART headquarters and spends an average of 27 to 30 hours a week at the agency.

DART's part-time internal audit contract was compared with the full-time internal audit programs established by other transit authorities and required for large state agencies to determine if DART's efforts in this area are sufficient for an agency of its scope and size. The review indicated that:

- ▶ **All large state agencies are required by law to have an internal audit program that continually analyzes the agency's internal systems and ensures independent oversight of controls and procedures within those systems.**
 - Texas law (Article 6252-5d, Title 110A, Texas Government Code) requires state agencies, boards, commissions, bureaus and institutions to have a full-time internal audit program if the agency meets one of the following criteria: an annual operating budget of more than \$10 million; a staff of more than 300 employees; and annual revenues of more than \$10 million.
 - State law requires these agencies to establish internal audit programs that will provide independent analyses, appraisals and recommendations on the adequacy, effectiveness and quality of internal systems.

- Approximately 90 state agencies have established a full-time internal audit program to comply with state law.
- ▶ **If DART were a state agency, it would clearly meet the recommended criteria for establishing a full-time internal audit program.**
- In fiscal year 1989, DART had a total administrative budget of \$242 million, including an operating budget of \$111 million; a staff of nearly 2,000 employees; and annual revenues of more than \$244 million.
- ▶ **DART's part-time internal audit contract is insufficient when compared to full-time internal audit programs established by other transit systems in Texas and in other states.**
- DART's part-time contract auditor has conducted an average of seven internal audits a year in the past three years.
- Other Texas transit authorities in Austin, Houston, Fort Worth and San Antonio have full-time internal audit programs that conducted an average of 15 internal audits a year during the past three years. Houston Metro, which is the most comparable in size to DART, conducted an average of 22 internal audits a year for the past three years.
- A survey of four out-of-state transit authorities that are similar in size to DART showed that all of the authorities have a full-time internal audit program. An average of 15 audits was conducted by the internal audit programs in these systems during the past three years.

PROBLEM

DART's current part-time internal audit contract is inadequate for a public agency of its size when compared to the full-time internal audit programs in other state agencies and other transit authorities. Although DART clearly exceeds the state's guidelines for determining when a full-time internal audit program is warranted, the DART board has not chosen to establish a full-time internal audit program.

RECOMMENDATION

- **DART should be statutorily required to have a full-time internal audit program that is similar to the type of program required by law for large state agencies.**

This recommendation will ensure that DART establishes a full-time internal audit program that is sufficient to regularly audit the controls, functions and procedures of the numerous and complex programs administered by DART. It will

also ensure that DART's internal audit efforts are in line with those required of large state agencies, including many agencies that are much smaller than DART. The statutory provisions for DART's internal audit program should be structured similarly to those in statute for state agencies. Under these provisions, the governing board is required to establish a full-time internal audit program by appointing an internal auditor, with additional staff requirements approved by the agency administrator. The internal audit program staff is required to report to the board; maintain freedom from conflicting operational and management responsibilities; develop and follow a yearly audit plan that is approved by the board; periodically audit the major systems and controls in the agency's programs; conduct quality assurance peer reviews; and follow professional auditing standards.

FISCAL IMPACT

The fiscal impact of this recommendation will depend on the size of the internal audit program established by DART. The agency has spent an average of \$117,500 a year for the past four years on its part-time internal audit contract and has provided secretarial services for the contractor as well. DART estimates that a full-time internal audit program with two internal auditors can be established for about the same cost. Any increase in expenditures for the internal audit program may be further offset by internal audits that result in cost savings to the agency, which are routine for these types of programs.

ISSUE 4: DART should be required by statute to publish an annual report and file it with specific governmental bodies to ensure oversight of DART's financial status.

BACKGROUND

Both public and private sector entities typically publish annual reports. The Texas Comptroller of Public Accounts produces an annual report of the state's financial status by compiling reports from all state agencies and higher education entities. In 1989, 142 state agencies and 16 colleges and universities were included in the state's annual report. In the private sector, it is common practice for businesses to produce an annual report for their investors and shareholders. The information normally included in government and private annual reports provides a detailed picture of the entity's financial standing for that year.

DART is required by statute to contract for an annual audited financial statement. DART is also required to send a copy of the audited financial statements to the state auditor for review. However, DART is not required to have an annual report. Annual reports include annual audited financial statements, but they also include additional information such as operating statistics, a statement or letter from DART management, an overview of major events that occurred during the previous year, and plans for the year ahead.

Public agencies have a responsibility to keep the public and other interested parties informed of their activities and future plans. A review of the use of annual reports in this regard by other state agencies and transit authorities indicated that:

- ▶ **An annual report is a useful tool for disseminating information on the overall status of an agency from both a financial and a management perspective.**
 - Annual reports usually contain audited financial statements, a letter or statement from management, historical data such as operating statistics, and plans and goals for the agency.
 - Annual reports are usually written in layman's terms, making it easier for the general public to understand the agency's overall financial and management positions.
- ▶ **Unlike other transit systems, DART does not regularly publish an annual report.**
 - DART has only published two annual reports since the agency began operations in 1984. Those annual reports were published in 1987 and in 1989.

- Public transit authorities in Houston, Fort Worth, Austin, San Antonio and Corpus Christi have regularly produced annual reports since they began operations.
- ▶ **An annual report of DART's financial status would be helpful in keeping the general public and other interested parties informed of DART's financial status, growth and level of services.**
- In 1989, DART took in more than \$244 million in revenues, 75 percent of which came from local sales taxes. An annual report would ensure that consumers, voters, public interest groups and other interested parties have easy access to DART's yearly financial and management statements.
- DART is beginning to construct a transit system that is expected to cost \$2.5 billion. An annual report would provide detailed information on DART's annual financial status and management position during the construction phase.
- Sixteen local governmental entities financially support and receive services from DART. These member entities have an understandable interest in DART and would benefit from having access to the information normally found in an annual report.
- DART has attracted a great deal of public interest and inquiry into many aspects of the agency's day-to-day operations. An annual report written in layman's terms would assist those who wish to see DART's financial and management statements.
- ▶ **Annual reports should be published within a reasonable timeframe in order for the information to be timely and useful. When DART has published an annual report, it has not always been released in a timely manner.**
- DART's 1989 annual report was published eight months after the fiscal year had ended. The report was not released until May 1990, even though the agency's fiscal year ended in September 1989 and the financial audit statements were completed in December 1989.
- The Government Accounting Standards Board, a national association that sets standards for certified public accountants and government agencies, has stated that annual reports should be issued within six months after the end of an agency's fiscal year if the information included in the report is to be useful.
- Other national accounting organizations, such as the Government Finance Officers Association, recommend that annual reports should be issued within three to five months after the end of a fiscal year.

PROBLEM

DART has not regularly published annual reports in the past, which makes it difficult for the general public, governing bodies of member cities, the media and others to have easy access to updated information on DART's finances and operations. In addition, when DART has issued an annual report, it has not always been available in a timely manner.

RECOMMENDATION

- **DART should be required by statute to publish an annual report and file it with specific state and local government entities no later than six months after the end of DART's fiscal year.**

This recommendation will ensure that DART publishes an annual report and releases it in a timely fashion. This will provide the general public and others with access to a report that summarizes DART's financial and management status each year. Copies of the report should be forwarded to the governor, the lieutenant governor, the speaker of the House of Representatives, members of the legislature whose districts overlap with any portion of the DART service area, the presiding officer of the governing body of each member jurisdiction, and the state auditor. This distribution is typical of requirements placed in statute for various other transit authorities and state agencies for submission of financial statements or annual reports. Since DART's fiscal year ends on September 30, the annual report should be published no later than March 31 of the following year.

FISCAL IMPACT

No fiscal impact is anticipated since DART's current staff and resources are sufficient to meet the requirements of this recommendation.

ISSUE 5: DART should be required by statute to include supplemental information in its annual audited financial statements to increase financial accountability. DART should also evaluate the costs and benefits of converting to a governmental fund accounting system to provide more detailed financial information to the board and the public.

BACKGROUND

State law requires DART to annually contract for an independent audit of the agency's financial position and present the findings in a financial audit statement. To date, DART's audited financial statements have contained the minimum information required by professional accounting guidelines. This includes balance sheets, statements of revenues and expenditures, statements of changes in retained earnings and contributed capital, statements of changes in financial position, and explanatory footnotes.

The method of accounting used by the agency further minimizes the information contained in DART's financial statements. Many transit systems, including DART, use enterprise fund accounting. This approach uses one fund to account for all revenues and expenditures rather than using separate funds to account for revenues and expenditures of different programs or functions. Enterprise fund accounting has traditionally been used by agencies that perform a single function or service, such as operating a bus system. However, DART has two primary functions: to provide bus services and to develop a transit system that includes rail and high-occupancy vehicle (HOV) lanes. Instead of setting up separate revenue and expenditure funds for bus operations, commuter rail, light rail development and HOV lanes, DART uses one fund to account for all of its programs.

Governmental fund accounting, which is used by most public agencies including some transit authorities, uses a separate fund for each major activity or function within an agency. Specific uses of agency revenues and expenditures are more easily identified because each major activity has a separate fund. Under governmental fund accounting, DART could have separate funds for bus operations as well as for each of the major components of the transit system, such as commuter rail, light rail and HOV lanes.

Governmental agencies should be financially accountable to taxpayers, legislative bodies, and other members of the public who may contribute to the agency's revenues, receive funds from the agency or use the agency's services. To increase accountability, an agency's financial statements should be informative and understandable to users. A comparison of DART's annual financial audit practices with accounting standards and with the practices of other agencies indicated that:

- ▶ **The Governmental Accounting Standards Board (GASB), a national association that sets accounting standards for the public sector, has recommended that public agencies, especially those using enterprise fund accounting, include supplemental information in audited financial statements that more fully describes an agency's financial position.**
 - According to GASB, supplemental information in an audited financial statement should: demonstrate compliance with finance-related legal and contractual provisions; present in greater detail information that is spread throughout the financial statements, such as cash balances and investments; present in greater detail information reported in the financial statements, such as additional revenue sources and changes in general fixed assets by function; and present information not disclosed in other financial statements, such as cash receipts and disbursements and changes in agency fund assets and liabilities.
 - GASB has developed a list of 15 types of supplemental information that may increase financial accountability, including: expenditures and revenues by function for the last 10 fiscal years; sales tax collections by source for the last 10 fiscal years; demographic statistics; and property values, construction and bank deposits for the past 10 fiscal years. Miscellaneous statistics can also be useful, including total salaries and wages for the year, annual contract expenditures and total number of contracts awarded by the agency during the fiscal year.
- ▶ **DART's annual audited financial statements include the minimum information required by government accounting principles.**
 - DART does not include supplemental information in its audited financial statements. This additional information would provide more detail on DART's financial status and history.
 - The accounting method chosen by DART further reduces the agency's accountability because it allows the agency to lump all revenues and expenditures into a single fund rather than separating them out by major programs or functions.
- ▶ **Other public agencies similar to DART have either included supplemental schedules in their audited financial statements or have changed their accounting method to increase the detail of information available to report users.**
 - In 1990, the Texas Water Commission adopted a state auditor's recommendation that water districts using enterprise fund accounting should provide greater detail in their financial statements by adding supplemental information.
 - Transit authorities in Corpus Christi and San Antonio that use enterprise fund accounting have chosen to include supplemental

schedules in their 1989 audited financial statements in order to provide more information to users of the report.

- In a nationwide study of 43 public transit systems, GASB found that at least 11 of the transit systems include supplemental information in their financial statements.
- In the same study, GASB found that five of the public transit systems use governmental fund accounting. In addition to these, transit systems in Houston and Denver, Colorado, have recently decided to switch from enterprise fund accounting to government fund accounting to provide a better indication of sources of revenues, expenditures, and actual costs.

PROBLEM

DART's audited financial statements contain the minimum information required by governmental accounting principles and do not provide the detailed information that is recommended for governmental agencies. DART's accounting method makes it difficult to determine revenues and expenditures for different areas of DART's operation because the enterprise fund accounting approach uses a single fund to account for all revenues and expenditures. As a result, DART's financial accountability to the public and other users of the report is diminished.

RECOMMENDATION

- **DART should be required by statute to:**
 - **include supplemental information in its annual audited financial statements; and**
 - **evaluate the costs and benefits of converting to a government fund accounting system to provide more detailed financial information to the board and the public.**

Requiring DART to include more detail in its audited financial statements would ensure that DART is more accountable to taxpayers, state legislators and the general public by providing DART's financial trends and practices, both currently and over time. DART should use the guidelines established by the Government Accounting Standards Board (GASB) when determining what types of information to include in the annual audited financial statements. Requiring DART to evaluate changing to the government fund accounting approach ensures that the agency has considered an accounting option that other governmental agencies commonly use. DART would still have the flexibility to determine whether that type of accounting system should be adopted.

FISCAL IMPACT

No fiscal impact is expected as a result of the first part of this recommendation, since most of the supplemental information required is already being tracked by the agency. The requirement for DART to evaluate conversion to a government fund accounting system may result in some costs to DART but it is assumed that the evaluation can be done with existing staff and resources.

ISSUE 6: DART should be required by statute to conduct annual salary comparisons with similar-size transit systems, to evaluate its salary levels based on the comparison, and to report the results to ensure accountability.

BACKGROUND

DART has developed a series of administrative goals to help the agency perform its functions. One of these goals is to maintain administrative salaries at competitive market rates based on comparable labor markets, primarily other transit systems. DART maintains that following this standard allows the agency to attract qualified employees by establishing competitive salaries.

DART conducts salary comparisons with the same 15 transit authorities every year as part of its determination of labor market standards. The results of the salary comparison are used to compare and evaluate agency salary levels. These transit systems are located throughout the United States and operate a variety of services, ranging from either bus or rail service to a combination of both.

Comparing salary levels with other transit authorities is an appropriate way to measure standard salary levels in the industry. However, comparisons should be based on transit systems of comparable size, since similar-size transit systems have a more common range of characteristics and their staffs have more comparable responsibilities. A review of DART's salary comparisons indicated that:

- ▶ **The majority of the transit systems used by DART for its salary comparisons are inappropriate because they are not comparable in size to DART.**
 - The 15 systems selected by DART for its salary comparisons are, on average, much larger than DART. As can be seen in Exhibit 2 in the Appendix, the average 1988 operating expenses for these systems was \$512 million (343 percent higher than DART's), while the total number of employees averaged 8,075 (314 percent more employees than DART).
 - The average operating expenses of the 15 systems are much higher than DART's operating expenses because DART includes seven significantly larger transit systems in its salary comparison. These include the Long Island Railroad and transit systems in Boston, Chicago, Los Angeles, New York City, Philadelphia and Washington, D.C. The range of 1988 operating expenses at these larger systems was \$454 million to \$3.2 billion, compared to DART's operating expenses of \$115 million. The range of employees at these systems was 5,000 to 47,000 people, compared to DART's total of 1,949 employees.

- The New York City Metropolitan Transportation Authority, used by DART in its salary study, is not comparable because it is not an operating transit system. It is a funding and oversight agency for other transit systems.
- The remaining seven systems provide a better base for salary comparisons since they are similar to DART. These systems are located in Atlanta, Buffalo, Houston, Saint Louis, San Francisco, San Jose and Seattle. As Exhibit 3 in the Appendix shows, the average 1988 operating expenses for these systems was \$121 million and the average number of employees was 2,262. These statistics more closely match DART's 1988 operating expenses of \$115 million and employee level of 1,949.
- ▶ **The size of the transit systems selected for DART's salary study directly affects the salary benchmarks that are generated by the study for comparison with DART's salaries.**
 - DART's study compared salaries of 18 top administrative positions at DART with similar positions at the 15 other transit systems. However, DART's study included eight transit systems that are significantly larger than DART. If these larger transit systems are removed, the salary levels that are used for comparison with DART's salaries decrease substantially.
 - Exhibit 4 in the Appendix shows the difference between the average salaries for top administrative positions at the 15 transit systems DART uses for comparison and the average salaries of the seven transit systems that are similar to DART. The average salaries of all the transit systems are significantly higher than the average of the similar-size transit systems. For example, the average salary of an executive director for all of the transit systems is \$116,376. However, when the eight larger transit systems are removed, the average salary for an executive director drops to \$106,542, or eight percent less than the average for all of the transit systems.
- ▶ **DART's use of much larger systems in its salary comparisons may have contributed to DART setting its salaries at levels that are, in many cases, higher than the average of the original 15 systems and significantly higher than the systems that are similar to DART.**
 - In 1989, half of DART's top 18 administrative employees earned higher salaries than the average of their counterparts at all of the transit systems used in DART's study, which included eight significantly larger transit systems. Exhibit 5 in the Appendix shows that, for example, DART's executive director earned \$135,000 in 1989, or 14 percent more than the average salary of \$116,376 for executive directors at the 15 transit systems used in DART's study.
 - When compared only to the seven similar-size transit systems included in DART's salary study, all but two of DART's top 18 administrative employees earned a higher salary than the average

salaries of their counterparts at the other systems. In addition, the difference between DART's salaries and the average salaries used for comparison increased significantly. For example, Exhibit 6 in the Appendix shows that in 1989 DART's executive director earned 21 percent more than the average salary of \$106,542 for executive directors at the seven similar-size transit systems.

PROBLEM

DART has established its salary levels by conducting annual comparisons with 15 transit systems, including eight much larger transit systems. DART's inclusion of these larger transit systems in its study, rather than using only transit systems that are similar in size to DART, results in salary benchmarks for top administrative positions that are too high. These high benchmarks have been used as a baseline for setting DART's administrative salaries.

RECOMMENDATION

- **DART should be required by statute to conduct an annual comparison of top administrative salaries with similar-size transit authorities, evaluate its salary levels based on the comparison, and report the findings to the board, to member governmental entities, and to local state legislative representatives.**

This recommendation will ensure that DART compares and evaluates its top administrative salaries with transit systems that share similar characteristics with DART, rather than with transit systems that are much larger. This will give DART a realistic baseline to use in establishing reasonable yet competitive salaries within the industry. Requiring DART to send the results of its comparisons to state and local government officials will ensure that DART remains accountable to the public in setting appropriate salary levels.

FISCAL IMPACT

This recommendation will not result in additional costs to DART and could, over time, result in smaller increases in the agency's salaries.

ISSUE 7: DART should be given the statutory authority to provide retirement pension plans to its employees to ensure that DART's current retirement plans have a clear legal basis.

BACKGROUND

Transit authorities are not required by federal or state laws to offer retirement plans to employees. DART has chosen to provide retirement plans to employees both as a benefit and as a way to remain competitive with other public and private labor markets. DART currently offers four mandatory retirement pension plans and two voluntary deferred compensation plans to employees of the transit authority.

A review of state laws and policies regarding the authority of governmental subdivisions to offer or participate in retirement pension plans indicated that:

- ▶ **The state attorney general's office has found that certain governmental subdivisions in Texas must have specific statutory authority to provide retirement pension plans to employees.**
 - In 1989, the attorney general ruled that governmental subdivisions such as appraisal districts could not legally contract with a private firm to provide retirement pension plans for district employees (JM-1068). The opinion was based on the lack of provisions in statute or in the state constitution that authorize subdivisions such as appraisal districts to provide, directly or by contract, their own retirement pension plan.
 - In a related opinion issued in 1990, the attorney general ruled that governmental subdivisions such as appraisal districts do not have the implied statutory or constitutional authority to provide retirement pension plans to employees (JM-1142). Instead, that authority must come specifically from the legislature.
 - Appraisal districts and other special districts do have the statutory authority to provide deferred compensation plans, according to the attorney general (JM-1142).
- ▶ **The attorney general's opinions on appraisal districts cast doubt on whether other special districts such as DART can legally provide retirement pension plans to their employees without statutory authorization.**
 - The attorney general has not specifically addressed the question of whether transit authorities may provide pension plans to employees. However, the attorney general stated that, in addition to appraisal districts, other special districts do not have the authority to create their own retirement pension plans.

- DART is a special government district, authorized by state statute, approved by local voters and provided with many government privileges such as the authority to tax. The DART board has general statutory authority to perform management duties such as employing staff and prescribing employee compensation.
- However, DART does not have specific statutory authorization to establish retirement pension plans, although the agency currently provides four retirement pension plans for its employees.
- ▶ **The legislature has given other governmental subdivisions, primarily hospital districts, the specific authority to provide retirement pension plans to employees.**
- Hospital districts have specific statutory authority to establish their own retirement pension plan for employees. The districts may also contract with the state or federal government to provide a retirement pension plan for employees.

PROBLEM

DART provides four retirement pension plans to its employees, although DART's statute does not specifically grant that authority to the agency. The state attorney general has indicated that general state law does not authorize special districts such as DART to provide retirement pension plans to their employees. The attorney general has further said that special districts that wish to offer retirement pension plans to their employees should have specific statutory authority to do so. As a result, DART's authority to provide its current retirement pension plans is questionable and could be challenged.

RECOMMENDATION

- **DART's enabling statute should be changed to authorize the agency to provide retirement pension plans to its employees.**

This recommendation will give DART the statutory authority to continue providing retirement pension plans to its employees and will ensure that DART's current retirement plans have a clear legal basis.

FISCAL IMPACT

No fiscal impact is expected to result from this recommendation.

ISSUE 8: DART should be required by statute to report on its retirement pension plans to the State Pension Review Board to ensure that the plans are independently reviewed and evaluated.

BACKGROUND

DART has four retirement pension plans with varied benefits for employees. Three of the plans are "defined benefit" plans, which means that employee benefits are guaranteed in advance of retirement and are usually based on a percentage of the employee's salary and years of service. The fourth plan is a "defined contribution" plan, in which the employer's contributions to the retirement fund are guaranteed, but retirement benefits to the employee are not. Instead, benefits are based on the retirement fund's financial gains and losses over time.

DART's three defined benefit plans were in place when DART took over the city of Dallas' bus operations and are no longer open to new employees. In fiscal year 1989, the defined benefit plans had a total membership of 1,944. DART's defined contribution plan was established in 1984 as a mandatory plan for all new employees. DART currently contributes an amount equal to 7.7 percent of each employee's annual gross salary to the fund. Employees cannot make contributions to the fund.

The defined contribution fund is managed by a committee of employees who are appointed by the general manager. The committee has the power to hire an investment consultant who is paid from the fund's earnings. Actual investments are handled by a local banking firm that acts as the fund's trustee. The fund's total market value at the close of fiscal year 1989 was \$1.6 million. There are currently 398 members of the defined contribution plan, and DART's contribution to the fund in 1989 was \$688,817.

A comparison of the reporting requirements for DART's retirement pension plans with the reporting requirements for other government and private pension plans showed that:

- ▶ **Most government and private retirement pension plans in Texas are required to report annually to state or federal agencies that specialize in examining such plans.**
 - Private businesses must file annual reports on their retirement pension plans with the U.S. Department of Labor under the federal Employee Retirement Income Security Act (ERISA). In 1986, the U.S. Department of Labor received reports on 68,694 pension plans in Texas.
 - All Texas state agencies and political subdivisions with retirement pension plans are required to file a report each year with the State Pension Review Board, which was created by the legislature in 1979

to review public retirement pension plans. In 1989, 129 state, local and special district agencies in Texas reported to the state board. Included in this number are two Texas transit authorities, San Antonio VIA and Houston Metro.

- ▶ **DART does not report on all of its retirement pension plans to state or federal oversight agencies.**
 - DART currently reports to the State Pension Review Board on its three defined benefit pension plans.
 - DART does not report on its defined contribution pension plan to any federal or state agency.

- ▶ **While DART is clearly exempt from reporting to the federal government on its retirement plans, there is no reason why DART should report on some but not all of its retirement plans to the State Pension Review Board.**
 - DART is exempt from reporting on its retirement plans to the U.S. Department of Labor under ERISA because DART is a governmental agency.
 - Article 1118y, V.T.C.S., defines DART as a regional transportation authority that "constitutes a public body corporate and politic, exercising public and essential governmental functions." The statute further authorizes DART to impose a local sales tax to provide public revenues to help fund the agency's operations.
 - The State Pension Review Board is required by state law to examine retirement plans for "officers or employees of the state or a political subdivision, or of an agency or instrumentality of the state or a political subdivision."
 - Since DART is a governmental agency under state jurisdiction, all four of its retirement pension plans would appear to fall under the reporting requirements of the State Pension Review Board.

PROBLEM

DART is exempt from reporting on its pension plans to federal oversight agencies and does not consistently report on its pension plans to the state's oversight agency, the State Pension Review Board. This results in a lack of consistent state oversight of DART's retirement pension plans.

RECOMMENDATION

- **DART should be required by statute to report annually on each of its employee retirement plans to the State Pension Review Board.**
-

This recommendation will ensure that information on all of DART's retirement pension plans is consistently reported to the State Pension Review Board each year. This will also ensure that DART complies with state reporting requirements and will provide DART with yearly independent examination and oversight of its retirement pension plans.

FISCAL IMPACT

No fiscal impact is expected as a result of this recommendation. The State Pension Review Board has indicated that this recommendation can be carried out with its current staff and budget. DART should not incur additional costs because the agency already tracks the information required in the annual reports to the State Pension Review Board.

Minor Statutory Modifications

Discussions with agency personnel concerning the agency and its statute indicated a need to make minor statutory changes. The changes are non-substantive in nature and are made to comply with federal requirements or to remove outdated references. The following material provides a description of the needed changes and the rationale for each.

**Minor Modifications to the
Dallas Area Rapid Transit Authority Statute
(Article 1118y, V.T.C.S.)**

Change	Reason	Location in Statute
Modify language to require reaffirmation of the appointment of DART board members on September 1 in odd-numbered years instead of annually.	To modify language that conflicts with other requirements providing for two-year terms for DART board members.	Section 8(a)
Update language referring to Article 988b, V.T.C.S. that has since been recodified to Chap. 171 of the Local Government Code.	To replace outdated statutory references with the new citations.	Section 5(d) Section 8(b)
Modify language to clarify that withdrawal elections from DART may be held each year before 1992, in 1996, <u>and</u> (rather than "or") every sixth year after 1996.	To clarify that withdrawal elections can be held in any of these years rather than in just one of them.	Section 9A(d) (2) (B)

Appendix

Exhibit 1
DART: Selected Performance Indicators

Indicator	FY 1985	FY 1987	FY 1989
Total passenger trips	49,945,673	48,332,215	46,060,000
Total revenue vehicle miles	19,349,000	26,892,000	27,960,000
Number of vehicles available for morning and evening peak service hours	a.m.: 583 p.m.: 595	a.m.: 712 p.m.: 727	a.m.: 672 p.m.: 682
Operating cost per passenger trip	\$ 1.91	\$ 2.60	\$ 2.49
Operating cost per scheduled vehicle mile	\$ 4.04	\$ 3.81	\$ 3.50
Fare recovery ratio	29.9%	25.2%	27.0%
Average number of passengers per bus route trip	*	17.4	18.6
On-time performance	*	*	92.2%
Miles between equipment failures	*	*	7,457
Accidents per 100,000 miles	4.17	3.52	3.10

* Information not available

Exhibit 2
**Operating Statistics for All 15 Transit Systems
 used in DART's Salary Survey
 Fiscal Year 1988**

15 Transit Systems	Operating Expenses	Number of Employees
New York City Transit Authority	\$3,211,412,588	47,295
Chicago	657,717,753	12,024
Long Island Railroad	514,063,815	7,169
Washington, D.C.	504,863,005	8,314
Philadelphia	493,974,168	6,361
Los Angeles	492,576,499	10,399
Boston	454,151,673	5,648
San Francisco	167,774,811	1,989
Atlanta	147,991,972	3,472
Seattle	145,786,605	2,712
Houston	134,148,779	2,587
DART	115,846,380	1,949
San Jose	111,080,568	2,286
Saint Louis	89,532,788	1,725
Buffalo	52,424,321	1,066
New York Metropolitan Transportation Authority	*	*
Average of Systems (Excluding DART)	\$512,678,525	8,075

* Operating information is not available for the New York Metropolitan Transportation Authority, which is an oversight agency, not an operating transit system.

Exhibit 3
Operating Statistics for the Seven Similar-size Transit Systems
used in DART's Salary Survey
Fiscal Year 1988

Similar-size Transit Systems	Operating Expenses	Number of Employees
San Francisco	\$167,774,811	1,989
Atlanta	147,991,972	3,472
Seattle	145,786,605	2,712
Houston	134,148,779	2,587
DART	115,846,380	1,949
San Jose	111,080,568	2,286
Saint Louis	89,532,788	1,725
Buffalo	52,424,321	1,066
Average of systems (excluding DART)	\$121,248,549	2,262

Exhibit 4
Average Salary Difference Between All Transit Systems
used in DART's Salary Survey and Those of Similar Size to DART
Fiscal Year 1989*

Position	Average Salary of All 15 Systems	Average Salary of 7 Similar-size Systems	Percentage Difference
Executive Director	\$116,376	\$106,542	8%
Deputy Executive Director	93,626	84,681	10%
Chief Financial Officer	82,302	70,733	14%
General Counsel	83,194	74,280	11%
Assistant Executive Director - Administration	77,829	63,358	19%
Assistant Executive Director - Transit System Development	80,352	77,741	3%
Senior Director-Transit Operations	83,893	75,420	10%
Assistant General Counsel	78,002	**	**
Director - Real Estate	68,930	60,321	12%
Director - Human Resources	71,806	58,600	18%
Director - Public Information	69,727	59,212	15%
Director - Procurement	67,714	54,976	19%
Treasurer	60,293	50,099	17%
Director - Transportation	67,088	54,147	19%
Director - Office of Management and Budget	60,788	51,851	15%
Controller	64,677	54,564	16%
Director - Maintenance	75,069	63,274	16%
Chief - Transit Public Safety	62,583	51,557	18%

*DART's salary survey was based on fiscal year 1989 salaries and does not include subsequent salary adjustments.

**No similar position found at these transit systems.

Exhibit 5
Comparison of Top Administrative Salaries at DART and
at All 15 Transit Systems used in DART's Salary Survey
Fiscal Year 1989*

Position	DART	Average of All 15 Transit Systems	Percentage Difference
Executive Director	\$135,000	\$116,376	14%
Deputy Executive Director	115,000	98,626	14%
Chief Financial Officer	100,000	82,302	18%
General Counsel	97,750	83,194	15%
Assistant Executive Director - Administration	80,000	77,829	3%
Assistant Executive Director - Transit System Development	90,000	80,352	11%
Senior Director-Transit Operations	75,000	83,893	- 12%
Assistant General Counsel	75,000	78,002	- 4%
Director - Real Estate	75,000	68,930	8%
Director - Human Resources	70,000	71,806	- 3%
Director - Public Information	68,001	69,727	- 3%
Director - Procurement	66,003	67,714	- 3%
Treasurer	64,000	60,293	6%
Director - Transportation	63,180	67,088	- 6%
Director - Office of Management and Budget	62,500	60,788	3%
Controller	62,000	64,677	- 4%
Director - Maintenance	58,001	75,069	- 29%
Chief - Transit Public Safety	52,500	62,583	- 19%

*DART's salary survey was based on fiscal year 1989 salaries and does not include subsequent salary adjustments.

Exhibit 6
Comparison of Top Administrative Salaries at DART and
at Seven Similar-size Transit Systems used in DART's Salary Survey
Fiscal Year 1989*

Position	DART	Average of 7 Similar-size Transit Systems	Percentage Difference
Executive Director	\$135,000	\$106,542	21%
Deputy Executive Director	115,000	84,681	26%
Chief Financial Officer	100,000	70,733	29%
General Counsel	97,750	74,280	24%
Assistant Executive Director - Administration	80,000	63,358	21%
Assistant Executive Director - Transit System Development	90,000	77,741	14%
Senior Director-Transit Operations	75,000	75,420	-1%
Assistant General Counsel	75,000	**	**
Director - Real Estate	75,000	60,321	20%
Director - Human Resources	70,000	58,600	16%
Director - Public Information	68,001	59,212	13%
Director - Procurement	66,003	54,976	17%
Treasurer	64,000	50,099	22%
Director - Transportation	63,180	54,147	14%
Director - Office of Management and Budget	62,500	51,851	17%
Controller	62,000	54,564	12%
Director - Maintenance	58,001	63,274	- 9%
Chief - Transit Public Safety	52,500	51,557	2%

*DART's salary survey was based on fiscal year 1989 salaries and does not include subsequent salary adjustments.

**No similar position found at these transit systems.

Dallas Area Rapid Transit Authority

Report prepared by:

Ginny McKay

Merrell Foote

Karl Spock

**Sunset Advisory Commission
P. O. Box 13066, Capitol Station, Austin, Texas 78711**

(512) 463-1300